



The role of fiscal policies in addressing corruption

by

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1. Introduction

Africa is widely considered among the world's most corrupt places, a factor seen as contributing to the stunted development and impoverishment of many African states.¹ Corruption in Africa has resulted in the loss of billions of dollars thereby negatively impacting on domestic resources mobilisation efforts of developing countries. The fact that corruption is both a source and a facilitator of illicit financial flows (IFFs) makes it compounding. The alarming cases of corruption across Africa have resulted in African leaders focusing on dealing with corruption and the 2018 theme for the continent was: "Winning the Fight against Corruption: A Sustainable Path to Africa's Transformation".² That being said, what clicks into mind is on what is being done to deal with corruption. In many Sub Saharan African (SSA) countries a number of legal and institutional frameworks have been put in place. However, their effectiveness and adequacy in dealing with corruption are partly attributed to the amount of financial resources appropriated from the national purse. This implies that, fiscal policies play a critical role in the fight against corruption. Against this backdrop, this paper broadly seeks to explore on the role and significance of fiscal policies in addressing corruption. Specifically, this paper will analyse the patterns or nature of funding allocated to agencies involved in combating corruption and how this relate to corruption rankings and scores over time. The focus will be on four cases namely: Namibia, Botswana, Rwanda and Seychelles. The

selection of these countries as case studies is informed by their 2017 rankings and scores in terms of corruption perception index by Transparency International.

2. Corruption in Africa

Corruption in Africa ranges from high-level political graft on the scale of millions of dollars to low-level bribes to police officers or customs officials. While political graft imposes the largest direct financial cost on a country, petty bribes have a corrosive effect on basic institutions and undermine public trust in the government. According to Transparency International, Africa is ranked the most corrupt continent and scores lowly. In terms of the corruption perception index (CPI), a high corruption rank entails high corrupt and a high score implies low corruption. Globally, SSA is the worst performing region with an average ranking of 32 which is below the average of 43. An analysis made by Transparency International reveals that more than two-thirds of countries score below 50, with an average score of 43.³ Unfortunately, compared to recent years, this poor performance is nothing new.

The fight against corruption is compelling as corruption negatively impact on domestic resources mobilisation which subsequently affect the financing for development. Through corruption, the African continent is bleeding US\$150 billion annually. Africa's bleeding has resulted in dwindling economic growth, lack of

¹ <https://www.cfr.org/background/corruption-sub-saharan-africa>

² <http://aga-platform.org/node/152>

³ https://www.transparency.org/news/feature/corruption_perceptions_index_2017

⁴ <http://www.worldbank.org/en/topic/governance/brief/anti-corruption>

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development and increase in the prevalence of poverty. Corruption has a disproportionate impact on the poor and most vulnerable, increasing costs and reducing access to services, including health, education and justice.⁴ In a bid to redress these problems, Africa has heavily relied on aid. In many cases, the amount that Africa receives as Official Development Assistance (ODA) and Foreign Direct Investment (FDI) combined fall short of the amount is lost through illicit financial flows (IFFs) perpetuated by corruption. African countries received \$162bn in 2015, mainly in loans, aid and personal remittances.

In the same year, \$203bn was taken from the continent, either directly through multinationals repatriating profits and illegally moving money into tax havens, or by costs imposed by the rest of the world through climate change adaptation and mitigation.⁵

Given the above negative effects of corruption on development, African governments have made some efforts to combat corruption. At the continental level, about 37 countries have ratified African Union Convention on Preventing and Combating Corruption. Many African governments have established anti corruption units to prevent, fight and prosecute corruption cases. In many cases these units are funded and overseen by the executive branches of governments and are less autonomous. African governments have also crafted an array of laws to prevent corruption. The implementation of these laws and the functionality of the anti corruption units is partly dependent on the availability of financial resources. For countries to effectively fight corruption, adequate resources should be appropriated to anti corruption institutions.

