

Business Case

Summary Sheet

Title:		
International Action Against Corruption (IACT) Programme		
Programme Summary: IACT will reduce incentives for corruption by supporting specialist technical expertise and international partnerships, working across borders to expose corruption through greater transparency, and stopping corrupt people hiding the proceeds internationally, so that stolen assets can be recovered and reinvested in development.		
Programme Value: £34.5m: £28.5m DFID, £6m Prosperity Fund		Country/ Region: Global, Africa, Asia
Project Code:	Start Date: 1 August 2017	End Date: 31 March 2021
Overall programme risk rating:	Moderate	
Vault Number:	TBC	

Intervention Summary

Combating corruption is vital for sustainable development. Corruption costs developing countries over \$1 trillion a year. By tackling corruption a country can stop money being siphoned away and invest it for development. Corruption can deter investment and undermine prosperity— a 2016 survey of international business found that 31% of businesses had pulled out a deal due to corruption risks¹. Corruption erodes public trust in government, undermines the rule of law, and can give rise to political and economic grievances that may fuel violent extremism. The poor suffer the most when resources are not available to invest in basic services or create jobs. This is a major obstacle to delivery of the UK Aid Strategy.

The International Action Against Corruption programme (IACT) will support developing countries to tackle grand corruption, which is the abuse of high-level power on a large scale, benefiting the few at the expense of the many². For example, a government minister in a developing country could receive a bribe from a company to win a public contract and use this money to buy private property overseas. IACT will support experts, for example in financial investigations, anti-money laundering and asset-tracing to help countries prevent and expose these corrupt deals. They will work with developing countries and international financial centres to follow the money overseas so that it can be returned and reinvested properly to improve the lives of poor people. IACT will also promote greater transparency in company ownership to make it more difficult to hide corrupt international deals. It will shine a light on sectors most prone to corruption; oil, gas and mining and defence and security.

IACT will provide £34.5m over four years (including £6m from the Prosperity Fund) to deliver specialist anti-corruption technical expertise which is not available at country level and access to international partnerships to tackle cross-border corruption. It will work to shift incentives by better prevention, detection and exposure of corruption and recovery of stolen assets. For example, IACT will work to deliver:

- **Financing for development through tracing, recovering and returning assets stolen through corruption:** IACT will support the International Centre for Asset Recovery (ICAR), to deploy experts to work in up to 8 countries including Kenya, Tanzania, Rwanda, Uganda, Kyrgyzstan and Malawi on specific cases to recover and return up to \$2.5bn of stolen assets.
- **Transparency about who really owns and controls companies which are used to hide corruption:** IACT will support a coalition of business and NGOs who are pioneering a new global, publicly accessible Open Ownership register, piloting the register in 6 countries starting with Nigeria and Ghana.

IACT will also support oil, gas and mining specialists at the Extractive Industries Transparency Initiative (EITI) to work with 14 DFID priority countries to **make public who benefits from oil, gas and mining**

¹ Control Risks. International Business Attitudes to Corruption Survey 2015/16

² Transparency International

contracts. For example, this will help countries like Sierra Leone select identify the owners of companies which want to extract their diamonds or iron ore; in Nigeria and Ghana it will prevent conflicts of interest in public procurement, for example if a government minister has a company which wants to bid.

- **Stronger financial intelligence units in developing countries:** IACT will support the new Egmont Centre for Financial Intelligence Unit Leadership and Excellence. This will provide trusted technical experts, mentoring and peer learning between countries to build up the investigative skills of their financial intelligence units. This will enable them to investigate money laundering and corruption in DFID priority countries and share intelligence across borders to prosecute corruption and seize stolen assets.
- **UK and international companies trading and investing overseas with integrity:** IACT will work with business, the FCO and DIT to support a team of trade and compliance experts to design and deliver a UK trade integrity initiative. This will meet demand from the private sector for practical advice, as a global public good where possible, on securing new trade and investment deals overseas without bribery, especially post-Brexit. For example, this could enable UK companies, to enter frontier markets such as Tanzania, Ethiopia and Pakistan, with integrity to drive future economic prosperity.
- **Less corruption in defence and security:** IACT will support the Transparency International UK Defence and Security programme to deploy military experts to 32 countries to work with defence ministries to tackle corruption and increase civilian oversight. TI-UK will also research and publish the 2018 Defence Anti-Corruption Index and the Defence Companies Anti-Corruption Index to highlight corruption risks in government and business as a basis for agreement on how to stop them.
- **Better evidence on what works to tackle corruption and ways to track progress to enable DFID and others to adapt and drive value for money in our anti-corruption work:** IACT will support the World Bank as an independent source of expertise with a wide presence in different countries to develop better ways to measure progress in tackling corruption and illicit flows, working with national statistical offices, for example in Bangladesh, South Sudan and Tanzania. IACT will also extend support for researchers and trainers at the U4 Anti-Corruption Knowledge Hub to provide a helpdesk, specialist lessons-learned and training on anti-corruption. It will fund a new set of grants managed by the British Academy to research whether international anti-corruption work is really changing incentives.
- **Global public goods and standards which incentivise countries to tackle corruption:** For example IACT will support the EITI to work with governments, civil society and companies in 51 countries to adopt higher standards of transparency and accountability of oil, gas and mining, and leading NGO Transparency International which works in over 100 countries to hold governments to account for international anti-corruption commitments.

IACT's approach will vary depending on the context, for example:

- For **chronically fragile places** (e.g. Yemen, Syria), IACT partners can work overseas to close down opportunities for the corrupt to launder and hide stolen assets overseas. This corruption fosters mistrust and exclusion which can lead to further instability and extremism.

- For **weak or fragile states**, IACT will work with other parts of the UK government, depending on context and demand in order to shift incentives for government and the private sector away from corruption. For example IACT could support beneficial ownership and extractives transparency, and tracing stolen assets through the international system for Afghanistan and Nigeria.
- In **more developmental states**, such as Ghana and Tanzania, as well as the areas above there are further opportunities to work with government to build capacity for anti-money laundering or financial investigations and to test out work with the private sector to improve trade integrity.
- And lastly, in **emerging economies** including some which are not DFID priority countries IACT will work alongside the cross-government Prosperity Fund global anti-corruption bid supporting countries such as Colombia.

Does the programme fit with DFID’s strategic architecture: the UK Aid Strategy, Single Departmental Plan (SDP), International Development Act and the department’s Business Plan? The programme contributes to delivery of:

- UK Aid Strategy and SDP (2015-2020) objectives: 1.Strengthening global peace, security and governance; and 3. Promoting global prosperity.
- The Bilateral Aid Review 2016: committing DFID to “champion further tough changes in international and UK rules to help prevent corruption and money laundering”; and
- The Economic Development Strategy 2017 which committed to scale up support for anti-money laundering and asset recovery; support greater transparency on who owns and controls companies and support EITI;
- The Governance, Open Societies and Anti-Corruption (GOSAC) Department Business Plan 2016-20 which aims for the UK to be a champion in changing international and UK rules to help **prevent corruption**, end impunity for those engaged in corruption, and empower those who suffer from it.

What percentage of DFID’s Single Departmental Plan (2015-20) results target does IACT represent? Could the programme be adjusted in scope or scale to deliver SDP results? This programme will contribute to the target to “spend an additional £200m on Golden Thread activities over five years, prioritising corruption”.

Is the programme coherent with the wider international community and partner government response? Has the programme set out a sustainable exit strategy?

Effective action against corruption requires collaboration in country and internationally across borders to close down opportunities to steal and hide assets.

- IACT will support delivery of international and partner country ambition expressed at the 2016 London Anti-Corruption Summit, with 42 countries, 7 international organisations, business and civil society;
- Due to the scale of international corruption, this programme alone will not end it, but the UK will work with partners to close gaps in the UK and international system which allow corruption to flourish in partner countries and show what can be done to encourage others to follow suit so that real progress can be made in stopping illicit flows round the world over time.

Has the programme considered working with HMG Departments and accessing cross-HMG funds? IACT will:

- be co-funded through £28.5m DFID managed overseas development assistance (ODA) and a £6m contribution from an FCO-led cross-HMG Prosperity Fund Global Anti-Corruption programme working with the National Crime Agency (NCA), Treasury and the Government Digital Service;
- contribute to delivery of the forthcoming cross-HMG UK Anti-Corruption Strategy led by the Joint Anti-Corruption Unit in Cabinet Office;
- As one of its outputs, work with the Department of International Trade (DIT) and the FCO to establish a Trade Integrity Initiative.

How does the programme relate to other UK aid within the specific sector, including multilateral, bilateral and centrally managed programmes?

- IACT is a centrally managed programme which focuses on international anti-corruption work which country office-led bilateral programmes are not best placed to address because tackling cross-border corruption effectively requires coordinated action in multiple countries.
- It works with international NGO, private sector and multilateral partners to scale up provision of the best specialist expertise in areas where internationally demand exceeds supply, such as anti-money laundering and asset recovery, or in testing and piloting approaches in new areas such as beneficial ownership transparency.
- It is one of 4 centrally-managed programmes approved or under design working together to prevent and deter corruption from the moment of a bribe until stolen money can be returned and reinvested in DFID priority countries.

Is there sufficient flexibility to learn and adjust to changes in the context? What level of flexibility is there to shift this and future commitments?

The programme will co-fund several posts with country offices linking this and other CMPs to work in country and identifying changes in local context so that the right mix of implementing partners can respond to opportunities.

- IACT will work 2 other centrally-managed programmes jointly to contract an external supplier for monitoring, evaluation and learning to enable the programme to test and adapt approaches and share lessons from innovation.
- Funding agreements with partners will include break clauses allow DFID scale up or down commitments to respond to context and performance, especially following a mid-term review of the programme in 2019.
- The programme will have a 3-6 month inception phase to finalise agreements with approved partners including delivery chain mapping and to develop the results framework.

Does the proposed level of risk to be taken fit with DFID's risk appetite for this portfolio? Yes. The programme is rated as moderate risk.

Is there a clear communications strategy to reinforce our objectives? Will the programme be branded with the UK aid logo and recognise UK Government funding – and, if not, why not?

- Agreements with partners will require them to embed into their programmes the communication of innovation, progress and impact on people's lives;

- The IACT programme team will work with country offices and international partners to use opportunities to communicate and amplify the purpose and impact of IACT in country and internationally, for example, at the launch of the UK Anti-Corruption Strategy and UN General Assembly 2017;
- Partners will be required to use the UK aid logo on materials where feasible.

Has the programme been quality assured? How confident are we that the skills, capability, resources and political will exist to deliver the programme?

- IACT has been quality assured by the Head of Policy and Global Programmes and the Head of Governance, Open Societies and Anti-Corruption (GOSAC).
- The capacity of all implementing partners has been appraised during business case preparation. Due diligence of all implementing partners will be completed or updated before resources are disbursed.
- The DFID programme management team in GOSAC will work with implementing partners, country offices and the FCO to monitor political economy challenges and opportunities in partner countries to maximize impact and mitigate risks. The Secretary of State signalled political commitment to tackling corruption in the Bilateral Development Review and the Economic Development Strategy 2017.

Does the SRO and team have the capability and resources to deliver this programme? The UK-based SRO and team includes anti-corruption advisers and programme managers working across the components, with procurement and commercial experts. The DFID team works closely with the Prosperity Fund and Cabinet Office units to ensure the programme supports the UK Anti-Corruption Strategy. IACT will work with 2 other centrally managed programmes to outsource some management arrangements to an external supplier procured through open competition in order to maximise synergies between the three programmes and ensure they respond effectively to demand in DFID partner countries.

A. Strategic Case

1. Context and need for a DFID intervention

Corruption undermines development

The UK Government recognises that **combating corruption is a vital part of sustainable development**. Corruption threatens economic growthⁱ, wastes resources, deters investment and hurts the poorest the most. It erodes public trust in government, undermines the rule of law, and can give rise to political and economic grievances that may fuel violent extremism. By diverting public funds from productive uses, distorting markets and creating barriers to attracting investment, corruption is a major obstacle to delivery of the UK Aid Strategy.

Countries that address corruption can increase their levels of inward investment, trade and economic growthⁱⁱ driving prosperity. This is a particularly important constraint for UK businesses where. **Investment and growth opportunities are being missed in DFID's partner countries** and other low income countries where corruption continues unchecked.

The scale of global illicit financial flows dwarfs official development assistance. **Money laundering alone is estimated to run at the rate of over \$4bn a day, or \$170m an hour. It is equivalent to consuming the entire annual DFID aid budget (£9bn) in 86 hours.** Estimates suggest that \$30 trillion in assets are held outside the country of origin of the individuals who control them. Illicit financial flows, including corruption, bribery, theft and tax evasion are estimated to cost developing countries over \$1 trillion per year. This could lift the 1.4 billion people living on less than \$1.25 a day above this threshold for at least six years. **Recovering and returning even a fraction of global illicit financial flows could provide a significant increase in the finance available for development.** For example, a \$700m return from the USA to Nigeria in 2005 was overseen by the World Bank and enabled funds to be programmed through the national budget.

International money laundering and lack of transparency enable grand corruption

Grand corruption is abuse of high-level power on a large scale, benefiting the few at the expense of the manyⁱⁱⁱ. Grand corruption is often easier to commit in countries where there are poor systems of financial management, procurement and tax administration, weak oversight bodies and ineffective or compromised law enforcement. The proceeds of this corruption may then be used for example domestically to fund political parties or elections; or be sent to foreign bank accounts, trusts and other financial 'vehicles', often well-disguised as being for apparently legitimate reasons.^{iv}

Failure to take action against grand corruption sends out a message that the political and business elite are unaccountable and can act with impunity; **grand corruption can become a way of life for those in power, resulting in generalised corrosion of state institutions, systems and laws and weakening citizens' trust**; it may facilitate a 'race to the bottom' in which elites compete with each other to grab the greater share of state resources while in office. Such costs can be the difference for many developing countries between economic success and stagnation and ingrained poverty.

Grand corruption often starts with a bribe to a public official, for example to obtain a public contract to build a road, exploit oil or mineral deposits or obtain a lucrative arms deal. Where public procurement is not open and transparent, contract terms are not publicly available and the real owners of the companies which win the contracts are not clear, it is difficult to know if a government is getting value for money or corrupt individuals are benefiting. **Transparency in public contracting, in sectors like extractives or defence which are most prone to corruption, and in international company structures, can help shine a light on corruption.** DFID's Bilateral Development Review 2016 committed to "push for a global transparency revolution...so that people around the world can see how their money is being spent and hold the powerful to account."

Grand corruption often involves money-laundering across multiple jurisdictions to extract funds from a country and complex opaque business structures in offshore financial centres to launder and hide it. Developing countries rarely have law enforcement capacity to tackle the corruption within their own borders, let alone the capacity to take action on cross-border money laundering or bribery by foreign companies or nationals. Legislation and systems for reporting money laundering in banking or property sectors at country level are often weak, countries' financial intelligence units often lack the necessary skills, experience or political backing properly to investigate suspicious transactions, request assistance in cross-border investigations from other countries to gather evidence and trace stolen assets or work with law enforcement to secure prosecutions of corrupt officials. **International support and action are essential to challenge assumptions that corruption is an inevitable way of life, to expose and pursue this kind of corruption and recover and return these assets to the countries of origin so they can be utilised for productive development purposes.**

Resources from grand corruption maintain corrupt elites and networks in power and limit responsiveness to citizens. The complex relationship between corruption and power is facilitated by opacity and lack of accountability at country level and international channels to hide the proceeds of corruption. DFID has growing experience in designing and implementing country programmes based on thinking and working politically, for example the Strengthening Uganda's Accountability Response (SUGAR) programme. This programme is an opportunity to link the local knowledge in country programming to a better understanding of the international networks which enable grand corruption so that the international responses on anti-corruption can respond flexibly to country-level opportunities and political economy.

