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International Development
Committee

**Tackling corruption
overseas**

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to the report*

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The International Development Committee

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Contacts

All correspondence should be addressed to the Clerk of the International Development Committee, House of Commons, London, SW1A 0AA. The telephone number for general enquiries is 020 7219 1223; the Committee's email address is indcom@parliament.uk.

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Summary

Corruption has a devastating impact on the lives of people around the world, raising income inequality and disproportionately affecting the poor.¹ Although it is difficult to monetise its effects precisely, the ONE campaign estimate that—in developing countries alone—around \$1 trillion is lost to corruption each year through activities such as illegal tax evasion, money laundering and bribery.² This inquiry addresses the approach of DFID—and the wider UK Government—to tackling corruption overseas. It recognises that successful anti-corruption efforts across Government are required in order to support development in DFID's priority countries.

Since 2010 consecutive UK Governments, led by former Prime Minister, Rt Hon. David Cameron, positioned the country as a global leader on anti-corruption. This culminated in the London Anti-Corruption Summit in May 2016. The Summit delivered 600 commitments from participating states and organisations and the UK committed to bold new measures to tackle corruption both in the UK and overseas.³ Whilst we welcome these commitments, there are still many areas of UK policy and programming which require improvement. It is clear that a 'whole of Government' approach to tackling corruption overseas is needed to be effective. This requires policy coherence on anti-corruption to ensure DFID's efforts to reduce corruption in its priority countries are not undermined by policies and programming pursued by other Government departments.

Some individuals and businesses based in the UK have long played a role in facilitating global corruption and, whilst the Government has made significant progress, there is much more it could be doing to get its own house in order. Whilst we welcome initiatives such as the Action Plan for Anti-Money Laundering and Terrorist Financing, we would like the Government to also conduct due diligence on money that has already been laundered through the UK. It was disappointing that the Government was unable to persuade the UK's Overseas Territories and Crown Dependencies to create public registers of beneficial ownership. Momentum should not be lost now that the Summit is over and the Government must use the full weight of its influence to continue to lobby on these issues. We welcome the Government's progress—by accepting a significant amendment to the Finance Bill 2016—on public country-by-country reporting of multinationals' profits and payments to governments. If implemented to its fullest extent, this will enable stakeholders across the world to check whether these companies are paying their fair share of tax. We urge the Government to encourage its European counterparts to make similar legislative progress.

The UK Anti-Corruption Plan has been a useful tool for coordinating a cross-government response to corruption. We welcome the Government's announcement that it will develop an accompanying Anti-Corruption Strategy by the end of 2016 and ask that it provides us with an update on progress and a clear timeline for publication. We also recommend that the Government announce the appointment—or reappointment—of

1 DFID, *Why corruption matters: understanding causes, effects and how to address them: evidence paper on corruption*, January 2015, p. 46

2 The One Campaign, 2014, [Trillion Dollar Scandal](#)

3 A database of the commitments made at the Anti-Corruption Summit can be found here: ['43 countries, 600 commitments: Was the London Anti-Corruption Summit a success?'](#), Transparency International, accessed 12 October 2016

the Anti-Corruption Champion as soon as possible. We believe that this position should be appointed from the Cabinet to ensure the Champion can exert more influence, encourage a coordinated approach and ensure that anti-corruption efforts remain a key priority at the highest levels of Government. To deliver the UK Anti-Corruption Plan and forthcoming Strategy effectively, we also urge the Government to formalise the Joint Anti-Corruption Unit (JACU) currently based at the Cabinet Office, in recognition of the fact that tackling corruption at home and overseas requires a coordinated approach.

The Government has emphasised its commitment to multilateral processes to tackle corruption. However, building on the recommendation in our report on UK implementation of the Sustainable Development Goals, we ask the Government to reconsider whether the OECD is the best forum for discussions and decisions on international tax matters. If it is, then more must be done to ensure the voices of developing countries are heard and that policy outcomes reflect the needs of both developed and developing countries. Evidence suggests that the OECD's flagship base erosion and profit shifting (BEPS) programme does not seem to benefit developing countries as much as it should.

The UK's future as a leader in the anti-corruption space will be determined by the new Prime Minister's approach, as well as the outcome of the European Union (EU) exit negotiations. The Prime Minister must ensure that the gains made, particularly at the EU level, are not lost following the UK's departure. Following the revelations in the Panama Papers, of the involvement of individuals and businesses based in the UK and in the UK's Overseas Territories and Crown Dependencies in tax evasion and tax avoidance, she must also make further progress on putting the country's own house in order.

DFID's anti-corruption country strategies, established in 2013, have been a welcome addition to its work in this area. The commitment to include other Government departments in its strategies is also a positive step. However, there has been significant criticism of the strategies' short three to five year timeframes. Tackling corruption is a complex and long-term endeavour and the evidence suggests that future anti-corruption country strategies must cover a minimum timescale of ten years. DFID needs to allow innovative programmes which are sufficiently flexible to adapt to changing political and economic environments. Understanding of the political environment in each specific country is needed and programmes must be agile enough to be able to capitalise on opportunities for change.

There are still significant gaps in the research on 'what works' in tackling corruption. There is also limited evidence that donor interventions—as they are currently managed—are having a real impact on eliminating corruption in partner countries. We therefore welcome DFID's investment in research, such as the new Anti-Corruption Evidence (ACE) Programme. It must ensure that this, and wider research being undertaken in the field, is fed back into the work it conducts on the ground in DFID's priority countries, informing its development.

DFID has committed to spending 50% of its budget in fragile states.⁴ In these countries attempts to tackle corruption must be considered very carefully. Evidence to us has

4 HM Treasury, [UK aid: tackling global challenges in the national interest](#), Cm 9163, November 2015, para 3.8

strongly suggested that anti-corruption efforts can have adverse effects in unstable situations. Where corruption is endemic, it is often embedded in societal norms which means that those committing corrupt acts can make up a huge proportion of the society. In these circumstances, supporting efforts to tackle corruption requires a nuanced and long-term approach, whilst always ensuring UK funds are protected.

Tackling corruption overseas requires a coordinated, long-term approach across Government. To be effective, it must tackle tax evasion, tax avoidance, bribery and money laundering, which requires action at the domestic and international level. It must also support developing countries to tackle the corrupt activity which is decimating their economies and depriving citizens of basic services, as well as the endemic day-to-day corruption which disproportionately affects the very poorest. The Government's commitment to tackling corruption overseas must continue to reach beyond concern over the cost of corruption to our own economy, and extend to concern for the countries and citizens around the world who are being held back and often held in poverty by corrupt activity.

1 Introduction

The nature and impact of corruption

1. Corruption has a devastating impact on the lives of people around the world, raising income inequality and disproportionately affecting the poor.⁵ Although it is difficult to monetise its effects precisely, the ONE campaign estimate that—in developing countries alone—around \$1 trillion is lost to corruption each year through activities such as illegal tax evasion, money laundering and bribery.⁶ A Global Financial Integrity report from 2014 cites similarly alarming figures, stating, “From 2003–2012, US\$6.6 trillion left developing country economies illicitly”.⁷ Corruption leads to the diversion of essential tax revenues that could—and should—be used to reduce poverty and invest in public goods such as education, healthcare and infrastructure. Petty corruption, such as bribe paying, also has a negative impact on people’s lives and is a widespread problem in many developing countries, where “individuals and organisations regularly violate formal-legal rules at all levels of society”.⁸ Corruption can fuel societal tensions and conflict, undermine governments and have a detrimental effect on economic development by deterring investment.

2. The term corruption is difficult to define and spans a variety of misconducts, from “unethical behaviour to political misconduct to bribe-taking to the sale of government property for personal gain”⁹ or, more concisely, “the abuse of public office for private gain”.¹⁰ As Professor Heywood told us: “Corruption is generally used as a catchall term, but in reality it encompasses a vast array of different types of activity.”¹¹ The UK Government’s Anti-Corruption Plan admits that, “There is no universally accepted definition of ‘corruption’”.¹² DFID’s submission to this inquiry reiterates this point, but states:

“Transparency International defines corruption as ‘the abuse of entrusted power for private gain’. This definition, although it does not include the full spectrum of corrupt behaviours, is most widely accepted and used by DFID and the UK Government.”¹³

3. Corruption occurs at different levels, from individual cases of petty corruption, to national or transnational levels involving companies and governments, including the worst violations of grand corruption. It varies according to the country and sector, differing “between being top-down corruption and bottom-up corruption, and reflecting different cultural norms, dispositions and ways of operating”.¹⁴ The complex, variable and

5 DFID, *Why corruption matters: understanding causes, effects and how to address them: evidence paper on corruption*, January 2015

6 The One Campaign, *Trillion Dollar Scandal* (2014)

7 Global Financial Integrity, *Illicit Financial Flows from Developing Countries: 2003–2012*, (2014) p. 25

8 Charles Kenny (TCO0020) para 9; Professor Mushtaq Khan (TCO0030) p. 1–2

9 Hanna, R., Bishop, S., Nadel, S., Scheffler, G., Durlacher, K., *The effectiveness of anti-corruption policy: what has worked, what hasn't, and what we don't know—a systematic review*. (2011)

10 Ceda Ogada Deputy Director, Legal Department IMF, at The Parliamentary Network meeting Washington, 4 October 2016

11 [Q1](#)

12 HM Government, *UK Anti-Corruption Plan*, December 2014, p. 9

13 DFID (TCO0026) para 1

14 [Q1](#)

borderless nature of much corrupt activity makes it very difficult to combat and the UK's approach must cut across all government activity, through its international and domestic policy, to be effective.

Achieving the SDGs: tackling corruption

4. Tackling corruption has been creeping up the development agenda since the 1990s.¹⁵ Following a recent surge in global attention to the problem, further stimulated by revelations such as the Panama Papers and the recent Bahama leaks, it is now at the forefront of the international agenda. As Dr Heather Marquette of Birmingham University told us,

“[...] anti-corruption work is having a ‘moment’. There is quite a lot to show for the last decade and a half: a changed global discourse on corruption; significant advances in corruption measurement and indicators; international forums for discussion and collaboration; and, of course, the United Nations Convention against Corruption (UNCAC).”¹⁶

5. Tackling corruption was put at the very heart of the Addis Ababa Action Agenda (AAAA) (see Box 1), adopted by UN member states following the Third International Conference on Financing for Development. The Agenda states:

“We underline the need to promote peaceful and inclusive societies for achieving sustainable development, and to build effective, accountable and inclusive institutions at all levels. Good governance, rule of law, human rights, fundamental freedoms, equal access to fair justice systems, and measures to combat corruption and curb illicit financial flows will be integral to our efforts.”¹⁷

6. When the Sustainable Development Goals (SDGs) were agreed in September 2015, anti-corruption efforts also featured prominently. Robert Barrington, Executive Director of Transparency International UK, told us this reflected “an understanding that if you want to achieve your other development objectives you have to work on corruption as well”.¹⁸ Within SDG 16, which covers peace, justice and strong institutions, there are two specific targets—16.4 and 16.5—which focus on corruption:

“16.4 By 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime

16.5 Substantially reduce corruption and bribery in all their forms”.¹⁹

Both the AAAA and the SDGs recognise the need for a ‘beyond aid’ approach to raise the billions of dollars required to eliminate poverty, encourage development and create a fairer and more sustainable world. In addition to encouraging economic growth, a big part of this will be enabling countries to prevent vital revenues being lost through corruption. Although not legally binding, by signing up to both the AAAA and the SDGs,

15 Williams, A. ‘Beyond Zero Tolerance’, in Chr. Michelsen Institute, 28 June 2016

16 Dr Heather Marquette (TCO0029) para 1

17 UN, *Addis Ababa Action Agenda* (July, 2015) para 18

18 Q24

19 UN, *Transforming our World: the 2030 Agenda for Sustainable Development* (September 2015) p. 30

the UK Government has made a political commitment to contributing to a ‘significant’ and ‘substantial’ reduction in illicit flows, corruption and bribery across the world by 2030. In doing so, it recognises that supporting countries to prevent revenue loss through corrupt activity will have a far greater, and more sustainable, effect than increasing aid spending alone.

Box 1: Corruption in the Addis Ababa Action Agenda

- “We will redouble efforts to substantially reduce illicit financial flows by 2030, with a view to eventually eliminating them, including by combating tax evasion and corruption through strengthened national regulation and increased international cooperation. We will also reduce opportunities for tax avoidance, and consider inserting anti-abuse clauses in all tax treaties. We will enhance disclosure practices and transparency in both source and destination countries, including by seeking to ensure transparency in all financial transactions between Governments and companies to relevant tax authorities. We will make sure that all companies, including multinationals, pay taxes to the Governments of countries where economic activity occurs and value is created, in accordance with national and international laws and policies.” (para 23)
- “We urge all countries that have not yet done so to ratify and accede to the United Nations Convention against Corruption and encourage parties to review its implementation. We commit to making the Convention an effective instrument to deter, detect, prevent and counter corruption and bribery, prosecute those involved in corrupt activities, and recover and return stolen assets to their country of origin. We encourage the international community to develop good practices on asset return. We support the Stolen Asset Recovery Initiative of the United Nations and the World Bank, and other international initiatives that support the recovery of stolen assets. We further urge that regional conventions against corruption be updated and ratified. We will strive to eliminate safe havens that create incentives for transfer abroad of stolen assets and illicit financial flows. We will work to strengthen regulatory frameworks at all levels to further increase transparency and accountability of financial institutions and the corporate sector, as well as public administrations. We will strengthen international cooperation and national institutions to combat money-laundering and financing of terrorism.” (para 25)
- “We also recognize that illegal wildlife trade, illegal unreported and unregulated fishing, illegal logging and illegal mining are a challenge for many countries. Such activities can create substantial damage, including lost revenue and corruption.” (para 92)
- “We will effectively strengthen national institutions to combat money-laundering, corruption and the financing of terrorism, which have serious implications for economic development and social cohesion. We will enhance international cooperation for capacity-building in these areas at all levels, in particular in developing countries.” (para 112)

The inquiry

7. Given the profound impact of corruption on developing countries, in recent years DFID has taken steps to advance its work on anti-corruption, following sustained criticism of its efforts in this area by the Independent Commission for Aid Impact (ICAI)²⁰. This has coincided with a broader drive across Government to tackle global corruption, demonstrated by the agenda for the UK's G8 Presidency in 2013, the release of a cross-government UK Anti-Corruption Plan in 2014 and the recent London Anti-Corruption Summit in May 2016. However, the Government's efforts have recently come under question, particularly with relation to the continued tax haven status of many of the UK's Overseas Territories and Crown Dependencies and the release of leaked papers from Panama firm Mossack Fonseca which revealed the major role which some individuals and companies based in the UK and the Overseas Territories and Crown Dependencies have played in global tax evasion and aggressive tax avoidance.