3. Significance of funding anti corruption efforts

Funding is an essential component and tool needed by all government agencies and parastatals because it determines their efficiency. Efforts to address corruption require financial resources to establish anti corruption units and implementing relevant pieces of legislation that are related to combating corruption. Through national budgets, countries should appropriate resources towards combating corruption. Budgets for anti corruption units are usually divided into development expenditure and recurrent expenditure. The development budget is expenditure on new, budgetary undertakings, including procurement of buildings and other capital items; whereas the recurrent budget covers ongoing items such the salaries of employees, rentals, training and others.

Since financial resources are indispensable in the fight against corruption, the effectiveness of anti corruption efforts partly hinge on the amount of financial resources available. Through national budgets, countries should allocate enough financial resources to fund anti corruption efforts. In many African countries, despite the establishment of anti corruption units and the enactment of anti corruption laws, few resources have been allocated towards combating corruption. This has negatively implied on the success of various strategies to curb corruption. In literature on anti-corruption, one of the identified factors that hinder combating corruption effectively is underfunding. Although most countries of the world strive for qualitative anti corruption agencies with a real capacity to fight corruption, the problem of underfunding hinders this aspiration.⁶

⁵ <https://www.theguardian.com/global-development/2017/may/24/world-is-plundering-africa-wealth-billions-of-dollars-a-year>

⁶ Ayodeji Awopeju, Seye Olowu, Ilesanmi Jegede, 2018, Significance of funding the Nigerian anti-corruption agencies: Lessons from

⁷ Singapore and Hong Kong

<https://www.business-anti-corruption.com/country-profiles/botswana/>

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This therefore calls for African governments to increase their spending on fighting corruption.

4. The relationship between the level budgetary allocations and Corruption Perception Index: Case studies

According to the 2017 CPI, the top four countries in Sub Saharan Africa are Botswana, Seychelles, Rwanda and Namibia. The thrust of this section is to determine the extent to which an increase in government expenditure on fighting corruption will improve corruption levels of a country.

This paper argues that if adequate financial resources are devoted towards the fight against corruption, corruption levels will be reduced in terms of high scores and low rankings. This section will focus on how these selected countries have managed to combat corruption in terms of the amount of resources devoted to anti corruption activities.

Botswana

Corruption is a moderate risk in Botswana. The country is considered to be the least corrupt country on the African continent.⁷ According to the 2017 CPI, Botswana rank 34 out of 180 and has a score of 61 out of 100.⁸ Botswana has number of harmonised pieces of legislation that touch on corruption. The Corruption and Economic Crime Act (CECA) of 1994 is Botswana's most recognised anti corruption law. This law has subsequently resulted in the establishment of the Directorate on Corruption and Economic Crime (DCEC).

The DCECs mandate to include money laundering is extended in the Proceeds of Serious Crime Act of 2000. The Financial Intelligence Act 2009, created the Financial Intelligence Agency (FIA). The act also set out a framework which financial institutions must follow. At the international level, Botswana has ratified the United Nations Convention against Corruption (UNCAC).⁹ The Office of the Auditor General (OAG) forms part of Botswana's institutional framework on corruption. The OAG is tasked with making sure that money is not being misappropriated and that the money given to the departments/regions is being spent in an efficient and effective manner. Other institutions include: the media and civic society.

In terms of funding, The DCEC is funded from the Consolidated Funds of Botswana. The consolidated funds amalgamate funds from taxes, mineral revenue and other sources of public finance.¹⁰ Funding for the DCEC is through allocations by the national assembly. The 2015 Botswana national budget identified strengthening the judicial system and combating crime and corruption as one of the key thematic areas. As at April 2015, the budgetary allocation for the DCEC was £ 6,767,933.¹¹ Annually the budget as allocated is divided into recurrent budget and development budget.¹²

The development expenditure has been steadily rising on the budgetary allocations to the DCEC between 2011 and 2014.¹³ The graph below shows budgetary allocations to the DCEC between 2011 and 2014.

