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Unpacking the Zero Tolerance to Corruption Principle: Practical implications for development co-operation

Policy Brief on Managing the Risk of Corruption Series

This brief builds upon the first monitoring report of the 2016 Council Recommendation for Development Co-operation Actors on Managing the Risk of Corruption, which was completed in December 2022 (see OECD, 2022) and constitutes the third brief in a series to support Adherents to further implement the Recommendation.

The objective of this series is to take stock of the insights emerging from the 2017-2022 monitoring of the 2016 Recommendation and to distil learning for members to better understand and address ongoing challenges.

Other finalised policy briefs in this series include '[addressing the under-reporting of suspected incidents of corruption in development cooperation]' and '[corruption as a development obstacle]'.

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Unpacking the Zero Tolerance to Corruption Principle: Practical implications for development co-operation

Understanding the problem

1. There is compelling evidence that corruption, in and of itself, poses a significant obstacle to development. In many instances, corrupt practices result in direct financial leakages, weakened trust in governance, diminished domestic resource mobilisation processes and decreased investments in public policies and service delivery. These negative consequences mean corruption is in fact development in reverse (USAID, 2023[1]). Therefore, development co-operation providers need to take a strong stance on fighting corruption.

2. Adopting a 'zero tolerance to corruption' approach has become common practice. How 'zero tolerance' is understood has varied over time and across stakeholders, ranging from the complete closure of projects in cases of allegations or confirmed corruption, to funding freezes and, in the long term, recovery of assets. However, in its strictest interpretation, zero tolerance to corruption carries the risk of disproportionately hurting critical projects and partnerships with stakeholders, and therefore presenting trade-offs with development objectives and ultimately undermining them.

3. The purpose of this brief is to support development co-operation providers to better understand (i) the principle of zero tolerance to corruption, (ii) the nature of the tensions that arise between this approach and development objectives and (iii) how best to apply it in a pragmatic, proportionate and context-relevant way without undermining development outcomes.

Interpreting 'zero tolerance to corruption'

4. Taking strong action against instances of corruption is an important pillar for any corruption risk management framework. The 2016 Recommendation for Development Co-Operation Actors on Managing the Risk of Corruption calls for an effective, proportionate, and dissuasive sanctioning regime (OECD, 2016[2]). Most, if not all, development co-operation providers – bilateral and multilateral – have adopted some form of 'zero tolerance' policy. It is crucial to distinguish between 'zero tolerance for risks of corruption' and 'zero tolerance for incidents of corruption'. In the context of development co-operation, having zero tolerance for risks of corruption would make operations almost impossible. Therefore, the goal is not to avoid risks at all costs, but to understand, assess and mitigate corruption risks to manage them effectively. The focus should be on having zero tolerance for inaction towards allegations of corruption. Development co-operation providers must investigate all credible allegations and ensure a response in every case.

5. Development co-operation providers often endorse a 'zero tolerance' policy to reassure their domestic constituencies and taxpayers that donor resources are being well-managed. In several instances where ODA providers withdrew from projects due to corruption, safeguarding taxpayer money was cited as a key reason. Donor governments and officials are wary of high-profile corruption cases that could become public and lead to taxpayer backlash. Media reports on such cases often align with political debates over the level of ODA spending (Cheeseman, Swedlund, H. J and O'Brien-Udry, 2024[3]). The volume and type of aid provided by donor countries can be influenced by the political

orientation of their governments, with conservative administrations more frequently advocating for cuts to development aid (Dietrich, Milner and Slapin, 2020[4]). These governments often point to corruption risks and the need to safeguard taxpayer funds. As a result, 'zero tolerance' policies can carry political implications, whereby domestic political considerations and development objectives each call for a different course of action.