8. To address some of these issues, in advance of the then Prime Minister's Anti-Corruption Summit on 12 May 2016, the Committee launched an inquiry into *Tackling Corruption Overseas*, with the following terms of reference:

- Should DFID have a zero tolerance policy towards corruption in the countries where it is working or is a more nuanced approach needed to tackle corruption over the long-term? How can DFID manage the risks associated with corruption and reconcile them with its value-for-money agenda?
- In 2013 DFID published anti-corruption strategies for all the countries it works in; how effective have these been? Do they adequately take into account the political and social context of the countries in question? Do certain sectors require particular attention? How should success be measured?
- What should the balance be between seeking to tackle corruption top-down at institutional level and bottom-up at the grass roots? What works and what is not working as well and why?
- Corruption and poor governance can be a key cause of instability in fragile states. Is the UK Government appropriately prioritising and managing anti-corruption strategies in these settings? What are the challenges in practice and what could it be doing better?
- How important is UK domestic anti-corruption policy and practice to international efforts to curb its effects? Is there a coherent 'One HMG' strategy to combating the effects of corruption on developing countries, and what should DFID's role be within this? What are the challenges in practice?
- What more should the UK Government be doing on issues such as beneficial ownership, tax havens, illicit flows and the arms trade to limit the effects of corruption on developing countries? How might it use its influence to encourage coherent international action?

20 ICAI, [DFID's Approach to Anti-Corruption](#) (2011); ICAI, [DFID's Approach to Anti-Corruption and its impact on the poor](#) (2014)

9. We received 32 submissions of written evidence to the inquiry. We held an oral evidence session with academic, private sector and NGO stakeholders on 22 March 2016, prior to the London Anti-Corruption Summit. We also had an informal meeting with Rt Hon. Sir Eric Pickles MP, the Government's Anti-Corruption Champion, to discuss the Government's ambitions for the Summit. Following the Summit, we heard oral evidence from the then Minister of State at the Department for International Development, Rt Hon. Sir Desmond Swayne MP and Government officials, on 28 June 2016.

10. Rather than addressing all of the questions set out in our terms of reference, our Report highlights the main themes of the evidence we received. It reaches conclusions and makes recommendations about DFID and the UK Government's approach to tackling corruption overseas. In order to focus our report, we have not on this occasion included specific reference to DFID's efforts to prevent corruption in its own operations, although this is referred to in the UK Anti-Corruption Plan²¹ and forms a part of DFID's anti-corruption country strategies. However, this is an area that the Committee, the Independent Commission for Aid Impact and the National Audit Office monitor closely on an ongoing basis. We have also been unable to specifically address some of the individual cases that were brought to our attention during the course of the inquiry, although we have borne them in mind whilst considering our more general conclusions and recommendations.

11. In addition to our final Report, we wrote to the then Secretary of State for International Development, Rt Hon. Justine Greening MP, before the Anti-Corruption Summit in May 2016. This included recommendations for the UK to address its role in facilitating global corruption by getting our own house in order, the need for the UK to prioritise enforcement and increase transparency, and implementing—and encouraging others to implement—public beneficial ownership registers and country-by-country reporting.²²

21 HM Government, [UK Anti-Corruption Plan](#), December 2014, p. 48

22 A copy of the letter is included at Annex A

2 The UK Government approach to tackling corruption overseas

The need for a ‘whole of Government’ approach

12. The amount of money lost by developing countries through corrupt practices far outweighs the support they receive through foreign aid.²³ It is therefore essential for the Government to address the UK’s role in facilitating global corruption, or else risk undermining the support DFID is providing to tackle corruption in its priority countries. For example, Global Witness highlighted the case of the Democratic Republic of Congo (DRC), where it claims “inconsistent UK policy on corruption is undermining the effectiveness of aid contributions in some circumstances”.²⁴ They told us that “DFID currently spends around £150m in aid contributions [annually] in DRC, yet \$1.36 billion in mining revenues were lost via British tax havens and London-listed companies”.²⁵ Better policy coherence across Government is essential to prevent cases like this.

13. Efforts to tackle global corruption, and in particular the UK’s part in it, are an essential element of the UK’s support for developing countries. As Professor Heywood of the University of Nottingham told us, this will require action from all Government departments:

“DFID alone cannot be expected to address or solve the problems. These are, by their nature, immensely complex, intertwined, interconnected issues, which involve a whole series of different levels. DFID can only work to the extent that it is supported in its work by other actors doing the right kind of thing as well. I imagine you are going to come on to the question of a one-HMG anti-corruption strategy. It is really important that it is understood that DFID needs support across the range of Government activity, both nationally and internationally, if it is going to be effective.”²⁶

14. In written evidence to this inquiry, the Government stated that it was aware of the “multi-faceted” nature of corruption and the need for “targeted work in the UK, internationally and in developing countries to tackle it”.²⁷ It outlined that the UK would therefore work:

“a. domestically, in the UK to get our house in order to ensure that our financial systems are not used to facilitate the movement or holding of illicitly-acquired funds, and to assist in their tracing, recovery and return when they are found in the UK;

23 Aid flows from OECD DAC countries stood at US\$146.68bn in 2015. (OECD, [ODA - USD billion \(2015\)](#)) ONE estimates that developing countries lose US\$1 trillion a year through corrupt activity (ONE, [Trillion Dollar Scandal](#), 2014)

24 Global Witness ([TCO0018](#)) para 22

25 Global Witness ([TCO0018](#)) para 22. DFID’s bilateral expenditure in DRC is estimated at £164m in FY 2016/17 (see [Development Tracker - Congo \(Democratic Republic\)](#), accessed 12 October 2016)

26 [Q8](#)

27 DFID ([TCO0025](#)) p 1

- b. internationally, to strengthen the global anti-corruption ‘architecture’ including contributing to the development of global standards and support for new agencies;
- c. Within DFID’s partner developing countries, to assist in the strengthening of their national systems and the prevention of corrupt practices and asset flight.”²⁸

15. It is DFID’s responsibility to ensure that UK aid spending is free from corruption. It also supports anti-corruption efforts in its priority countries, through its bilateral programmes and through its support for multilateral and civil society organisations. However, DFID also works with other government departments, as its submission states:

“DFID is working closely with other government departments including Cabinet Office, Home Office, Foreign and Commonwealth Office and HM Treasury to deliver on a broad range of initiatives. The recently-created Joint Anti-Corruption Unit (JACU) of the Cabinet Office is in the centre of this coordination effort to ensure an ambitious step change to fighting corruption in a coherent cross-UK Government approach and in influencing at the international level.”²⁹

DFID also supports the investigation of international bribery, corruption and money laundering through its funding of the International Corruption Unit (ICU), which is part of the National Crime Agency.³⁰ The ICU’s main functions are to investigate:

- “money laundering in the UK resulting from corruption of high-ranking officials overseas;
- bribery involving UK-based companies or nationals which has an international element;
- cross-border bribery where there is a link to the UK”³¹

The ICU also “traces and recovers the proceeds of international corruption”.³²

16. Policy coherence across Government on its approach to anti-corruption is essential to ensure that DFID’s efforts to reduce corruption in developing countries are not undermined by broader policies and programming pursued by other Government departments.

The role of the UK in facilitating global corruption

17. It is clear from the evidence we received that companies and individuals in the UK, Crown Dependencies and Overseas Territories play a major role in facilitating global corruption. Professor Heywood told us:

28 DFID (TCO0025) p 1

29 DFID (TCO0025) para 5

30 National Crime Agency, [International Corruption Unit \(ICU\)](#), accessed 12 October 2016

31 National Crime Agency, [International Corruption Unit \(ICU\)](#), accessed 12 October 2016

32 National Crime Agency, [International Corruption Unit \(ICU\)](#), accessed 12 October 2016

“[...] the UK is involved as, unfortunately, a facilitator of international corruption. That is because there are very, very significant financial flows that go through the City of London where, although we have rules in place and there are quite clear rules of diligence and political exposed persons and requirements on a whole host of people to take action, in reality that action is not too often taken.”³³

Global Witness described the UK as an “enabler of corruption”³⁴ and, when asked whether the UK played a role in facilitating corruption, Robert Barrington, Executive Director of Transparency International, told us, “Unambiguously, yes”.³⁵ The previous Minister of State for International Development, Rt Hon. Sir Desmond Swayne MP, responded to these comments by stating that he disagreed “profoundly” and was “pretty cheesed off by the assessment given by those organisations”.³⁶ Overall, the evidence presented to this inquiry makes it clear that some individuals and businesses based in the UK have played a role in facilitating corruption and, despite progress, the UK Government has more to do to get its own house in order.³⁷ Whilst petty corruption is endemic in many countries, Professor Heywood made it clear that the most detrimental forms of corruption for developing countries are often enabled by developed countries:

“the most damaging forms of stealing state assets in the developing world, as well as corrupt procurement deals that favour multinational corporations, are in many cases enabled and facilitated by established democracies. In particular, the role of banks (and the City of London) in allowing corrupt money to flow must not be underestimated. This is an issue where the UK can, and should, take a real lead.”³⁸

Money laundering

18. Evidence to the inquiry highlighted the UK’s failure to tackle money laundering through the UK. Robert Barrington of Transparency International UK (TI UK) told us, “The role of the UK as a centre of global money-laundering is widely acknowledged. There is loads of data.”³⁹ Indeed, a TI UK report reissued this year cites data from the UK Financial Services Authority (prior to its 2013 abolition) estimating that “£23–57bn was being laundered within and through the UK each year”.⁴⁰ Richard Riley, Director of Serious and Organised Crime at the Home Office, acknowledged the Government’s awareness of some of the issues in evidence, stating, “the Government certainly recognise that money laundering through and in the City is a problem”.⁴¹ Professor Heywood also highlighted the issue of money being laundered through the London property market,

33 [Q17](#)

34 Global Witness ([TCO0018](#)) para 33

35 [Q35](#)

36 [Q50](#)

37 [Q18](#) & [Q39](#)

38 Professor Paul Heywood ([TCO0004](#)) para 17

39 [Q35](#)

40 Transparency International UK, [Empowering the UK to recover corrupt assets: Unexplained wealth orders and other new approaches to illicit enrichment and asset recovery](#) (March 2016) (reissue)

41 [Q50](#)

stating “We are all acutely aware of the issue of property prices in London being artificially inflated through a whole series of purchases of big properties in the most desirable parts of the city using corrupt funds from a range of countries”.⁴²

19. In April, following our call for written evidence, the Government released a new ‘Action plan for anti-money laundering and counter-terrorist finance’⁴³. TI UK stated that they “broadly welcome[d] the Plan”, and praised innovations such as Unexplained Wealth Orders,⁴⁴ which require “those suspected of money laundering to declare their wealth”.⁴⁵ However, TI UK remained concerned over the failure to commit to the most innovative parts of the plan, but instead committing to “explore or consult”.⁴⁶ There was also concern over the lack of commitment to conduct due diligence over money that was already in the UK. Furthermore, there was continued unease over the failure to act on the secrecy that still shrouds the Overseas Territories and Crown Dependencies.⁴⁷ In addition, Corruption Watch highlighted that the UK must show that it will prosecute the perpetrators of corruption or risk undermining the legitimacy of their anti-corruption efforts overseas: “Until the UK can show that it will prosecute banks and individuals involved in laundering corrupt assets, it is unlikely to have credibility on the international stage that it is serious about tackling overseas corruption.”⁴⁸

20. Given the amount of money that is laundered through the UK, we welcome the Action Plan for Anti-Money Laundering and Terrorist Financing launched in April 2016 and look forward to seeing this plan implemented in its entirety by the new Government.

21. We recommend that the Government consider conducting a thorough assessment of money that has already been laundered through the UK and continue to lobby for the same level of transparency and accountability to be applied in the UK’s Overseas Territories and Crown Dependencies.

Tax evasion and tax avoidance

22. One of the major concerns raised during the inquiry was the role of the UK in facilitating global tax avoidance and tax evasion, particularly through the UK’s Overseas Territories and Crown Dependencies. This was also a major focus of civil society campaigning in the run-up to the London Anti-Corruption Summit. The OECD estimates that as much as \$240bn in tax revenue is lost each year due to tax avoidance and developing countries are hit the hardest.⁴⁹ Citing World Bank President Jim Kim, Oliver Pearce of Oxfam told us: “tax avoidance is ‘a form of corruption that hurts the poor’”.⁵⁰ He went on to say:

42 [Q17](#)

43 Home Office and HM Treasury, [Action plan for anti-money laundering and counter-terrorist finance](#), April 2016

44 Transparency International UK, [The new anti-money laundering action plan: good - if it works](#), accessed 12 October 2016

45 [“Biggest reforms to money laundering regime in over a decade”](#), Home Office News Story, 21 April 2016

46 Transparency International UK, [The new anti-money laundering action plan: good - if it works](#), accessed 12 October 2016

47 Transparency International UK, [The new anti-money laundering action plan: good - if it works](#), 21 April 2016

48 Corruption Watch (TCO0014) para 3

49 [‘We’re losing \\$240bn a year to tax avoidance. Who really ends up paying?’](#) The Guardian, 10 May 2016

50 [Q27](#)

“We understand that there is a spectrum of corruption, from downright illegality to people manipulating the rules in a way that benefits them. [...] We know that in the wide spectrum of illicit financial flows, tax avoidance is an important part of the problem.”⁵¹

Box 2: Definitions of tax avoidance and tax evasion

Tax evasion is defined by TI UK as the “illegal non-payment or under-payment of taxes, usually by deliberately making a false declaration or no declaration to tax authorities”.⁵² Tax avoidance is usually engineered through legal loopholes by bending the tax rules in a way Parliament did not intend.⁵³ This is distinct from legitimate tax planning, such as putting cash into an ISA. Her Majesty’s Revenue and Customs (HMRC) recently issued some guidance on what they consider to be tax avoidance

“Tax avoidance involves bending the rules of the tax system to gain a tax advantage that Parliament never intended.