⁸ <https://www.transparency.org/country/BWA>

⁹ Michael Badham-Jones, 2014

¹⁰ <http://www.africanminds.co.za/wp-content/uploads/2017/04/OSISA-ACC-Text-29MAR130-WEB.pdf>

¹¹ <https://www.aauthorities.org/country/bw>

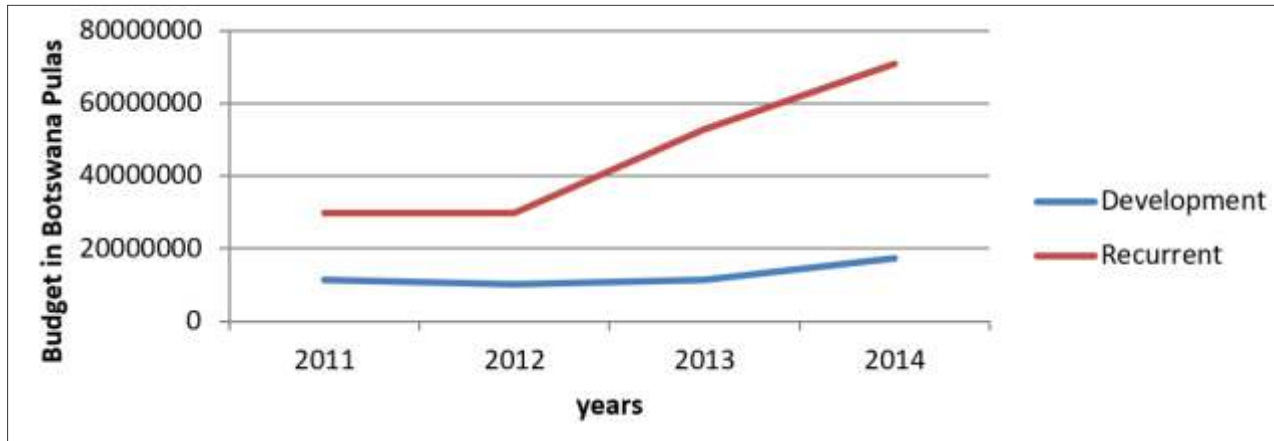
¹² The development budget is expenditure on new, budgetary undertakings, including procurement of buildings and other capital items; whereas the recurrent budget covers ongoing items such the salaries of employees, rentals, training and others.

¹³ Effectiveness of Anti-Corruption Agencies in Southern Africa, OSISA, 2017.

¹⁴ Transparency International.

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Figure 1: Development and recurrent allocations to the DCEC.



Source: DCEC Annual Reports

The case of Botswana shows that there is a positive relationship between an increase in budgetary allocations to the DCEC and corruption scores and also that there is an inverse relationship between increased budgetary allocations and corruption rankings. As government spending in fighting corruption increased, Botswana's scores improved from 58 in 2010 to 63 in 2014 and its rankings dropped from 33 in 2010 to 31 in 2014.

The changes in the rankings for Botswana to 34 in 2017 are partly as a result of the inclusion of more countries in the rankings. Despite these changes, what can be gleaned here is that an increase in government spending to reduce corruption result in low rankings and high CPI scores: low corruption.

Seychelles

The Anti-Corruption Commission of Seychelles (ACCS) was established under the Anti-Corruption Act of 2016 which gives it authority to investigate, detect and prevent corrupt practices. It

is a self-governing, neutral and independent body which is not subject to the direction or control of any person or authority.¹⁵ In addition to the Anti Corruption Act, Seychelles' Penal Code also provides a legal framework for combating corruption.¹⁶ At the international level, Seychelles signed the UN Convention against Corruption in February 2004 and ratified it in March 2006. Seychelles is not party to the Organisation for Economic Cooperation and Development (OECD) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. According to CPI of 2017 Seychelles ranked 36 and scored 60 making it the second least corrupt country in Sub Saharan Africa.

For the year 2019, the Anti-Corruption Commission for Seychelles has been allocated SR 14.2 million budget.¹⁷ This is an increase from SR 12.7 million in the 2018 budget which was approved by parliament. The table below shows the estimated and revised budgets for the Anti Corruption Commission of Seychelles.

