International humanitarian assistance

The imperative to combat corruption

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Refugees in and out of war-torn countries. Deadly disease outbreaks. Droughts. Food shortages. Hurricanes. Earthquakes. War. Civil Unrest.

These are only some of the humanitarian crises that the international community is currently confronting. The world has responded to these large-scale crises with an unprecedented amount of public and private donor aid, channeled through multiple mechanisms and entities. The relief efforts associated with this aid have proven critical to protecting, revitalizing and sustaining the vulnerable communities affected by these disasters.

The scale and growth of the support — from private companies, individuals, governments, multilateral development banks (MDBs) as well as a plethora of international organizations — are remarkable. According to Global Humanitarian Assistance, between 2010 and 2014, financing for humanitarian assistance delivery rose from approximately $16.7 billion to $24.5 billion.[1]

Increases in funding are a positive and necessary step to minimizing the harms suffered by victims. But this laudable response is unfortunately accompanied by significant exposure to corruption risks.

Experience has shown that ineffective accountability mechanisms undermine international humanitarian assistance. And as donors and stakeholders continue to witness rampant corruption, fraud, waste and abuse — which compromises the efficacy and reach of their initiatives — some question the validity of these efforts.

Are greater acts of generosity doomed to always feed greater levels of self-defeating graft? Not necessarily. As we discuss below, there are leading practices that can be embedded before, during and after a humanitarian disaster — nine strategies that can strengthen both the integrity and the outcome of relief efforts.

The 3 Cs of corruption

The first step in combatting corruption is understanding exactly how it manifests.

The concept. Corruption can be described as the abuse of an individual's position to seek private gain or influence through both financial (fraud, bribery, extortion, deception, collusion or kickbacks) and non-financial means. The non-financial modalities of corruption can range from diverting resources from prioritized beneficiaries to other recipients; to bid-rigging; hiring or contracting of family and friends; requiring staff to cover up illicit activities; or simply wasting program resources.

The context. Aid-related corruption cannot be attacked without first understanding its breeding ground — the host environments (or local contexts) within which crises occur. The countries or regions most in need of humanitarian assistance following a man-made or natural disaster are often the very ones lacking sufficient financial, political or physical capacities to respond. These are typically fragile or warring states characterized by a high degree of instability, or areas with a weak state presence, minimal rule of law and ineffective governance structures.

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[1] Development Initiatives, Global Humanitarian Assistance (2015), Global Humanitarian Assistance Report 2015.

The consequences. Even outside of a crisis, inadequate controls and insufficient enforcement mechanisms naturally breed corruption. Add a humanitarian disaster to the mix — and a massive inpouring of funds and other material assistance under urgent timelines — and there is usually very little to deter officials from conspiring with commercial enterprises and third parties to siphon desperately needed aid, with little or no accountability. A substantial inflow of resources into an already hostile operating environment is a recipe for heightened corruption.

Spotlight on Haiti: What have we learned?

The earthquake that struck Haiti in January 2010 led to approximately 300,000 deaths, the displacement of over a million people, and an outbreak of cholera. At the time, Haiti was ranked as the poorest country in the Americas,[2] and among one of the most corrupt countries in the world.[3] A natural disaster within an already fragile state heightened the need for the international community to step up and provide relief. Nearly $13 billion was later pledged for these emergency operations, with $9.49 billion eventually being disbursed by the myriad multilateral, bilateral and international agencies involved.[4] Haiti was the largest recipient of humanitarian assistance in 2010.[5]

Despite the massive outpouring of humanitarian aid, countless media reports criticized this global response, expressing particular misgivings over the final outcomes of programs launched within the country. Organizations receiving hundreds of millions of dollars could not — or refused to — publicly account for the money they spent when their projects failed to deliver on the promises made. To this day, critics ask: Where did all the money go in Haiti — and how much good did it really do?

Corruption may or may not have been the primary driver behind poor recovery initiatives in Haiti. But the profligacy and financial mismanagement on exhibit were a direct consequence of poor control systems, marginal transparency and missed opportunities to coordinate the competing mandates of various actors on the ground. With thousands of organizations administering relief activities in Haiti, a plan for harmonizing efforts was essential — but it was never fully realized.

