**Anti-Corruption: Securing the Future of Development Financing**

*Financing Policy Brief Series – Recommendations for FfD4*

**Key messages**

* Corruption is a cross-cutting issue, impacting all aspects of the financing for development agenda. Neglecting to adequately address corruption could jeopardize the entire process.
* By including and investing in proven anti-corruption measures, we can ensure that financial resources are effectively utilized for sustainable development.
* By fostering integrity in tax systems, procurement processes, management of public finances and public service delivery, we can build confidence in economic growth and mobilize resources for development.
* By ensuring strong anti-corruption measures – such as corporate transparency, the use of structured, interoperable datasets and reporting mechanisms - that not only prevent and mitigate losses before they occur but enable us to rapidly trace and recover stolen assets wherever they are located, we can better safeguard financing for development.
* The United Nations Convention against Corruption, with 191 States parties, provides the only global framework for addressing corruption. The Implementation Review Mechanism, active since 2010, offers valuable insights into challenges and good practices. By implementing key outcomes from the Review Mechanism, especially articles on public procurement and management of public finances as well as beneficial ownership transparency, we can better mobilize and safeguard financing for development.

**Problem statement**

This brief highlights key areas where corruption has a significant negative impact and offers policy solutions and specific recommendations of proven anti-corruption measures that can mobilize and safeguard development financing.

1. Domestic public resources.

Corruption has a devastating impact on financing for development. This typically happens in two main ways: through the misappropriation of tax revenue and the corrupt redirection of public funds.

Corrupt officials and criminals often transfer illicitly acquired wealth out of developing countries, depriving these nations of critical resources needed for sustainable development and climate crisis adaption. The **outflow of illicit funds and money-laundering, to which corruption is often linked,** pose significant challenges to financing development. There is strong evidence linking anonymously-owned companies, corruption, and illicit financial flows: over 70% of corruption cases in the last few decades have involved the use of these entities, whose beneficial owners often remain hidden in jurisdictions with lax regulatory frameworks.[[1]](#footnote-2) Corruption, money-laundering, and tax evasion often use similar opaque corporate structures to conceal beneficial ownership. Criminals exploit inconsistent inter-agency and international collaboration, which hinders effective detection and prosecution.

While **the returns of such proceeds** can fill a critical resourcing gap, challenges in the successful recovery and return of assets persist, including due to a lack of capacity and resources, differences in legal systems, the complexity of multijurisdictional investigations, divergent and complex requirements for cooperation, and difficulties in identifying and detecting illicit assets. While settlements are increasingly used in asset recovery and return, a significant gap remains between the amounts realized in settlements and those returned to countries.[[2]](#footnote-3)

While **tax reforms** are vital for increasing domestic resource mobilization, corruption stands out as one of the primary obstacles to broadening the tax base. Empirical studies since the 1990s underscore that the impact of tax reform on a country’s financial capacity is intricately linked to the extent of corruption control.[[3]](#footnote-4) Reducing corruption globally could increase tax revenues by USD 1 trillion, or 1.25% of global GDP, and boost economic growth[[4]](#footnote-5) Corruption in public service delivery directly impacts citizens’ willingness to pay taxes and erodes their trust in government institutions. This decline in trust leads to higher levels of tax avoidance and evasion, ultimately reducing domestic resource mobilization. Furthermore, corruption fuels the informal economy, reducing the potential tax base and complicating revenue collection efforts[[5]](#footnote-6).

**Private sector intermediaries** like lawyers, accountants, notaries, and real estate agents, among other gatekeepers, are often hired to facilitate the transnational movement of proceeds of corruption by disguising the nature and origin of such gains. Such gatekeepers often face limited or uncoordinated regulations and their work may contribute to criminal networks, eroding public services and pushing money to bigger financial centres, resulting in greater global inequality.1

2. Domestic and international private business and finance.

A business environment perceived as corrupt acts as a significant deterrent to foreign investment. Investors are less likely to engage in economies where corruption, bribes, and favouritism influence business decisions, leading to unpredictable costs and substantial legal risks. Foreign direct investment (FDI) is critical for capital flow, innovation, and job creation; thus, reducing corruption is essential for attracting investors, which can enhance revenue generation and stimulate economic growth.