Tackling corruption overseas is in the UK national interests

Corruption can threaten sustained security and stability^v, also harming the UK's ability to do business around the world. The UK's Strategic Defence and Security Review 2015 identified corruption as a cause of conflict and instability. Stable, well-governed countries are stronger partners for the UK as they are more able to tackle global security threats and provide opportunities to increase our international trade. **Corruption can also facilitate organised criminality and terrorism, enabling illicit flows in arms, wildlife and human trafficking^{vi}.** The actions of oppressive and corrupt governments, which undermine trust and deprive populations of economic opportunities, can also drive people towards extremism.

Recent research by Transparency International-UK's Defence and Security programme concludes that "Corruption has served as a rallying call for extremist groups, facilitated terrorist acts, while in some cases rendering government and defence institutions incapable of responding."^{vii}

As the UK prepares to develop a stronger global role that capitalises on trade and investment opportunities beyond the EU, **UK firms can be constrained if they hesitate to expand business in countries perceived to be highly corrupt** in order to maintain compliance with the UK Bribery Act 2010. But these are often developing countries where the need for investment to drive growth and create jobs is greatest and have the potential to become future economic powerhouses. In 2014, over 60% of UK outward FDI was outside of the EU^{viii}. Between 2005 and 2014, UK outward FDI to African countries doubled from £20.8 to £42.5 billion^{ix} – a continent where many countries are perceived as corrupt. Over half of this investment in Africa was in mining and quarrying; in the extractives sector prone to high risks of corruption^x. But in 2016, a Control Risks survey of 800 international firms found that 43% of business compliance officers for UK firms indicated their firms had decided not to do business in a certain country due to the perceived risk of corruption and 31% pulled out of a deal for the same reason^{xi}. Overseas corruption also limits UK job creation which could otherwise be generated by export-led business expansion.

However, the Control Risks survey suggests that high levels of host-country corruption deter potential investors, but less so than a decade ago. Companies from countries with the highest levels of international enforcement of anti-bribery rules, such as US, UK and Germany are getting better at identifying better deals, even in difficult places, through compliance and risk management processes and a growing willingness to challenge corrupt behaviour^{xii}. A strong anti-bribery compliance stance by multinational investors raises the floor for behaviour all along their supply chain of local companies in developing countries as well. As risks are reduced trade opportunities can open up for smaller British companies to operate cleanly in foreign markets as it becomes more cost effective for them to trade and invest overseas whilst complying with the UK Bribery Act. Evidence to the All Party Parliamentary Group on Anti-Corruption has highlighted that **businesses want the UK Government to provide more coordinated support to help them to navigate corruption risk in overseas markets and publicise advice more widely.**^{xiii} This is an opportunity for DFID to deploy anti-corruption expertise and local knowledge to work with other parts of the UK Government (FCO, DIT) to ensure UK business can continue to take a continued strong anti-bribery stance providing information on how to manage corruption risk as a public good for international business operating in developing countries.

The UK and DFID's roles in tackling international corruption

The UK has an established track record of working to demonstrate internationally that it is possible to tackle the cross-border channels which allow corruption to thrive and close down routes for grand corruption.

The **Bilateral Development Review 2016** committed DFID to "champion further tough changes in international and UK rules to help prevent corruption and money laundering, reflecting the Government's drive to permanently change how the world tackles corruption". DFID's **Economic Development Strategy 2017** highlights that the UK Government will continue to be at the forefront of the global response

to corruption, committing to change the incentives and attitudes which allow corruption to persist, scale up support for anti-money laundering and asset recovery, support the proposed Open Ownership Register and greater transparency on who ultimately owns or controls companies and transactions, fund partnerships such as between UK specialist law enforcement units and counterparts in developing countries and give further support to EITI to enable partner countries to implement more stringent standards by 2020 whilst upholding UK obligations. In 2017, the **UK Anti-Corruption Strategy** will set out a vision for action at home and overseas across the UK Government until 2020 to build the UK's reputation as a centre for global financial integrity and to partner with other countries to track and stop international routes for corruption. This programme will deliver DFID's contribution to the UK Strategy. **It will amplify and support delivery of the DFID Transparency Agenda.**

The Government is already working to **make the UK a more hostile environment for corrupt funds**, ending impunity for those engaged in corruption, recovering stolen assets, and empowering citizens to stand up to corruption. For example, DFID leads a UK Action against Corruption (UKASE) programme to tackle the problem of stolen funds from developing countries being laundered through the UK, and to pursue UK citizens and companies who engage in bribery in developing countries. DFID funds UK law enforcement agencies who have investigated 150 cases, recovered approximately £180m, and secured 27 convictions related to international bribery and corruption offences since 2006. But **there is a need for more complementary programming to support the international architecture** which can change how the world tackles cross-border corruption and shift incentives for corruption at country level.

Action on international corruption requires ever stronger **cross-HMG collaboration**, as highlighted by the International Development Committee report "Tackling Corruption Overseas" (October 2016). As well as developing a UK Anti-Corruption Strategy a cross-government Prosperity Fund anti-corruption programme will bring together the FCO, NCA, HMT and DFID to deliver complementary international action on corruption across government. For example it will support an International Anti-Corruption Coordination Centre (IACOCCA) hosted by the National Crime Agency bringing together specialist law enforcement officers from multiple foreign jurisdictions into a single location to tackle allegations of grand corruption. The Prosperity Fund programme will support two components of this DFID-led programme.

Internationally, the **demand exceeds supply of assistance to countries to improve their anti-money laundering regimes and trace and return stolen assets**. This highly specialist expertise is often not available at country level including in DFID country offices, therefore there is a need to support international providers to strengthen capacity at country level. DFID was a founding funder of the World Bank and UN Office of Drugs and Crime Stolen Asset Recovery Initiative (StAR), and of the International Centre for Asset Recovery (ICAR) at the Basel Institute of Governance. These two bodies have significantly improved the global arrangements for asset recovery, and provide developing countries with new avenues for technical assistance in all stages of the asset recovery process. DFID also helps a wide range of developing countries to strengthen their anti-money laundering systems through contributions to the specialist technical assistance programmes of the World Bank and International Monetary Fund. There is now a

need to expand this provision to meet country level demand and address the volume of illicit flows, working through existing and new providers of support, not only in anti-money laundering/asset recovery but the newer field of beneficial ownership transparency.

International momentum against corruption has been building and the **May 2016 UK Summit** set an agenda for further action and continued UK leadership. 42 countries, seven international organisations, and a wide cross-section of business and civil society attended the UK Summit 2016 and agreed a Global Declaration Against Corruption and Communique. The UK and 5 DFID priority countries (Afghanistan, Kenya, Nigeria, Tanzania, and Ghana) made specific commitments. This programme will support delivery of the Summit commitments including a particular effort to support these 5 countries to fulfil their commitments as well as enabling other DFID priority countries to access support on cross-border anti-corruption.

The Summit highlighted **gaps in provision of international support to tackle corruption and opportunities to push for further action** to shift incentives at country level. For example:

- It highlighted the importance of **transparency of company beneficial ownership** and the UK showed leadership by launching a public register of UK company beneficial ownership in 2016 and committing to greater transparency on property ownership from foreign companies. This will help to prevent criminals and corrupt actors hiding behind anonymous “shell” companies, and marks a significant increase in the ability of UK law enforcement to investigate bribery and corruption, money laundering and tax evasion. There is now a need to encourage and support others, including DFID priority countries to require beneficial ownership transparency in order to build up **a global picture of complex company structures** which are used to hide corruption;
- It committed the UK to work with others in sectors at particularly high risk of corruption, for example to **enhance company disclosure regarding payments to government for the sale of oil, gas and minerals** complementing our commitment to the **Extractive Industries Transparency Initiative**, and to explore with others the scope for a **common global reporting standard**. The UK was instrumental in establishing the Extractive Industries Transparency Initiative (EITI) which is now a global standard implemented by 52 countries disclosing more than \$2 trillion in revenues. In 2014, the UK was the first country to adopt regulations implementing Chapter 10 of the EU Accounting Directive requiring companies to disclose payments to governments for oil, gas and mining. The first reports, showing payments to governments by UK extractive companies, have been published on the Companies’ House [website](#). There is now a need to ensure developing countries have sufficient capacity to implement the new EITI global standard, including on beneficial ownership disclosure, and use other extractives transparency data to expose corruption and improve accountability for how oil, gas and mining are managed for the benefit of citizens rather than only elites and companies.
- The UK also committed at the Summit to ensure that **our assistance to foreign security and defence sectors** supports good governance, to reduce the risk of corruption in the security sector. The UK has supported Transparency International’s (TI) global Defence & Security Programme,

which has made significant inroads in putting defence and security corruption on the agenda of policy makers, defence companies, international organisations, military thinking and civil society.

- The UK said we would support the establishment of the Egmont Centre of Financial Intelligence Unit Excellence and Leadership which will **strengthen the financial intelligence units at country level** which follow-up suspicious transaction reports provided by banks highlighting possible corruption and money laundering.

UK action and encouragement of other countries to take action against international corruption is framed by consensus achieved at the UN, efforts within the EU and at G20 in recent years. This aims to raise common standards of international action against corruption and level the playing field internationally, extending action into more countries and **mitigate the risks that addressing corruption by UK companies or in the UK just shifts corruption to other locations and limits business opportunities for UK companies**. The UN Convention Against Corruption, agreed in 2003, has now been ratified by 165 countries. The UN Sustainable Development Goals (SDGs) 2015 recognise the importance of governance and anti-corruption for growth and development. Target 16.4 aims to “By 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organised crime”, whilst 16.5 seeks to “Substantially reduce corruption and bribery in all their forms”. The UK helped drive the EU to take steps to implement reform and increase transparency through the 4th EU Money Laundering Directive. From June 2017, all EU member states will collect beneficial ownership information of companies and other legal entities in a central register. The UK has played an active role in the G20 Anti-Corruption Working Group which has helped to persuade China to criminalise overseas bribery and led to India, Saudi Arabia and Germany ratifying the UN Convention Against Corruption.

Anti-corruption and transparency non-governmental organisations (NGOs) play an important role in holding governments and powerful elites to account for delivery on these international commitments, for example those made at the UK Summit. Local and international NGOs give voice to the victims and witnesses of corruption and often provide a robust independent challenge function with significant profile and convening power. They frequently work in alliance with governments, businesses and citizens to stop the abuse of power, bribery and secret deals. The Civil Society Partnership Review 2016 committed DFID to support organisations that protect those under threat and to increase understanding of the extent, causes and consequences of closing civic and civil society space. This programme will seek to ensure that leading anti-corruption civil society groups with presence internationally and in DFID priority countries, including the 5 summit countries, are supported to hold governments and companies to account for delivering and advancing their commitments to tackle cross-border corruption which undermines development at country level but where action is required internationally to shift incentives away from corrupt behaviour.

While there is a substantial **evidence base for the costs and effects of corruption on growth, development, insecurity and stability, the evidence base for what works best in tackling corruption is still limited**. In particular research and evidence on the impact of international anti-corruption work on incentives of corrupt actors at country level is not yet well developed. In part this is

because this is a relatively new field whereas processes of tracing and returning stolen assets to be reinvested in development, for example, can take many years of complex financial investigation and legal processes. While international commitments on beneficial ownership transparency were made at the 2013 G8 Summit, the first public register (in the UK) was only launched in 2016. In the case of anti-money laundering, there are as yet no mechanisms in place systematically track this impact. In fact, the literature points to a lack of theoretical and empirical work to measure and track impact of AML/asset recovery processes^{xiv}. Therefore this programme will work to build the evidence base to measure and track the impact of international anti-corruption work on country level incentives, in order to adapt programming where required.

Corruption is multi-faceted and requires coordinated and targeted work in the UK, internationally and in developing countries to tackle it. DFID works to ensure action takes place:

- Domestically, in the UK to ensure that our financial systems are not used to facilitate the movement or holding of illicitly-acquired funds, and to assist in their tracing, recovery and return when they are found in the UK.
- Internationally, to strengthen the global anti-corruption ‘architecture’ including contributing to the development of global standards and pioneering initiatives e.g. UN Convention Against Corruption, asset recovery, anti-money laundering, extractives transparency, open government, knowledge and research;
- Within DFID’s partner countries, to assist in the strengthening of their national systems and the prevention of corrupt practices and asset flight.

The **International Action Against Corruption Programme (IACT)** will build on this momentum to strengthen the effectiveness of the international architecture to expose and punish corruption. It will build on an initial £4.85m^{xv} programme to kick-start delivery of Summit commitments (“Delivering on the 2016 Summit Commitments”, September 2016 - December 2017). Ongoing lessons from delivery of this work will be built into the detailed design of the new programme, following approval. There is strong evidence that a combination of approaches is required to tackle a multi-faceted phenomenon like corruption.^{xvi} This programme brings together these approaches to reduce incentives to engage in corruption, by *increasing the risks and costs relative to the benefits*, such that agents are less inclined to regard it as worthwhile behaving corruptly^{xvii}.

2. Essential issues to consider

Gender Equality

Academic research into the impact of anti-corruption interventions on women and girls is thin and in many cases anecdotal. This programme focuses on tackling grand corruption to stop leakage of public money through large-scale bribery, money laundering and theft of assets. This would release additional resources for national budgets to invest in public services to improve the lives of girls and women although the programme does not directly work to enable this. Existing evidence on corruption’s effects on poverty suggest that taking action against corruption should reduce negative impacts^{xviii}. Reducing corruption will therefore have an above proportion positive impact on women overall. In accessing services evidence shows ‘petty’ corruption affects the poor and marginalised disproportionately, with the poor often spending a higher proportion of their income on such payments than

the better off^{xix}. Poor women make up the majority of clients for public healthcare services because of their roles as primary care-givers and due to their greater requirement for reproductive healthcare. When public healthcare officials demand bribes, this imposes an informal fee for services that should be free, reducing women's ability to access services they need and increasing their poverty levels. Women and girls are also more vulnerable to sexual extortion, as men who control access to services demand sex as bribe payments. Sexual harassment by teachers in Botswana for example led to 11% of girls considering dropping out of school, and 10% consenting to sexual relations for fear of reprisal^{xx}.

This programme will consider impact on gender equality by, as appropriate and feasible, the disaggregation of data by sex and the inclusion of gender-based targets in results measurement. The programme will explicitly seek to role model gender-sensitive approaches to corruption programming where possible and appropriate and this will be monitored closely.

Terrorism and financing

The risks associated with terrorism and financing in this programme are considered low as DFID will work with trusted partners and conduct appropriate due diligence. Some components may directly mitigate the risk of international terrorist financing, for example support to reduce international illicit flows and money laundering.

Conflict and fragility

Corruption can be a cause of conflict and instability. This programme will directly address this, for example through reducing corruption in the defence and security sector with a particular focus on mitigating risk of corruption in those sectors in fragile and conflict affected states. GOSAC will also work closely with country offices and the FCO to identify political risks and opportunities and appropriate timing of deploying international anti-corruption measures through the partners supported in this programme, to mitigate risks of increasing instability.

3. Impact and outcome

The ultimate impact of this programme will be to reduce poverty and enable greater prosperity through the financing for development made available from reduced theft and leakages from the public sector in developing countries; the return of stolen assets otherwise lost through grand corruption; and a less corrupt business environment attracting investment and job creation.

The outcome will be:

- reduced incentives for corruption due to international partners working better together across borders and in country to close down opportunities to hide the proceeds of corruption and increase transparency and integrity, and
- diminished impunity due to stronger cross-border financial investigations and greater accountability to local and international civil society for compliance with international standards.

B. Appraisal Case

How does the international system enable corruption to flourish?