Cases such as these serve to illustrate that humanitarian interventions may not be effective when large amounts of money are injected into a country where donors and providers rely on suboptimal planning, coordination, monitoring and evaluation procedures.

The risks facing donors and aid agencies

The loss of funds through graft and other forms of corruption has prompted some donor agencies and beneficiaries to question whether these charitable efforts are, in fact, effectively contributing to the recovery needs that triggered them. Apart from the human consequences of a failure of mission, there are other important considerations — ones which should encourage donor agencies and counterparts to implement more effective anti-corruption controls.
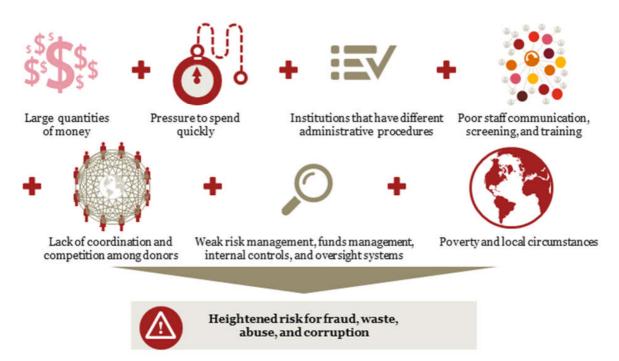
One of the most compelling arguments is the issue of legitimacy and reputation. Whether it involves a multilateral development bank, non-governmental organization or a private contractor, reports of improper conduct may result in public shaming and a perception that these institutions cannot be trusted

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[2] The World Bank Haiti Overview. http://www.worldbank.org/en/country/haiti/overview
[3] Corruption Perceptions Index 2011. © Transparency International, 2015. All Rights Reserved. https://www.transparency.org/cpi2011/results
[4] Office of the Secretary General's Special Adviser on Community-Based Medicine & Lessons from Haiti. http://www.lessonsfromhaiti.org/lessons-from-haiti/
[5] Development Initiatives, Global Humanitarian Assistance (2015), Global Humanitarian Assistance Report 2015.

to deliver on their mandates. Resulting scandals could damage some organizations' ability to bid on future contracts or raise donor funds. Governments may also be unwilling to grant money to organizations viewed as ineffective.

International humanitarian assistance corruption: How does it manifest?

Large quantities of money + Pressure to spend quickly + Institutions that have different administrative procedures + Poor staff communication, screening, and training + Lack of coordination and competition among donors + Weak risk management, funds management, internal controls, and oversight systems + Poverty and local circumstances

Heightened risk for fraud, waste, abuse, and corruption

Nine steps to reducing corruption risk

Clearly, donors and relief providers need to embed greater accountability and oversight into their operations. But how to execute this process without slowing down the flow of urgently needed assistance?

In our experience working with donors and aid organizations both in and out of crisis situations — public, private, multilateral and international — and through our direct participation in humanitarian efforts through PwC's charitable foundation, we have identified several practices that can be instrumental in helping to strike this delicate balance. The nine strategies outlined here can be leveraged across the entire crisis lifecycle — from preparation to response to recovery — for improved effectiveness.

Set a clear tone at the top that corruption will not be tolerated. This sentiment is expressed frequently by organizations, but often lacking in execution. Leadership must walk the talk and embed an anti-corruption culture through concrete policies, controls and communications, both internal and external.

Understand your holistic risk landscape. Regular risk assessments — drawing on both internal data as well as external sources such as Transparency International's Corruption Perception Index — can help you zero in on the stress points, both within your organization and in third parties and host countries that could cause relief operations to go awry. A risk assessment can help you prioritize spending, address inefficiencies, and detect how and where humanitarian interventions may be exposed to misconduct.

Codify emergency procurement procedures, and build a database of pre-approved vendors. When relief activities are performed under extreme urgency, standard procurement may not be a viable option. Be positioned to activate an alternative set of policies that addresses the need for both rapid procurement and adequate oversight controls. Take it a step further: be equipped to purchase and distribute supplies in times of disaster with a stable of reliable third parties that have already been vetted, evaluated and contracted.

