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Transparency International's recommendations for anti-corruption measures that ensure an effective Financing for Development Agenda

I. A global financing framework

The Financing for Development (FfD) Agenda is critical for achieving the Sustainable Development Goals. Effective resource mobilisation and impactful expenditure to close the development gap can only succeed with strong anti-corruption measures and governance controls embedded at every stage.

Corruption poses a significant barrier to development due to its pervasive negative effects on governance, economic growth, and social equity, disproportionately impacting developing countries.[1] It diverts much-needed resources from sectors critical to achieving the SDGs, such as health and education. Grand corruption, in particular, results in the misappropriation of vast quantities of assets and widespread harm to populations. Corruption leads to misallocation of resources: it skews resource allocation decisions towards private interests at the expense of the common good. As such, corruption reduces trust in institutions – limiting government effectiveness, hampering socio-economic development, and reducing investment opportunities. As such, corruption reduces trust in institutions – limiting government effectiveness, hampering socio-economic development, and reducing investment opportunities.

Amid growing uncertainty about the political will for development financing in ODA donor countries, it is crucial that every dollar allocated to development is used effectively. Embedding transparency and accountability measures into global financing frameworks would allow for global institutions and development assistance to better demonstrate effectiveness of lending and investments and promote trust and accountability in financing.[2] The introduction of such measures can also improve recipient countries domestic confidence, improving efficiency in funds expenditure, increasing trust in governments, and creating an enabling environment for increasing mobilisation of domestic resources.

Addressing corruption as a cross-cutting issue that permeates all aspects of development financing, is critical for ensuring the success of the FfD4 Agenda. The FfD4 agenda should recognise the role of corruption and the need for countries to consider measures to address it. In particular, the FfD4 agenda should emphasise the urgent need for foreseeing transparency and accountability measures - in each of the Action Areas laid out below as the way to achieve a fair and sustainable future for all.

[1] As recognized by the UNGASS Political Declaration.
2 There is precedent here: during the COVID-19 pandemic, the IMF mandated the use of governance measures by Rapid Credit Facility recipients. Measures included the use of beneficial ownership registries, and publication of contracts (open contracting), resulting in greater transparency, and accountability of funding utilisation.

II. Action Areas

Action Area 1: Domestic Public Resources

Public Financial Management

The mobilisation, effective management, and expenditure of public resources are at the core of financing for development and the pursuit of the Sustainable Development Goals. Corruption severely undermines the development of robust and resilient national fiscal systems. It reduces available resources[3], diminishes the quality and quantity of public services, fuels inequalities, erodes trust in public institutions, and impairs the state's capacity to deliver sustainable and inclusive development and growth. Corruption can occur at various stages of public financial management, from resource allocation and budget planning[4] to government expenditure, including public procurement[5], and ultimately at the point of delivery, limiting people's access to basic public services, particularly for the most vulnerable and marginalised populations.[6]
To effectively strengthen fiscal policies and reduce opportunities for corruption in domestic public expenditure, it is crucial that the fourth Financing for Development Conference builds on the Addis Ababa Action Agenda, and previous agendas, prioritises and provides support for recipient countries' capacities to implement sound, transparent, and accountable public financial management frameworks. Transparency International calls on the FfD4 agenda to:

- Adopt an "open by default" approach with strong and clear standards for the disclosure of open, structured, and interoperable data across the entire Public Financial Management cycle, including detailed information on budget allocations, public procurement and public expenditure. Especial attention should be provided to extrabudgetary funds.
- Set standards for the disclosure of final recipients and beneficiaries of funds, as well as asset and interest declarations of public officials and decision-makers ensuring that datasets are interoperable for effective monitoring.
- Enhance the independence of parliamentary budget oversight committees, guaranteeing these are adequately resourced and have the mandates and capacity to exercise their role.
- Strengthen the role of Supreme Audit Institutions (SAIs) through the safeguard of their independence and laying the foundations for their collaboration with other oversight and law enforcement authorities, as well as with civil society organizations.
- Support an enabling environment for civil society organizations to mobilise citizens and actively monitor the allocation of budgets, public procurement and expenditure processes.
- Support multi-stakeholder collective action and cooperation to safeguard critical SDG-related investments and expenditure and ensure meaningful impact on development policy objectives, in line with SDG 17.