6. Moreover, not all instances of corruption are the same - some are administrative, some involve kickbacks and collusion, while others reach the scale of state capture. Oftentimes, among ODA providers, instead of responding to instances of corruption on a case-by-case basis – accounting for the severity of the crime, country contexts and the consequences of the punitive measures – standardised responses to incidents of corruption are adopted. This can partly be explained by standardised responses being relatively cost-effective, whereas case-by-case responses require additional resources for deeper analysis. The 2022 Report on the Implementation of the OECD Recommendation for Development Co-operation Actors on Managing the Risk of Corruption shows that, at times, there has been a tendency to adopt a 'one size fit all' approach to instances of corruption by development co-operation providers instead of contextual approaches (OECD, 2022[5]).

7. Corruption occurs in all countries, low and high income, but thrives more in environments where institutions are poorly functioning, there are limited checks on those entrusted with power, civil society is poorly represented and poverty and inequality are entrenched. A holistic approach to reducing corruption risks must acknowledge, understand and address these drivers of corruption in partner countries, instead of treating it solely as a law-and-order issue.

8. An emerging consensus is that it is unrealistic to adopt a zero tolerance for corruption risks, especially in countries with weak governance systems and entrenched corruption. Development actors often work in highly challenging contexts to achieve important development objectives. As such, there is often a tension between pursuing development impact and strictly adhering to a zero-tolerance policy.

Unintended consequences of strict zero tolerance policies

9. There are at least three ways in which taking an (overly) strict approach to the interpretation of zero tolerance for corruption can have unintended effects: it can conflict with the principal of doing no harm; it can result in inadequate or superficial responses to the corruption problem; and it can damage donor-partner relations.

Conflicts with the do-no-harm principle and development objectives

10. Most, if not all, donors have adopted a risk management approach to address corruption risks. However, due to their zero tolerance policies on corruption, donor responses to incidents of corruption in contexts of development co-operation have, to a considerable extent, involved the suspension and/or freezing of funds and longer-term measures to track down and return corrupt funds. In some cases, there is a tendency for ODA to be suspended following an investigation rather than finding alternative, proportional measures (U4, 2020). Oftentimes development co-operation providers tend to suspend entire projects rather than clinically isolating the problem area in the project.

11. To highlight with examples, in 2016, ODA was suspended for the Mozambique government following revelations that it had concealed loans contracted ostensibly to support the fishing industry. This fraud led development co-operation providers to halt funding, causing the currency to depreciate rapidly and forcing the government to default

on its debt and seek restructuring. The economic crisis precipitated by the funding freeze is estimated to have cost Mozambique's economy nearly $11 billion, almost equal to its GDP in 2016 (CMI, 2021[6]). Further, in March 2023, donors halted food assistance to Ethiopia, particularly to the conflict-affected Tigray region, after discovering widespread theft of aid supplies. This pause in aid delivery, which was later extended to the entire country, left millions of Ethiopians without access to vital food support resulting in nearly 1400 deaths (ReliefWeb, 2023[7]). These examples highlight how a strict 'zero tolerance' approach can obstruct development objectives.

12. In short, although a strict zero tolerance approach stems from legitimate concerns, it can come at a considerable cost to development objectives. The total suspension of funding can hurt vulnerable recipients contradicting the 'do no harm' principle, which urges ODA providers to reduce the unintended negative consequences of these measures on development objectives by employing a more sophisticated understanding of the political, social and economic contexts of the countries in which they are operating.

Inadequate responses to corruption

13. Interpreting 'zero tolerance' in its strictest sense and applying it universally to all instances of corruption can result in a highly inadequate response. Inflexible approaches to zero tolerance typically neglect to respond to the underlying drivers and systemic causes of corruption and thereby ultimately fail to prevent, detect or address corruption in the long-term. Such an inflexible approach misses the opportunity to engage in broader conversations on specific corruption vulnerabilities. For instance, if corruption is linked to mis-procurement, conducting an audit or reviewing the procurement system can be more effective than shutting down or suspending an ODA project or programme. In cases where corruption can be specifically identified and addressed without closing a project or suspending partner relations, there is a greater likelihood of successfully tackling both the incidents and their underlying causes while preserving ongoing development relationships.