3. International development cooperation.

When corruption infiltrates aid programmes, it siphons vital resources intended for beneficiaries, severely undermining the objectives of these development initiatives. This not only stalls progress in areas like healthcare, education, and infrastructure but also jeopardizes the very trust and support needed from donor countries. Development aid is often disbursed through public procurement systems, both in donor and beneficiary countries, which are at high risk of conflicts of interest and collusion.[[6]](#footnote-7) Reports of corruption can erode public and political backing for Official Development Assistance (ODA), creating additional challenges for securing funding in the future.

**Policy** **solutions**

1. Domestic public resources

To effectively address illicit financial flows, fostering inter-agency and international cooperation is essential. Countries must leverage existing networks, like the Global Operational Network of Law Enforcement Anti-Corruption Authorities and the Stolen Asset Recovery Initiative, to rapidly identify potential corruption cases and share information with multiple countries at the same time. Removing legal and administrative barriers between relevant agencies and across countries to ensure effective information-sharing is essential.

**Inclusive asset recovery strategies** should focus not only on the work of law enforcement agencies but also on how these agencies collaborate with various stakeholders, particularly those in sectors that act as enablers. These strategies require not only enhanced supervision and compliance standards but also direct coordination and capacity-building mechanisms.[[7]](#footnote-8)

When introducing **tax reforms,** it is important to ensure that they are complemented by strong anti-corruption measures. Formal expert meetings on tax and corruption can address tax reform and domestic resource mobilization challenges, and feed into and serve as a complement to the forthcoming tax convention.

Establishing effective **beneficial ownership** registers is a proven reform mechanism that enhances clarity regarding the ultimate ownership and control of companies. This requires (1) solid legal frameworks, (2) high-quality data collection and storage mechanisms, and (3) information to be shared between relevant actors and systematically used to enforce tax policies, prevent conflicts of interest and illicit enrichment, ensure high-quality investigations and trace proceeds of crime to recover stolen assets.

The extractive sector is particularly vulnerable to corruption and fraud due to the large investments involved. Strengthening beneficial ownership screening for companies operating in high-risk sectors can increase tax revenues and prevent the misuse of corporate networks for illegal activities, such as deforestation and illegal mining.

Given that one-third of all public spending goes through **public procurement**, transparency across the whole public procurement cycle is critical. Authorities must have access to essential information from tax authorities and beneficial ownership databases. This access can mitigate the risk of awarding contracts to companies involved in tax evasion or those with dubious ownership structures.

2. Domestic and international private business and finance

To mitigate risks for investors and establish an enabling environment that attract FDIs, it is essential to introduce preventive anti-corruption measures, such as codes of conduct, robust human resource management, conflict of interest policies, whistle-blower protection, internal controls and audits. This should be complemented by strong foreign bribery legislation and incentives and rewards for companies that act ethically.[[8]](#footnote-9)

Beneficial ownership information should be available to the private sector, enabling entities to mitigate risks of engaging with corrupt partners and enhance integrity and transparency throughout their supply chains.

To leverage market power to mobilize resources, investors and investment funds, including pension and sovereign wealth funds, should be encouraged to divest from companies involved in large-scale corruption and require all companies that they invest in to annually report on their anti-corruption progress.[[9]](#footnote-10)

3. International development cooperation

To ensure vital resources reach intended beneficiaries, donor partners should consider the availability of different methods to operationalize a suitable disbursement process that incorporates appropriate safeguards against corruption. Development of strong data-driven monitoring mechanisms as oversight on financing is recommended, such as [Ukraine’s Digital Restoration EcoSystem for Accountable Management (DREAM)](https://dream.gov.ua/en).