An example: A company pays a bribe to a minister or senior official (a “politically exposed person”) for a contract to supply arms or drill for oil in a developing country. The company might not pay this bribe directly; it could transfer “consultancy fees” to the bank account of a relative of the minister or official or pay another company or middleman. The bank account could be in the developing country but is more likely to be in a different financial centre e.g. Dubai, London or Singapore. The funds may pass from one bank account to another in the names of different ‘shell’ companies which are ultimately owned and controlled by the minister or official, or a relative, through an offshore company registered in a country where there is limited or no transparency required for company ownership e.g. Delaware. The offshore company buys a penthouse in London and the minister or senior official uses it for his holidays visiting his children who are studying in the UK.

IACT will focus on aspects of international corruption which country offices are not best placed to address, for example due to the nature of cross-border and multi-country channels for corruption, and the lack of highly specialist expertise in new areas (such as beneficial ownership transparency) at country level. It seeks to ensure that action is being taken along the chain of transactions which allow corruption to flourish across-borders through a DFID centrally-managed programme which can bring together expert international partners where needed along this chain. It will support the implementation of international standards which incentivise action against corruption in partner countries. As illustrative *examples*:

- The UK’s country team or partners in Afghanistan could identify the role of Dubai and London as financial centres for laundering money stolen through corruption from Afghanistan. The IACT programme team could identify specialists at the International Centre for Asset Recovery who could work with the Afghan government and investigators and internationally to trace stolen assets. Open Ownership specialists on beneficial ownership transparency could support Afghanistan to produce a register of company ownership to identify who really owns and controls companies if they are being used to hide corruption.
- The DFID country team in Tanzania could identify technical weakness and lack of political support for the local financial intelligence unit which stops it investigating corruption cases. IACT will support the Egmont Centre of Financial Intelligence Unit (FU) Excellence and Leadership following up on a 2016 Summit Commitment. Specialists from Egmont and stronger FIUs in the region could establish a relationship of trust with the Tanzanian FIU and work to build capacity to follow up on reports of suspicious transactions produced by the anti-money laundering rules for the banking sector, to build the evidence to pursue corruption cases.

Gaps in the international architecture to tackle corruption are set out in the **flow-chart** below which highlights how proceeds of corruption flow through the international system and how a suite of current and proposed DFID anti-corruption programmes work together to close down opportunities for corruption.

We consider three options for the UK Government to tackle the gaps in the international system which ultimately allow this corruption to thrive at country level:

1. **Do not deliver a centrally managed programme**, continuing only with country office anti-corruption programming;
2. **Only support initiatives which address critical gaps** in the international architecture which would not happen without DFID support (£16.5m);
3. **Option 2 plus support existing tested initiatives** (£34.5m) where:
 - (i) international need or demands from DFID partner countries exceeds supply and sustained support or scale-up is needed, and where we can demonstrate additionality of DFID support; and/or
 - (ii) the UK has made political commitments. Our withdrawal would weaken our reputation for leadership on international corruption and may discourage others from acting.

The pros and cons of these options are set out below.

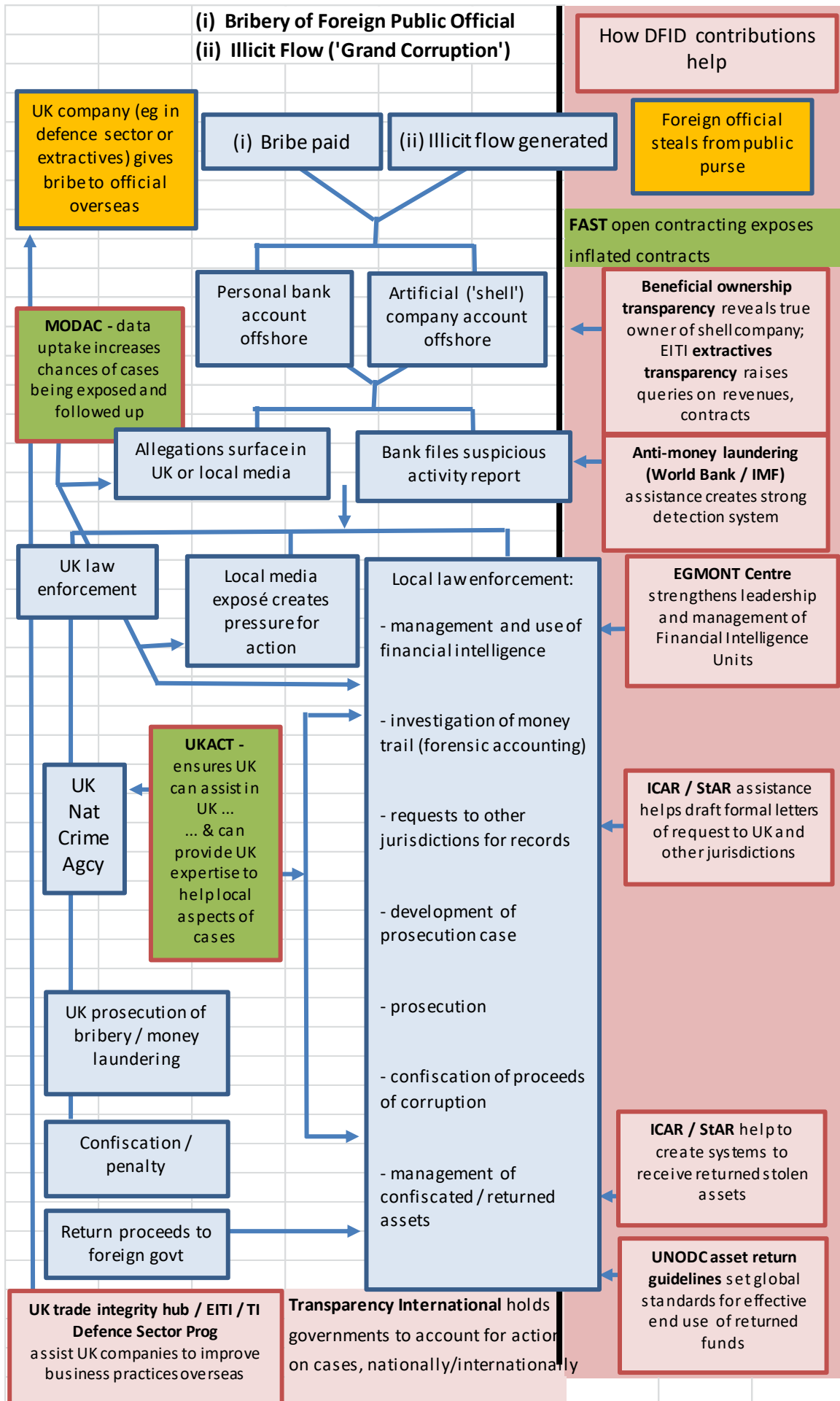
These options do not represent everything DFID could do, and see potential value in doing, that would further strengthen the international system for anti-corruption. For example we could:

- *focus all efforts only on building the effectiveness of multilaterals such as UNODC and World Bank, however we have chosen to work with a wider range of providers which are the leading experts in the specific international anti-corruption fields required to address gaps in the international system.*
- *explore also other emerging spheres of interest in the anti-corruption sphere, which are untested but potentially innovative including: strengthening the UN response through exploring using human rights mechanisms for anti-corruption; establishing international norms for providing compensation to 'victim' countries from corruption cases; researching behavioural and social norms approaches to combating corruption or creating a global reporting 'observatory' for bringing corruption cases to the attention of law enforcement. However expanding into these areas would require significant additional policy effort and finance.*

As well as this programme, the flowchart reflects some of the contributions from the following current or proposed centrally-managed programmes and illustrates how they will work together to close down opportunities for corruption along the chain of corrupt transactions:

- Mobilising Data for Anti-Corruption (MODAC) (under design) would improve the quality and use of corruption data (including that generated by this IACT programme) to increase the number of high-level sanctions, penalties and prosecutions in corruption cases in 4 DFID priority countries;
- Fiscal Accountability, Sustainability and Transparency (FAST) (under design) would improve the way money is managed and spent in developing countries, with a focus on budget and procurement transparency, improved external oversight and local participation;
- UK Action against corruption (UKACT) (approved) is being implemented to make the UK more hostile to international money laundering activity and to ensure that UK companies and individuals uphold the highest standards and abide by UK anti-bribery law even when operating in high-risk overseas jurisdictions.

The following **flowchart** illustrates how DFID programmes bear down on the chain of transactions across borders which allow corruption to flourish:



Description of options for IACT

Option 1: Do not deliver a centrally managed programme

Pros:

Some country offices could do limited selective work e.g. to buy in technical assistance on asset recovery, anti-money laundering or support stronger financial intelligence capacity locally.

Cons:

Development impact –

DFID would fail to meet all country level demand, contribute to delivering systemic change, or support the international coordination across borders and initiatives required to tackle incentives for corruption; UK role in innovating and systematically plugging gaps in international anti-corruption work and demonstrating to others before scaling-up would be lost encouraging others to step aside also;

Corruption happens due to the incentives and channels for international corruption to thrive across borders, action on these cannot be taken at country level;

Country offices do not invest in security and justice programming so that investigation and prosecution of corruption cases lapses and incentives for corruption flourish due to impunity.

Reputational risk to DFID -

UK government would be unable to deliver fully on the UK Anti-Corruption Strategy or London Summit commitments; would not deliver on commitments in the Economic Development Strategy.

Option 2: Only support initiatives which address critical gaps in the international architecture which would not happen without DFID support (Total £16.5m (including £3m from Prosperity Fund))

What would happen?	Pros of support	Cons
<p>1. Beneficial ownership transparency exposes and deters corruption Open Ownership Register (£3m from Prosperity Fund)</p>	<p>Information publicly available about who owns companies used to shelter proceeds of corruption in 6 countries and global register. Delivers on Economic Development and UK strategies. Web Foundation, the consortium lead is a high-performing previous DFID partner.</p>	<p>New and untested initiative with DFID carrying all funding risk.</p>
<p>2. Country level financial investigations lead to prosecutions Egmont Centre of Financial Intelligence Unit excellence (£4.04m)</p>	<p>Stronger financial intelligence (FIUs) in DFID priority countries can investigate suspicious transactions. No other body than Egmont can reach all FIUs. Delivers on commitments at Summit, in UK Strategy</p>	<p>DFID only confirmed seed donor in 2016-17, carrying initial funding risk though other funders actively are being sought.</p>
<p>3. UK (and other) businesses do not bribe overseas to win contracts Trade Integrity Initiative (£1.33m).</p>	<p>UK Government (DFID, FCO, DIT) respond to private sector demand for more systematic support to operate, trade and invest overseas with integrity, as part of an improved trade offer to developing countries following UK exit from the EU, driving prosperity at home and abroad. DFID funding ensures inclusion of DFID priority countries in the Trade Integrity Initiative and delivers on the Economic Development Strategy. Support could also be provided as a public good to other companies engaging internationally.</p>	<p>Reputational risk of ODA funding being perceived to benefit UK companies, mitigated by ensuring that the integrity service offer targets DFID priority countries to reduce corruption and drive prosperity in those frontier markets.</p>
<p>4. Countries trace and recover stolen assets to reinvest in development International Centre for Asset Recovery (£4.2m) at the Basel Institute of Governance</p>	<p>ICAR is the only international non-profit provider of <u>case-specific</u> support to governments to trace and recover assets. DFID provides 40% funding (with Switzerland, Liechtenstein) and if stopped the initiative would fail; though other funders sought.</p>	<p>Country offices could support ICAR for specific national level asset recovery work but not at the scale required to meet international demand.</p>
<p>5. Country offices and partners receive specialist support to take action on international corruption Support facility for call-down specialist</p>	<p>DFID country offices have limited expertise and resources to provide partners with specialist advice on international corruption cases, beneficial ownership, asset recovery, etc. Increases supply of quality</p>	<p>Country offices could access EACDS or buy in expertise separately but this approach aims to encourage take-up by country offices of support on complex</p>

expertise on international anti-corruption (£1.2m to existing DFID call down Expert Advisory Services (EACDS))	assured technical expertise. Uses pre-approved DFID framework agreement to help source appropriate managing agents.	technical international anti-corruption work.
6.DFID tracks impact of investments in international anti-corruption New window in existing RED Anti-corruption evidence programme (£1.46m); Transparency International-UK (£1.3m)	Addresses important evidence gap which will inform our practical interventions on international anti-corruption. DFID can improve efficiency and effectiveness of investing in international anti-corruption work and standards, testing the assumption that this reduces incentives for corruption in partner countries; whilst tracking the impact of London Summit commitments on incentives in 15 countries.	GOSAC's primary role is not to support research but in this case we will channel funding to be managed through the existing RED-led ACE programme and build synergies with work led by the British Academy, SOAS and others.

Option 3: Option 2 plus support for existing tested initiatives which require sustained support or scale-up and/or UK leadership is important (Total £33.1m³ (including £6m from Prosperity Fund))

This would support a combination of new actors and coalitions fostering innovation as well as partners already established in the field with strong track records of developing the international architecture, and responding to country capacity needs. It would go further in the range and volume of support to fill gaps in the international system to address country-level corruption than Option 1. It would spread risk by supporting a range of tested initiatives and partners as well as new areas receiving seed funding under Option 1.

What would happen	Pros	Cons
1.Transparency and accountability in oil, gas and mining including beneficial ownership exposes and deters corruption Extractive Industries Transparency Initiative (£3m from Prosperity Fund)	UK leadership on extractives transparency at a time of uncertainty given potentially reduced leadership from other key donors; following Summit and Economic Development Strategy commitments. Information publicly available about beneficial ownership of extractives contracts and transparency for licences, production, revenues in 14 DFID priority countries; transparency in commodity trading piloted in 3.	DFID is one of multiple supporters (10% of Secretariat funding; 9% of WB technical assistance funding) so EITI could survive financially without UK support but this would suggest reduced UK commitment at a time when maintaining leadership and momentum on extractives and beneficial ownership transparency is key.

³ The £33.1m figure includes the total cost of delivering the IACT components but excludes the Monitoring, Evaluation and Learning budget plus staff costs. Once these costs are included the overall IACT budget reaches £34.5m.