14. The challenge lies in effectively isolating such instances, as strict 'zero tolerance' policies can lead to unintended consequences like underreporting. Indeed, adopting a strict interpretation of the principal of zero tolerance to corruption is likely to disincentivise local actors and donor staff from reporting instances of corruption, feeding into a culture of mistrust and asymmetric knowledge of ground realities. A failure to report on instances of corruption can occur because of different factors such as (i) reputational risks attached with corruption that might restrain reporting of allegations of corruption; (ii) individuals might be disincentivised to report corruption if they anticipate it could result in the closure of a programme; and (iii) fear of reprisal.

15. Further, by placing the burden of the problem onto partner countries and implementing strong zero-tolerance measures, development co-operation providers circumvent the potentially instructive process of looking at internal factors that might be exacerbating corruption risks in development projects. Experience has shown that there is also a tendency among donors to transfer the burden of managing risks to local implementing partners, often with little support from the donors (OECD, 2022[5]). In some cases, inadequate measures/incentives to report, a lack of context-specific risk assessments and malpractices at the hands of donor staff can exacerbate the damage that has already been done by the act of corruption itself. A more holistic response could include analysing the 'supply side' of the story and making internal changes. Corruption is not just a partner country issue, but also a donor issue.

Weakened donor-partner relationships

16. The relationship between development co-operation providers and partner countries suffers when the former are ill-equipped to deal with corruption and react by suspending their programmes. Disproportionately freezing funds and shutting down programmes as a response to instances of corruption strains the trust between ODA providers and partners, which is critical for effective development co-operation. For instance, when key donors froze over USD 30 million of aid targeted at refugee support in Uganda due to reports of fund mismanagement, the Ugandan authorities reminded ODA providers of their ‘shared responsibility towards the refugee crisis’ (The New Humanitarian, 2019[8]).

Ways forward

Understanding structural causes of corruption, context-specific responses

17. Anti-corruption is a long-term objective that cannot be addressed in a vacuum. Indeed, understanding the causes and drivers of corruption and addressing at least some of the systemic vulnerabilities through ODA projects or programmes targeting anti-corruption is an important contribution to a country’s development. Understanding the contextual realities and specific corruption vulnerabilities of a partner country is necessary for managing risks while at the same time enabling sustainable development. It is vital to respond in ways that align with the social, political and institutional landscape of the partner country.

18. Experience shows that incremental and proportionate responses to incidents of corruption are the most durable and constructive means of reducing corruption risks in development. These responses are most effective when they focus on working with local partners to strengthen their absorptive capacity—the ability to effectively manage, utilize, and oversee external resources in a transparent and accountable manner. This involves building their mechanisms for resource management and oversight to ensure that development assistance is integrated sustainably and free from corruption. By enhancing these capabilities, local partners can better mitigate risks, maintain credibility, and support long-term, effective development outcomes.

19. Developing horizontal monitoring mechanisms and maintaining coordination and dialogue with relevant stakeholders are especially important in contexts where institutions may not function optimally and political dynamics often overshadow the rule of law. A paper by SOAS-ACE demonstrated that in climate adaptation projects in Bangladesh, corruption was reduced through horizontal accountability (Khan, 2022[9]). Influential local figures monitored projects, leading to lower levels of corruption compared to areas with less oversight. Investing in building locally-led accountability mechanisms can be more effective than strict sanctions.

Balancing development objectives with zero tolerance

20. Differentiating between the criminal offence and the wider operational consequences of corruption for development co-operation programming can limit its negative effect on sustainable development. In dealing with incidents of corruption, ODA providers often find themselves making decisions not only in relation to the corrupt activity detected, but also the entire project or on their overall relationship with the partner government. While it is important that suspected corruption be thoroughly investigated and

prosecuted, with recoveries pursued where possible, the ways in which programming or operations might be impacted could be adjusted by adopting a more nuanced approach. In this regard, development co-operation providers could exhibit flexibility driven by contextual factors and bearing in mind the developmental implications of their response as well as the imperative to ensure that they 'do no harm'.