It often involves contrived, artificial transactions that serve little or no purpose other than to produce this advantage. It involves operating within the letter, but not the spirit, of the law.”⁵⁴

Source: Various, as footnoted

23. The release of the Panama Papers in April 2016, just prior to the London Anti-Corruption Summit, exposed the extent of tax evasion and tax avoidance through tax havens around the world. It also highlighted the UK’s involvement in such schemes. Approximately half of the companies—over 113,000 in total—which featured in the Mossack Fonseca files were registered in the British Virgin Islands, a UK Overseas Territory. (see Chart 1) In addition to this, almost two-thousand UK-based intermediaries were revealed in the leaks, making the UK second only to Hong Kong for the number of facilitators of tax evasion and avoidance it hosts. (see Chart 2)

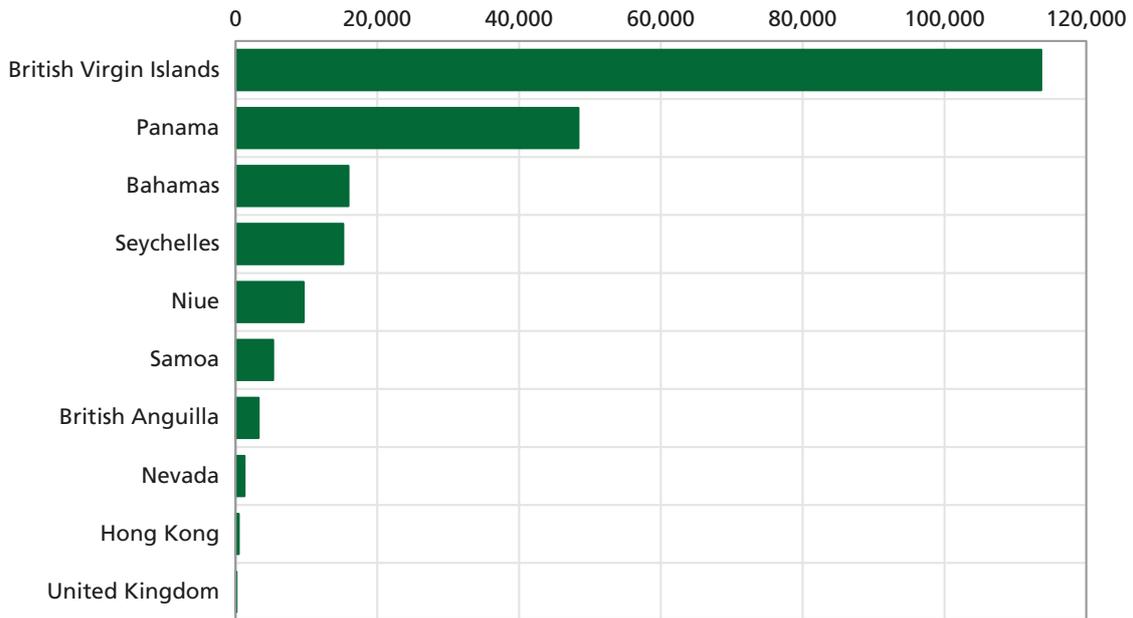
51 [Q27](#)

52 Transparency International, [Anti-Corruption Glossary: Tax Avoidance/Tax Evasion](#), accessed 12 October 2016

53 Ms Judith Knott (HMRC Director, Corporation Tax International Anti-Avoidance), cited in House of Commons Library Briefing Paper, [Tax avoidance: a General Anti-Abuse Rule](#), 19 April 2016

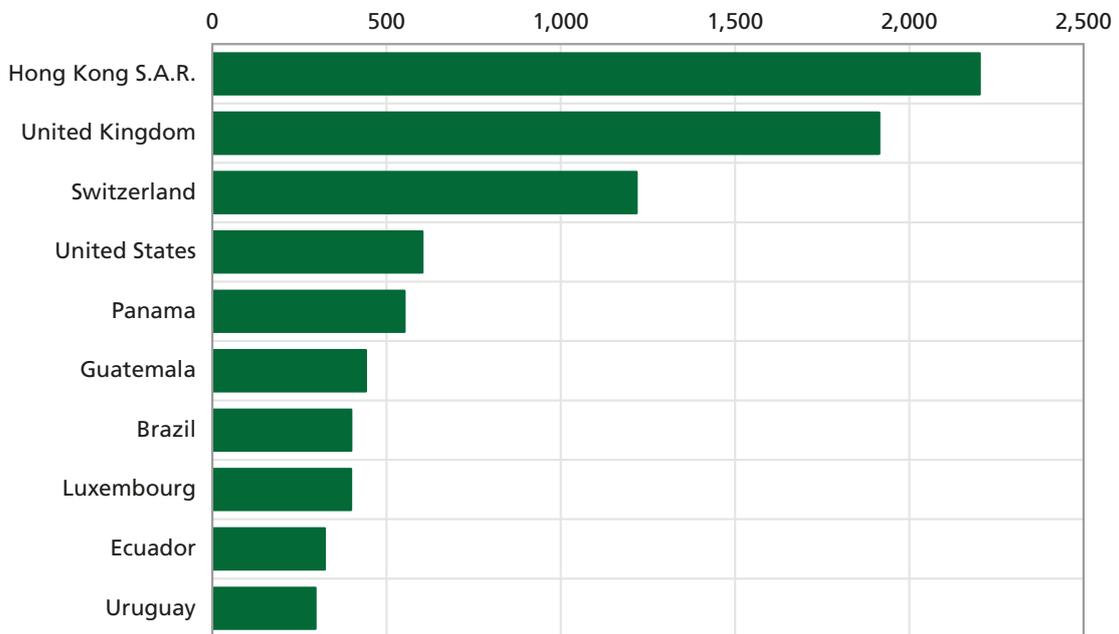
54 HMRC, [Dealing with HMRC - guidance: Tax avoidance: an introduction](#), accessed 12 October 2016

Chart 1: The 10 most popular tax havens in the Panama Papers



Source: ICIJ, [Explore the Panama Papers Key Figures](#), accessed 12 October 2016

Chart 2: Top 10 countries where intermediaries operate



Source: ICIJ, [Explore the Panama Papers Key Figures](#), accessed 12 October 2016

24. Enabling money to be held or hidden in offshore tax havens too often deprives developing countries of essential tax revenues, which can have a devastating impact on the provision of public services. A recent Oxfam report highlights the problems this is causing in Africa:

“Almost a third (30%) of rich Africans’ wealth—a total of \$500bn—is held offshore in tax havens. It is estimated that this costs African countries \$14bn a year in lost tax revenues. This is enough money to pay for healthcare that could save the lives of 4 million children and employ enough teachers to get every African child into school.”⁵⁵

Talking about this issue in evidence to us, Shauna Leven of Global Witness stated, “It is a real disservice to DFID, who is championing anti-corruption issues, that other parts of the Government are allowing this to happen.”⁵⁶ The most recent report from the Independent Commission for Aid Impact (ICAI), on ‘UK aid’s contribution to tackling tax avoidance and evasion’, expresses similar concerns, giving DFID an amber/red rating in this area. It concluded that “DFID does not have a clear approach to promoting policy coherence for development in tax” and highlighted that there were “potential areas of tension between UK policies and developing country interests, including those concerning international tax competition and bilateral tax treaties”.⁵⁷

Public registers of beneficial ownership

25. Lack of transparency about the real owners of companies, land and property allows corruption, such as money laundering, to flourish. The UK has shown itself to be a leader in the world on enhancing transparency, by publishing its first central public beneficial ownership register in June 2016.⁵⁸ However, the UK’s Overseas Territories and Crown Dependencies, where a huge number of companies are registered and assets are held, have not agreed to adhere to the same standards of transparency. Much of the evidence we received demanded that the Government put greater pressure on the UK’s Overseas Territories and Crown Dependencies to create public beneficial ownership registers.⁵⁹ As TI UK stated in its evidence:

“Secrecy and corruption in the UK’s Overseas Territories and Crown Dependencies make a significant contribution to the UK’s role as a safe haven for corrupt funds. The secrecy offered by the offshore company structure enables corrupt individuals to hide the source of their funds and use them to buy property, luxury goods and education in the UK. Public registries of beneficial ownership are necessary for real accountability.”⁶⁰

26. In advance of the London Anti-Corruption Summit, DFID told us:

“The UK will maintain its focus on beneficial ownership through the G20 Anti-Corruption Working Group and as part of the Anti-Corruption Summit. The FCO is also leading a dialogue with the Overseas Territories and Crown Dependencies to adopt a similar level of transparency; and as a minimum to ensure that UK law enforcement agencies have timely and secure access to centrally held company beneficial ownership information.”⁶¹

55 Oxfam, *An economy for the 1%: how privilege and power in the economy drive extreme inequality and how this can be stopped* (January 2016)

56 Q29

57 ICAI, *UK aid’s contribution to tackling tax avoidance and evasion* (September 2016) p. iv

58 Companies House, *Persons with significant control*, accessed 12 October 2016

59 For example, ONE (TCO0023) p. 3; Global Witness (TCO0018) p. 7; CAFOD (TCO0017) para 2.7; Bond Anti-Corruption Group (TCO0016) p. 3; PWYP (TCO0015) para 47

60 Transparency International and Transparency International UK (TCO0011) para 12.3

61 DFID (TCO0025) para 23

In the end, a number of the Overseas Territories and Crown Dependencies chose not to attend the Summit and only the “minimum”, outlined in the quotation above, was achieved.⁶² The governments agreed to hold central beneficial ownership registers and give UK law enforcement and tax agencies automatic access to the information, but they did not agree to make that information public.⁶³

27. In the response to our recent Report on UK implementation of the Sustainable Development Goals, the Government clearly states that it, “continues to work closely with the Territories and Dependencies on the implementation of the commitment to direct access for law enforcement authorities and on the issues involved in developing a new global standard for automatic exchange”.⁶⁴ This response implies that the Government will not be pressing the Overseas Territories and Crown Dependencies to make their central beneficial ownership registers public, as the UK has done and—as the evidence has highlighted—is necessary to uncover the secrecy and corruption being routed through these nations.

28. The Government has so far failed to persuade the UK’s Overseas Territories and Crown Dependencies to create central public registers of beneficial ownership. Although a number of stakeholders have suggested the Government could compel them to act, in practice this could raise constitutional questions about their self-determination and (qualified) constitutional autonomy.⁶⁵ However, lack of transparency in the Overseas Territories and Crown Dependencies will significantly hinder efforts to curb global corruption and continue to damage the UK’s reputation as a leader on anti-corruption. It is disappointing that the Government has missed an opportunity to build on the momentum of the Anti-Corruption Summit.

29. *The Government must use the full weight of its influence to lobby the UK’s Overseas Territories and Crown Dependencies to increase transparency by creating public beneficial ownership registers.*

Country by country reporting

30. The current global tax system allows multinational companies to shift their profits into jurisdictions with lower tax rates to minimise their tax burden.⁶⁶ As corporations are currently only required to publish the amount of profit generated globally and the total amount of tax paid globally, there is no opportunity for governments in countries where they are operating to find out whether they are receiving a fair share of the corporate tax. In order to deal with this issue, the UK has recently committed itself to ensuring multinational corporations report on a country by country basis. HMRC has made filing country by country reports mandatory for multinational enterprises meeting certain criteria after 1st of January 2016.⁶⁷

62 Cabinet Office, [Anti-Corruption Summit: attendance list](#), accessed 12 October 2016

63 Cabinet Office, [Beneficial ownership: UK Overseas Territories and Crown Dependencies](#), accessed 12 October 2016

64 International Development Committee, Fourth Special Report of Session 2016–17, [UK implementation of the Sustainable Development Goals: Government Response to the Committee’s First Report of Session 2016–17](#), HC673, p. 3

65 *Shining a light on beneficial ownership: what’s happening in the UK and elsewhere?* Briefing Paper [CBP07616](#), House of Commons Library, 17 June 2016

66 As outlined in Oxfam, [Ending the Era of Tax Havens: Why the UK government must lead the way](#) (April 2016)

67 HMRC, [Policy Paper: Country by country reporting \(updated\)](#), accessed 12 October 2016

31. At the time of submission, Oxfam’s evidence advocated for the Government to make country-by-country reporting public. It argued:

“It is vital for CBCR [country by country reporting] to be disclosed publicly so that citizens, civil society and journalists are able to hold corporations to account. PCBCR [public country by country reporting] will also ensure that developing country tax administrations can access the information they need to tackle corporate tax avoidance in their country. Without CBCR information being made available publicly, many of its benefits will be lost.”⁶⁸

32. The concept of CBCR had been broadly supported by the former Chancellor of the Exchequer, Rt Hon. George Osborne MP, who put through legislation in the Finance Act 2015 which gave “the Treasury the power to make regulations to require MNEs [Multi-National Enterprises] to provide HMRC with a country-by-country report”.⁶⁹ In September, Parliament agreed an amendment to the Finance Act 2016 proposed by Rt Hon. Caroline Flint MP, which permits the Treasury to make these reports, from all multinational companies based in the UK, public.⁷⁰ This move has been widely welcomed by stakeholders and having access to this information could be a big step forward for developing countries who suffer from companies evading taxation through base erosion and profit shifting. However, organisations such as the Tax Justice Network are rightly cautious that the amendment does not commit the UK Government to publication.⁷¹

33. Public country-by-country reporting of multinationals’ profits and payments to governments will enable citizens, civil society and journalists in the countries where they operate to check whether companies are paying their fair share of tax. We therefore warmly welcome the Government’s decision to accept an amendment to the Finance Bill 2016 which will permit the Treasury to make country-by-country reporting public.

34. The amendment to the Finance Act 2016 allows, but does not commit, the Government to publication of country by country reports produced by multinational enterprises. We urge the Government to publically commit to making country by country reporting by UK-based multinational enterprises public. This will enable non-governmental stakeholders in developing countries to hold the companies—and their governments—to account if appropriate levels of tax are not being paid.

