



**Improving Donor Effectiveness in  
Combating Corruption  
Sharing Nepal's Experience**

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**(Slide 1)**  
**Improving Donor Effectiveness in Combating Corruption**  
**Sharing Nepal's Experience<sup>1</sup>**

Mr. Micheal Roeskau  
Mr. Mark Pieth  
Mr. Richard Manning  
Friends and Colleagues,

On behalf of CIAA/Nepal and also on my own, I would like to extend my deep gratitude to OECD and Transparency International for giving me an opportunity to participate and share some of my ideas in this august gathering.

During my brief presentation I would like to focus on (1) giving an introduction of my organizations and its activities, (2) possible options and implications of donors involvement in anti-corruption activities in developing countries, (3) Nepal's experience in handling aid money and finally (4) some lessons to be drawn from my personal involvement in anti-corruption business.

Commission for the Investigation of Abuse of Authority (CIAA) in Nepal is a constitutional body established to fight corruption in public sphere in Nepal. Though our works are mostly reactive in nature, i.e., investigation and prosecution of corruption cases, we do have proactive responsibilities. We give necessary directives and policy advice to the government; and build coalition with the civil society and media to increase public awareness on the vices of corruption.

CIAA was established in 1991 after the promulgation of the new Constitution dispensing multi-party democracy and constitutional monarchy in Nepal. If we take its predecessor – Commission for the Prevention of Abuse of Authority (CPAA) - into account, the history of CIAA could be stretched a way back to 1977. The history of CIAA is fraught with public accusations, of being inactive and ineffective, of being ambiguous in our roles and responsibilities. However, with the enactment of four laws related to anti-corruption in 2002, there had been some dramatic changes in public perception of CIAA. Let me show you graphically the things happening at CIAA since its establishment in 1991. **(Slide 2 & 3)**

At present, Nepal is experiencing the intricate problems of politics and economics. If Maoist insurgency is contributing to political instability, economically, Nepal is also a poorest country in the world. When poverty is combined with political instability, what you have is a fertile ground for corruption. However, we have erroneously believed that poverty is the major factor behind corruption; actually, it is the other way round. Corruption has widened and deepened our poverty. It has created economic and social

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<sup>1</sup> Remarks delivered by Rt. Hon'ble Mr. Surya Nath Upadhyay, Chief Commissioner of CIAA/Nepal in the forum on *Improving Donor Effectiveness in Combating Corruption* organized by OECD and TI in Paris from December 9 to 10, 2004.

disparity. Therefore, our fight against corruption is a fight against poverty. Instead of fighting poverty with a hope to end corruption, we should fight corruption to end poverty.

My experience from being in an anti-corruption business tells me that corruption is nothing more than money. Actually corruption *equals* money. Corruption thrives when there is an involvement of money. Donors – the suppliers of money – when they are involved in anti-corruption drive, they are in a situation of double bind – *first*, you have to be involved in a problem that you should better not be involved at all. This is the reason why I see anti-corruption activities are often accused as an imposition of “first world” bias on developing countries when, in fact, corruption problem is of equal concern to both developed and developing countries. *Second*, your very involvement with money may breed another kind of corruption problem. **(Slide 4)**

Donors have opted two possible options while dealing with the issue of corruption: (1) keeping the house in order and (2) support to specific anti-corruption activities. Donors' policy of "keeping their house in order" seeks to address second problem mentioned above. Drawing out a code of conduct for staff members, making operations transparent and accountable indeed help to clean the house and save the donors from being accused as the suppliers of corruption. Even in this aspect I see a lot of room for improvement. By helping to reduce the cost of a project, making staff salaries and consultants' fees competitive to local market situation, donors can make a dent on anti-corruption drive in developing countries. There is also a room for improvement by giving local ownership and control of the project. When locals have ownership and control of the project, they know the value of the money; they can control the use and misuse of resources. A research study on combating corruption in rural public works in Nepal indicates that simply allowing more public participation, supervision and control in the formulation and implementation of the rural projects can help to control corruption estimated to be operating at a level of 40 to 50 percent of the project cost.