¹⁵ http://www.accsey.com/accs/about_accs

¹⁶ <https://www.globalsecurity.org/military/world/indian-ocean/se-corruption.htm>

¹⁷ Seychelles Government Budget For the Fiscal Year 2019

¹⁸ http://www.finance.gov.sc/uploads/national_budget/PPBB%20STATEMENT%20VOLUME%201%202018-2020%20page%201%20to%202020.pdf

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Figure 2: Estimated and revised budgets for the Anti Corruption Commission of Seychelles

SR000	2016	2017		2018	2019	2020
	Expected Actual	Budget	Revised budget	Budget	Forecast	Forecast
Programmes						
Anti corruption services	1,107.11	8,338.66	9,618.58	11,956.46	12,748.21	12,830.87

Source: Programme Performance Based Budget Statements Ministries, Departments and Agencies¹⁸

Based on the table above, there is an increase in government expenditure on fighting corruption in Seychelles. A trend analysis of the CPI scores shows that the country has improved from 52 to 55 in 2015. In 2017 Seychelles scored 60. In terms of rankings, Seychelles improved from 44 in 2014 to 36 in 2017. These trends are in line with the notion that increases in government expenditures on anti corruption efforts are inversely related to levels of corruption.

Rwanda

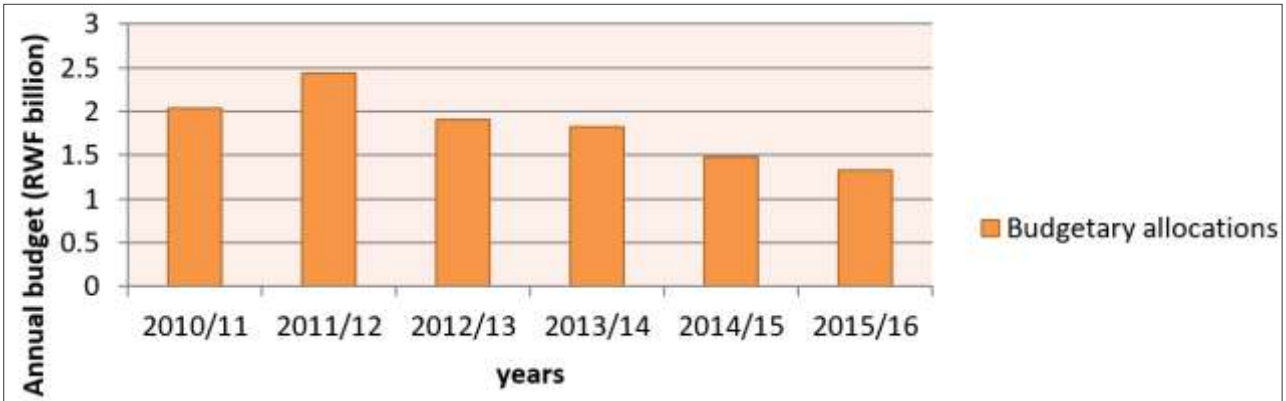
Anti corruption policy and actions in Rwanda are managed by a range of public institutions. The primary anti-corruption agency is the Office of the Ombudsman which is constitutionally independent and carries a wide mandate in the fight against corruption. A number of other institutions with core functions closely related to anti-corruption action but hold mandates where corruption is but one element include: the National Public Prosecution Authority, the Rwanda National Police, the Office of the Auditor General of State Finances and Rwanda Public Procurement Authority. At the domestic level Rwanda's anti-corruption policy is governed by the following legal pieces: Constitution of the Republic of Rwanda; Organic law instituting the

penal code; Organic law on leadership code of conduct; Law on prevention, suppression and punishment of corruption and related offences; Law on prevention and penalizing the crime of money laundering and financing terrorism; Law on public procurement; and Law that establishes the organization and functioning of the Office of the Ombudsman. Regionally and internationally Rwanda is party to United Nations Convention against Corruption (UNCAC); African Union Convention against Corruption (AUCAC) and the East African Community Treaty.