Extractive industries

35. The UK has made a strong contribution to tackling corruption in the extractive industries, which remains a particular problem for resource-rich developing countries. Through its commitment to the Extractive Industries Transparency Initiative (EITI) and the Open Government Partnership (OGP) the UK has been seen as a global leader on transparency in this area. It is clear that the UK has an important role to play. Publish What You Pay (PWYP) highlighted that, “The UK is responsible for 25% of the global

68 Oxfam ([TCO0028](#)) p. 1

69 HMRC, [Policy paper: Country by country reporting - updated](#), accessed 12 October 2016

70 UK Parliament, [Finance Bill: Commons remaining stages](#), accessed 12 October 2016

71 [UK moves forward on Country by Country reporting](#), Tax Justice Network, 6 September 2016

commodity trade in oil and one of the world's largest hubs for oil and other commodities trading", as well as being home to a number of major UK-registered or listed oil and mining companies.⁷²

36. Chapter 10 of the EU Accounting Directive 2013/34/EU⁷³ was a breakthrough in extractive industries transparency, as it obliges all UK registered companies to report payments made to governments in other countries. PWYP would like to see the UK Government include payments related to oil, gas and mineral commodities trading included in its mandatory reporting requirements. This would mean that all payments made by UK-based or listed companies to governments for commodity trading would have to be publically reported, helping to root out corruption. In countries like Nigeria, Angola and Libya, where crude oil sales make up the majority of total government revenues, this could make a significant difference to the amount of money lost through corruption.⁷⁴

37. A large number of major oil, gas and mining companies, including those engaged in commodity trading, are registered or listed in the UK. Because of this, by tightening its regulations on transparency the Government can play an important role in rooting out corruption that is negatively impacting resource-rich developing countries like Nigeria.

38. We welcome the Government's continued commitment to tackling corruption in the extractive industries and encourage it to engage with Publish What You Pay's suggestions on commodity trading to see what more can be done to encourage greater transparency.

The Government's approach to anti-corruption

UK leadership on anti-corruption

39. The UK has been a leader in the field of anti-corruption since the passing of the Bribery Act in 2010.⁷⁵ The Act covers the criminal law relating to bribery and has a near-universal jurisdiction, allowing for the prosecution of an individual or company with links to the United Kingdom, regardless of where the crime occurred. The UK Bribery Act however is only concerned with bribery, and not with other forms of white collar crime. The Act "is not concerned with fraud, theft, books and record offences, Companies Act offences, money laundering offences or competition law".⁷⁶ Although it was a groundbreaking piece of legislation when first passed, the scope of the Bribery Act is limited and the number of prosecutions under the Act are still low. It has enabled the Serious Fraud Office (SFO) to pursue cases, however, including its first prosecution under the Act which saw the British arm of South Africa's Standard Bank agree to pay a \$25.2m fine for failing to prevent bribery in a Tanzanian subsidiary. The fine included a payment of \$6m to the Tanzanian Government.⁷⁷

72 Publish What You Pay ([TCO0015](#)) para 19

73 European Parliament and Council Directive [2013/34/EU](#)

74 Publish What You Pay ([TCO0015](#)) para 20

75 [Bribery Act 2010](#)

76 Ministry of Justice, [The Bribery Act 2010: Quick Start Guide](#), p. 3

77 ['Standard Bank to pay \\$25m to settle bribery case'](#), Financial Times, 30 November 2015

40. Whilst in office, former Prime Minister, Rt Hon. David Cameron, spoke extensively about the importance of anti-corruption efforts to securing the ‘golden thread’ of development. In a speech to the UN in May 2013, he stated:

“[...] there’s this new commitment to strong institutions and governance because these are essential to end conflict, to protect the rule of law, to stamp out corruption and insecurity and to hold governments accountable. This, I believe, is a totally new addition to the Millennium Development Goals: the importance of good governments, lack of corruption—what I call the golden thread of development.”⁷⁸

Soon after this speech, in June 2013, the then Prime Minister used the UK’s Presidency of the G8 to promote a global agenda on advancing trade, ensuring tax compliance and promoting greater transparency. Then, in July 2015, he gave a much cited speech in Singapore, in which he espoused his commitment to tackling corruption as a way to tackle global poverty (see Box 3).

Box 3: Tackling corruption: David Cameron speech in Singapore

“Think of all our efforts to drive global growth. And then consider the fact that corruption adds 10% to business costs globally and that cutting corruption by just 10% could benefit the global economy by \$380 billion every year—substantially more than was estimated for the entire Doha Trade Round.

Then think of all our efforts to tackle global poverty. And then consider what happens when corrupt governments syphon off all the benefits and proceeds of growth that rightly belong to their people.

Think of all our efforts on the other side of the world to rescue people drowning in the Mediterranean and then consider why those migrants are there fleeing, in many cases, from corrupt African states where they have no economic prospects because everything is controlled by a corrupt elite.

[...]

Corruption is one of the greatest enemies of progress in our time.

It is the cancer at the heart of so many of the world’s problems. It affects everything—from a family’s ability to send their child to school, to the credibility of the world’s favourite sport, football.

And yet when it comes to tackling corruption, the international community has looked the other way for too long. We simply cannot afford to side-step this issue or make excuses for corruption any more. We need to step up and tackle it.”

Source: [Tackling corruption: PM speech in Singapore](#), Prime Minister’s Office, 28 July 2015

UK Anti-Corruption Plan

41. In 2014 the then Coalition Government produced a substantive cross-government UK Anti-Corruption Plan, which outlined its approach to corruption in the UK and overseas.⁷⁹ It brought together the responsibilities and activities of all Government departments aimed at tackling corruption, from DFID to the Home Office and the then Department for Business, Innovation and Skills (BIS).

Box 4: Government Anti-Corruption Plan: The UK

1. Prosecuting and disrupting people engaged in corruption (Pursue);
2. Preventing people from engaging in corruption (Prevent);
3. Increasing protection against corruption (Protect);
4. Reducing the impact of corruption where it takes place (Prepare)

Source: HMG, [UK Anti-Corruption Plan](#) (December 2014)

42. On the UK's international approach to corruption, the Plan states:

“Internationally, our priority is to continue to be at the forefront of engaging with our overseas partners (including foreign governments, the United Nations and other international institutions) to:

- improve transparency, tackle money-laundering and return stolen assets;
- raise global standards for all, including through our international development programmes; and
- promote sustainable growth, including through our work to stop bribery.”⁸⁰

UK Anti-Corruption Strategy

43. Although the UK Anti-Corruption Plan was broadly welcomed, a number of stakeholders were critical of the Government's failure to produce an overarching ‘One HMG’ strategy on anti-corruption. Transparency International called for “an overarching strategy that would improve coordination between departments and should have a substantial beneficial effect on addressing corruption in developing countries”.⁸¹ Following the London Anti-Corruption Summit in May 2016, the Government announced in its statement that it would produce such a strategy:

“The UK will develop a cross-government Anti-Corruption Strategy by the end of 2016, which will set out our long-term vision for tackling corruption.”⁸²

79 HMG, [UK Anti-Corruption Plan](#) (November 2014)

80 Home Office, [UK Anti-Corruption Plan](#), December 2014, para 1.6

81 Transparency International and Transparency International UK ([TCO0011](#)) para 11.4

82 HM Government, [Anti-Corruption Summit - London 2016 UK Country Statement](#) (undated), accessed 12 October 2016

44. *We welcome the Government’s announcement that it will develop a cross-government Anti-Corruption Strategy and ask that it provides us with an update on progress and a timeline for publication of the Strategy, which is due to be released before the end of 2016.*

The Anti-Corruption Champion

45. Since 2005 successive governments have appointed Anti-Corruption Champions. Some have held the position whilst Secretary of State and members of the Cabinet (Hilary Benn—International Development, John Hutton—Business, Enterprise and Regulatory Reform, Jack Straw—Justice), others whilst serving as Ministers (Ken Clarke—Cabinet Office, Matthew Hancock—Business, Innovation and Skills). Last year, Rt Hon. Sir Eric Pickles MP, who at that time held neither Cabinet-level nor ministerial responsibilities, was appointed to the role. In evidence, Transparency International expressed concern that the role of Champion had been “weakened by a downgrading of the position to non-Cabinet level”.⁸³ Robert Barrington told us:

“The Anti-Corruption Champion is a position that has been up and down in terms of how effective it is and how seriously the incumbents take it. Indeed, it is a post that was a Cabinet Minister, then an attendee of Cabinet and is now not even a Government Minister. The nature of that post and their clout within Government has clearly changed as well.”⁸⁴

46. Transparency International has in the past outlined what it believes makes a good Champion: “a willingness to pick up the brief, to form a plan, to articulate the plan internally and externally, to be accountable; and above all an ability to get things moving in a coordinated way across government, since anti-corruption activities are split among so many departments”.⁸⁵ In order to ensure coordination across Government, the Champion currently holds the Chair of the inter-ministerial working group on anti-corruption, whose membership when last recorded in 2015 included a number of Government Ministers (although no one at Cabinet level). The then Minister of State for International Development, Rt Hon. Sir Desmond Swayne MP, told us in June that:

“In terms of keeping the foot to the fire here, I believe that the inter-ministerial working group on anti-corruption chaired by Eric Pickles is going to be the driver in that respect. He is a very formidable if not terrifying chairman.”⁸⁶

47. The Champion has recently been supported by the Joint Anti-Corruption Unit (JACU); which was set up in advance of the London Anti-Corruption Summit in May 2016 and is based in the Cabinet Office. CAFOD recommended in evidence that JACU should be formalised.⁸⁷ Talking to us about JACU, Robert Barrington expressed concern that

83 Transparency International and Transparency International UK ([TCO0011](#)) para 11.2

84 [Q24](#)

85 Transparency International UK, [The Government’s new Anti-Corruption Champion: time for action](#), accessed 12 October 2016

86 [Q40](#)

87 CAFOD ([TCO0017](#)) para 1.10

after the Summit, the Unit could be disbanded and, “The many people seconded to that unit will go back to their Departments and do what they did before, and the coordination will drop away”.⁸⁸

48. The appointment (or reappointment) of the Anti-Corruption Champion has yet to be announced following the Government reshuffle earlier this year. In answer to a parliamentary question raised by Jonathan Ashworth MP on 18 July 2016, the Minister for the Cabinet Office, Rt Hon. Ben Gummer MP, stated: “The Prime Minister will consider all such appointments, including that of the anti-corruption champion, in due course.”⁸⁹ There has been no further update to Parliament so far. Given that Transparency International has expressed concern about previous “long gaps in appointments between champions”⁹⁰ the delay is likely to cause concern. The new membership of the inter-ministerial working group, or even its continued existence, is also yet to be confirmed and the future of JACU is unclear.

49. Evidence has also raised the issue of the Champion’s accountability to Parliament on delivery of the cross-government Anti-Corruption Plan. In evidence submitted prior to the London Anti-Corruption Summit, CAFOD called for an official mechanism to make the Champion accountable to Parliament:

“The Champion should provide an annual report to parliament on his/her work and the design and implementation of the plan. The report should include, at a minimum, a written ministerial statement and should be distinct from wider reporting on serious and organised crime. This would provide Parliament and other stakeholders with an opportunity to review and debate progress.”⁹¹

However, on 12 May 2016, a Progress Update on the UK Anti-Corruption Plan was formally brought to the attention of the House in a written statement from the then Minister for State and Security, Rt Hon. John Hayes MP.⁹² Although this was a biennial, rather than annual, update it highlighted the Government’s accountability to Parliament on the delivery of the Plan.

50. We thank the Government’s Anti-Corruption Champion, Rt Hon. Sir Eric Pickles MP, for meeting with the Committee privately in advance of the UK Anti-Corruption Summit to discuss its aims and possible outcomes. However, although we understand that non-Cabinet members may have more time to dedicate to the post, we agree with the view that a Cabinet-level appointment to the post of Anti-Corruption Champion would enable them to exert greater influence and ensure more effective coordination at the highest levels of Government.

51. We welcome the establishment of the Joint Anti-Corruption Unit (JACU), based in the Cabinet Office, as a mechanism for ensuring greater cross-government coordination on anti-corruption efforts.

88 [Q24](#)

89 [PQ 43068](#) [on Eric Pickles], 20 July 2016

90 Transparency International and Transparency International UK ([TCO0011](#)) para 11.2

91 CAFOD ([TCO0017](#)) para 1.10

92 HC Deb, 12 May 2016, [HCW5729](#) [Commons written ministerial statement]

52. We understand the concerns that there is not yet an official parliamentary mechanism for holding the Champion to account on the progress of the UK Anti-Corruption Plan and the suggestion that the Champion produces an annual report to Parliament. We note that since this recommendation was submitted to the Committee, the Government has released a Progress Update on the Anti-Corruption Plan⁹³ which was brought to the attention of the House in a written statement from John Hayes MP, the then Minister for State and Security at the Home Office, on behalf of the Minister and the Anti-Corruption Champion.⁹⁴

53. *We recommend that the Government announce the appointment—or reappointment—of the Anti-Corruption Champion as soon as possible, in order to show its continued commitment to tackling corruption. We believe that this position should be a Cabinet-level appointment. A Cabinet-level Champion would be able to exert more influence, encourage a coordinated approach and ensure that anti-corruption efforts remain a key priority at the highest levels of Government.*

54. *We also urge the Government to formalise the Joint Anti-Corruption Unit (JACU) currently based at the Cabinet Office, in recognition of the fact that tackling corruption at home and overseas requires coordinated delivery of the UK Anti-Corruption Plan and forthcoming Anti-Corruption Strategy across Government.*

Multilateral work

55. International cooperation is essential to tackle corruption in the global economy and, as Oxfam highlighted, “there needs to be much greater multilateral action at the international level”.⁹⁵ In recognition of this, the Government works across a number of multilateral platforms on anti-corruption initiatives. Over the last five years, successive UK Governments have put corruption at the top of the agenda at UK-hosted international meetings such as the then G8 at Lough Erne in 2013 and the London Anti-Corruption Summit in May 2016. They have also worked closely with international organisations, such as the United Nations, Council of Europe, World Bank and IMF.⁹⁶

56. The UK Government has worked closely with the OECD on their base erosion and profit shifting (BEPS) project, which aims to tackle the “shifting of profits to low or no-tax locations where there is little or no economic activity”.⁹⁷ However, as we concluded in our Report on UK implementation of the Sustainable Development Goals, we remain concerned that discussions and decisions on international cooperation in tax matters are happening primarily through the OECD, whose membership is mainly developed countries, rather than a more inclusive body such as the UN.⁹⁸ Significant concerns have been raised about the BEPS project by organisations such as the Tax Justice Network (TJN). TJN’s Director of Research, Alex Cobham, raised specific concerns about the failure to mandate public country-by-country reporting in the BEPS outcome report. He stated that, “The home country tax authorities of multinationals, mostly in the OECD,

93 HMG, [Progress Update on the UK Anti-Corruption Plan](#) (May, 2016)

94 HC Deb, 12 May 2016, [HCWS729](#)

95 [Q28](#)

96 HMG, [UK Anti-Corruption Plan](#), para 7.15 & 7.16

97 [About BEPS and the inclusive framework](#), OECD

98 International Development Committee, First Report of the Session 2015–16, [UK Implementation of the Sustainable Development Goals](#), HC673, para 29

will receive this information; while many host countries will not. If anything then, the current measure will further disadvantage developing countries and the world's poorest people."⁹⁹

57. The latest report from the Independent Commission for Aid Impact (ICAI) on UK aid's contribution to tackling tax avoidance and evasion highlights similar concerns about the inclusion of developing countries in such international decision-making processes.