To mitigate the loss and misuse of development funding, it is advised to mandate corruption risk assessments in relevant institutions and industries, engage in real time auditing, conduct investigations into fund diversion and use beneficial ownership information in decision-making and investigations.[[10]](#footnote-11)

4. Overarching reflections

Corrupt actors move proceeds quickly across borders. We must ensure that our domestic and international systems are equipped to prevent and mitigate such opportunities by calling for stronger inter-agency frameworks, cooperation and inter-operable systems, standardized open data and the sharing of, and access to, information among authorities, including those that hold tax, procurement, and beneficial ownership information. Such authorities should work together in oversight and enforcement. For example, failure to declare beneficial ownership information should render an entity ineligible to bid on procurement contracts; entities engaging in tax evasion should be debarred.

Interoperability and open data facilitate such cooperation – the conference should call for the increased use and implementation of standardized data like the [Beneficial Open Data Standard](https://www.openownership.org/en/topics/beneficial-ownership-data-standard/) developed by Open Ownership and the [Open Contracting Data Standard](https://standard.open-contracting.org/latest/en/) developed by Open Contracting Partnership.

**Specific** **recommendations** **for** **FFD4**

The Fourth Financing for Development Conference provides an opportunity to reimagine what our collective world looks like. This must include ambitious calls for action on anti-corruption, including the following:

| **Policy solutions** | **Specific recommendations**  |
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| **Domestic resource mobilization** |
| Implement comprehensive anti-corruption measures and building strong institutions, including anti-corruption, tax, financial intelligence and criminal justice institutions | * Introduce tax reforms together with anti-corruption measures.
* Establish beneficial ownership registers to have clarity on company ownership and control, requiring strong legal frameworks, structured quality data, and systematic information sharing for effective tax enforcement.
* Strengthen beneficial ownership screening for companies operating in high-risk sectors.
* Ensure procurement authorities have access to essential information from tax authorities and beneficial ownership registries.
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| Strengthen countries capacity to both prevent the loss of stolen assets and recover them efficiently and timely | * Include provisions in settlements agreements of financial resources for enforcement to help facilitate enforcement efforts by all jurisdictions.
* Call for the establishment of a mechanism for settlements under existing UNCAC provisions that would help facilitate international cooperation and make it easier for states to enforce non-trial resolutions.
* Leverage existing networks to rapidly identify potential corruption cases.
* Require strong due diligence and reporting measures from gatekeepers, work with professional associations to increase awareness, information-sharing and strengthen the guidance provided by regulators and implement coordination and oversight mechanisms to ensure enforcement.
* Establish and maintain specific notification mechanisms related to confiscation proceedings to incentivize and improve the practical execution of asset recovery measures. A pilot mechanism could be initially facilitated by the Stolen Asset Recovery (StAR) Initiative and the Global Operational Network of Anti-Corruption Law Enforcement Authorities (GlobE Network).
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| Foster stronger and more effective inter-agency cooperation and information-sharing | * Formal expert meetings on tax and corruption to address tax reform and domestic resource mobilization challenges, and feed into and serve as a complement to the forthcoming tax convention.
* Remove legal and administrative barriers between relevant agencies and across countries to ensure effective information-sharing.
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| **Domestic and international private business and finance** |
| Promote the active participation of the private sector in preventing and combating corruption, including bribery | * Introduce preventive anti-corruption measures, such as codes of conduct, robust human resource management, conflict of interest policies, whistle-blower protection, internal controls and audits.
* Call for strong foreign bribery legislation and incentives and rewards for companies that act ethically.[[11]](#footnote-12)
* Ensure beneficial ownership information is available to the private sector, enabling entities to mitigate risks of engaging with corrupt partners and enhance integrity and transparency throughout their supply chains.
* Investors and investment funds, including pension and sovereign wealth funds, should be encouraged to divest from companies involved in large-scale corruption and require all invested companies to annually report on their anti-corruption progress.[[12]](#footnote-13)
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| **International development** **cooperation** |
| Ensure transparency and accountability in development funding through strong auditing, oversight and reporting mechanisms | * Donor partners should consider the availability of different methods to operationalize a suitable disbursement process that incorporates appropriate safeguards against corruption. Development of strong data-driven monitoring mechanisms as oversight on financing, such as Ukraine’s Digital Restoration EcoSystem for Accountable Management (DREAM).
* Mandate corruption risk assessments in relevant institutions and industries, engage in real time auditing, conduct investigations into fund diversion and use beneficial ownership information in decision-making and investigations.[[13]](#footnote-14)
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| **Overarching recommendations** |
| Call for strong anti-corruption measures to enhance the capacity of domestic institutions, promoting transparency, accountability, and fairness  | * Advocate for the implementation of the outcomes from the UNCAC IRM, particularly articles that directly impact the success of the FFD agenda, including those on public procurement, management of public finances, beneficial ownership transparency and money laundering.
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| Implement strong national legal frameworks on whistle-blower protection to provide protection and promote transparency | * Ensure that whistle-blowers have clear, accessible channels for reporting corruption and an effective system in place to address these reports.
* Provide strong protection measures and mechanisms to shield whistle-blowers from retaliation.
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| Implement robust data collection and reporting systems to track and categorize different types of corruption and illicit financial flows | * Call for inter-operable systems and the sharing of, and access to, information among authorities, including those that hold tax, procurement information and beneficial ownership information.
* Call for countries to use and implement structured data, like BODS and OCDS.
* Call for the implementation of digital integrated procurement systems.
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| Leverage technology to ensure appropriate safeguards, facilitate information sharing and drive financing  | * Scale up technical assistance, including in areas of technology, data capacity.
* Ensure that at least 5% of ODA is allocated to bridging the technological divide.
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| Ensure monitoring mechanisms are in place to track progress  | * By 2035, aim to have at least 60% of public institutions with clear reporting channels.
* Encourage the use of the Statistical Framework to Measure Corruption and the Conceptual Framework for the Statistical Measurement of Illicit financial flows, to monitor implementation progress.
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75-word summary for the website.