The budget for the Office of the Ombudsman is ultimately determined and allocated by the Parliament of Rwanda. However, the Ministry of Finance and Economic Planning plays an important role in determining the yearly allotment for the office. In 2009, the Ombudsman's office had a budget of 1.4 billion Rwandan Francs (US \$2.4 million). This represents a significant growth since the creation of the office in 2003, when it had an operating budget of 600 million Rwandan Francs (US \$1.02million). This reflects robust Presidential and Parliamentary support for the office, as well as strong donor community support.¹⁹ The figure below shows the budgetary allocations for the Office of the Ombudsman.

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Figure 3: Budgetary allocations for the Office of the Ombudsman



Source: Authors recreation using data from OSISA

As noted by OSISA in a research report entitled, 'Effectiveness of anti corruption agencies in Southern Africa', the budget for the Office of the Ombudsman has been dwindling despite the fact that the Office was increasing its tasks and responsibilities. The budget peaked in the fiscal year 2011/12 at RWF 2 444 597 151 (US \$ 3 029 241), but has decreased steadily since then. In the fiscal year 2015/16, the budget was only 54% of the 2011/12 figure. In terms of CPI scores, Rwanda had a score of 53 in 2012. As a result of underfunding, the score moved up to 55. This implied that Rwanda's effectiveness in dealing with corruption was diminishing because of underfunding. In 2012, Rwanda ranked 50 and between 2012 and 2017, the rankings fluctuated and in 2017 Rwanda ranked 48.

Namibia

In an attempt to reverse the consequences of corruption, the Namibian Anti-Corruption Commission (ACC) was established in 2003 and it became operational in 2006. Prior to the establishment of the ACC, the task of fighting corruption in Namibia was assigned to the Office of the Ombudsman.¹⁹ The ACC was established by the Anti-Corruption Act (ACA) Act of parliament

as an independent body. In addition to the ACA, the Prevention of Organised Crime Act No.29 of 2004 addresses the combating of organised crime, money laundering, racketeering, smuggling of migrants, trafficking in persons and criminal gang activities in Namibia and elsewhere. The Financial Intelligence Act No.13 of 2012 focuses on combating money laundering by imposing a duty on accountable institutions to report certain transactions to the Bank of Namibia. Other pieces include the criminal procedures Act No 25 of 2004.

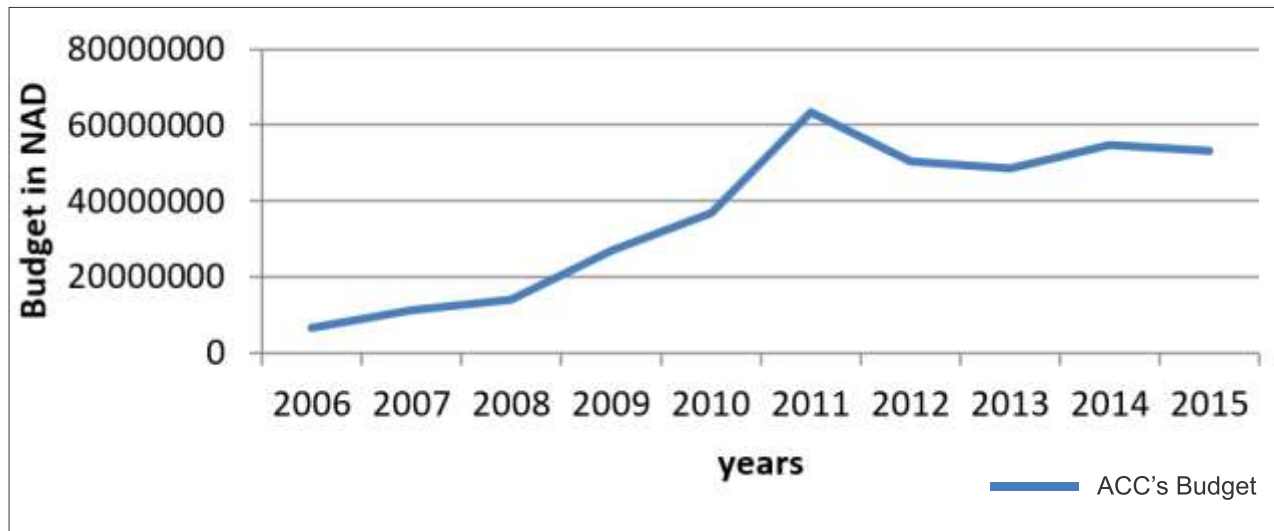
At the regional and international level, Namibia has ratified several regional, continental and international anti-corruption instruments. The country signed the Southern African Development Community (SADC) Protocol Against Corruption and is also a member of the Southern African Forum Against Corruption, the African Union (AU) Convention on Prevention and Combating Corruption Furthermore, Namibia is a signatory to two United Nations conventions on corruption namely: United Nations Convention Against Transnational Organised Crime and United Nations Convention Against Corruption.