“DFID’s efforts to make the international standard-setting processes more inclusive of developing countries were, nonetheless, only partially successful. DFID supported the participation of developing countries in various G20 and OECD processes, including the OECD Tax and Development Task Force and the Global Forum on Transparency and Exchange of Information. However, key stakeholders from both OECD and developing countries agree that developing countries gained little practical influence over the new standards. Consultations with developing countries occurred late in the process, when the priorities had already been agreed. We were only able to find evidence of two measures introduced in response to developing country concerns. According to our survey and interviews, a number of issues of interest to DFID’s partner countries remain excluded.”¹⁰⁰

58. **We remain concerned that discussions and decisions on international cooperation in tax matters are happening primarily through the OECD. We understand the Government’s reservations with regards to the previously proposed upgrading of the UN Tax Committee, and concern that there would be duplication with the work the OECD is conducting.¹⁰¹ We also welcome the work that the OECD has undertaken through its Base Erosion and Profit Shifting (BEPS) work. However, international tax discussions must be fully reflective of international concerns, including those of developing countries, and we remain concerned that the OECD—due to its composition—is not adequately reflecting the needs of the poorest countries in its policy outcomes.**

59. *The Government should reconsider whether the OECD is the best forum for discussions and decisions on international tax matters. If the Government believes it is, then more must be done to ensure the voices of developing countries are heard within this forum and that policy outcomes are reflective of the needs of both developed and developing countries. The Government should provide us with an update on work in this area.*

60. *As the OECD’s base erosion and profit shifting (BEPS) work is rolled out to different countries, the OECD should consult developing countries regularly on the effectiveness of the measures in preventing base erosion and profit shifting from their jurisdictions and seek views on suggested modifications or enhancements. As a key OECD member, the UK Government should encourage and support this action to ensure that developing, as well as developed, countries benefit fully from this initiative.*

99 ‘OECD’s BEPS proposals will not be the end of tax avoidance by multinationals’, [Tax Justice Network Press Release, 5 October 2015](#)

100 ICAI, ‘UK aid’s contribution to tackling tax avoidance and evasion: a learning review’, September 2016, p. ii

101 International Development Committee, Fourth Special Report of Session 2016–17, [UK implementation of the Sustainable Development Goals: Government Response to the Committee’s First Report of Session 2016–17](#), HC673, p. 4

UK exit from the European Union

61. With the exception of the oral evidence given to us by the former Minister of State for International Development, all the evidence received to this inquiry was submitted prior to the European Union (EU) referendum on Thursday 23 June 2016. However, it is likely that the vote to leave the EU will have a significant impact on the UK's anti-corruption efforts, so it is necessary to include it here. The decision to leave the EU will clearly have an impact on all UK Government departments, not least because EU exit negotiations will have risen to the top of the agenda for Secretaries of State and Ministers. Concerns have been raised about the possibility of the anti-corruption agenda being relegated as a result of the UK's exit from the EU and that corruption risks could be heightened.¹⁰²

62. A number of the UK regulations designed to increase transparency and tackle corruption stem from EU directives. For example, the aforementioned Chapter 10 of the Accounting Directive, which obliges all UK registered companies to report payments made to governments in other countries.¹⁰³ The Government will need to ensure that such important regulations around industry transparency are not lost when the UK leaves the EU. Evidence to the inquiry also suggested that the UK could use its close relationships with European counterparts to encourage other countries in Europe to allow for public country-by-country reporting, as the UK has done.¹⁰⁴ In order to do this, it is important that these strong relationships are maintained and that the UK continues to be able to work in partnership with its EU neighbours on cross-border anti-corruption efforts.

63. The UK has shown strong leadership on anti-corruption, particularly over the last six years, but recent revelations such as the Panama Papers show how far the UK needs to go to effectively tackle corruption both in the UK and overseas. It is essential that momentum is not lost in the wake of the decision to leave the European Union, when laws, regulations and trading arrangements are reviewed.

64. In advance of its negotiations to leave the European Union, the Government must consider the ramifications of the UK's exit on the laws and regulations designed to curb corruption both here and overseas, such as the provisions on extractive industries transparency included in the EU Accounting Directive. The Government must ensure that tackling corruption is not deprioritised as we negotiate our European exit and that the momentum to tackle corruption, and the alliances the UK has made with a number of other European countries in this regard, are not lost. We would encourage the Government to continue to use its influence with other European countries to encourage them to commit to publishing country-by-country reporting data for multinational enterprises, as it is now permitted in the UK.

The future of UK leadership on anti-corruption

65. The former Prime Minister was a clear advocate of anti-corruption measures. In evidence to this inquiry, DFID emphasised his leadership, stating that, "DFID and other UK government departments will work to deliver on the Prime Minister's ambition to further strengthen the UK's response."¹⁰⁵ In order to maintain momentum, it will be

102 Transparency International UK, [Why we still need an Anti-Corruption Champion - and what more they need to do](#), accessed 12 October 2016

103 European Parliament and Council Directive [2013/34/EU](#)

104 ONE ([TCO0023](#))

105 DFID ([TCO0025](#)) p. 1

essential for the new Prime Minister, Rt Hon. Theresa May MP, to show the same level of commitment. Both she and a Treasury Minister have already made clear statements about her administration's determination to tackle corruption. It was under her tenure as Home Secretary that the 2014 UK Anti-Corruption Plan was introduced and, in a statement to Parliament following attendance at her first G20 meeting in September 2016, she said:

“Together, we agreed to continue efforts to fight corruption—building on the London summit—and do more to stop aggressive tax avoidance, including stopping companies avoiding tax by shifting profits from one jurisdiction to another.”¹⁰⁶

66. Soon after the Prime Minister's speech, the Financial Secretary to the Treasury, Jane Ellison MP, echoed this sentiment at Anti-Corruption Week in Singapore. She stated:

“So that's why you may have already heard our new Prime Minister, Theresa May, expressing her determination to fight against corruption at this year's G20 in China. Because if you really want to help businesses with a fair and level playing field. If you really want to encourage free trade, open economies and respect for the rule of law. You have to tackle the kind of aggressive tax avoidance that undermines this. And that's what we want to work, internationally and domestically, to do.”¹⁰⁷

67. Strong leadership will be essential to tackling global corruption. We commend the leadership shown by the former Prime Minister, Rt Hon. David Cameron, on tackling global corruption and the positive contribution this has made to shift the global conversation. However, we recognise that comprehensive follow-up action is now needed. We hope that the new Prime Minister, Rt Hon. Theresa May MP, will continue to put anti-corruption measures at the forefront of the Government's agenda and that this will lead to tangible policy changes across Government.

106 [G20 Summit: PM Commons statement](#), Office of the Prime Minister, 7 September 2016

107 [“Britain and Singapore are natural allies in the global fight against corruption” says Financial Secretary](#), HM Treasury (19 September 2016)

3 DFID's anti-corruption work

The need for a context-specific approach

68. Evidence to our inquiry has emphasised that there is no 'one size fits all' solution to corruption. Attempts to tackle it must be context-specific. Transparency International told us that, "addressing corruption always requires a country-specific approach, taking into account the general political and social context of the relevant country, particularly its political economy (i.e. an analysis of who benefits from corruption and who doesn't)".¹⁰⁸ Christian Aid also emphasised that, "As corruption is different in different communities around the world, a case-by-case assessment is needed along with a degree of flexibility".¹⁰⁹ DFID told us this was also their approach, stating:

"DFID's overall strategy to anti-corruption in partner countries is in line with recent evidence that makes it clear that there is no common template of actions for addressing corruption. Each country context is different, both in regard to the specific profile of problems and the opportunities available for tackling them."¹¹⁰

69. The U4 Anti-Corruption Resource Centre told us that, "specific anti-corruption measures appear most effective when other contextual factors support them and when they are integrated in a broader package of reforms".¹¹¹ However, there is still limited evidence of 'what works' in these different country contexts. Aled Williams from U4 told us:

"There has been a lot of progress in recent years in the field of the challenges in measuring and characterising the different types of corruption that we see in different country contexts. However, this is still an evolving field where we must recognise that DFID is working in an environment where we still have limited understanding of the way that country contexts matter for anti-corruption outcomes."¹¹²

Anti-Corruption Country Strategies

70. The Independent Commission for Aid Impact (ICAI) published a report in 2011, which was critical of DFID's approach to tackling corruption. It called for more country-specific analysis of different types of corruption and the development of anti-corruption country strategies wherever there was a high risk of corruption.¹¹³ In response to this, in 2013, DFID published tailored anti-corruption country strategies for each of its priority countries. This country-specific approach has generally been welcomed, as Dr Marquette told us, "This is, in many ways, an excellent policy".¹¹⁴ However, the strategies have also received criticism. Professor Heywood highlighted the difference in length and substance between the different country strategies; emphasising that whilst Mozambique's strategy

108 Transparency International and Transparency International UK ([TCO0011](#)) para 8.1

109 Christian Aid ([TCO0013](#)) para 3.2

110 DFID ([TCO0025](#)) para 31

111 U4 ([TCO0008](#)) para 3

112 [Q2](#)

113 ICAI, [DFID's Approach to Anti-Corruption](#) (November, 2011) p. 1

114 Dr Heather Marquette ([TCO0029](#)) para 15

proposed specific interventions, Ghana and Rwanda’s strategies were “quite short and general”.¹¹⁵ He also raised the failure of the anti-corruption country strategies to “present any explicit theory of change (or reference DFID’s own commissioned review of 2012)”.¹¹⁶ This suggests that DFID is not making the best use of the research it has commissioned in its country-specific approaches.

Timescales

71. Tackling corruption in countries where it is endemic takes a long time. Professor Mushtaq Khan of SOAS told us, “to achieve low levels of corruption throughout the developing countries DFID is working in will take time and concerted effort”. Phil Mason, Senior Anti-Corruption Adviser at DFID, concurred, stating: “All the academics and all our evidence show that changing a society around on corruption is a long-term effort”.¹¹⁷

72. DFID’s previous anti-corruption country strategies covered just three years (2013–2016).¹¹⁸ In oral evidence Professor Heywood told us, the “expectation that you can have an institutional fix that will have a real payoff in a three-to-five-year timeframe is pretty unrealistic”.¹¹⁹ In its 2014 report, ICAI recommended that the strategies must cover a ten to fifteen year period.¹²⁰ Despite the weight of evidence, in its written submission to this inquiry DFID was clear that the new country strategies would only cover the next five years.¹²¹ Phil Mason told us:

“As an aid agency, programming in terms of our two or three-year time slice means we have to be realistic about what we can achieve. I don’t see any immediate, easy solution to suddenly being able to commit to a 20-year programme, for example, under the ways we have to work at the moment.”¹²²

73. DFID’s evidence also stated clearly that the new strategies—to replace the previous country strategies that reached their three year completion date in January 2016—would be published in Spring 2016. The Government’s Progress Update on the UK Anti-Corruption Plan, published to coincide with the Anti-Corruption Summit in 2016, stated: “DFID has completed a review of its anti-corruption country strategies and has updated them to reflect how tackling corruption is fundamental to poverty reduction overseas and to strengthening our national security in the UK.”¹²³ However, due to the significant delay in the publication of DFID’s Bilateral Aid Review (BAR), at the time of writing DFID’s anti-corruption country strategies had still not been published. Given the importance of tackling corruption, and the priority the Government has given to it, it is unacceptable that the new country strategies have still not been produced. DFID has given us some idea of what to expect, stating that the new strategies will “reflect a strengthened, more ambitious, approach [...] The new strategies have an enhanced focus on how success is measured.”¹²⁴ However, DFID has not told us when they will be released.

115 Professor Paul Heywood ([TCO0004](#)) para 7

116 Professor Paul Heywood ([TCO0004](#)) para 7

117 [Q61](#)

118 DFID, [Anti-Corruption Strategies by Country](#), accessed 12 October 2016

119 [Q11](#)

120 ICAI, [DFID’s Approach to Anti-Corruption and its Impact on the Poor](#) (October 2014) p. 1

121 DFID ([TCO0025](#)) para 51

122 [Q61](#)

123 HM Government, [Progress Update on the UK Anti-Corruption Plan](#) (May 2016)

124 DFID ([TCO0025](#)) para 51

74. We welcome the introduction of DFID’s anti-corruption country strategies, following ICAI’s 2013 review. However, corruption is complex and deep-rooted and requires longer-term planning and commitment if it is to be addressed properly by DFID in the countries where it is working. The evidence presented to us strongly indicates that the five year plans proposed by the Government, although longer than the previous three year plans, are insufficient.