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[3] It is estimated that OECD countries loose no less than US$400 billion yearly due to bribery in public procurement.
[4] According to the 2023 Open Budget Survey, approximately forty percent of countries fail to publish relevant information on budget execution, which limits the ability to monitor public finances. This issue is exacerbated by the limited capacity of oversight institutions to exercise checks and balances and monitor government expenditure. In recent years, there has been a significant decline in the independence of Supreme Audit Institutions and the capacity of Parliaments to oversee government financial activities.
[5] Corruption increases between 10 to 30 percent of a contract's original costs.
[6] According to recent evidence by Transparency International, corruption in service delivery is the form of corruption most frequently encountered by citizens. Given their greater dependency on public services, it affects disproportionately women and other marginalized groups. Marginalised groups are often more impacted by the denial of critical services, such as health and education, due to the lack of financial means to turn to alternative (private) services.

Illicit Financial Flows

Illicit financial flows (IFFs) are a significant drain on capital and revenue, posing a major challenge to sustainable development. Corruption is a key driver of IFFs, and this is reflected in the commitments of the Addis Ababa Action Agenda. However, in recent years, corruption has been increasingly overlooked as a source of IFFs and a barrier to reducing them.

As noted in the concept paper for the recent Multi-Stakeholder Round Table Discussion on Domestic Public Resources, "since 2015, attention has shifted significantly towards international tax cooperation instruments." To ensure these instruments are effective, it is essential that tax revenue is mobilised rather than hidden in secrecy jurisdictions, and that the newly mobilised resources are safeguarded from being captured and contributing to further IFFs. Additionally, the international community must intensify efforts to combat corruption-related IFFs, which are notoriously difficult to track, yet continue to drain public treasuries.

Building on the Addis Ababa Action Agenda, the fourth International Conference on Financing for Development should establish a new consensus on key financial integrity issues, and on the need for:

- Eliminating anonymity in the ownership of companies, legal arrangements and high-value assets to ensure that the corrupt, tax evaders and other criminals cannot conceal their wealth and illicit assets. In particular, the conference should explore the possibility of creating a global asset register.[7]
- Increasing oversight of professionals in both the financial and non-financial sectors, who are expected to act as gatekeepers of the financial system but often end up facilitating IFFs.[8] While international standards already require countries to subject professionals such as lawyers, company formation agents and real estate agents to anti-money laundering regulations, major financial centres often fail to comply.[9] The international community should increase pressure on jurisdictions that serve as transit points or destinations for IFFs to regulate and supervise all professionals providing services that pose a risk of money laundering.
- Laying the foundation for new mechanisms of collaboration – both domestically and internationally – among authorities responsible for preventing, detecting, and investigating corruption, tax abuses, and money laundering. Financial intelligence units, in particular, play a key role in this effort. Cross-border collaboration should prioritise direct access to critical datasets for relevant authorities and facilitate the exchange of information across borders.

Asset Recovery

Corruption is often transnational and can manifest in the large-scale transfer of state assets abroad, assets that could have been used for development. In addition, a range of legal and natural persons may profit from promoting or assisting in cross-border corruption schemes that negatively impact development in affected countries. This makes it essential to have strong mechanisms and

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[7] The establishment of a global asset register, a database of companies, properties, valuable goods and other assets – along with a list of their real owners – would go a long way in fighting IFFs. In September 2019, leading economists and civil society organisations convened a workshop to develop the concept. The summary of outcomes can be found in this brief.
[8] See Transparency International's recent study, *Loophole Masters: How Enablers Facilitate Illicit Financial Flows from Africa*.
[9] See the recent *Horizontal Review of Gatekeepers' Technical Compliance Related to Corruption* by the Financial Action Task Force.

international cooperation to prevent, detect, recover and return diverted assets. The recovery and return of assets in foreign jurisdictions make much-needed resources available for development and can help deter future diversion. To achieve this, the Financing for Development Agenda should promote the following measures:

- Remove barriers to asset recovery by improving international cooperation and providing technical assistance to build capacity where needed.
- Use all the available tools for asset recovery and asset return, such as conviction-based and non-conviction-based confiscation, as well as direct recovery mechanisms
- When employing alternative legal mechanisms, such as non-trial resolutions and settlements, strengthen efforts to confiscate and return assets derived from international corruption.
- Ensure that the use of returned assets is transparent, accountable and aligns with the SDGs, as well as the Global Forum on Asset Recovery Principles for the Disposition and Transfer of Confiscated Stolen Assets in Corruption Cases.
- In cases where the return of foreign-sourced confiscated assets to an origin country is not required under international frameworks and not otherwise arranged, direct those assets to a fund administered by an international or regional organisation, to support the achievement of the SDGs in that country. This includes proceeds confiscated from foreign bribery and money laundering cases. States imposing fines on offenders in foreign bribery and international money laundering cases, should also be encouraged to contribute all or part of those amounts to such funds to support achievement of the SDGs in the affected countries.

Action Area 2: Domestic and International Private Business and Finance

Corruption in business erodes the potential for sustainable development by distorting the business environment, inhibiting foreign investment, and undermining public trust. Ensuring business integrity is essential to addressing these challenges, creating a level playing field, and fostering equitable economic growth. A comprehensive approach to business integrity should focus on three priority areas: multistakeholder collective action, anti-corruption compliance, and Environmental, Social, and Governance (ESG) reporting. To achieve this, we recommend the following actions:

- Promote collective action to enhance transparency and integrity, particularly for businesses involved in sustainable development-related contracts. Integrity Pacts, a form of collective action involving governments, business and civil society, have been successfully implemented in over 30 countries and provide a proven model for this approach.[10]
- Foster public-private dialogues and sectoral strategies for business transparency and integrity in SDG-related expenditures, linking sanctions and incentives to the adoption of corporate anti-corruption measures
- Support the development of advanced open supplier registers including comprehensive information on corporate integrity practices and reporting
- Encourage companies to adopt practices that go beyond mere legal compliance, embedding ethical behaviour throughout their value chains. This includes aligning anti-corruption efforts with human rights due diligence and broader corporate responsibilities. Special

[10] Transparency International is set to release a blueprint for modern Integrity Pacts that enhances corporate transparency and ESG integration.

attention should be given to supporting Small and Medium Enterprises (SMEs), which are essential to sustainable economic ecosystems but often face compliance challenges.

- Standardise ESG reporting to include anti-corruption as a core metric. Firms should be required to disclose business conduct policies, corruption incidents, and measures taken for redress. This external reporting must be accompanied by internal implementation to ensure that anti-corruption practices are embedded throughout operations. Independent assurance of these efforts should be introduced to increase credibility and prevent reputation laundering or greenwashing. Companies, including SMEs, should make anti-bribery and corruption compliance as a board level strategic priority and report regularly to investors, stakeholders and regulators.

Action Area 5: Debt and Debt Sustainability

Borrowing is critical for financing investments in sustainable development. Sovereign debt enables countries to invest in health, education, and other critical sectors. Yet, resources coming through loans often fail to translate into better infrastructure and services for citizens. Opacity[11] in debt negotiations, coupled with a lack of robust controls and oversight in debt management, facilitates the embezzlement, misuse, and capture of resources. When debt is negotiated in secrecy and loan resources are lost, the risks of unsustainable debt increase, hindering the investment in the Sustainable Development Goals and leading to fiscal crises. Resource-backed loans are particularly prone to corruption.[12] With limited disclosure of their contractual terms, accountability and public oversight is restricted.[13] Unfavourable terms and conditions further contribute to the already high level of indebtedness in some resource-rich countries and can significantly affect their future public revenues.[14] Debt distress disproportionately impacts low and least developed countries, with a particular impact on marginalised communities: almost two-thirds (60%) of LDCs and LICs are either in debt distress or at high risk of debt distress, a number that has doubles since 2015.[15]