What would happen	Pros	Cons
<p>2.Reduced corruption in defence and security improves stability and security Transparency International-UK Defence and Security (£3.2m)</p>	<p>No other organisation has similar networks in the government and private defence and security sectors which focus on transparency and anti-corruption, providing training and mentoring to defence ministries, improving independent oversight, publishing corruption indices for countries and contractors.</p>	
<p>3.Civil society internationally and in DFID priority countries holds governments and inter-governmental groups to account for tackling corruption and raising global standards Transparency International Secretariat (up to £3.07m)</p>	<p>The TI movement has an extensive country network of chapters in over 100 countries and is widely recognised for its capacity to influence international debate and action on higher standards of anti-corruption at the highest levels, backed up by high-quality research. TI is an important partner for UK government global ambition on corruption.</p>	<p>There are a growing number of niche specialist anti-corruption NGOs including in individual countries which could provide elements of TI's approach but not the combined multi-country and global action. TI needs to diversify funding sources away from traditional donors so we would plan to make funding for outer years conditional on a financial diversification and sustainability plan.</p>
<p>4.Countries can assess risk of money-laundering and close down channels for illicit flows IMF and World Bank (£2.9m)</p>	<p>Stronger country level institutions to prevent and detect laundering of proceeds of corruption. IMF and World Bank have deep technical competence in anti-money laundering (AML) which country offices do not have and geographical reach allowing for economies of scale and lesson learning. Delivers Economic Development Strategy commitment.</p>	<p>DFID is not the only donor to these initiatives which could continue without UK support. For anti-money laundering DFID is one of 9 donors to IMF (DFID 10%) and 5 to WB (DFID 10%). For asset recovery DFID is one of 7 donors (11%). The WB team competes internally for core and country funding for this work but that is insufficient to meet international demand given the scale of illicit flows. DFID support ensures TA reaches DFID countries and provides additionality as internationally demand exceeds supply for AML and asset recovery work and allows UK engagement in policy and lesson learning.</p>
<p>5.Countries can trace and recover stolen assets to reinvest in development (as well as ICAR under option 2) World Bank / UNODC Stolen Asset Recovery Initiative (StAR) (£1.6m)</p>	<p>Governments in DFID priority countries supported to trace and recover stolen assets domestically and through international cooperation. Internationally demand for asset recovery support exceeds supply. ICAR (see Option 2) and StAR are the only 2 non-profit international providers.</p>	<p>Established and high performing provider. DFID provides 18% of funding (7 other donors) so U4 is not dependent on DFID support in short term. Other potential providers have emerged since</p>
<p>6.Anti-corruption practitioners can access lessons learnt, evidence, training and expert helpdesk</p>	<p>U4 provides public goods with open access lesson-learning and helpdesk reports for practitioners and dedicated training for donors and country partners. Although there are 7 other donors, UK is a founding</p>	<p>Established and high performing provider. DFID provides 18% of funding (7 other donors) so U4 is not dependent on DFID support in short term. Other potential providers have emerged since</p>

What would happen	Pros	Cons
U4 Knowledge Hub (£1.3m) at the Christian Michelsen Institute, Norway	member and withdrawal could lead to domino effect.	U4 founded in 2002 but disruption in service and start-up costs for alternative provider outweigh benefits of testing the market.
7.Track impact of anti-corruption work by developing and testing more robust indicators and metrics for corruption/illicit flows World Bank (£1.5m)	Meets demand from country offices for better and comparable metrics. WB has the depth of technical expertise, geographical reach to conduct this applied operational research and test better metrics to measure and monitor corruption and illicit flows. It will provide an independent perspective compared with civil society, working with national statistical offices in 4 DFID priority countries.	World Bank might be expected to carry out this work from global research budgets but DFID funding ensures this is operationally relevant to DFID priority countries.

Working with DFID country programmes

During the inception period and throughout implementation, through GOSAC engagement in steering committees with IACT partners they will be required to demonstrate that they can respond to domestic political opportunities in DFID priority countries and build coalitions for action in specific countries with different partners to take advantage of the international architecture, for example on cross-border investigations, illicit flows, money laundering, asset recovery or complex company structures.

IACT will work closely with a group of DFID country offices during the inception period to develop country specific strategies for IACT so that international partners can adapt and respond to changes in local political context and ensure partners can respond flexibly to new opportunities. We will track and test the approach of working politically and adaptively to connect the international architecture to country level political understanding and analysis of international networks for corrupt actors.

IACT and GOSAC will also explore co-funding a number of posts with DFID country offices (initially coordinating with DFID Kenya, Ghana, Tanzania and Afghanistan), including secondments to the external implementing agent for the MODAC programme, to ensure international partners can respond nimbly to political opportunities to address corruption in country and coordinate their response. £840,000 has been included in the programme budget for this purpose.

Implementing partners and what they will deliver

Option 2: Support initiatives which address critical gaps in the international architecture which would not happen without DFID support

1. Transparency of beneficial ownership

A coalition led by the World Wide Web Foundation (WF) will develop an Open Ownership Register which will collect and make publicly available information about who really owns companies – the ‘beneficial owners’. The coalition will work with governments, business and civil society in six countries, starting with Nigeria and Ghana,⁴ to develop national registers which can form part of a Global Register. A technical pilot platform is being developed in 2016-17 with seed-funding from DFID. Lessons will be used to roll out national reporting and connection to the Global Register in 2017-2021 including developing a field-tested data standard so information can be compared between countries and providing a helpdesk for countries implementing beneficial ownership transparency for the first time. This greater transparency will give citizens, civil society and government the tools to prevent corrupt companies from operating in their country. It will enable law enforcement authorities more easily to pursue the proceeds of corruption, currently hidden through chains of secret companies. It will enable companies to understand who their business partners are and mitigate investor risk of working with corrupt partners in their supply chains. WF has a strong track record of performance, substantially exceeding expectations for the DFID-funded Web Index and Affordable Internet Programme (2012-14).

£3m of Prosperity Fund support over four years will provide the WF and their partners with sufficient resources to develop the Global Register to scale and six national registers, to develop the data standard and provide a helpdesk. As this is a rapidly evolving field, DFID will also work with Open Ownership and others to identify further opportunities to support innovation and extend beneficial ownership transparency.

Support for Open Ownership meets the 2 Prosperity Fund criteria as follows:

Primary benefit: The prosperity of developing countries is damaged by the theft of their assets. Where grand corruption cases are brought before the courts, 70% of these cases used anonymous companies to launder money, according to World Bank estimates. Opening company ownership information and preventing the use of anonymous companies in extractives contracts, will make it more difficult for criminals to use such companies to evade detection in their corrupt activities.

Secondary benefit: Improved governance and increased transparency in business in developing countries and globally. This Open Ownership Register will create links with government data, including budgets, public contracts and spending to enable more open and accountable government. Public contracting, particularly in extractives industries, is government’s biggest corruption risk and an average of 50% of government spending. Bringing open contracting data and beneficial ownership information together will increase transparency of who bids for and wins public contracts; budgeting for public services; and whether those services are actually delivered.

⁴ Countries selected for piloting the Global Register will include those drawn from countries that: a) made commitments at the UK’s Anti-Corruption Summit in May 2016, and b) have strong extractives sectors.

2. Country level financial investigations by stronger financial intelligence units lead to prosecutions

This will deliver a UK commitment at the 2016 Summit to establish a Centre of Excellence for Financial Intelligence Units. It will enable the Centre, to which the UK provided seed funding in 2016-17, to become fully operational so that it can support financial intelligence units (FIUs) in developing countries to improve their efforts to analyse suspicious transaction reports and other information relevant to money laundering (and other flows such as terrorist financing). This will identify and reduce opportunities and incentives for corrupt actors to launder the proceeds of corruption in the countries of origin and through the international system. DFID has allocated £4.038m to operationalise the centre from 2018 and was the sole funder during the design phase. This will enable Egmont to provide to establish a centre and set up a roster of experts to provide structured training to ODA-eligible members from the 151 countries which are involved. This will include initially DFID priority countries including Afghanistan, Ghana, Tanzania, Nigeria, Bangladesh, Central Asia, Malawi, Nepal and MENAD region. Other donors are now also considering contributions.

3. UK (and other) companies operating, trading and investing overseas with integrity

DFID will work with DIT and the FCO to scope and design a new cross-government Trade Integrity Initiative. The initiative will assist UK (and other) companies to respond to new trade and investment opportunities post-Brexit, while maintaining the highest standards of integrity and observing UK and international rules against bribery. DFID's contribution will ensure that these services focus on poorer, higher-risk DFID priority countries, among other developing countries. It will provide a co-ordinated structure for practical assistance and liaison between HMG, UK exporters, foreign governments and regulators. It will have the potential to link to a network of advisory support within the FCO's diplomatic and trade posts. The Trade Integrity Initiative will raise the bar internationally for the integrity of businesses in trade and investment by providing evidence on what works from a commercial and developmental perspective as a public good. For example, through publishing success stories on business models that allow companies to 'do business cleanly', strengthening integrity in supply chains and business success as a result of trading with integrity.

The scoping exercise will determine the mechanism through which these integrity services could be delivered, these ranging from a Trade Integrity Hub embedded within DIT or another government department/agency, to outsourcing the initiative to an external service provider, or the integration of an additional set of services into existing programmes/institutions focused on promoting development objectives as part of trade. DFID's £1.3m allocation will support design and contribute to operations to ensure that the Initiative focuses on DFID partner countries with prospects to become powerful economies such as Ethiopia, Tanzania and Pakistan and other developing countries. It is likely that additional funding could be secured through the Prosperity Fund following scoping. As part of the design phase, future options for revenue generation will be explored in order to ensure sustainability.

4. Countries trace and recover stolen assets to reinvest in development

The International Centre for Asset Recovery at the Basel Institute of Governance will provide specialist technical assistance so that countries can request

assistance from each other and financial centres to identify, freeze, recover and return assets stolen through corruption and reinvest them in their countries of origin. This will provide the technical expertise at country level to maximise benefits from the guidelines for transparent and accountable management of the return of stolen assets, which were endorsed at the UK Summit. ICAR is the only not-for-profit independent organisation which can provide support on specific cases and court processes whereas other initiatives such as the World Bank Stolen Asset Recovery Initiative provides broader technical assistance.

It will meet DFID's commitment in the Economic Development Strategy 2017 to scale up support for asset recovery, for which internationally demand exceeds supply. The PCR for DFID's core funding to ICAR in 2011-16 recognised it was a "high performing programme" which had met expectations. £4.2m of DFID support over four years will provide ICAR with enough resources to meet much of the demand for their services on asset recovery including a continued trajectory of increased cases while working to secure returns worth \$2.5billion of overall assets related to 8 countries. DFID is only one of three donors and ICAR are highly dependent on UK support, providing £1m per year would be a minimum level of funding to ensure ICAR can continue to deliver adequately.

5. Country offices and partners receive specialist support to take action on international corruption

IACCT will provide central funding to enable DFID priority countries to access a greater supply of rapid-response or longer-term (up to 1 year) anti-corruption technical expertise from the private sector through the existing Expert Advisory Call down Service (EACDS) framework agreement. This will fill a gap in the market to provide deep technical skills on demand for both short and long-term assignments which cannot be met by DFID staff in country offices or a central DFID advisory hub where maintaining standing capacity across the full range of technical skills would be more expensive and less flexible.

It will complement access to UK public-sector expertise (e.g. through DFID's Great for Partnerships programme) and IFI expertise (e.g. WB, IMF) to meet the volume of demand and range of skills required in complex technical areas such as beneficial ownership, asset tracing, international investigations, covering the full range of issues that the Summit addressed. This will contribute to the scale up on asset recovery and anti-money laundering highlighted in the Economic Development Strategy. It will build international expertise in the new policy area of beneficial ownership. To maximise effectiveness and mitigate risk of an overly-technical approach, the facility management team and technical experts will be required to work closely with UK posts to deliver support and ensure that expertise deployed is tailored to respond to opportunities for institutional reform, builds local capacity and can navigate local political economy. £1.2 million over four years is judged as an adequate level of funding to cover the short term technical assistance requirements of DFID partner countries. The budget will be reviewed by 2019 to assess whether it is being utilised effectively or should be reallocated to other components.

6. DFID tests impact of our investments in international anti-corruption

IACCT will provide funding to a research window in the existing DFID Anti-Corruption Evidence programme (ACE) being delivered by the British Academy (BA) which is managed by DFID's Research and Evidence Division (RED). ACE is already

supporting a research programme on public and private sector anti-corruption in Bangladesh, Tanzania, and Nigeria led through competition and implemented by the School of Oriental and African Studies (SOAS). The existing ACE programme scored A in its first Annual Review in 2016. £1.457 million over four years from IACT will provide enable BA to let grants specifically focusing on the impact on incentives for corruption of strengthening the international architecture. International policy commitments made at the Summit such as strengthening work on asset recovery, anti-money-laundering or transparency in new fields such as beneficial ownership are based on sound analysis but we do not yet have robust evidence on whether they are effective at reducing corruption in practice and the extent to which they displace corrupt behaviour and illicit flows to other channels

Option 3: Option 2 plus support for existing tested initiatives which require sustained support or scale-up and/or UK leadership is important

In addition to the six areas under option 2, IACT could also support the following:

1. Transparency and accountability in oil, gas and mining including beneficial ownership to expose and deter corruption

The EITI provides a global standard for the open and accountable management of oil, gas and mining, providing information which is essential to shine a light on corrupt practices. It is a multi-stakeholder initiative involving governments and companies in reporting and providing space for civil society to scrutinise information about the sector and hold governments and companies to account. This will deliver the UK commitment at the Summit to support the EITI so that:

- i) at least 14 DFID priority countries disclose the *beneficial ownership* of corporate entities that bid for, operate or invest in extractives and additional information beyond revenues, e.g. on *extractives contracts, licences, production, revenue collection and allocation*;
- ii) up to 12 countries (including Nigeria, Burma and Ghana) pilot advanced transparency in *commodity trading*;
- iii) all EITI implementing countries mainstream extractives transparency within government systems and build oversight capacity of civil society.

There is an increasing body of evidence on country level results of transparency and accountability through EITI, for example since 2015 the Government of Nigeria has been implementing sector reforms, including the national oil company, largely based on recommendations in earlier EITI reports. EITI is increasingly influential in private sector and multilateral investment and financing decisions - in Azerbaijan a loan from the World Bank and European Bank for Reconstruction and Development towards a US\$46bn gas pipeline project was under threat recently in part due to the country's poor performance in EITI. Previous DFID support has consistently met or exceeded expectations, scoring A or above in annual reviews.

£3 million of Prosperity Fund support will be provided to the EITI Secretariat and the World Bank multi-donor trust fund which provides technical assistance to countries to meet the EITI Standard. Support for EITI meets the 2 Prosperity Fund criteria as follows:

Primary benefit: Implementing countries will have a better public understanding of government revenues and expenditure from oil, gas and mining, helping to inform public debate and decisions on sustainable development.

Secondary benefit: With low commodity prices, better data will help to identify revenue leakages and reduce losses. Stronger accountability systems will support

spending in line with economic development outcomes. Continued UK global leadership on extractives transparency will help to level the playing field for UK companies operating globally.

2.Reduced corruption in defence and security to improve stability and security

The Transparency International-UK Defence and Security programme 2017-21 will build on its existing proven model of deploying a cadre of military experts to provide training and mentoring to defence ministries in 32 countries and build their relations with civil society. Building on evidence on the importance of civilian oversight and civilian-military engagement TI-DS will also improve technical oversight skills for accountability structures such as parliamentary committees. It will complete development of an interventions toolkit to ensure that defence and security activity in fragile and conflicted affected states (FCAS) takes better account of the interaction between corruption and insecurity. This work will help the armed forces shape the environment during stabilisation missions to ensure that corruption risks and corrupt practices are not exacerbated in the first stages of stabilisation, and that good practices in defence governance are implemented from the beginning.

The programme will support the research and launch of the next TI Government Defence Anti-Corruption Index 2018 together with advocacy on the results and follow-up action. The Defence Anti-Corruption Index has led to practical change in several countries and territories, including the Occupied Palestinian Territories, Georgia and Colombia. TI DS will also update its Defence Companies Anti-Corruption Index, which assesses over 150 defence companies and identifies common key risk areas and issues where there are insufficient controls as a basis for advocacy in the private sector and industry benchmarking, including outreach to new exporters to improve anti-corruption measures for international defence procurement.

TI-UK has a strong record of performance scoring A+ or better in annual reviews of earlier programmes from 2012-16. £3.2 million over four years will provide TI DS with resources for country level work, the update of its Indexes and development of international standards for defence and security governance. DFID provides nearly 50% funding to the TI-DS programme and UK support ensures sustainability for this unique service.

3.Civil society holds governments and inter-governmental groups to account for tackling corruption and raising global standards

The Transparency International Secretariat will work across its network of over 100 affiliated country chapters to enable citizens to use the new information from transparency initiatives such as beneficial ownership disclosure to hold governments and companies to account and reduce opportunities for corruption. It will work with the private sector focusing directly on engaging with specific companies on improving their anti-corruption policies and practices, including on beneficial ownership transparency; and improving dialogue with professional associations in the non-financial sectors to close down opportunities for corruption e.g. real estate and accounting, by bringing together practitioners and regulators.