75. *DFID’s future anti-corruption country strategies must cover a minimum timescale of ten years. Individual projects of three to five years may be undertaken as part of—but not in isolation from—a longer-term strategy. We understand the limitations presented by our five year political cycle in the UK and the need to monitor results and ensure value for money. However, this should not prevent an overarching country strategy from covering a ten year timescale. These strategies could retain enough flexibility to adapt to changing political and economic environments, and to allow for the kind of innovative and adaptive programming that is necessary to combat corruption, whilst ensuring a long-term financial and institutional commitment to tackling corruption in partner countries.*

Other Government departments

76. Dr Heather Marquette highlighted the need for greater coherence between Government departments where they operate together in developing countries and, increasingly, where other government departments are spending ODA in developing countries. She told us:

“[...] there is need for country anti-corruption strategies to be whole of Government strategies. There is too much emphasis in this space on DFID: in any recipient country DFID is but one of many donors, but it is also only one of several HMG departments operating. While there has been a great deal of academic research on donors and anti-corruption, and several [two] ICAI reviews focused on DFID, we simply know too little about the role of the FCO, the MOD, BIS, DEFRA and so on when it comes to corruption and anti-corruption in developing countries. We know that foreign policy imperatives can undermine anti-corruption programming. But how often? Where? At what cost? For which trade-offs? At what cost (or boon) for development effectiveness? If we increasingly see aid as something delivered across HMG, and not just by DFID, then other Government departments need to be included in ICAI investigations and scrutinised more often by the International Development Committee. It is not good enough to shine the light on DFID alone when it is only one piece of a complex and moving puzzle.”¹²⁵

The Bond Anti-Corruption Group called for similar action to ensure that, there was cross-departmental collaboration in DFID priority countries, and that DFID and the FCO were, “leveraging their diplomatic and financial influence” to encourage transparency and combat corruption. It also stated that, “DFID and the FCO should be collaborating with BIS [now the Department for Business, Energy and Industrial Strategy] and UKTI [now the Department for International Trade] to most effectively support British businesses

125 Dr Heather Marquette ([TC00029](#))

operating in ODA target countries to identify, tackle, and prevent their engagement with corruption and, in particular, to mitigate its impact on people living in poverty and other marginalised groups.”¹²⁶

77. DFID told us that they do work closely with other Government departments in countries such as Nigeria, where they state that, “the country strategy was a driver for greater joined-up working between different HMG departments and agencies, such as DFID, NCA [National Crime Agency], FCO and UKTI [UK Trade and Investment]. An anti-corruption working group meets regularly, and is currently collaborating on the design of an ambitious new corruption programme that links closely with the DFID-supported NCA unit that fights international corruption and bribery”.¹²⁷ However, it is important that such collaboration is happening in all DFID priority countries, not just those—such as Nigeria—where anti-corruption measures are a high priority for both the Nigerian and UK governments.

78. In its submission DFID hints at a move towards a slightly different style of interventions in its new anti-corruption country strategies, which may take greater account of political economy and draw in other Government departments:

“These revised anti-corruption strategies will establish clear and ambitious anti-corruption expectations located in a broader, politically-oriented approach and articulate tactical choices on specific interventions that draw on all parts of HMG.”¹²⁸

79. Other Government Departments (OGDs), aside from DFID and the FCO, are increasingly working in developing countries and using ODA to fund their activities. It is essential that the approach towards tackling corruption in any particular country is coordinated and coherent across all UK Government activity. We therefore welcome DFID’s commitment to producing enhanced anti-corruption country strategies which involve all Government departments. Given the increasing presence of OGDs in countries where DFID has bilateral programmes, it is essential that the Government’s approach is coordinated and coherent and that all officials are pulling in the same direction in their efforts to combat corruption.

Publication

80. There has been a significant delay in the publication of the new anti-corruption country strategies, caused by the overall delay in publication of the Bilateral Aid Review. Despite DFID’s evidence stating that the country strategies were being updated and “will be published in spring 2016”, to date they have still not been produced.¹²⁹

81. We understand that political events, including the EU referendum and the Government reshuffle, have led to the delay in publication of the new anti-corruption country strategies. However, we are concerned that allowing domestic political changes to stall the release of important strategy documents for six months will have had an adverse effect on in-country programming, preventing country offices from progressing vital work.

126 Bond Anti-Corruption Group ([TCO0016](#)) p. 2

127 DFID ([TCO0025](#)) para 46

128 DFID ([TCO0025](#)) para 52

129 DFID ([TCO0025](#)) para 51

82. *DFID must publish its anti-corruption country strategies, alongside its overdue internal reviews and individual country plans, as a matter of urgency. Allowing vital policy documents to be stalled for so long is disappointing and risks hampering its efforts to tackle corruption in its priority countries, to the detriment of the countries it supports.*

Research and learning

83. In comparison to other donors, DFID was described in evidence as, “a bit ahead of the pack [...] in its sophistication of understanding” on corruption.¹³⁰ However, the evidence still strongly suggests the need for further research, both on the nature of corruption in different contexts and the impact of donor interventions. This will help DFID establish ‘what works’ and enable it to formulate appropriate strategies to tackle corruption in its partner countries.

84. Evidence to the inquiry has suggested that donor interventions in anti-corruption have often been ineffective.¹³¹ However, there is a lack of solid evidence on why donor agencies are failing to achieve change on the ground.¹³² A review of evidence on donor interventions to curb corruption undertaken by U4 in 2012, had five key findings:

- (1) For over half of the interventions examined, the findings of the evidence were mixed or even contested;
- (2) For over half of the interventions, the evidence found was weak;
- (3) Very little of the evidence comes from conflict-affected countries;
- (4) Hardly any studies focused on the role of private sector actors driving corruption;
- (5) There was little evidence on the interactions and interdependencies between different anticorruption interventions.¹³³

These findings were corroborated in ICAI’s 2014 review into DFID’s Approach to Anti-Corruption and its Impact on the Poor which gave DFID a red rating for its learning in this area. It highlighted “that evidence of the effectiveness of anti-corruption interventions is weak in terms of quality and quantity”.¹³⁴

85. DFID has in recent years, however, made considerable investments in research to investigate the contextual dynamics of corruption. An evidence paper entitled, ‘Why corruption matters: understanding causes, effects and how to address them’, was published by a team led by Alina Rocha Menocal in January 2015.¹³⁵ In February 2015, DFID launched the £9.6 million Anti-Corruption Evidence (ACE) Programme to “deliver new, practical research on ‘what works’ to tackle corruption in developing countries”.¹³⁶ DFID states that, “uptake of this new research by DFID and its partners will mean that anti-corruption initiatives are more effective and so corruption and leakage are measurably

130 [Q25](#)

131 Dr Heather Marquette ([TCO0029](#)) para 2; U4 ([TCO0008](#)) para 3

132 U4 ([TCO0008](#)) para 3

133 U4 Anti-Corruption Resource Centre, [Mapping evidence gaps in anti-corruption](#) (October 2012)

134 ICAI, [DFID’s Approach to Anti-Corruption and its Impact on the Poor](#) (October 2014) para 5.5

135 DFID, [Why corruption matters: understanding causes, effects and how to address them](#) (January 2015)

136 DFID Devtracker, [Anti-Corruption Evidence Programme](#), accessed 12 October 2016

reduced. ACE will focus in 3–4 DFID priority countries drawn from a short list including Ghana, Uganda, Tanzania, Mozambique, Nigeria and Bangladesh.”¹³⁷ The programme will consist of two components:

“A £3.6 million DFID-British Academy Anti-Corruption Research Partnership. The British Academy will design and let competitive research grants on testing ‘what works’ to reduce corruption.”

A New Anti-Corruption Research Partnership Consortium focussing on two themes: (i) the inter-dependencies between anti-corruption interventions and their impact on corruption; (ii) the private sector and economic growth.”¹³⁸

There is also concern over the way in which research is then fed back into donor programming. Global Witness told us, “One of the biggest problems in current donor support for natural resource governance is that analysis of the context is either inadequate or ignored”.¹³⁹

86. It is clear that more research is required to establish ‘what works’ when attempting to tackle corruption in partner countries. We therefore welcome DFID’s considerable recent investment in the Anti-Corruption Evidence (ACE) programme.

87. Alongside other donors engaging in anti-corruption work, DFID must allocate appropriate resources to establishing the effectiveness of its work in this area. Linking experience from country offices with its ongoing research will be crucial, as well as supporting new and innovative ways of working.

88. *DFID has already invested in significant research into anti-corruption efforts. However, it must ensure that where research is being carried out, particularly but not exclusively where it is funded by DFID, its findings are being effectively fed back into the work it is conducting on the ground. DFID must ensure that it references relevant research and clearly shows the evidence base for the planned approach in each country when it publishes its new anti-corruption country strategies.*

Fragile states

89. The new aid strategy commits to allocating 50% of DFID’s budget to fragile states and regions, an increase from its previous commitment of 30%.¹⁴⁰ However, evidence suggests that the link between corruption and instability may not be well understood by policy makers and that anti-corruption efforts should be given higher priority.¹⁴¹ Written evidence from Professor Khan pointed out that, “while political corruption can have very damaging effects in many contexts, anti-corruption activities that threaten established patterns of resource capture can sometimes also contribute to further fragility”.¹⁴² Professor Heywood’s written submission stated:

137 DFID Devtracker, [Anti-Corruption Evidence Programme](#), accessed 12 October 2016

138 DFID, [Business Case: Anti-Corruption Evidence \(‘ACE’\) Programme](#) (undated)

139 Global Witness ([TCO0018](#)) para 14

140 HM Treasury, [UK Aid: tackling global challenges in the national interest](#), Cm 9163 (November 2015) para 3.8

141 Transparency International and Transparency International UK ([TCO0011](#)) para 9.1

142 Professor Mushtaq Khan ([TCO0029](#))

“If we understand fragile states as those in which there are failings in political authority, in service entitlement (especially to the poor) and in legitimacy, then it is arguable that corruption is as much a consequence as a cause of such factors. [...] the reality is that for many people in endemically corrupt or fragile states, corruption can in fact offer functionality in social, political and economic transactions where no better mechanisms exist. This is not to condone corruption, but to recognise that it can be seen, especially by those who live in fragile states, as a form of solution to resource allocation and access issues.”¹⁴³

90. U4’s evidence detailed a study that they had conducted with aid and development professionals working in fragile situations. They reported that, “All but two of our 23 respondents agreed that corruption control measures can cause damaging stress in fragile societies”.¹⁴⁴ DFID’s evidence demonstrates understanding of this, as it states that, “Some forms of corruption are difficult to tackle in a conflict environment without fuelling more instability and violence”.¹⁴⁵ This makes understanding the local context extremely important when considering ways to tackle corruption in fragile states and may mean that, under certain circumstances, it is not the best focus for aid agencies. DFID states that its anti-corruption efforts will be “integrated within wider stabilisation and governance efforts [...] establishing an institutional and political framework within which longer-term state and peace-building processes can continue anti-corruption reforms”.¹⁴⁶

91. DFID has committed to spending 50% of its budget in fragile states. In these countries, attempts to tackle corruption must be considered very carefully. Evidence to us has strongly suggested that anti-corruption efforts can have adverse effects in unstable situations. We welcome DFID’s understanding of these challenges and its approach to ground its work in broader state and peace-building processes. However, when DFID is committed to spending half of its budget on fragile states, this may limit the volume of anti-corruption work it is able to carry out.

Adaptive programming: thinking and working politically to combat corruption

92. Professor Heywood told us, there is growing consensus that, “we need to understand contextual factors much better, and that means recognising that corruption is inherently a political problem”.¹⁴⁷ Dr Heather Marquette argued similarly:

“A growing body of evidence suggests that development programming that is politically savvy, ‘works with the grain’ of local political economy conditions and is led locally (rather than led by donors) is more likely to be effective than its opposite: aid that is insensitive or ignorant of the local political context; that imposes an external model, whether it fits or not; and that fights against the grain of the local political economy, whatever the motivation for doing so.”¹⁴⁸

143 Professor Paul Heywood ([TCO0004](#)) para 14

144 U4 ([TCO0008](#)) para 4.3

145 DFID ([TCO0025](#)) para 41

146 DFID ([TCO0025](#)) para 42

147 [Q3](#)

148 Dr Heather Marquette ([TCO0029](#)) para 5

Gavin O’Hagan from Adam Smith International emphasised the need for DFID to allow for experimentation and adaptation in its anti-corruption work:

“[...] with regards to anti-corruption work, the emerging evidence and literature is that a process of experimentation can be very important. There is no tried and trusted way. As the previous session was making clear, there is no one-size-fits-all either. It is incredibly important for implementers such as us in this space, or other actors, to be able to adapt and be flexible and to innovate.”¹⁴⁹

93. Our Report on DFID’s programme in Nigeria, published in July 2016, cited DFID’s Facility for Oil Sector Transparency (FOSTER) as an example of good adaptive or ‘politically smart’ programming.¹⁵⁰ According to ODI, the £14 million FOSTER project, “aims to understand the underlying political economy and incentive structures that can prevent the benefits of Nigeria’s natural resource wealth being shared more broadly. It tries to capitalise on and nurture appetite for reform, both within government and outside, by working opportunistically and strategically with government and civil society institutions and actors”.¹⁵¹ DFID’s State, Accountability and Voice Initiative (SAVI) in Nigeria has also received praise for, “delivering good results and illustrating a potential that could well be applied more widely”.¹⁵² In its written evidence, DFID suggests that it will be taking this politically smart programming forward in its new anti-corruption strategies. It stated that it will, “Base its anti-corruption activities on a robust and politically honest analysis of the power, interests and incentives of actors and groups”.¹⁵³

94. **We welcome DFID’s innovative approaches to thinking and working politically, which evidence suggests is vital when working to tackle corruption in its priority countries.**

95. *Thinking and working politically has proven to be a useful approach for DFID in Nigeria. DFID must ensure that lessons are being shared between country programmes, and that research in this new and innovative area is disseminated, to ensure that all in-country staff are equipped with the resources and information to start considering similar ways of working that are sensitive to the political context.*

The challenges of a zero tolerance approach

96. As outlined in the introduction, our Report is addressing DFID’s approach to tackling corruption overseas, rather than looking directly at the ways in which DFID prevents corruption within its own aid programmes. On this, DFID’s evidence to the inquiry clearly states:

“It is important to state that DFID has a zero tolerance approach to corruption with regards to our own resources and programmes. DFID is

149 [Q32](#)

150 International Development Committee, Second Report of Session 2016–17, [DFID’s programme in Nigeria](#), HC 110

151 ODI, [Politically smart support to economic development: DFID experiences](#) (March 2016)

152 [“Towards politically smart, locally led development in Africa”](#), David Booth, African Arguments, 23 October 2014

153 DFID ([TCO0025](#)) para 52

committed to take all necessary steps to investigate allegations of misuse of DFID's own funds and pursue sanctions available in each case, including dismissal, prosecution, suspension and cancellation of aid."¹⁵⁴

Understandably, there are significant sensitivities surrounding aid and corruption and this zero tolerance approach to corruption within the UK's aid programmes is absolutely right.