In an increasingly complex landscape of debt instruments and creditors,[16] responsible and sustainable lending and borrowing are more critical than ever. The Addis Ababa Action Agenda sets forth commitments aimed at building on existing initiatives to establish a global consensus on guidelines for debt and creditor responsibilities. However, the current international financial architecture and existing efforts have been insufficient in addressing the risks of opaque and unsustainable debt. To achieve debt sustainability and prevent crises, the FfD4 Agenda must include strong provisions for greater transparency and, particularly, accountability in debt negotiations and management. FfD4 should:

- Strengthen the requirements for public disclosure by creditors and borrowers regarding institutional and instrumental debt. These requirements should include a broad coverage,

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[11] Opacity is a feature among both borrowers and creditors. According to the World Bank, approximately 23% of International Development Association (IDA) eligible countries do not publish any data on their sovereign debt. Likewise, recent evidence by the IMF finds that fewer than 50% of the 60 countries analysed have debt disclosure or reporting requirements in their domestic legal frameworks. Furthermore, certain creditors, reportedly provide especially opaque loans that feature confidentiality clauses.
[12] For example, see the story published by OCCRP *Murdered Papua New Guinea Ports Official Benefitted From Suspect Offshore Payments | OCCRP*
[13] See the World Bank blog *Developing economies should think hard about taking on resource-backed loans (worldbank.org)*
[14] See *Resource-backed loans requirements* from the Extractive Industries Transparency Initiative (EITI).
[15] See *Debt, Affordable Finance, and a Future for the Least Developed Countries* available in https://www.un.org/ohrlls/news/debt-affordable-finance-and-future-least-developed-countries
[16] The proportion of external public debt owed by Least Developed Countries and other Low-Income Countries to commercial creditors and non-Paris Club official lenders has more than doubled in the past 2 decades, rising from 17% at the end of 2000 to 45% by the end of 2022.

including debt contracted by different agencies, as well as lending instruments and liabilities.
- Enhance cooperation in sharing debt-related information among creditor and borrower countries, including private lenders. In particular, the Conference should explore the possibility of creating a global public database on sovereign debt.
- Embed integrity as a core element in reforms to the international financial architecture, with a focus on including good governance and anti-corruption measures as key components of debt sustainability assessments.
- Develop the capacity of countries at risk of debt distress to manage debt effectively, with a strong focus on information gathering, monitoring and oversight by relevant institutions, including Parliaments and Supreme Audit Institutions.
- Ensure meaningful consultation and engagement processes in debt management negotiations. Countries and IFIs should ensure opportunities for civil society and citizens' meaningful consultation and scrutiny of public debt decisions, including in the development of governance diagnosis, and in the management of debt resources.

Action Area 6: Addressing Systemic Issues

The unprecedented threat and scale of the climate crisis demand significant investment in climate adaptation and mitigation measures globally. While billions of dollars continue to be channelled into climate finance each year, corruption – be it through graft, abuse, bribery, conflicts of interest, mismanagement, or negligence - stands to hamper the effectiveness of urgent climate finance and investments, misaligning their allocation, undermining their impact, fuelling environmental crime, and worsening the consequences of the crisis to vulnerable groups.

It is, therefore, imperative that the FfD4 Agenda prioritises efforts to safeguard climate investments from corruption. Specifically, FfD4 should recognise the importance of integrity, transparent and accessible information, inclusive public participation, and social and institutional accountability in the delivery of its mandate. The extractive sector is the most prone to corruption globally, and the expected increase in mineral extraction for the energy transition and combating the climate crisis (including copper, cobalt, rare earths, nickel and lithium) makes it even more critical to ensure transparency and accountability. FfD4 should consider the following:

- Ensure that the principles of good governance and robust anti-corruption measures are central to development efforts and initiatives addressing the climate crisis.
- Enable open access to simple, relevant, and timely information on, for example, decisions, financial modalities, and project implementation in relation to climate-related initiatives.
- Provide spaces for meaningful and inclusive participation of public stakeholders in climate-related decision-making processes, including in the allocation of climate finance.
- Introduce safe channels for reporting corruption in climate-related projects, including guarantees around the protection of environmental defenders and whistleblowers.
- Provide spaces for meaningful and inclusive participation of public stakeholders and communities in governance of country's minerals through multi-stakeholder processes such as the Extractive Industries Transparency (EITI).