¹⁹ World Bank, 2010, https://www.acauthorities.org/sites/aca/files/casestudy/Office%20of%20the%20Ombudsman%20of%20Rwanda_o.pdf

²⁰ Effectiveness of Anti-Corruption Agencies in Southern Africa, OSISA, 2017.

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Figure 4: Budgetary allocations to the ACC from 2006 to 2015



Source: Effectiveness of Anti-Corruption Agencies in Southern Africa, OSISA, 2017

In terms of funding, the ACC was allocated a budget of NAD 1.5 million from the 2004 financial year from the national budget. From then, there has been an upward allocation to the ACC from the national budget every year. The graph below shows the budgetary allocations to the ACC from 2006 to 2015.

From the figure above, it can be noted that there has been an increase in the budgetary allocations to the ACC. In addition to government funding, the ACC has also received financial resources from development partners like the United Nations Development Programme (UNDP), amongst others. Namibia's CPI score declined from 57 to 49 from 2002 to 2014. However there were some fluctuations in between which are partly attributed to changes in the number of countries considered. In terms of rankings, there were also some fluctuations. In 2014, Namibia was ranked number 55 and improved to 53 in 2017.

Conclusion and Recommendations

It is undeniable that corruption is a double edged sword that causes and facilitates IFFs. IFFs are a developmental problem which hampers the mobilisation of domestic resources that have the potential to reliably and sustainably fund development in Africa. This makes it a compounding case to effectively deal with corruption. Dealing with corruption requires adequate financial resources. Based on the analysis of the four cases discussed above, there is an inverse relationship between financing anti corruption efforts and CPI scores. This implies that the more anti corruption agencies are resourced, the lesser they countries become corrupt. Furthermore, there is a direct relationship between funding anti corruption agencies and CPI rankings. To this end, African countries should divert resources towards the fight against corruption. Based on this analysis this paper

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recommends the following:

Adequate funding for Anti corruption agencies.

African governments should allocate more financial resources towards the fight against corruption. There is need to adequately fund anti corruption agencies using domestically mobilised resources which are sustainable and predictable rather than with donations and aid. Foreign aid encourages accountability to donors instead of citizens and it further encourages graft and breaks the fundamental relationship between a state and its people.

Strengthening anti- corruption institutions.

Anti corruption agencies and institutions should be strengthened in terms of human resources and knowledge so that they are better capacitated to investigate and prosecute corruption cases. Institutional weakness facilitates corruption, particularly imbalances between a strong executive branch and weak legislature and

judiciary.

Strengthening the legal framework on anti corruption.

In order to strengthen anti-corruption management in the country, governments should come with laws that will assist in revealing information on possible corrupt practices. The laws include: a freedom of information law, a whistleblower protection act, and a law on declaration of assets and liabilities.

Concerted efforts by various stakeholders.

Successful anti-corruption efforts are often led by a 'coalition of concerned' – politicians and senior government officials, the private sector, and by citizens, communities, and civil society organizations. Addressing corruption will require the concerted attention of governments, businesses, civic society, as well as the use of the latest advanced technologies to capture, analyze, and share data to prevent, detect, and deter corrupt behaviour.



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