97. Zero tolerance is an absolutely necessary approach providing a clear message that corruption will not be tolerated. Nevertheless, evidence we received indicated that a broad or simplistic implementation of zero tolerance is unlikely to be sufficient. Professor Mushtaq Khan told us that, "zero tolerance cannot mean that DFID should withdraw from a country as soon as any corruption is detected in any part of the administration of that country. This would prevent DFID from working in most developing countries, and in particular the most vulnerable countries where UK aid is most needed".¹⁵⁵ Christian Aid highlighted similar concerns.¹⁵⁶ Evidence from Dr Heather Marquette expressed concern that, because of sensitivities, "it is difficult for the Government to even talk about aid and corruption, let alone have the grown up conversation many of us feel is important if we are to have an opportunity to think differently enough about how to design and implement more effective anti-corruption programming".¹⁵⁷ Professor Khan argued that in many of the countries where DFID works, corruption is endemic. He stated that, "Zero tolerance towards these entrenched societal forms of corruption must be a longer term goal that is achieved using 'nuanced' and targeted anti-corruption interventions."¹⁵⁸

Sector approaches

98. Sector approaches such as those made in extractive industries or defence industries can also be important and effective tool for DFID. Robert Barrington told us that, "sectoral approaches are a very good approach to take, because you can focus in on specific types of problem and specific numbers and types of actor".¹⁵⁹ Global Witness called for donors to do more to tackle corruption and said this would require "smart technical aid, clear benchmarks and consistent political pressure which are targeted at tackling grand corruption in key strategic countries and sectors".¹⁶⁰

Extractive industries

99. Work targeting the extractive industries is a sector approach with potentially significant and far reaching impact. According to the World Bank, non-renewable mineral resources play a dominant role in 81 countries, which together account for a quarter of the world's GDP, half of the world's population and nearly 70% of those in extreme poverty. Africa is home to about 30% of the world's mineral reserves, 10% of the world's oil, and 8% of the world's natural gas.¹⁶¹ Frequently referred to as the 'resource curse', citizens living in resource-rich countries rarely receive the benefits of their country's mineral wealth. As

154 DFID ([TCO0025](#)) para 30

155 Dr Mushtaq Khan ([TCO0030](#)) p. 1

156 Christian Aid ([TCO0013](#)) para 3.4

157 Dr Heather Marquette ([TCO0029](#)) para 7

158 Dr Mushtaq Khan ([TCO0030](#)) p. 1

159 [Q21](#)

160 Global Witness ([TCO0018](#)) para 4

161 World Bank, [Extractive Industries: Overview](#), accessed 12 October 2016

Transparency International told us, “Sierra Leone produced more than 400,000 carats of diamonds in 2010 [...] Despite its mineral wealth, Sierra Leone is ranked among the least developed countries in the world in the UN’s Human Development Index.”¹⁶²

100. Transparency International told us in its submission that, “Quality of governance is the major determinant of whether the extraction of minerals contributes to a country’s sustainable development”.¹⁶³ In an attempt to improve governance and tackle corruption in the industry, international voluntary standards such as the Extractive Industries Transparency Initiative (EITI) have been established to “promote open and accountable management of natural resources”.¹⁶⁴ EITI “seeks to strengthen government and company systems, inform public debate, and enhance trust. In each implementing country it is supported by a coalition of governments, companies and civil society working together.”¹⁶⁵

101. Evidence from Global Witness claims that countries may get reputational benefits for signing up to the EITI but then fail to generate the data to scrutinise the industry in the country, and these initiatives can therefore be a distraction to real impact on corruption.¹⁶⁶ It also highlights that these initiatives are only part of the picture and DFID should pair it with accountability mechanisms to ensure effective scrutiny.¹⁶⁷ Transparency International’s evidence agrees that stronger accountability is required but sees a need for further transparency in the award of permits, licenses and contracts.¹⁶⁸ Evidence from Adam Smith International emphasises that DFID should not shy away from improving the governance in the extractives sector because of political and reputational risk¹⁶⁹ Shauna Leven from Global Witness told us, “There is also over-reliance on EITI as a technical mechanism. It does not come with as much political pressure as it could. Corruption is a technical issue but it is also a political issue and we need to take a holistic approach towards addressing it.”¹⁷⁰

Governments

102. In our Report into UK implementation of the Sustainable Development Goals, we noted the potential to leverage the influence of the capital markets to encourage sustainable business practices.¹⁷¹ In evidence to this inquiry, the Royal United Services Institute (RUSI) argued that the influence of the capital markets—which has been steadily increasing for the past ten to fifteen years—could also be used to encourage other countries to strengthen their systems of governance and tackle corruption.¹⁷² In its submission, DFID admitted that, “In many developing countries where DFID works there are significant obstacles to changing the attitudes of governing elites”.¹⁷³ RUSI highlights that countries—particularly

162 Transparency International and Transparency International UK ([TCO0011](#)) para 6.10

163 Transparency International and Transparency International UK ([TCO0011](#)) para 6.11

164 EITI, [Who we are](#), accessed 12 October 2016

165 EITI, [The relationship between extractives and financing development](#), accessed 12 October 2016

166 Global Witness ([TCO0018](#)) para 16

167 Global Witness ([TCO0018](#)) para 35

168 Transparency International UK ([TCO0011](#)) para 6.11 & 6.12

169 Adam Smith International ([TCO0022](#))

170 Q20

171 International Development Committee, First Report of Session 2016–17, [UK implementation of the Sustainable Development Goals](#), HC 103, para 36–41

172 RUSI ([TCO0001](#))

173 DFID ([TCO0025](#)) p. 2

emerging economies—are increasingly engaging in foreign currency borrowing and looking to encourage international investment. In this situation, a positive credit rating is important to attract investors and secure lower rates on borrowing.¹⁷⁴

103. The submission states that, “A positive rating improvement can trigger a virtuous circle of lower borrowing costs, rising foreign investment, greater business with the global economy and thus greater national prosperity”.¹⁷⁵ It highlights the importance of combating corruption in order to secure a positive rating:

“For governments seeking to borrow from international investors in the global capital markets, there is a clear economic benefit from presenting a profile that offers transparent governance, free from corruption”.¹⁷⁶

104. **A compelling business case that clearly shows the economic benefits of improving a country’s credit rating by improving governance and tackling corruption may encourage more of DFID’s partner governments to take action. Highlighting the link between transparent governance and anti-corruption measures, and increased investment and lower borrowing costs could encourage more governments to take action. We are pleased to hear that the Royal United Services Institute (RUSI) are already in discussions with DFID staff about how best to use this approach in its priority countries.**

Parliaments

105. Our predecessor Committee published a Report on Parliamentary Strengthening in January 2015 which recommended the integration of parliaments into DFID’s work on anti-corruption. It stated:

“We recommend that DFID recognise the role of parliaments in its work on poverty reduction, human rights, equality, economic growth, security, transparency, accountability and anticorruption; in particular, include the role of the national Parliament in each of its country level anti-corruption strategies when it next revises them.”¹⁷⁷

The Government’s response to the Report agreed with the recommendation and stated:

“Agree. We recognise parliaments can make an important contribution to combatting corruption and therefore to DFID’s work on anti-corruption in countries where we work. DFID’s country anti-corruption strategies will be updated in 2015. As part of that review, we will look for opportunities to reflect the potential role of parliaments for anti-corruption work, where appropriate and based on analysis of each country.”¹⁷⁸

174 RUSI (TCO0001)

175 RUSI (TCO0001) para 10

176 RUSI (TCO0001) para 23

177 International Development Committee, Ninth Report of Session 2014–15, *Parliamentary Strengthening*, HC 704, para 17

178 International Development Committee, Ninth Special Report of Session 2014–15, *Parliamentary Strengthening: Government Response to the Committee’s Ninth Report of Session 2014–15*, HC 1125, p. 5

106. Evidence from Transparency International highlighted the importance of institutional capacity building to anti-corruption efforts:

“Particular emphasis should be placed on the development of oversight mechanisms. In any state where corruption is a major issue, a strong focus on building the capability of oversight institutions such as parliamentary committees, an Office of the Auditor General and a civil society able to exercise effective oversight of the funding and activities of institutions is vital.”¹⁷⁹

In recent years, parliamentary committees in a number of developing countries have been instrumental in uncovering grand corruption, such as the Tanzanian Public Accounts Committee’s uncovering of the escrow scandal, which allegedly resulted in the theft of £76.5m from the country’s central bank.¹⁸⁰ Such examples show the important part parliaments have to play in anti-corruption efforts.

107. As representatives and legislators, parliamentarians have a crucial role to play in exposing corruption and legislating against it and this is an area which is often neglected by DFID. Strengthening the capacity of parliaments and parliamentarians can only ever be part of a broader strategy to tackle corruption and the approach must be tailored to the context. However, it is important that DFID recognises the importance of legislatures and legislators in the fight against corruption and considers their role when designing each of its anti-corruption country strategies.

108. *DFID must fulfil its commitment to include parliaments in its new anti-corruption country strategies, highlighting the role they will play in efforts to curb corrupt activities in its partner countries. We look forward to seeing this when the new anti-corruption country strategies are published.*

Civil society

109. Professor Heywood cautioned that parliaments were only part of the answer, however, telling us: “Parliament is potentially a very important player in an anti-corruption strategy but it is one player”.¹⁸¹ Evidence has also highlighted the importance of DFID engaging with citizens and civil society in order to tackle corruption at the grassroots. VSO told us:

“Anti-corruption work is best led by the citizens and officials of the country themselves. By understanding the system and where there is movement for change, interventions can be effective and sustainable. Where that is in the system will depend on the country. This can be done in two ways—by supporting the people who are trying to make the change and by leveraging opportunities in a different part of the system that those people might find more difficult to change but where DFID and its partners have some influence. This requires working closely with a wide range of organisations, including civil society organisations and the private sector.”¹⁸²

179 Transparency International and Transparency International UK ([TCO0011](#)) para 9.1.5

180 [Tanzanian PM under pressure to resign over alleged fraudulent payments](#), The Guardian, 28 November 2014

181 [Q3](#)

182 VSO ([TCO0027](#)) para 5

110. The Partnership for Transparency Fund also highlighted that tackling corruption “requires a free and well-supported civil society sector working in a relatively enabling environment”.¹⁸³ Because of this, it expressed disappointment at the closure of DFID’s Governance and Transparency Fund (GTF) which aimed to support citizens to hold their governments to account.¹⁸⁴ Although alternative support is available for such activities through country offices and other programmes (such as the Global Innovation Fund or Making Voices Count) it is argued that the GTF had clear advantages. These included the multi-country nature of the GTF programme, which allowed for learning across different environments, the ability to fund longer-term projects of up to five years, the strong partnerships fostered between NGOs from the Global North and Global South, and the ability for sub-grants to be awarded to smaller, local organisations which—it is argued—lowered DFID’s transaction costs.¹⁸⁵

Whistleblowers

111. Protection of whistleblowers is essential, to ensure citizens, civil society and the media feel safe to expose corruption where it is found. Professor Indira Carr emphasised this in her written evidence to the inquiry:

“[...] it is important that civil society is free to voice concerns without fear [...] protection of the media and whistleblowers is also important. There are instances where investigative journalists have been arrested or killed and informants harassed. In a climate of intimidation, regardless of the completeness of anti-corruption strategies, the approaches to tackling corruption are unlikely to succeed.”¹⁸⁶

Professor Carr highlighted the need for DFID and the FCO to encourage partner governments to guarantee protections for whistleblowers. She alleged that, “Whistleblower protection has not been taken seriously by developing states. For instance, within Africa only Ghana and South Africa have whistleblower protection legislation.”¹⁸⁷ During the inquiry concerns were also raised with us about the protections in place for whistleblowers bringing evidence of corruption to the attention of UK Government officials in other countries.

112. The Minister of State for International Development reinforced the importance of publically available data, stating that civil society would be empowered by “the production of the transparent data that will result from public registers of beneficial ownership, and the tax data—the other data that will be made public”.¹⁸⁸ However, he also emphasised that the space for civil society to operate was closing in many of the countries they are working in.¹⁸⁹ Phil Mason OBE, Senior Anti-Corruption Adviser, added that organisations such as Transparency International had raised concerns with them about their activists.¹⁹⁰

183 Partnership for Transparency Fund (TCO0021) p. 1

184 DFID, [Guidance: Governance and Transparency Fund \(GTF\)](#), accessed 12 October 2016

185 Partnership for Transparency Fund (TCO0021) para 7 & 8

186 Professor Indira Carr (TCO0009) para 23

187 Professor Indira Carr (TCO0009) para 24

188 [Q69](#)

189 [Q69](#)

190 [Q69](#)

113. Civil society has a vital role to play in anti-corruption efforts and the availability of data is essential to empower citizens to hold perpetrators to account. Civil society activists and journalists who may come forward as whistleblowers exposing incidences of corruption must also be protected, but there are concerns that in many countries the space for individuals and organisations to speak out is closing.