TI will provide the evidence base and support for international civil society to engage with intergovernmental processes which set and enforce global

transparency, integrity and accountability standards, such as the G20 in areas which individual countries or country offices cannot influence alone. TI has a positive record in shaping the international architecture. Through fora such as the OECD, UNCAC, G20 and the Global Asset Recovery Conference, TI will continue to build momentum during 2017–2020 on issues related to open data, open contracting and beneficial ownership.

TI is widely recognised as a leading partnership builder across government, business and civil society sectors locally and internationally for transparency and is widely respected for their anti-corruption policy expertise and has a strong track record of partnering with DFID and the UK government. While there may be other anti-corruption focused organisations adding real value, most tend to be specialist and niche. TI remains the only organisation with global reach in terms of both policy spheres and geography, and there are no other obvious organisations which can replicate the overall policy reach that comes from their advocacy around the world, and the access they have to world leaders and influencers en bloc. £3.07m over four years will allow TI-S to conduct evidence-based advocacy and outreach to private sector and governments across 100 countries to maintain pressure to adhere to international anti-corruption standards and commitments, such as those made at the 2016 Summit.

4/5. Additional support on anti-money laundering and tracing and recovering stolen assets to reinvest in development

Internationally demand from countries to close down opportunities for money laundering, and trace and return stolen assets exceed the supply of technical expertise. Support to the World Bank and IMF will deliver on the commitment in the Economic Development Strategy 2017 to scale up our work on money-laundering. They have a strong record of providing technical assistance to countries and financial centres to strengthen laws, improve assessment of money laundering risk and improve supervision, law enforcement and asset disclosure. By working with them, GOSAC ensures that all DFID priority countries could access support from the World Bank on anti-money-laundering if required and that the IMF programme covers DFID priority countries (currently planned to reach Ghana, Kenya, Liberia, Mozambique and Kenya). Providing support through these established multi-country programmes is currently more efficient and cost-effective than through DFID bilateral programmes which do not yet have deep technical expertise in anti-money laundering, wide experience of contracting third parties for this specialist area or the full range of connections to regulators, legislators, law enforcement and financial intelligence needed to be effective.

As well as supporting the International Centre for Asset Recovery (ICAR) under Option 1, this programme will also support the Stolen Asset Recovery Initiative (StAR) which has a track record of effective support, for example in Tanzania, Somalia, South Sudan, Ukraine and the Middle East. £1.45 million for the World Bank and £1.45 million for the IMF over four years will deliver demand driven anti-money laundering technical assistance to developing countries; £1.6 million will deliver similar support through the World Bank's asset recovery technical assistance.

6. Anti-corruption practitioners can access lessons learnt, evidence, training and expert helpdesk

The U4 knowledge hub at the Christian Michelsen Institute in Norway is a market leader in anti-corruption research and evidence and represents a tried and tested cost-effective approach to meeting the need for independent research and evidence to inform policy and programming for DFID country offices and other anti-corruption practitioners. It has developed a reputation amongst users for the quality of its work and its unbiased presentation of the evidence. For example, U4's collaboration with the Overseas Development Institute (ODI) to produce the DFID Evidence Paper in 2015 on "Why Corruption Matters" provides a key source of synthesised knowledge for our staff working across the anti-corruption agenda, and has informed our policy narrative and improved our programme design. The PCR in 2016 for the previous phase of support scored A, meeting expectations. IACT will support U4's 2017-21 strategy, responding to recommendations from the PCR.

Given this record of performance, IACT will continue support to U4 rather than seeking to tender these services to a new supplier with the associated set-up costs, potential disruption in service to users and loss of donor coordination/lesson-learning. U4's track record of delivery and growing demand for its services has encouraged Australia, Denmark, Finland, Sweden, and Switzerland to join the initiative, allowing a growing donor base to share costs and improving knowledge sharing. £1.3m over four years will enable U4 Resource Centre to meet the operational demands from donors for training online and in-country with government and civil society, evidence and lessons learnt including the helpdesk service for anti-corruption queries.

7. Track impact of anti-corruption work by developing and testing more robust indicators and metrics for corruption/illicit flows

The World Bank will work with national statistical offices and experts in 5 countries (Bangladesh, Tanzania, South Sudan, DRC and South Africa) to develop and test better metrics and indicators as public goods to monitor progress against corruption and illicit flows. This will provide a consistent methodology to diagnose and monitor progress in tackling corruption and illicit flows across different countries. DFID support will lead to real world testing of the indicators. An online information hub and website will ensure that the data will be accessible to policy-makers and civil society. £1.5m will enable the WB both to develop and test the approach in 5 countries and make the approach available as a public good.

Transparency International UK (TI-UK) will track progress and maintain momentum against Summit commitments in 15 countries in priority areas such as beneficial ownership transparency, asset recovery, public procurement, open data, law enforcement and protection of whistle-blowers and civil society. This will build on pilot work in 2016-17 funded by DFID. £1.3 million over four years will enable support TI-UK to track progress on these international commitments and hold governments to account for delivery to drive incentives and peer influence for reform.

Evidence base for options

As set out in the strategic case^{xxi}, while there is a substantial evidence base for the costs and effects of corruption on growth, development, insecurity and stability, the evidence base **for what works best** in tackling corruption is still limited.

While more broadly, the evidence on transparency suggests that it is necessary but not sufficient to deliver improved accountability and governance, the proposed

initiatives supported under Option 2 include new and relatively untested areas such as beneficial ownership transparency which was first proposed at the 2013 G8 Summit and the first public register (in the UK) was only launched in 2016. Testing and tracking impact of these new areas will be built into monitoring and evaluation of this programme.

Option 3 incorporates additional initiatives which have a track record of successful performance in delivering specific programme objectives with DFID support, evidenced by scoring A or above in annual reviews and PCRs. But even for some well established initiatives, the time lag between initiating an investigation into corruption, through to prosecution, tracing evidence and assets across borders and ultimately returning them for reinvestment in country, can take many years of complex financial investigation and legal processes. For example, in the case of anti-money laundering, there are as yet no mechanisms in place systematically track this impact and existing monitoring frameworks focus more on the process of improving systems to deter money laundering^{xxii}.

IACT will explicitly fund work to build the evidence base to measure and track the impact of international anti-corruption work on country level incentives through:

- support to the British Academy to build the evidence base;
- working with the World Bank and national statistical offices to develop locally relevant but internationally robust and comparable metrics to measure progress on anti-corruption and illicit flows;
- support to Transparency International to track commitments made at the 2016 Summit and their impact at country level, in order to adapt programming where required;
- a joint monitoring, lesson-learning and evaluation strategy across the CMPs work to tackle international anti-corruption (IACT, UKACT and MODAC);
- Requiring the WB and IMF anti-money laundering programmes to develop more robust impact assessment to continue funding.

This approach will build evidence to test the assumptions underlying the **theory of change** (see below) which rests on the assumption that closing down international avenues for corruption, including through greater transparency, will shift incentives of corrupt actors away from corrupt behaviour.

Costs and benefits of each feasible option

Costs

The UK will provide up to £34.5m including £6m Prosperity Fund ODA over approximately four years to our implementing partners to deliver IACT. These funds will be provided in tranches, based on need and progress against agreed milestones as documented in respective agreements with partners.

INTERNATIONAL ACTION AGAINST CORRUPTION PROGRAMME BUDGET

Component	<u>Total over 4 Years (£m)</u>
Reducing incentives and opportunities for corruption £17.5m	
Anti-money laundering:	
- World Bank and IMF	2.90

- Egmont Centre of Excellence	4.04
Business transparency:	
- Open Ownership Register* (PF resourced)	3.00
- Extractive Industries Transparency Initiative* (PF resourced)	3.00
Trade Integrity Initiative	1.33
TI Defence and Security	3.20
Identify corruption, hold perpetrators to account, reimburse victims £5.8m	
Asset recovery and return:	
- International Centre for Asset Recovery	4.20
- Stolen Assets Recovery Initiative	1.60
Track impact and accountability £7.1m	
Metrics and monitoring:	
- Transparency International UK – monitoring delivery	1.30
- Metrics on corruption and illicit flows – WB	1.50
TI maintaining global momentum on standards	3.07
Technical support facility	1.20
Evidence and learning £3.3m	
U4 Global Knowledge Hub	1.30
Monitoring evaluation and learning (MEL) and adaptive / flexible programming	0.56
British Academy Anti-Corruption Evidence research	1.46
<i>Staffing costs</i>	<i>0.84</i>
4 Year Total (2017/18 – 2020/21)	£34.5million

*Budget includes £6m of Prosperity Fund ODA resources (highlighted in yellow)

Costs and benefits of each feasible option

Costs

The UK will provide up to £34.5m including £6m Prosperity Fund ODA over approximately four years to our implementing partners to deliver IACT. Allocations to each partner are set out above under the options and in the Financial Case.

Expected benefits

Benefits of this intervention may be calculated in governance and financial terms.

From a governance point of view, benefits relate more to improvements that might arise where international action curbs opportunities for corruption and illicit financial flows in developing countries. These are difficult to quantify, but may include:

- Higher risk of detection/confiscation of stolen assets leading to reduced incentives to engage in corruption.
- Reduced diversion of public funds leading to increased prospect of funds being used for purpose intended.

- Strengthened credibility of international oversight leading to greater pressure for sustained systemic reform.
- Transparency information enabling oversight institutions, civil society and media to hold political elites to account and prosecute corruption cases leading to reduced impunity.

From a financial point of view, we consider the benefits using two alternative approaches: 1) the proportion of illicit financial flows and/or 2) assets recovered from corrupt practices prevented or detected as a result of reduced corruption and diversion of funds, and DFID's contribution to this process.

For the purposes of this cost-benefit analysis, we do not consider all the benefits that will potentially flow from the programme but consider the financial returns. For example, all components will contribute directly (e.g. anti-money laundering, asset tracing and recovery) or indirectly (e.g. evidence, lessons, monitoring Summit commitments) to reducing illicit financial flows from corruption. Therefore any reduction in illicit flows or increase in assets recovered which exceed the overall costs of the programme, would represent a positive return on the investment in this programme and is likely significantly to underestimate the overall benefits from all components taking account, for example, of governance benefits as well.

Method 1: Benefits from reducing illicit flows

Illicit flows from developing countries have been estimated at US\$1.1bn per year in for all flows including trade mis-invoicing (Global Financial Integrity 2013). This methodology for estimating illicit flows is still itself contested and therefore we are discounting the figures as below. However it is possible to use this analysis as a basis for establishing the potential returns of the programme in reducing illicit financial flows (both directly and by reducing corruption).

The table below presents calculations using data for financial flows for illustrative purposes. Such estimates are rough however, and must be viewed with caution. The net benefits could be substantially higher (or lower) depending on the scale of illicit financial flows in the target economies and the extent to which DFID-financed support results in reduced corruption. The costs and benefits have been discounted to ensure that the costs can be compared to the benefits in real net present value terms. The figures do not take account of the sustained benefits beyond the five years that would continue to accrue from reduced corruption and illicit financial flows.

As the table below shows, as an illustrative example, **if the I-ACT programme were to reduce illicit financial flows by 1.5% over the 4-year period it would yield a net benefit of £31.4m under Option 2 and £17.3m under Option 3. If the programme reduces such flows by more - 3.0% - this yields a net present value of £76.7m under Option 2 and £62.7m under Option 3.** This does not take account of any additional benefit associated with Option 3 – which is a broader programme, than Option 2.

Scenario	Total Cost (NPV)	Total Benefits (NPV)	Net Benefits (NPV)
Option 2: I-ACT reduces illicit financial	£13,972,246	£45,355,181	£31,382,934

flows by 1.5%			
Option 3: I-ACT reduces illicit financial flows by 1.5%	£28,029,173	£45,355,181	£17,326,008
Option2: I-ACT reduces illicit financial flows by 3%	£13,972,246	£90,710,362	£76,738,115
Option 3: I-ACT reduces illicit financial flows by 3%	£28,029,173	£90,710,362	£62,681,189

Method 2: Benefit of assets recovered

An alternative/complementary and probably more robust way of calculating benefits is to estimate the returns on asset recovery. We know from the UKACT programme that an investment of £18.75m in UK efforts on international asset recovery has resulted in the recovery of £180m of stolen assets⁵. This means that for every pound invested approximately £9.60 was returned. **So, theoretically, if t £6m were invested in asset recovery under this IACT programme and yielded similar returns, this would produce £57.6m (£51.6m net return), assuming the same rate of return as the UK.** If all I-ACT activities, directly or indirectly contributed to asset recovery at even half of this rate, say a return of £4.80 then IACT would yield a return (net of costs) of either £34.5m (Option 2) or £78.0m (Option 3). In practice because the legal context in many of our partner countries is likely to be more challenging, this rate of return is likely to be lower as set out in the sensitivity analysis below. This calculation does not take into account the fact that other components of the programme are likely to strengthen the ability to identify and recover assets.

Sensitivity analysis: the estimated benefits of this programme must, by the nature of the issue, be speculative. Slight changes in key assumptions could have a substantial impact on the cost-benefit of the programme. **IACT will work with an external MEL agent and implementing partners to consider the feasibility of documenting the actual costs to partner countries of improvements in their anti-corruption efforts as a result of this programme, and also the benefits in terms of suspicious transactions impeded/overall estimates of country level money laundering risk.**

Method 1: illicit flows reduced

However, even if we radically discount the estimates used above, the practical experience from the UK ACT and the huge volume of illicit financial flows means that there is every reason to believe that, even if elements of the programme do not yield radically reduced net benefits it is unlikely that the programme would not break-even. For example, even if, the programme had no effect on illicit financial flows, the asset recovery estimate would suggest that it could comfortably break even. If the asset recovery element of the programme did not yield any results but there was just a tiny reduction in illicit financial flows breakeven would be achieved.

⁵ See the 2016 Annual Review of the UK ACTION AGAINST CORRUPTION PROGRAMME (UK ACT) (formerly Enhancing International Action against Corruption Programme (EIAAC)).

Method 2: assets recovered

Even if we halve the rate of return and only look at the direct effect of asset recovery activities the programme would still yield break even under the more costly Option 3.

Theory of change for the preferred option (as set out in the flowchart above)

Grand corruption in DFID priority countries is enabled as corrupt individuals and companies have opportunities to use international financial systems and corporate structures to hide and launder assets acquired through corruption. For example, a government minister in a developing country could receive a bribe from a company to win a public contract, launder this money through Dubai and use this money to buy private property in London, hiding her ownership through a relative's interest in a shell company in an offshore centre. This corruption erodes public trust which can lead to extremism, it can drive conflict and instability and provide illicit financial flows which enable organised crime and trafficking. It requires complementary action internationally and in multiple countries to address the chain of transactions which allow the corrupt to hide assets and escape prosecution (see flowchart above).

IACCT will support a range of outputs along the flowchart which **reduce opportunities for international corruption, expose corruption through transparency and hold corrupt actors to account to reduce impunity**. This programme is based on the assumption that this will reduce incentives for corrupt behaviour and ultimately deliver the outcome of reduced corruption in DFID priority countries. The UK is aiming to show what can be done by providing nimble specialist expertise so that others can draw lessons and demonstrate the role of integrity in international financial centres such as the City of London.

Opportunities for corruption will be reduced through:

- Improving detection of money-laundering in developing countries and internationally;
- Increased capacity for developing countries to initiate and respond to mutual legal assistance requests to identify, freeze, recover and return stolen assets;
- Enabling UK businesses to invest and trade without bribery;
- Building integrity in defence ministries and defence contractors.

Transparency will expose corruption through publishing:

- Beneficial ownership information to show the real owners of companies;
- Information about oil, gas and mining contracts, revenues and commodity trading.