21. A good practice example of flexible programming designed to account for weak state capacities comes from Ethiopia. In 2005, following disputed elections and subsequent political violence, corruption risks were particularly high in the country and oversight mechanisms diminished or poorly functioned. Development co-operation providers suspended budget support but did not suspend all programmes that disbursed ODA through the state. The compromise solution found was in the form of a programme of direct block grants to district governments for the financing of basic services, under a combination of political (e.g. conditions on the Ethiopian government to cease hostilities and ensure accountability for human rights violations) and fiduciary conditionalities. As a result, in 2006, the Protection of Basic Services Programme was established and administered by a multi-donor secretariat steered by the World Bank. The combination of conditions adopted included tight monitoring of internal budget allocations and actual transfers. This case shows the way ODA delivery modalities can shift in response to specific oversight concerns, without reducing the overall volume of development assistance (Chatham House, 2023[10]).

Enhancing organisations' risk appetites

22. Development co-operation providers often operate in contexts in which corruption is deeply rooted due to pervasive institutional and governance challenges, including sometimes politically instability. In such cases, donors' risk appetite must be adjusted to account for these contextual realities. An increased risk appetite can help to (i) moderate expectations as to the risks of corruption and (ii) produce a more nuanced, tailored risk management approach that safeguards development objectives. Good practice examples include explicit risk appetite statements. For example, USAID released a risk appetite statement emphasising the importance of continually weighing a spectrum of risks (including fiduciary corruption risks) with short- and long-term benefits. The statement promotes taking disciplined programmatic risks to achieve long-term sustainable development and it specifically advocates for higher risk appetite when development programmes foster innovation and promote local ownership (USAID, 2022[11]).

23. Efficient risk management is connected to optimising the realisation of development objectives. This requires identifying and prioritising strategies to mitigate the most pertinent and impactful risks. It also involves including measures that build institutional and governance capabilities and enable effective risk sharing responses at the country level (i.e. beyond the project), while at the same time ensuring informed collaboration with partners. It also entails contextualising the costs and benefits of risk management, adopting a portfolio perspective to strike a balance between high and low-risk interventions and ensuring that key stakeholders comprehend and accept the identified risks (OECD, 2021[12]).

24. A guiding criterion for managing the risk of corruption could be aligned with Sweden's (SIDA) approach. SIDA has developed an extensive approach to 'corruption risk management' that is built into its contribution management system. Seven standard risk areas are identified with requirements for assessing risks, evaluating their potential impact, and establishing mitigation approaches as needed. These areas include: (i) results feasibility, (ii) management and organisation, (iii) planning monitoring, and evaluation,

(iv) auditing processes and financial control, (v) procurement, (vi) anti-corruption measures and (viii) sustainability and ownership (Sida, 2016[13]).

Proportional applications of zero tolerance

25. The practical application of zero tolerance for corruption necessitates adopting proportionate responses to identified risks or incidents of corruption. To do this, donors need to carefully assess the scale and severity of the allegation or instance of corruption to identify and adopt a proportionate response that will also safeguard the overall objectives of the development project. The complete shut-down of projects is ill-advised and alternatives are best explored.

26. Good practice examples of proportional approaches to zero tolerance include the implementation of negotiated resolution systems that allow public or private entities to collaborate to address system faults or shortcomings in exchange for reduced sanctions. One practice invoked by multilateral development banks involves ‘conditional non-debarment’ measures. In this approach, temporary decisions are made not to debar an organisation implicated in an incident of corruption if the organisation (i) agrees to and fulfils specific obligations within a predetermined timeframe; (ii) commits to a ‘gap analysis’ conducted by external experts; and (iii) monitors the implementation of related remediation measures (OECD, 2017[14]).