Conduct due diligence on all third parties now. When crisis hits and all stakeholders are working to beat the clock, there is no time for conducting due diligence of your counterparts on the ground. Those crucial organizations and individuals who will be responsible for carrying out emergency activities will also be carrying your reputation. Take the time now to assess whether they are equipped to perform the intended tasks — and map out any possible corruption touchpoints, such as government or criminal exposure, or reputational issues.

Conduct anti-corruption trainings and communicate early and often. Once a culture of non-corruption has been established, continuous enterprise-wide training is a critical next step. Different countries have varying degrees of understanding of what corruption really means. You should lead by developing clear definitions, outlining codes of conduct, explaining policies, and establishing guidelines around unethical behavior. Don't forget to clarify how complaints can be escalated.

Break down silos: collaborate, coordinate, and share across organizational lines. Knowledge-sharing strengthens humanitarian efforts. It can enrich risk assessments, strengthen due diligence procedures, and break down silos. So consider collaborating with host governments and other donors to establish a "management delivery unit" — a central body that manages donor funds and coordinates recovery activities across all parties.

Monitor! Be resourceful with new technologies. Whether the donor is public, private, multilateral or international, monitoring is fundamental to detect (and deter) corrupt activity. Typically, monitoring includes oversight of technical activities and expenses, as well as audits and reports. Unfortunately, monitoring programs are not always adequately funded or rigorously executed. Worse, reports can be easily diluted under pressure to whitewash malfeasance. Here are three strategies to help you stay ahead:

1. *Stay close to your beneficiaries, before during and after.* Periodic consultations with these communities and unannounced visits can be a strong foundation for not only managing their expectations, but also verifying whether the intended outcomes of a program have, in fact, been secured.

2. *Use big data analytics.* Complement your skill sets with external teams experienced in forensics and big data analytics. Impartial players and enhanced technologies give you another layer of control, and can reduce the risk of falsified transactions or payments going undetected.

Blockchain: A new weapon in the war on corruption

Blockchain technology — the platform that supports cryptocurrency transactions— operates as a decentralized public ledger, automatically recording all transactions that take place across a digital peer-to-peer network.

Payments made within the network are embedded and observed in a public ledger, providing greater ability to monitor individual transactions (be they of currency, contracts, or escrow) among known or unknown parties.

This not only makes it harder for procedures to be manipulated, it also reduces the normal transaction costs associated with moving money across different currencies, countries and financial institutions.

3. *Cryptocurrency and blockchain.* Rarely mentioned in the context of humanitarian aid, these innovative technologies stand to provide distinct benefits to donors, relief providers and populations affected by disasters — by offering a layer of security and transparency across a peer-to-peer network. The impact? Increased accountability, expediency, ease, and overall reach of emergency program resources.

Establish whistleblower systems. Your most effective tool against corruption are the eyes and ears on the ground. Your project staff, beneficiaries and other stakeholders need to know that you have set up a robust, safe mechanism to anonymously report suspicious behavior. Ideally, there should be multiple avenues for elevating allegations, including through mobile devices (hotlines, text messages, or even uploads to a centralized application).

Hold wrongdoers accountable. Whistleblowing procedures, risk assessments, due diligence, trainings, and monitoring are ultimately inconsequential if no governance structure exists to follow up on complaints, conduct proper investigations, and sanction offenders. Be sure that you have the means to convey that those held responsible for improper conduct will be duly penalized.

Striking the balance between expediency and effectiveness

A natural or man-made disaster is challenging enough. The pressure to scale up and deliver results too often means doing so without adequate coordination, or governance. In the rush to assist vulnerable, injured or displaced people — individuals who often are already in hostile compliance environments — it's all too easy to fall prey to fraud, corruption, abuse and waste. In addition to the primary losses to intended recipients, there are many other risks for donors and aid organizations whose best intentions are not realized on the ground.

When both lives and livelihoods are on the line, it's critical to strike the right balance between expediency and effectiveness. The good news is that it's possible to do so. Our hope is that these nine guidelines, derived from experience on the ground, can help guide the way.

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