Corrupt actors will be held to account and victims reimbursed through:

- Civil society holding governments and companies to account for delivering and expanding on Summit commitments;
- Return of stolen assets to be reinvested in development.

We will constantly **test and track the impact of the programme** through the joint monitoring, evaluation and learning agent cofounded with MODAC and FAST and by funding research on impact of international action through ACE.

DFID will take **complementary action** to ensure assumptions underlying the theory of change are fulfilled:

- Complementary central programming (e.g. MODAC) and work through country programmes will ensure that data released through transparency (beneficial ownership, EITI) and other DFID programmes (e.g. FAST) is used to pursue prosecutions of corrupt actors and reduce impunity in Ghana, Tanzania, Kenya and Nigeria;
- DFID (GOSAC) will co-fund posts and work closely with a network of country offices including Afghanistan, Pakistan, Tanzania, Uganda, Kenya and Nigeria and IACT implementing partners to ensure international initiatives on asset recovery, anti-money laundering are accessible by local partners and tailored to local political opportunities based on ongoing political economy analysis;
- DFID will work with other UK Government departments to ensure IACT is an effective delivery mechanism for the priorities in the UK Anti-corruption Strategy and to encourage other departments to deliver complementary international and country action e.g. for example with DIT on trade integrity, Treasury on regional anti-money laundering, FCO implementation of the UN Convention Against Corruption;
- DFID and the UK will work internationally to maintain progress on international norms for anti-corruption e.g. at the G20, OECD, OGP, for example to level the playing field for UK companies by extending anti-bribery rules to other jurisdictions; to widen adoption of beneficial ownership disclosures, and to agree rules for asset recovery and return. This will assist over time in **mitigating the risks that:**
 - (i) corrupt actors respond to IACT by channelling stolen assets through financial centres and company structures beyond the reach of current norms and IACT implementing partners;
 - (ii) Anti-bribery measures prevent UK companies from investing and trading in countries where there is a high risk of corruption but a need for investment to drive prosperity.

What measures can be used to assess VFM.

This programme will support initiatives through a centrally managed programme working with international partners selected on the basis that:

- a) the same quality and depth of expertise on international anti-corruption cannot be delivered at country level at lower cost by multiple country offices as the partners provide economies of scale and country offices lack specialist expertise/or;
- b) a provider is unique in its field or more effective than other providers due to its geographical or technical reach;
- c) Partners deliver public goods in terms of raising global norms and standards for tackling corruption in multiple countries, beyond the scope of country-specific office portfolios.

This programme will use the following **Value for Money measures** to monitor the economy and efficiency for key cost drivers of partners during the programme, by:

- Comparing fee rates for provision or subcontracting of technical assistance/tracking impact. We will monitor rates at existing not for profit and multilateral providers (ICAR, WB and IMF anti-money laundering and asset recovery) and can compare fee rates with private sector providers contracted by DFID through external competitive tender under the EACDS facility for specialist anti-corruption expertise.

- Management and overhead charges. We will ensure overhead/management fees for work with multilaterals do not exceed centrally agreed DFID rates and compare these with similar charges for international civil society and learning providers (Transparency International, U4, ICAR, EITI).
- We will compare unit costs for delivery of evidence/lesson learning/tracking impact across providers (U4, ACE, WB metrics for illicit flows and corruption).

It will be difficult to monitor effectiveness of the programme as a whole as the methodologies for tracking impact of anti-corruption work on incentives (rather than improving processes) are underdeveloped. This programme will actively address this deficit by supporting stronger research and evidence on the impact of support to international anti-corruption architecture, developing metrics to track corruption and illicit flows in DFID priority countries and proxy indicators for corrupt incentives. In addition assets recovered and returned during the period of support which outweigh cost of the intervention (see cost-benefit analysis above) will be evidence of value for money.

Programme management delivery options

Option 1:

Full in-house management of all components and implementing partners by DFID staff from GOSAC, ARD, CHASE and RED.

Option 2:

Hybrid approach: DFID retains strategic oversight, policy and technical dialogue with implementing partners. **DFID part manages performance, financial, results and risk reporting in-house whilst outsourcing other aspects of programme management to an external agent procured under the MODAC programme** and seconding a staff member to the MODAC external agent.

External suppliers fully manage the technical support facility and monitoring, evaluation and learning through existing DFID framework agreements. The supplier will be shared with the MODAC and FAST programmes.

Option 3:

Deeper hybrid approach: DFID retains strategic oversight, policy and technical dialogue with implementing partners for all components.

External suppliers manage all financial, results and risk reporting; monitoring, evaluation and learning, and the technical support facility.

	Pros/Benefits	Cons/Costs
Option 1: Full management in house.	DFID retains full oversight of the relationship with each component and has opportunities for policy influence internationally, relationship building with external partners, cross-	Programme management capacity required for financial and results reporting/collation and managing technical expertise in frameworks <u>limits</u> capacity for strategic positioning of programme, adaptation, and

	government and links to country offices.	external policy influencing or linking components. Limited results/evaluation capacity in GOSAC.
Option 2: Hybrid	As for Option 1. <u>Efficiency gains</u> compared with Option1 as uses an existing pre-agreed framework agreement to supply anti-corruption technical expertise and monitoring, evaluation and learning (MEL). Enables DFID to retain some programme management control whilst sharing the load for this large programme with an external management agent and building synergies with MODAC and FAST.	Additional costs associated with outsourcing some programme management functions via external agent for MODAC.
Option 3: Deeper Hybrid	Less day-to-day management activity for policy leads allows DFID to concentrate on maximising synergies between components, ensuring linkages to country offices, policy influencing internationally and across government and relationship brokering. Possibly some savings in programme management time as managing one or a limited number of external suppliers rather than multiple implementing partners.	Risk of duplication as DFID policy leads engage with partners as well as external managing agent. Might frustrate and confuse implementing partners. <u>Efficiency gains limited</u> as programme management time will still be required to ensure delivery by the external agent. Risk of poor performance could be managed by incorporating a breakpoint in external management contract to assess whether management should be taken back in-house. Tendering process for management agent could take up to one year to complete and would invite significant extra management costs which could reduce overall VFM.

The preferred option is **Option 2**. This maximises benefits in terms of the scope for DFID to deploy its core skills in influencing, strategic partnerships and policy development, coordination and synergies across components to maximise the effectiveness of the international architecture and link this to work and impact at country level. It enables DFID to retain direct control and oversight over key programme management functions which might be best completed in-house, whilst outsourcing other management tasks which could effectively and efficiently be delivered externally. Clear roles and responsibilities between the in-house and

outsourced management functions would need to be agreed and regular lines of communication maintained.

Efficiency gains from Option 3 compared with options 1 and 2 in terms of DFID programme management time are expected to be limited as time saved on managing financial and results reporting for individual components will be used to a degree in tendering, selecting, set up and ongoing management of the external supplier(s). The external supplier's performance cannot be guaranteed and their management fees for fully managing I-ACT over a four year period are expected to be significant and would detract from the value for money case for this Programme.

C. Commercial Case

The information provided in the Commercial Case is in respect of the preferred option, Option 3 - £34.5m. Programme management across the components will be split between DFID staff in-house and embedded in an external outsourced agent. This agent will be contracted through the MODAC programme, primarily to deliver the MODAC programme but with additional responsibilities for programme management of IACT and connecting the 3 GOSAC centrally managed anti-corruption and transparency programmes effectively with each other and country offices. The technical support facility for IACT will be outsourced through a DFID framework agreement and monitoring, evaluation and learning will be jointly managed with the MoDAC and FAST programmes by an external provider also contracted through the DFID evaluation framework agreement. The Appraisal Case details the chosen delivery partner for each component. The table below gives a summary of IACT Programme components and how they will be delivered.

Delivery agreements

Component	Delivery Method
Egmont Centre of Excellence	Accountable Grant (AG) with Egmont Centre of FIUs. Single AG with DFID as sole funder initially that contributes to a multi-donor pooled fund as new funders come on board.
Anti-money laundering – WB & IMF trust funds	One standard Memorandum of Understanding (MoU) or Externally Funded Output with WB; One MoU with IMF. Both multi-donor agreements.
Open Ownership Register	Accountable Grant with Web Foundation. Agreement is solely with DFID.
International Centre for Asset Recovery	Accountable Grant with Basel Centre for Governance. Single AG that contributes into a multi-donor pooled fund.
Stolen Assets Recovery Initiative	MoU with World Bank. A multi-donor agreement.
U4 Global Knowledge Hub	Accountable Grant with Christian Michelson Institute. AG contributes to a multi-donor pooled fund.
Transparency International UK Summit monitoring; TI Secretariat support on global momentum; TI Defence and Security Programme (managed by CHASE).	One Accountable Grant to TI-Secretariat covering all three components of support to TI-S and TI-UK.
Metrics for SDGs on corruption and illicit flows – WB	MoU or EFO with World Bank. Solely with DFID.
Trade Integrity Initiative	MoU with DIT and the FCO (TBC once design complete)
Technical support facility	Contracts for specific technical assistance via Expert Advisory Call-Down Service (EACDS) pre-qualified Framework Agreement.
Monitoring evaluation and learning (MEL)	Contract via mini-tender under DFID Evaluation Framework Agreement jointly with FAST and MODAC.
Extractive Industries Transparency Initiative (managed by ARD)	Accountable Grant with EITI Secretariat and MOU with World Bank EGPS Trust Fund. Single AG that contributes into multi-donor pooled funds.
British Academy Anti-Corruption research evidence (managed by RED)	Amendment to existing Accountable Grant with British Academy under DFID ACE Programme. Agreement is solely with DFID.

Several components will be delivered by pre-selected implementing partners who have the comparative advantage and strong track record of delivery in a specialist anti-corruption field as noted in the scores for previous DFID annual reviews and

project completion reviews set out in the Appraisal Case. DFID has an established and tested relationship with these partners in their fields of expertise. Following approval and during the inception phase for this programme, where possible DFID will look to link payments to results, especially for these established partners. During the inception phase DFID will also finalise VFM indicators (based on the metrics set out in the Appraisal Case) for implementing partners and the results framework, depending on the mix of components agreed by ministers. All agreements with partners will contain break clauses, with performance to be reviewed during 2019 after the second annual review of IACT (mid-term review), allowing DFID to terminate, scale-back or scale up individual components taking into consideration results achieved.

Agreements will also require implementing partners to document regular stories about the impact of their work internationally and on people's lives in developing countries in accessible formats to be used in ongoing DFID and HMG communications.

Services available to IACT for the technical support facility have already been competitively tendered as part of the Expert Advisory Call Down Services Framework (EACDS) Lot A covering 'strengthening global peace, security and justice'. Consultation with the framework consortium manager has confirmed that they can provide the prequalified experts to meet demand for technical expertise. Likewise the MEL component will be procured through a similar process under the DFID evaluation framework arrangement. Terms of reference for this will be developed during the inception period, together with the MoDAC and FAST programmes where appropriate to build synergies and achieve better economies of scale, once this Programme is approved.

Full delivery chain mapping for each implementing partner will be completed during the inception phase before funding is disbursed. This mapping will track the flow of DFID's funding and outline associated mitigating actions where necessary.

Ensuring Value for Money through Procurement

Measures for monitoring value for money during delivery for these partners are set out in the Appraisal Case above.

Direct Procurement through a contracted supplier

IACT will enable the provision of specialist anti-corruption technical expertise to partner countries through the EACDS call-down agreement, which was let by DFID competitive tender in 2016. The programme will also jointly fund with two other programmes an external monitoring, evaluation and learning agent sourced through the evaluation framework agreement. Furthermore, IACT will fund the costs of seconding one DFID programme manager and one programme adviser to the external management agent to be procured under the MoDAC programme. This will not involve any direct procurement but IACT's delivery will partly be dependent on a successful tender process for MODAC.

Delivery through a third party:

Several implementing partners under this Programme have received funding from DFID before for anti-corruption work, most recently in the 2016-17 programme, Delivering on the London 2016 Anti-Corruption Summit. At May 2017, this programme had met delivery milestones, for example:

- Design of the **Egmont Centre** of Excellence for Financial Intelligence Units was on track to be fully operational by March 2018.
- Afghanistan, Burma, DRC, Ethiopia, Ghana, Kyrgyzstan, Liberia, Malawi, Mozambique, Nigeria, Sierra Leone, Tajikistan, Tanzania, Zambia had developed roadmaps for transparency in beneficial ownership of contracts for oil, gas and mining by 2020 through **EITI**.
- The **Open Ownership register** of beneficial ownership has been launched.

As set out in the Appraisal Case, many of these not-for-profit partners provide highly specialist technical expertise, for example on asset recovery, anti-money laundering or financial investigations which are unlikely to be available on an independent basis or with the same geographical coverage from the private sector, without a significant increase in cost. Nonetheless this programme will seek to test and expand the market for increased private sector supply through the EACDS call-down agreement.

In addition to the 2016-17 programme, DFID has reviewed annual and project completion reviews from previous DFID investments which have enabled the Programme team to make an assessment of these partners' recent performance to inform longer term funding plans and priority areas of intervention. All accountable grants will include break clauses to enable DFID to review performance through a mid-term review in 2019, allowing the team to further test impact and value for money and reduce, reallocate between components or scale up as appropriate.

For any partners which do not yet have a well-developed approach to demonstrating impact, such as the WB and IMF technical assistance for anti-money laundering, DFID will engage with these partners during the inception period to agree an approach for developing better impact indicators before disbursing funding. Future disbursements will then be dependent on delivery against these indicators.

The HMG Trade Integrity Initiative is at the concept stage as of June 2017. The exact nature of demand and most suitable delivery mechanism for such services will be defined through planned business consultations during the first year of IACT implementation. The establishment of a new coordinating structure or the integration of additional services within an existing programme/institution will be agreed following these consultations, with other parts of HMG, especially with DIT and the FCO. DFID anticipates that most of the funding for the design and further development of this concept to be provided through a Prosperity Fund business case, but has set aside approximately £1.34m under IACT to support design and ensure a focus on DFID priority countries. Any future DFID funding after Year 1 will be confirmed following a successful scoping phase and is likely to be contingent on a Memorandum of Understanding with DIT and/or the FCO including on the scope of Prosperity Funding, and will be based on VFM indicators and KPIs. Should the full £1.34m allocation not be required, then the SRO will be able to re-allocate this budget line to other high performing components in accordance with DFID delegated authority levels.

D. Financial Case

Funding

DFID is committing up to £34.5 million to resource the IACT Programme over 2017/18 - 2020/21 to fund a range of external implementing partners. In some cases funds will be earmarked to support specific outputs, whilst in others DFID will provide un-earmarked funding to enable partners to deliver on broader outcomes consistent with IACT's theory of change.

Profile and forecasting

Funding for IACT will be sourced from the Governance, Open Societies and Anti-Corruption (GOSAC) Department programme resource budget (DFID aid) allocation for 2017/18 to 2020/21 and the cross-government Prosperity Fund official development assistance (ODA) allocation to fight international corruption. The budget is profiled as pipeline on DFID's financial management system (ARIES). The table below shows the indicative UK annual budgets (Prosperity Fund resourced components are highlighted in yellow) to these implementing partners⁶.

The final year-by-year profile for IACT will be agreed prior to the start of the programme in consultation with all implementing partners. The table below represents likely disbursement scenarios prior to partner funding agreements being finalised during the inception phase. The indicative allocations are based on consultations with implementing partners on their funding requirements over the next four years. This has been combined with DFID's own assessment of what a reasonable level of UK support would be to develop and maintain momentum and delivery for each component. Implementing partners that are more reliant on UK support as a proportion of income and where UK support is catalytic or pivotal, have been prioritised over other established partners that are relatively well resourced by other donors and where UK support is merited but not critical to delivery. The specific criteria for deciding on levels of UK investment are laid out in the Appraisal Case.