With regards to donors' involvement in anti-corruption drive, there are two options. *First*, donors can use incidence of corruption in recipient countries as conditionality for aid. There is a catch here. Often the countries having worst cases of corruption or with big problems of governance are the ones who need to be supported with aid money. But more often these are the countries to be excluded. The *second* option is to have donors actively involve in or supporting the anti-corruption programs in the recipient countries. If anti-corruption drive is purely a matter of *technical issues* like improving procurement procedures, strengthening accounting and audit works, better regulation of banks to check money laundering or drafting legislation, facilitating access to information, donors can make an impact. We can fairly believe that the technical issues, if introduced and implemented, shall create not only synergy but also make the governance more transparent and accountable and help reduce corruption. However, where *political issues* like getting political will and commitment, changing the attitude and culture are involved, I feel donors are severely constrained. This is the area I like donors to think about – how to tackle political issues without stepping into the toes of the recipient countries.

Let me now share some of my experience on foreign aid and donors' support to anti-corruption program in Nepal. **(Slide 5)**

There is a wide spread belief that the availability and flow of foreign aid in Nepal has increased not only the incidence of corruption but also transformed its nature. The aid money has transformed petty corruption in bureaucracy to a grand corruption that is often involved in the choice, location and execution of development projects. Corruption comes in the form of commission agents; padded project costs like procurement from specific agency, inclusion of unnecessary foreign travel opportunities or consulting opportunities in the project; topping up the salaries of civil servants for their cooperation in project approval and implementation. Overinvestment due to added cost has made many of the projects impossible to operate.

The lack of transparency is a major factor hindering better aid management in Nepal. As per the report of Office of Auditor General (2002/3), a total of NRs71.22 billion (nearly one billion in US dollar term) involved in 4827 technical assistance (primarily experts, consultants, advisors) from various donors have not been accounted in the annual budgets of the government. Interestingly, donors accuse government for inefficient and corrupt bureaucracy, for corrupt politicians, lack of ownership and inability to prioritize development programs as factors responsible for breeding rampant corruption. The government, in turn, accuses donors for their high-handedness, policy encroachment and stringent aid conditionality as factors responsible for breeding corruption in Nepal. Interestingly, the accusations and counter-accusations have not stopped the flow of aid money in Nepal.

At present, a number of multilateral and bilateral donors are involved in supporting anti-corruption drive in Nepal. Donors' attraction to anti-corruption drive in Nepal coincided with several changes taking place in the front of anti-corruption activities. Within last couple of years a number of reformative measures have been introduced in Nepal. These include: (a) Enactment of four major bills related to anti-corruption measures in 2002, (b) formation of Judiciary Inquiry Commission on Property, (c) establishment of Special Court and National Vigilance Center, (e) signing of UNCAC (f) participation in OECD/ADB Anti-Corruption Initiative.

Now, let me conclude with some of the lessons that I have personally learned from being in anti-corruption business in Nepal. **(Slide 6)**

*First*, political will and commitment invariably comes at the top of the reform agenda on controlling corruption. Political parties are the breeding grounds of future leaders who shall make decisions for the people. Unfortunately, over the last several years donors have not paid any attention towards building political culture and institutions within the political parties. I invite donors to think over this issue – how to get political commitment and hence control political corruption without stepping into the toes of recipient countries. Helping to implement international conventions against corruption could be a

starting point. Putting pressure for introducing reform measures could be another strategy. However, the right interventions have to be identified.

*Second*, the service delivery mechanism has to be improved. The service delivery system has to be transparent, accountable, simple and responsive to the needs of the people. The delivery system needs to be changed and such changes need to be closely monitored.

*Third*, there must be awareness and coalition building at all levels and segments of the society. Anti-corruption business could never be the business of a single individual or an agency; it has to be tackled through participation and coalition building activities of all possible partners and at all levels. All agencies involved in awareness building, prevention and enforcement have to be integrated to have a necessary impact.

*Fourth*, as said above, the aid delivery system should be reoriented to make it more cost effective and adaptive to local needs and condition. In this respect, donors have a much bigger role to play. Quite often the aid givers believe that a project typically formulated on a prototype project appraisal with assumptions if accepted and developed into a project with injected beliefs such as plugging the incapacity of institution with packages of training, capacity building, reorientation of organizations with plethora of rules and ideas will carry forward the innovative ideas. However, in doing so, donors tend to ignore the ground reality or the absorbing capacity of the institutions. This results into a serious problem of project implementation and sustainability. Therefore, no matter how trifle and primary it might be, we should let the evolutionary process to take its course. The only way forward would be to enhance its pace of evolution so that it ensures implementation with a reality of sustainability.

*Last but not least*, anti-corruption drive needs to be supported with a strong enforcement and deterrent measures so that the *culture of impunity* can be put to an end forever.

With these words, I like to close my remarks. Thank you all for giving me your time. Thank you.