Corruption is a cross-cutting issue, impacting all aspects of the financing for development agenda. Neglecting to adequately address corruption could jeopardize the entire process. By including and investing in proven anti-corruption measures and strengthening international cooperation in the recovery of proceeds of corruption, we can ensure that financial resources are effectively mobilized and safeguarded for development.

1. [BeneficialOwnershipTransparency.pdf (worldbank.org)](https://thedocs.worldbank.org/en/doc/734641611672284678-0090022021/original/BeneficialOwnershipTransparency.pdf) [↑](#footnote-ref-2)
2. [CAC-COSP-WG.2-2021-CRP.1.pdf (unodc.org)](https://www.unodc.org/documents/treaties/UNCAC/WorkingGroups/workinggroup2/2021-September-6-10/CAC-COSP-WG.2-2021-CRP.1.pdf) [↑](#footnote-ref-3)
3. Yohou, H. D. (2023). Corruption, tax reform and fiscal space in emerging and developing economies. *The World Economy*, *46*(4), 1082-1118.

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4. <https://www.imf.org/en/Publications/fandd/issues/2019/09/the-true-cost-of-global-corruption-mauro> [↑](#footnote-ref-5)
5. Schneider, F. (2005). *Shadow Economies of 145 Countries all over the World: What do we really know?* (No. 2005-13). CREMA Working Paper. [↑](#footnote-ref-6)
6. Collier, P., Kirchberger, M., & Söderbom, M. (2016). The cost of road infrastructure in low-and middle-income countries. *The World bank economic review*, *30*(3), 522-548.

Jenkins, M. (2024) Corruption and the financing for development agenda. Bergen: U4 Anti-Corruption Resource Centre, Chr. Michelsen Institute (U4 Helpdesk Answer 2024:28) [↑](#footnote-ref-7)
7. An example of this approach is Brazil’s [National Strategy against Corruption and Money Laundering](https://enccla.camara.gov.br/quem-somos), where public and private sector institutions work together to strengthen frameworks and build capacity across multiple sectors. [↑](#footnote-ref-8)
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