DFID will utilise both memoranda of understanding and accountable grant funding agreements depending on the individual partners' requirements. DFID prefers to pay in arrears but this will not always be possible where a partner has a relatively low cash balance and/or DFID is the sole or a major funding partner. Given the overall nature of the delivery partners (mainly NGOs or IFI trust funds), most funding will be in advance but not in advance of need. This will be stipulated in the funding agreements. Partners in receipt of advance DFID payments will be required to provide forecasts on a quarterly basis and show the income, expenditure and balances outstanding to DFID in their organisational financial statements as well as periodically update their supply chain mapping. For the technical support facility and monitoring, evaluation and learning components, DFID will utilise existing framework agreements and sub-contract to appropriate and pre-qualified contractors through a streamlined tender. Payments under these contracts will be made in arrears.

⁶ Final budgets will be subject to financial agreements with all external partners.

IACT indicative budget by component and year (Prosperity Fund highlighted in yellow). Figures in GBP sterling.

Component	2017/18	2018/19	2019/20	2020/21	Total
Anti-money laundering(AML): World Bank	0	1,000,000	250,000	200,000	1,450,000
AML IMF	0	1,000,000	250,000	200,000	1,450,000
Financial intelligence units, Egmont Centre	0	1,038,000	1,500,000	1,500,000	4,038,000
Open Ownership Register, Web Foundation	500,000	1,000,000	1,000,000	500,000	3,000,000
Extractives Transparency, EITI	500,000	500,000	1,000,000	1,000,000	3,000,000
Trade Integrity Initiative	0	1,000,000	234,000	100,000	1,334,000
Defence and Security;	800,000	800,000	800,000	800,000	3,200,000
Tracking Summit Commitments;	250,000	450,000	450,000	150,000	1,300,000
Maintaining global standards Transparency International	300,000	1,520,000	800,000	450,000	3,070,000
Asset recovery, International Centre for Asset Recovery	1,000,000	1,200,000	1,000,000	1,000,000	4,200,000
Asset Recovery, World Bank	0	1,000,000	500,000	100,000	1,600,000
U4 Global Knowledge Hub	300,000	400,000	300,000	300,000	1,300,000
Tracking corruption and illicit flows, World Bank	250,000	750,000	500,000	0	1,500,000
Monitoring evaluation and learning (MEL)	0	400,000	114,000	50,000	564,000
Anti-Corruption Evidence, British Academy	130,000	670,000	530,000	127,000	1,457,000
Technical support facility	100,000	500,000	500,000	100,000	1,200,000
B1 Post in MODAC external unit	20,000	60,000	60,000	61,000	201,000
A2 Post in MODAC external unit		212,000	212,000	212,000	636,000
	4,150,000	13,500,000	10,000,000	6,850,000	34,500,000

Implementing Partners' indicative allocations for UK ODA under IACT in 2018/19 by %

Implementing partner expenditure profiles are provisional and subject to change. Most implementing partners have not finalised their expenditure profiles for 2018/19 (as at June 2017). The percentage figures illustrate how UK ODA funds are forecast to be allocated by implementing partners. Partner activities vary so categories are not directly comparable.

Costings⁷	Open Ownership	ICAR	StAR	IMF⁸	WB	TI Summit Tracker	TI Defence and Security	TI Global Momentum	U4 Knowledge Hub	⁹British Academy	World Bank Metrics	EITI¹⁰
What they do:	Policy, standards, TA	Asset recovery TA and policy		Anti-money Laundering TA and policy		Evidence, advocacy, monitoring	TA, policy, standards, research	Evidence, advocacy, monitoring	Evidence Training, research	Research	Evidence and TA	TA, policy, standards
Staffing¹¹	51%	64%	35%	92%	76%	31%	36%	62%	63%		40%	70%
Strategy, Policy, Research and MEL	20%	3%	31%		13%	6%	15%	6%	6%	61%	5%	
Publications, evidence products, communication, advocacy	3%	1%	13%	1%	5%	43%	21%	18%	8%		14%	10%
Events, technical assistance and training	5%	1%				14%		10%	6%		21%	10%
Travel	3%	18%	17%		6%	3%	22%	4%	6%		12%	10%
Admin/overheads	18%	13%	4%	7%		3%	6%		11%	39%	8%	
Total %	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

⁷ Detailed costings are to be agreed for Egmont Centre and the Trade Integrity Initiative as these are at design and scoping stages respectively.

⁸ Detailed expenditure profiles for the IMF AML multi-donor trust fund are not yet available for 2018/19.

⁹ We have indicative costs under three categories. Others costs are yet to be agreed and will be once the business case is submitted and agreed.

¹⁰ Administrative and overhead costs are included in the staffing costs.

¹¹ The WB (AML and StAR) and IMF's core staff and short term consultants deliver technical assistance and training advisory services to client states. Their TA and training work is included under 'staffing'.

Examples to illustrate how IACT implementing partners will utilise IACT resources

International Centre for Asset Recovery (ICAR) will provide e.g.

- 5-6 national courses and at least 1 regional course per year of on-demand training to countries to improve their skills to identify, freeze and recover stolen assets, including requesting legal assistance from other countries.
- Legal and consultancy advice on pursuing specific asset recovery cases in at least 5 DFID priority countries to help authorities decide investigation and prosecution strategy, and to compose formal mutual legal assistance (MLA) requests to foreign jurisdictions.
- Expertise to develop international policy on asset recovery and return, based on country experience, for example inputting to the UN development of international guidelines.

Extractive Industries Transparency Initiative (EITI) will provide e.g.

- Experts including EITI Secretariat and WB staff time and external consultants to enable 14 DFID priority countries to disclose the beneficial owners of oil, gas and mining contracts. This will ensure they complete by 2020 the country roadmaps supported by the Prosperity Fund through DFID in 2016-17.
- Experts to work with Ghana and Nigeria and other countries to pilot how to publish information about international commodity trading sales by state owned companies and use this experience to enable the EITI to provide evidence to inform international efforts to extend this approach to other countries, for example through the OECD Natural Resource policy dialogue.

Transparency International Secretariat (TI-S) will provide e.g.

- An outreach meeting with professional associations in the non-financial sectors e.g. real estate and accounting, bringing together practitioners and regulators from both developed and developing countries to share experience to prevent these professions facilitating corruption, for example through the use of stolen assets to purchase property overseas. DFID support will also enable civil society from developing countries to attend and build expertise in this area, to use at country-level and in international advocacy on higher professional standards.
- Funding to enable TI to work with private sector leaders to strengthen partnerships and share lessons on business integrity to complement DFID's support to trade integrity with the FCO and DIT. For example, this will resource TI senior leaders - 5% of TI's Internal Managing Director (Strategy) and TI's Special Representative – to participate in international fora with a private sector focus, including at the UN Global Compact Board, the B20, the World Economic Forum Partnering Against Corruption Initiative, and the World Economic Forum Davos meeting.

World Bank indicators to track corruption and illicit flows will provide e.g.

- World Bank experts and external consultants to identify and develop indicators to set baselines and measure progress in tackling corruption and illicit flows, both for country-specific policy and monitoring and international comparison, for example for use with SDG 16.

- Piloting of the indicators metrics work in 5 countries working in the DRC, South Sudan, Tanzania and Bangladesh. This will include working with government (national statistical agencies and others) and / or selected non-government actors on using local and international governance indices and metric tools, and how to use data for decision-making on policy on anti-corruption and illicit flows.

TI Defence and Security (TI-DS) will provide e.g.

- Attributable proportions of TI-UK staff salaries for time spent providing technical expertise to research, develop and coordinate the TI Government Defence Anti-Corruption Index 2018 and the Defence Companies Anti-Corruption Index, including follow-up advocacy and work with governments and partners on reform.
- Costs for military experts to provide training and mentoring to defence ministries in 32 countries and build their relations with civil society.
- Attributable proportions of TI-UK staff time and military experts to deploy evidence from civilian oversight and civilian-military to provide training, for example to parliamentary committees.
- Expertise to collate evidence to complete an interventions toolkit to ensure that defence and security activity in fragile and conflicted affected states takes account of corruption.

Safeguarding Funds

DFID due diligence assessments covering all IACT implementing partners have been completed and will each be valid for a three year period¹². Implementing partners will also be required to undertake appropriate due diligence checks of all sub-contracted partners to safeguard funds provided by DFID. However the set-up for this programme does not envisage complex delivery chains or multiple downstream partners for any of the components, and most funds will be utilised directly by DFID's first tier partners. The due diligence assessments for IACT implementing partners provided assurance that adequate safeguards were in place to monitor and account for funds.

The table below summarises the due diligence status for each key implementing partner. Where due diligence assessments highlighted that it would be advisable for partners to improve some elements of systems, processes or procedures, partners implementation of responses will be monitored through the programme delivery plan by the DFID programme team.

Implementing partner due diligence assessments

Partner	Due Diligence Status
World Bank	Central assurance assessment completed in June 2015. World Bank assessed as a low risk partner, whose central systems and processes carry no unacceptable fiduciary or reputational risks.
International Monetary Fund	Central assurance assessment completed in March 2017. IMF assessed as a low risk partner. It has strong central systems and processes, with extensive oversight

¹² Most due diligence assessments were completed in 2016 and are due to be renewed in 2019.

	mechanisms and carries no unacceptable fiduciary or reputational risks. It implements its lending operations and capacity development activities in-house, and has strong internal administrative and programme management capacity.
International Centre for Asset Recovery	Due diligence assessment completed in September 2016. ICAR assessed as minor/moderate risk partner whose central systems do not pose unacceptable fiduciary or reputational risks. It would be advisable for the partner to improve some elements of their systems, processes or procedures.
Transparency International	Due diligence assessment completed in September 2016. Transparency International Secretariat (TI-S) and Transparency International UK (TI-UK) were assessed as a moderate risk partner whose central systems do not pose unacceptable fiduciary or reputational risks. It would be advisable for the partner to improve some elements of their systems, processes or procedures.
Web Foundation	Due diligence assessment completed in October 2016. Web Foundation assessed as having one minor and one moderate risk but whose central systems do not pose unacceptable fiduciary or reputational risks. It would be advisable for the partner to improve some of their systems, processes or procedures.
Egmont Centre of Excellence	Due diligence assessment completed in September 2016. Egmont was assessed as having one minor and two moderate risks but overall their systems do not pose unacceptable fiduciary or reputational risks. It would be advisable for the partner to improve some of their systems, processes or procedures.
Extractives Industries Transparency Initiative	Due diligence assessment drafted in November 2016, to be updated with new information and agreed with GOSAC by June 2017. EITI was assessed as having two moderate and three minor risks. Significant progress has been made on both moderate risks which relate to financial sustainability and governance reforms.
U4 Anti-Corruption Resource Centre	Due diligence assessment completed in August 2016. U4 assessed as having three minor and two moderate risks but whose overall systems do not pose unacceptable fiduciary or reputational risks. It would be advisable for the partner to improve some of their systems, processes or procedures.
British Academy	Due diligence assessment completed in September 2016. British Academy was assessed as a moderate risk partner whose central systems do not pose unacceptable fiduciary or reputational risks. It would be advisable for the partner to improve elements of their systems, processes or procedures.

All implementing partner financial statements will be subject to an annual independent audit. No partner is expected to acquire any significant DFID funded capital assets through the programme, particularly not assets that appreciate in value. There is scope for partners to procure assets that depreciate in value e.g.

computers or office equipment, where the use of these assets is integral to the delivery of IACT related outputs. The policy lead for each component must approve any asset purchase over £1,000 in value and this will be stipulated in each grant agreement. Given that high value assets will not be purchased using IACT funds, this programme will not require a DFID capital budget.

Type of funding

The total cost of IACT will be £34.5 million from July 2017 to March 2021. £28.5m will be sourced from DFID ODA, while it is planned that the remaining £6m will come from the cross-government Prosperity Fund global anti-corruption programme. The £6m forms DFID's allocation of a wider PF programme which is being implemented jointly by DFID, the Foreign and Commonwealth Office (FCO), National Crime Agency (NCA) and Her Majesty's Treasury (HMT). The PF business case is subject to approval in 2017 by the PF portfolio board and ministers in relevant implementing departments. Once approved, the PF allocation to DFID will be transferred annually to GOSAC's budget for each financial year based on the funding requirement for the Open Ownership Register and EITI components. Additionally, the PF will also cover the staff costs for a B1 (Higher Executive Officer) in DFID to help manage the PF elements of the IACT programme until March 2021.

The £34.5m includes costs for delivering the outputs as outlined in the appraisal case plus some overhead and management costs for each implementing partner. The key cost drivers of this programme will be administrative and technical staffing or subcontractor costs, bespoke evidence and policy products for international or country partner recipients, travel, meetings and conference costs to provide or develop technical support for partners, as well as reasonable management and operational overheads. Implementing partners will be required to demonstrate how they can improve efficiency through the management of their respective interventions.

DFID will assess the performance of the implementing partners in-line with contractual, Accountable Grant and MoU terms and conditions, log-frame performance indicators to be agreed during the inception phase and through annual reviews in 2018, 2019 (mid-term review), 2020 and a project completion review in 2021. All implementing partners will be required to submit quarterly or six-monthly technical and financial progress reports plus annual audited statements and maintain delivery chain mapping. Progress will also be monitored through regular meetings and frequent interactions with implementing partners, where the flow-of-funds will be scrutinised closely to ensure that fiduciary risks are being managed effectively by partners and that UK taxpayers' funds are channelled to the intended intermediaries and beneficiaries, and payments are not made in advance of need.

Implementing partners will be required to maintain a complete, accurate and up-to-date inventory of assets where applicable. The policy lead and deputy programme manager for each component intervention will ensure a check of this inventory is carried out with partners annually where appropriate and feasible.

Funds paid out by DFID

DFID intends to manage its disbursement of contributions for each implementing partner under an overarching MoU or accountable grant. These funding

arrangements will give partners certainty about income over the four-year period. Payments are likely to be made at regular intervals, often quarterly, by bank transfer on the basis of formal requests by each partner in accordance with the respective signed MoU or accountable grant and upon confirmation that the payment is not in advance of need. The payment process will be managed through DFID's ARIES system.

Assessment of financial risk and fraud

DFID has completed due diligence assessments for all implementing partners of this programme within the last three years and will update assessments as necessary during implementation of the programme. In aggregate they assess the progress made by implementing partners to strengthen their risk governance, financial control, and fiduciary assurance systems, and make recommendations designed to monitor and further strengthen these systems. Based on these due diligence assessments, the overall risk of funds not being used as intended is low. Most monies will be used by implementing partners to cover their direct costs of employees or subcontracted specialists to deliver technical advice or bespoke products to recipient countries or other partners. This programme will not provide direct financial aid to national governments. A delivery chain map for each partner will be finalised during the inception phase before funding is disbursed, and will be updated regularly.

E. Management Case

Management arrangements for implementing the intervention

The Programme will be managed by the Governance, Open Societies and Anti-corruption Department (GOSAC). GOSAC holds policy oversight of DFID's investments in governance, politics, accountability, transparency, anti-corruption, public finance and tax. GOSAC operates at the global and UK levels but also supports DFID country offices to deliver their governance programmes and approaches. The Head of GOSAC is a Deputy Director and member of Her Majesty's Government's Senior Civil Service.

The Programme will have an overall DFID Senior Responsible Owner (SRO) who is a senior governance advisor at Band A1 (grade 6). The SRO will be accountable for overall delivery, risk management and financial control of the programme to the Head of GOSAC. The SRO will be supported by a Programme and Policy Manager at Band A2 (grade 7), and 2 Programme Managers at Band B1 (HEO), one seconded to the external agent contracted through the MODAC programme in order to maximise synergies between the programmes. For example the secondee will ensure that technical assistance and information from IACT can be used to inform corruption cases pursued through MODAC. These four posts will form the central spine of programme leadership and management for IACT. Additionally, there will be a Band B2 (EO) staff member who will provide financial support across all components with payments and forecasting on ARIES.