27. For this to work, sustained efforts are required to establish operational criteria to determine what qualifies as proportional and to monitor and track those criteria or approaches over time to gauge their continued relevance. These criteria could include reflections on: (i) the willingness of the entity or individual involved to collaborate in addressing a confirmed case of corruption, (ii) the circumstances surrounding the revelation of the corruption incident, including how and by whom it was disclosed, (iii) whether the misconduct was intentional or a result of inadequate controls, (iv) the severity and magnitude of the corruption case in question and (v) the potential impact of the response on beneficiary populations.

Ensuring meaningful engagements with partner countries

28. Building the capabilities of local partners, including through peer to peer and twinning modalities, and investing in their infrastructure to ensure compliance with anti-corruption standards can provide the foundations for enabling long-term integrity. A ‘staggered intervention’ to progressively build capacity is also valuable in the long run. Germany’s support to a peer-to-peer (P2P) learning alliance of African anti-corruption authorities (ACAs) is a good practice example of working with local actors to share experiences across different country contexts. Since 2019, professionals from three African ACAs have been sharing challenges and successes in their work through meetings, workshops and trainings. Oriented towards change and dedicated to problem solving, this initiative aims to identify individual and institutional gaps and strategies to overcome these difficulties with the long-term objective of self-sufficiency (GIZ, 2023[15]).

29. In cases where zero-tolerance has led to the closure of projects or complete freezing of funds, it is important that ODA providers re-engage with partner countries in balanced ways that can repair donor-partner relations and lead to long-term institutional and systems change and partnership trust. Enhanced communication between local partners and agency staff, joint training programmes and reinforcing reporting mechanisms are key.

Addressing internal challenges

30. A holistic application of the ‘zero tolerance to corruption’ principle would benefit from not only addressing the observed corruption, but also the inner workings of donor organisations. The 2016 Recommendation on Managing the Risks of Corruption recognises this by highlighting a suite of measures designed to improve the inner workings of donor organisations in corruption risk management, in ways that better account for - and potentially align with - contextual realities (OECD, 2016[2]).

31. Development cooperation providers are encouraged to adopt approaches that reduce the risks of incentivizing or enabling corruption, including measures to prevent their systems from becoming channels for or hosts to illicit financial flows. To counter these risks, some countries have introduced innovative mechanisms to strengthen accountability and prevent the misuse of funds. For example, France has developed a specialized mechanism for repatriating stolen assets, ensuring that recovered funds are redirected for legitimate purposes. Similarly, the UK’s Unexplained Wealth Orders (UWOs) target illicit financial flows by requiring individuals to explain the sources of their wealth, helping to deter corruption (OECD, 2017[14]). These examples illustrate how tailored tools can address corruption risks and enhance the integrity of development cooperation efforts.

Concluding remarks

32. The principle of zero tolerance, while primarily designed to combat corruption and uphold the integrity of development co-operation, is best implemented in a manner that is practical, proportionate and context relevant. Abruptly freezing funds and terminating projects can significantly undermine the developmental objectives of a partner country. Furthermore, reacting disproportionately to instances of corruption without a nuanced understanding of the country context and the underlying drivers of corruption may result in an ineffective response and strain donor-partner relations.

33. A more pragmatic approach to zero tolerance is needed, one that safeguards development objectives while systematically addressing corruption. Development co-operation providers need to cultivate an enhanced risk appetite and respond to instances of corruption in a proportionate manner and in ways that do not jeopardise the overall programme's health. Amongst other considerations, an understanding of the political economy, networks and vested interests in the country is needed to effectively identify and address the structural drivers of corruption. Further, strengthening partnerships with local actors and refining internal donor practices play a vital role in fostering sustainable anti-corruption efforts.

34. Tapping into the expertise and capabilities of the Development Assistance Committee (DAC), sharing experiences and embracing better-informed, risk-based and proportionate responses can ultimately serve to ensure better alignment between zero tolerance to the incidents of corruption and development progress. Sharing experiences and enabling opportunities for collective learning, will help to refine practices collectively and iteratively, and in tandem with donor partners.

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