Assigned DFID advisers (at Band A1, A2 or A2L (SEO) grades) will have a proportion of their time allocated as policy lead for groups of IACT components and policy leads will be accountable for relationship management, influencing and technical and policy engagement with each implementing partner and across the UK Government and in international fora. For example, the policy leads for beneficial ownership, asset tracing and recovery will also lead GOSAC's inputs to the DFID Transparency Agenda on beneficial ownership, DFID's engagement in UK policy and link to international discussions on asset recovery and return.

Typically policy leads will be drawn from a pool of governance advisors, economists, statisticians or generalist staff. Most policy lead and deputy programme manager resource will be provided by GOSAC, but other DFID departments will provide an agreed staffing resource for programme management and policy lead functions of the three following components: extractives transparency with EITI - Africa Regional Department (ARD); defence and security with TI-UK - Conflict, Humanitarian and Security Department (CHASE); and Anti-Corruption Evidence - Research and Evidence Division (RED).

The SRO will convene a Board at least quarterly with Policy Leads and the programme team to track results, risks, strategic and technical issues and report any significant issues arising to the Head of GOSAC. Additionally the SRO and programme managers will have regular contact with policy leads on an informal basis and in advance of implementing partner steering meetings. DFID's SRO and central programme team, including members seconded to external implementers, will meet at least monthly to ensure key aspects of the Programme are on track and delivery plan will be updated accordingly.

DFID management responsibilities for the preferred management option

GOSAC management staffing	Grade	FTE
Overall programme leadership	A1	20%
Overall programme management	A2	10%
Deputy programme management	60% x B1; 20% x B1	100%
Component policy leads	10-15% per A band for each component	120%
Monitoring evaluation and learning	10% x A1; 5% x A2	15%
Operations team	50% x B2	50%
Other DFID departments (ARD, CHASE, RED)	10-15% x A band x 3 10% x B1 x 3	45% 30%

Inception period

There will be a 3-6 month inception period following approval which will provide time to finalise individual funding agreements; results frameworks at the programme and component levels; communication plans; and source appropriate contractors under relevant framework agreements. During the inception phase, the Programme will seek to cluster together delivery partners working on common themes e.g. global company beneficial ownership and extractives beneficial ownership disclosure, in order to deliver joint outputs, foster cooperation and synergies, avoid duplication and enhance knowledge and lesson learning. So for some components the delivery phase may not start until early 2018. Funding provided for key partners during the “Delivering on the 2016 London Anti-Corruption Summit Commitments Programme” will provide flexibility to ensure sustainability for smaller partners who to date have been quite reliant on DFID support, to operate during this period until December 2017 and for the Programme to build on lessons from this earlier programme.

Working with country offices and UK government posts overseas

GOSAC will work closely with a group of DFID country offices during the inception period to develop country specific strategies for IACT, where useful to country offices, so that international partners can adapt and respond to changes in local political context and ensure they can respond flexibly to new opportunities. In this way we will track and test the approach of working politically and adaptively to connect the international architecture to country level political understanding and analysis of international networks for corrupt actors.

DFID country offices and GOSAC (IACT, FAST and MODAC programmes) will co-fund a number of Front Line Delivery (FLD) and programme posts, embedded either country programmes, the FCO or cross-government country platforms or implementing partners, including the MODAC external agent. These posts will ensure that implementing partners and the three programmes provide a joined-up offer of support to country partners and complement bilateral and cross-government efforts, while being able to respond nimbly and flexibly to political

opportunities as they arise. Terms of Reference for these posts will be agreed in advance with country offices.

Throughout the programme UK based staff from DFID and the Prosperity Fund will stay in contact with DFID country offices and UK government missions in recipient countries, through regular meetings, visits and calls as appropriate, to better understand progress on the ground, and ensure that implementing partners and the technical support facility are delivering high quality demand driven support to recipient countries to take forward the London Summit commitments and wider anti-corruption ambitions.

Working with the Prosperity Fund

DFID’s central programme team will be in regular contact with the Prosperity Fund (PF) Management Office to ensure accurate results and finance reporting is provided in a timely way with regards to the PF-resourced components of IACT. Additionally DFID will interact with the wider PF governance architecture including providing inputs for PF cross-HMG ministerial and director level portfolio board meetings. The DFID SRO for IACT will attend regular cross-government coordination meetings led by the FCO to monitor progress, share lessons and coordinate PF programming in specific countries.

DFID engagement with governance of implementing partners

Partner	How does DFID engage?
Egmont Centre of Excellence	DFID only donor for design phase in 2016-17. Other funders being sought for 2017-2021. DFID is represented on the 7-member Steering Committee for the new Egmont Centre.
WB trust funds and EFOs (Anti-money laundering (AML), Asset recovery (StAR), metrics)	DFID contribution: 10% AML; 11% StAR; 100% metrics StAR – DFID is one of seven donors and attends annual donor coordination meeting. AML – DFID is one of five donors and will attend annual donor coordination meeting. DFID is the only donor. Metrics- DFID is the only donor. Policy lead has monthly teleconferences to review progress and we receive an annual report.
IMF AML trust fund	DFID contribution 10%; one of 9 donors. DFID is represented on the steering committee which meets annually.
Web Foundation for Open Ownership Register	DFID contribution 100%; DFID is the sole donor for this programme and conducts monthly calls with the Web Foundation (WF).
International Centre for Asset Recovery	DFID contribution 40%. 2 other donors. DFID attends steering committees and conducts regular calls.
U4 Knowledge Hub at Christian Michelsen Institute	DFID contribution 18%, one of 8 donors and attends the annual steering committee. Quarterly reporting.
TI-UK	DFID contribution 47% of TI Defence and Security programme. DFID (CHASE) adviser meets on a regular basis to review project performance and deliverables as well as strategic direction.

TI-S	DFID contribution 3%; DFID attends regular donor coordination meetings with the TI-Secretariat.
Trade Integrity Initiative	DFID contribution c.20%-30% (other funding and governance arrangements will be confirmed during the design phase)
Technical support facility	DFID contribution 100%. EACDS is managed by DFID's PCD. Depending on the level of demand for the facility, the contractor may appoint a dedicated manager to interact with GOSAC.
Monitoring evaluation and learning (MEL)	DFID contribution 100% jointly funded with MoDAC and FAST programmes. Governance arrangements will be established following the external tender through the evaluation framework.
Extractive Industries Transparency Initiative	DFID contribution 10% to EITI; and 9% to linked World Bank trust fund. The UK (DFID ARD) is part of a sub-constituency of donors which is represented by rotation on the EITI Board which meets 3 times a year.
British Academy ACE research	DFID contribution 100%. DFID (RED) attends quarterly meetings.

Risk identification and management

In overall terms this is a **moderate risk** programme.

Risks have been identified under the following broad areas: external, delivery, operational, safeguards, fiduciary and reputational. GOSAC will continue to track all risks associated with this Programme in an internal risk register, which will be reviewed quarterly by the SRO, Programme and Policy Manager and Deputy Programme Manager with policy leads, as well as in the programme Delivery Plan and at Annual Reviews.

Partnership principles and other conditions

The Programme is classified as either multilateral or not-for-profit support to civil society or multilateral trust funds rather than financial aid to partner governments, therefore DFID's partnership principles will not be applied in monitoring. Any actions which must be taken to ensure a disbursement of UK funds will be set out in the various memoranda of understanding and grant agreements between DFID and its implementing partners.

Monitoring, learning and communications

The governance structure of the programme (see above) gives DFID the appropriate level of control to monitor progress against the UK's objectives for all implementing partners. DFID has played a role in setting the strategic framework of some of the implementing partners e.g. U4, ICAR, WB and IMF. For other partners the UK government's role in shaping strategic direction is more limited given the need for an arms-length relationship to preserve the partners' autonomy e.g. TI. However all implementing partners vision, mission and objectives are aligned to the broader impact and outcome statements for this Programme.

The Programme's logframe will be finalised during the inception period, once all implementing partners have finalised their own key performance indicators and associated milestones and targets in conjunction with other partners. DFID will receive progress reports from each implementing partner – most will be on a quarterly basis, but some covering the multilateral partners will be on a six monthly or annual basis. These assessments will be used to report progress against results indicators in the overarching DFID logframe.

As part of the Annual Review process, GOSAC and the external MEL agent will also consult DFID country offices for input on how implementing partners are delivering in partner countries. DFID teams will monitor progress against implementing partners' performance through UK engagement on steering committees, donor meetings and bilateral dialogue (as set out in the table above); where partner strategy and direction can be set, performance tracked and challenged; UK government views put across; and donor approaches on handling the implementing partner agreed. DFID's accountable grants or MoUs will set this out specifically for each implementing partner. GOSAC will also track progress against operational, programme and policy objectives and risk management through an internal Delivery Plan, which will regularly be reviewed by the SRO, programme managers and policy leads.

IACT is one of four proposed or approved programmes overseen by GOSAC which together address different gaps and weaknesses in the international anti-corruption system and in theory help bear down on the incentives for corrupt behaviour at country level (see Flowchart in Appraisal Case). 3 of the programme teams for IACT, MODAC and FAST are planning to contract a joint monitoring and evaluation approach involving contracting an external supplier to test, track and assess the impact of these programmes together, including how they are working to shift incentives for corruption at country level. A joint approach across different but related programmes could maximise learning opportunities and create stronger synergies between different programmes, whilst taking a holistic approach to assessing GOSAC's anti-corruption portfolio by testing the Theory of Change.

Across all components of these Programmes there will be a focus on adaptive management, a monitoring of results and partners will need to document success stories and progress for communication of the Programme in a proportionate and accessible way. The aim of the Programme is both to produce results as well as test and track innovative approaches through a mix of implementing partners. In order to ensure that the Programme is able to adapt to this (scaling up success and closing down poor performers) it is important to have regular monitoring and feedback. This will occur at the following levels.

- **Overall programme logframe** – there will be one overall logframe covering outputs across the Programme, with joint outputs and responsibility for results agreed by clusters of implementing partners to ensure synergies across components. Progress will be discussed at regular meetings with partners, as well as during the annual and mid-term reviews;
- **Component monitoring** – to allow more detailed monitoring; each component will have its own results framework. Partners will be responsible for reporting against this to DFID policy leads and programme managers through regular participation with other donors, as appropriate, at steering committees and other monitoring discussions;
- **Component lesson learning** – the more innovative work will have a strong lesson learning component to ensure that findings are disseminated to a wide audience in order to maximise impact.

ⁱ Ugur and Dasgupta (2011 [S; SR]) systematically review the costs of corruption to economic growth at a macroeconomic level, and provide a meta-analysis of 55 empirical studies. They find that, in low-income countries (LICs), a 1-unit increase on the Corruption Perceptions Index (CPI) is associated with a reduction in gross domestic product (GDP) per capita growth rates of 0.07%. Across all countries (low, middle and high income), the effect is 0.12 percentage points. The indirect effects of corruption on growth (i.e. measured by public financial revenue flows and levels of human capital) show minus 0.23 percentage points for LICs and minus 0.29 percentage points overall. Rent-seeking behaviour is typically assumed to stunt economic growth because it is an essentially unproductive behaviour. However recent research identifies a strain of “developmental neo-patrimonialism”, in which the costs of corruption in generating rents can be outweighed by the subsequent value of these rents where they are managed and distributed productively. Yet few so-called “developmental patrimonial states” have proven sustainable over time as it is ill-suited to the broader expansion of the productive economy or the establishment of inclusive growth (Booth, 2012),

DFID, Evidence Paper: Why Corruption Matters; Understanding Causes, Effects and How to Address Them January 2015.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/406346/corruption-evidence-paper-why-corruption-matters.pdf

ⁱⁱ There is strong evidence that corruption has a detrimental effect on a range of factors key to providing economic opportunities; it is harmful to growth (see footnote i), international trade (Ali and Mdhillat 2015, Dutt and Traca 2010, de Jong and Udo 2006), market openness (Hakkala et al 2008), foreign investment inflows (Thede and Gustafson 2012, Mathur and Singh 2013), firm competitiveness and productivity (Fisman and Svenson 2007).

U4 Anti-corruption resource Centre: How could interventions in tackling global corruption positively impact on the UK’s national interests. August 2016.

ⁱⁱⁱhttp://www.transparency.org/news/feature/what_is_grand_corruption_and_how_can_we_stop_it.

The UN Convention Against Corruption (UNCAC) does not prescribe a single definition of corruption but a widely used definition is from Transparency International which defines corruption as “the abuse of entrusted power for private gain”.

^{iv} A recent report by StAR - the World Bank/UN Office on Drugs and Crime (UNODC) Stolen Asset Recovery Initiative - reviews 150 of the largest grand corruption cases and highlights the numerous ways in which the proceeds of corruption have been transferred and concealed.

http://www1.worldbank.org/finance/star_site/publications/Puppet-Masters.html - 2011. The StAR database of corruption cases can be found at [http://star.worldbank.org/corruption-cases/assetrecovery/?f\[0\]=bundle%3Apuppet_masters](http://star.worldbank.org/corruption-cases/assetrecovery/?f[0]=bundle%3Apuppet_masters)

^v There is a large body of evidence relating to the complex relationship between corruption and fragility. Highly corrupt states are more likely to be fragile states, and, over the long term, it appears popular perceptions of high levels of corruption are likely to exacerbate conflict dynamics. However, given that corruption (notably with regard to economic rents) is a form of income redistribution, it can also serve to maintain relative stability or defuse (or at least not inflame) conflict dynamics in the short term, but failure to address corruption in the short term can over time contribute to maintaining or exacerbating state fragility. **DFID Evidence Paper 2015 op cit.**

^{vi} **U4 August 2016 op cit.**

^{vii} **Transparency International UK 2017.** The Big Spin: Corruption and the Growth of Violent Extremism.

^{viii} UK Perspectives: Trade with the EU and Beyond. Office for National Statistics (ONS) 2016 cited in U4 August 2016 op cit.

^{ix} ONS cited in U4 August 2016 op cit.

^x In addition, just over half of all companies which have recently exited investments in Africa, Brazil, China, Eastern Europe or India cited fraud, bribery and corruption risks as a contributory factor. Ernst and Young’s 2016 Global Fraud survey cited in **Reaching Export 2020 with Integrity. All Party Parliamentary Group (APPG) on Anti-Corruption. December 2016.**

^{xi} **Control Risks: International Business Attitudes to Corruption Survey 2015/16.**

<https://www.controlrisks.com/~media/Public%20Site/Files/Reports/20151016corruptionsurvey2015WEB.pdf>.

xixii Control Risks 2016 op cit.

xixxiii APPG Anti-Corruption. December 2016 op cit.

xiv **U4 Anti-Corruption Resource Centre; International Support to Anti-Money Laundering and Asset Recovery: Success Stories. March 2017**

xv £1.4m Prosperity Fund ODA; £3.45m DFID-managed ODA

xvi World Bank. Drivers of Corruption.

xvii Rose-Ackerman 1999

xviii DFID evidence paper. January 2015. Op cit.

xix DFID evidence paper. January 2015. Op cit.

xx UNIFEM, Corruption, Accountability and Gender: Understanding the Connections, 2010. Available at:

<http://www.undp.org/content/dam/aplaws/publication/en/publications/womens-empowerment/corruption-accountability-and-gender-understanding-the-connection/Corruption-accountability-and-gender.pdf>

xxi DFID evidence paper. January 2015. Op cit.

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