114. *DFID and the FCO should work with governments in its priority countries to encourage greater protections for whistleblowers, including through legislation. The UK Government must also ensure that it has sufficient protections and mechanisms in place for whistleblowers that come to officials in overseas posts with evidence of corruption. The Government should lay out these processes clearly in its response to this Report.*

115. *DFID should also acknowledge that civil society has a vital role to play in anti-corruption efforts and outline how it will engage with local civil society actors in its forthcoming anti-corruption country strategies.*

Measuring success

116. As it is very difficult to measure corruption, it is also very difficult to evaluate the success of anti-corruption interventions. For those implementing partners reporting into DFID, to whom results and value for money are quite rightly crucial, this presents a problem for work in this area where it could be argued that a certain element of ‘trial and error’ and allowance for failure is required. As Gareth O’Hagan from Adam Smith International told us:

“The systems that DFID has in place currently tend to be quite rigid, where there is a clearly designed programme of work with clearly defined results. That is very important because we need to demonstrate and achieve value for money and impact. We very much welcome that and like working with that. However, it is not suitable to all types of project and all types of intervention. Anti-corruption work and political economy work are very good examples of where it is not the best way to go about things.”¹⁹¹

117. Charles Kenny of the Center for Global Development told us, however, that, “While we struggle to measure or detect corruption, we can measure results”.¹⁹² He went on to say that:

“Development results are far harder to hide than is corruption. We can measure outputs and outcomes related to corruption like electricity transmission and distribution losses, road quality, test scores or indicators covering outcomes like do people with driving test pass know how to drive? Output measures are easier to compile with accuracy, and are likely to far better indicate reduction in the development impact of corruption and poor governance.”¹⁹³

118. Professor Heywood criticised the lack of a monitoring and evaluation framework “against which to measure impact” in DFID’s anti-corruption country strategies.¹⁹⁴

191 [Q32](#)

192 Charles Kenny ([TCO0020](#)) para 17

193 Charles Kenny ([TCO0020](#)) para 17

194 Professor Paul Heywood ([TCO0004](#)) para 8

However, he also admitted that we cannot set expectations too high because of the difficulties in measuring success, due to the “very nature of corruption as a largely hidden activity” and—as highlighted earlier in the Report—the limits on being able to demonstrate any real impact over three years, which was “a wholly unrealistic time frame in which to identify clear impact”.¹⁹⁵ He also told us:

“To assess progress, it is essential to develop specific, targeted and preferably quantifiable benchmarks against which to measure change (for instance, in regard to the operation of public financial management structures, procurement systems, oversight agencies, civil society initiatives, transparency and open data developments and so forth), rather than using generic measures such as national-level perceptions surveys. It is important to remain aware, however, that causality and attribution are fiendishly intractable problems to address.”¹⁹⁶

119. The evidence suggests that measuring the success of anti-corruption programmes is immensely difficult as it is difficult both to measure results and to attribute results to any particular intervention.

120. *As it is difficult to measure results, and there is still insufficient evidence to determine ‘what works’ in its anti-corruption interventions in its priority countries, DFID needs to ensure that it allows flexibility in its anti-corruption reporting frameworks to ensure that responses to corruption can be innovative and adaptable. Whilst it is crucial to ensure value for money, anti-corruption programmes involve inherent risk and the outcomes of the programme may not always be as expected. DFID must find ways to ensure it is monitoring progress, whilst not constraining programmes to a very specific set of results. DFID should include details of its monitoring frameworks in its new anti-corruption country strategies.*

195 Professor Paul Heywood ([TCO0004](#)) para 8

196 Professor Paul Heywood ([TCO0004](#)) para 11

Conclusions and recommendations

The UK Government approach to tackling corruption overseas

1. Policy coherence across Government on its approach to anti-corruption is essential to ensure that DFID's efforts to reduce corruption in developing countries are not undermined by broader policies and programming pursued by other Government departments. (Paragraph 16)
2. Given the amount of money that is laundered through the UK, we welcome the Action Plan for Anti-Money Laundering and Terrorist Financing launched in April 2016 and look forward to seeing this plan implemented in its entirety by the new Government. (Paragraph 20)
3. *We recommend that the Government consider conducting a thorough assessment of money that has already been laundered through the UK and continue to lobby for the same level of transparency and accountability to be applied in the UK's Overseas Territories and Crown Dependencies.* (Paragraph 21)
4. The Government has so far failed to persuade the UK's Overseas Territories and Crown Dependencies to create central public registers of beneficial ownership. Although a number of stakeholders have suggested the Government could compel them to act, in practice this could raise constitutional questions about their self-determination and (qualified) constitutional autonomy. However, lack of transparency in the Overseas Territories and Crown Dependencies will significantly hinder efforts to curb global corruption and continue to damage the UK's reputation as a leader on anti-corruption. It is disappointing that the Government has missed an opportunity to build on the momentum of the Anti-Corruption Summit. (Paragraph 28)
5. *The Government must use the full weight of its influence to lobby the UK's Overseas Territories and Crown Dependencies to increase transparency by creating public beneficial ownership registers.* (Paragraph 29)
6. Public country-by-country reporting of multinationals' profits and payments to governments will enable citizens, civil society and journalists in the countries where they operate to check whether companies are paying their fair share of tax. We therefore warmly welcome the Government's decision to accept an amendment to the Finance Bill 2016 which will permit the Treasury to make country-by-country reporting public. (Paragraph 33)
7. *The amendment to the Finance Act 2016 allows, but does not commit, the Government to publication of country by country reports produced by multinational enterprises. We urge the Government to publically commit to making country by country reporting by UK-based multinational enterprises public. This will enable non-governmental stakeholders in developing countries to hold the companies—and their governments—to account if appropriate levels of tax are not being paid.* (Paragraph 34)
8. A large number of major oil, gas and mining companies, including those engaged in commodity trading, are registered or listed in the UK. Because of this, by

tightening its regulations on transparency the Government can play an important role in rooting out corruption that is negatively impacting resource-rich developing countries like Nigeria. (Paragraph 37)

9. *We welcome the Government's continued commitment to tackling corruption in the extractive industries and encourage it to engage with Publish What You Pay's suggestions on commodity trading to see what more can be done to encourage greater transparency.* (Paragraph 38)
10. *We welcome the Government's announcement that it will develop a cross-government Anti-Corruption Strategy and ask that it provides us with an update on progress and a timeline for publication of the Strategy, which is due to be released before the end of 2016.* (Paragraph 44)
11. We thank the Government's Anti-Corruption Champion, Rt Hon. Sir Eric Pickles MP, for meeting with the Committee privately in advance of the UK Anti-Corruption Summit to discuss its aims and possible outcomes. However, although we understand that non-Cabinet members may have more time to dedicate to the post, we agree with the view that a Cabinet-level appointment to the post of Anti-Corruption Champion would enable them to exert greater influence and ensure more effective coordination at the highest levels of Government. (Paragraph 50)
12. We welcome the establishment of the Joint Anti-Corruption Unit (JACU), based in the Cabinet Office, as a mechanism for ensuring greater cross-government coordination on anti-corruption efforts. (Paragraph 51)
13. We understand the concerns that there is not yet an official parliamentary mechanism for holding the Champion to account on the progress of the UK Anti-Corruption Plan and the suggestion that the Champion produces an annual report to Parliament. We note that since this recommendation was submitted to the Committee, the Government has released a Progress Update on the Anti-Corruption Plan which was brought to the attention of the House in a written statement from John Hayes MP, the then Minister for State and Security at the Home Office, on behalf of the Minister and the Anti-Corruption Champion. (Paragraph 52)
14. *We recommend that the Government announce the appointment—or reappointment—of the Anti-Corruption Champion as soon as possible, in order to show its continued commitment to tackling corruption. We believe that this position should be a Cabinet-level appointment. A Cabinet-level Champion would be able to exert more influence, encourage a coordinated approach and ensure that anti-corruption efforts remain a key priority at the highest levels of Government.* (Paragraph 53)
15. *We also urge the Government to formalise the Joint Anti-Corruption Unit (JACU) currently based at the Cabinet Office, in recognition of the fact that tackling corruption at home and overseas requires coordinated delivery of the UK Anti-Corruption Plan and forthcoming Anti-Corruption Strategy across Government.* (Paragraph 54)
16. We remain concerned that discussions and decisions on international cooperation in tax matters are happening primarily through the OECD. We understand the Government's reservations with regards to the previously proposed upgrading of the UN Tax Committee, and concern that there would be duplication with the work

the OECD is conducting. We also welcome the work that the OECD has undertaken through its Base Erosion and Profit Shifting (BEPS) work. However, international tax discussions must be fully reflective of international concerns, including those of developing countries, and we remain concerned that the OECD—due to its composition—is not adequately reflecting the needs of the poorest countries in its policy outcomes. (Paragraph 58)

17. *The Government should reconsider whether the OECD is the best forum for discussions and decisions on international tax matters. If the Government believes it is, then more must be done to ensure the voices of developing countries are heard within this forum and that policy outcomes are reflective of the needs of both developed and developing countries. The Government should provide us with an update on work in this area.* (Paragraph 59)
18. *As the OECD's base erosion and profit shifting (BEPS) work is rolled out to different countries, the OECD should consult developing countries regularly on the effectiveness of the measures in preventing base erosion and profit shifting from their jurisdictions and seek views on suggested modifications or enhancements. As a key OECD member, the UK Government should encourage and support this action to ensure that developing, as well as developed, countries benefit fully from this initiative.* (Paragraph 60)
19. The UK has shown strong leadership on anti-corruption, particularly over the last six years, but recent revelations such as the Panama Papers show how far the UK needs to go to effectively tackle corruption both in the UK and overseas. It is essential that momentum is not lost in the wake of the decision to leave the European Union, when laws, regulations and trading arrangements are reviewed. (Paragraph 63)
20. *In advance of its negotiations to leave the European Union, the Government must consider the ramifications of the UK's exit on the laws and regulations designed to curb corruption both here and overseas, such as the provisions on extractive industries transparency included in the EU Accounting Directive. The Government must ensure that tackling corruption is not deprioritised as we negotiate our European exit and that the momentum to tackle corruption, and the alliances the UK has made with a number of other European countries in this regard, are not lost. We would encourage the Government to continue to use its influence with other European countries to encourage them to commit to publishing country-by-country reporting data for multinational enterprises, as it is now permitted in the UK.* (Paragraph 64)
21. Strong leadership will be essential to tackling global corruption. We commend the leadership shown by the former Prime Minister, Rt Hon. David Cameron, on tackling global corruption and the positive contribution this has made to shift the global conversation. However, we recognise that comprehensive follow-up action is now needed. We hope that the new Prime Minister, Rt Hon. Theresa May MP, will continue to put anti-corruption measures at the forefront of the Government's agenda and that this will lead to tangible policy changes across Government. (Paragraph 67)

DFID's anti-corruption work

22. We welcome the introduction of DFID's anti-corruption country strategies, following ICAI's 2013 review. However, corruption is complex and deep-rooted and requires longer-term planning and commitment if it is to be addressed properly by DFID in the countries where it is working. The evidence presented to us strongly indicates that the five year plans proposed by the Government, although longer than the previous three year plans, are insufficient. (Paragraph 74)
23. *DFID's future anti-corruption country strategies must cover a minimum timescale of ten years. Individual projects of three to five years may be undertaken as part of—but not in isolation from—a longer-term strategy. We understand the limitations presented by our five year political cycle in the UK and the need to monitor results and ensure value for money. However, this should not prevent an overarching country strategy from covering a ten year timescale. These strategies could retain enough flexibility to adapt to changing political and economic environments, and to allow for the kind of innovative and adaptive programming that is necessary to combat corruption, whilst ensuring a long-term financial and institutional commitment to tackling corruption in partner countries.* (Paragraph 75)
24. Other Government Departments (OGDs), aside from DFID and the FCO, are increasingly working in developing countries and using ODA to fund their activities. It is essential that the approach towards tackling corruption in any particular country is coordinated and coherent across all UK Government activity. We therefore welcome DFID's commitment to producing enhanced anti-corruption country strategies which involve all Government departments. Given the increasing presence of OGDs in countries where DFID has bilateral programmes, it is essential that the Government's approach is coordinated and coherent and that all officials are pulling in the same direction in their efforts to combat corruption. (Paragraph 79)
25. We understand that political events, including the EU referendum and the Government reshuffle, have led to the delay in publication of the new anti-corruption country strategies. However, we are concerned that allowing domestic political changes to stall the release of important strategy documents for six months will have had an adverse effect on in-country programming, preventing country offices from progressing vital work. (Paragraph 81)
26. *DFID must publish its anti-corruption country strategies, alongside its overdue internal reviews and individual country plans, as a matter of urgency. Allowing vital policy documents to be stalled for so long is disappointing and risks hampering its efforts to tackle corruption in its priority countries, to the detriment of the countries it supports.* (Paragraph 82)
27. It is clear that more research is required to establish 'what works' when attempting to tackle corruption in partner countries. We therefore welcome DFID's considerable recent investment in the Anti-Corruption Evidence (ACE) programme. (Paragraph 86)

28. Alongside other donors engaging in anti-corruption work, DFID must allocate appropriate resources to establishing the effectiveness of its work in this area. Linking experience from country offices with its ongoing research will be crucial, as well as supporting new and innovative ways of working. (Paragraph 87)
29. *DFID has already invested in significant research into anti-corruption efforts. However, it must ensure that where research is being carried out, particularly but not exclusively where it is funded by DFID, its findings are being effectively fed back into the work it is conducting on the ground. DFID must ensure that it references relevant research and clearly shows the evidence base for the planned approach in each country when it publishes its new anti-corruption country strategies.* (Paragraph 88)
30. DFID has committed to spending 50% of its budget in fragile states. In these countries, attempts to tackle corruption must be considered very carefully. Evidence to us has strongly suggested that anti-corruption efforts can have adverse effects in unstable situations. We welcome DFID's understanding of these challenges and its approach to ground its work in broader state and peace-building processes. However, when DFID is committed to spending half of its budget on fragile states, this may limit the volume of anti-corruption work it is able to carry out. (Paragraph 91)
31. We welcome DFID's innovative approaches to thinking and working politically, which evidence suggests is vital when working to tackle corruption in its priority countries. (Paragraph 94)
32. Thinking and working politically has proven to be a useful approach for DFID in Nigeria. DFID must ensure that lessons are being shared between country programmes, and that research in this new and innovative area is disseminated, to ensure that all in-country staff are equipped with the resources and information to start considering similar ways of working that are sensitive to the political context. (Paragraph 95)
33. A compelling business case that clearly shows the economic benefits of improving a country's credit rating by improving governance and tackling corruption may encourage more of DFID's partner governments to take action. Highlighting the link between transparent governance and anti-corruption measures, and increased investment and lower borrowing costs could encourage more governments to take action. We are pleased to hear that the Royal United Services Institute (RUSI) are already in discussions with DFID staff about how best to use this approach in its priority countries. (Paragraph 104)
34. As representatives and legislators, parliamentarians have a crucial role to play in exposing corruption and legislating against it and this is an area which is often neglected by DFID. Strengthening the capacity of parliaments and parliamentarians can only ever be part of a broader strategy to tackle corruption and the approach must be tailored to the context. However, it is important that DFID recognises the importance of legislatures and legislators in the fight against corruption and considers their role when designing each of its anti-corruption country strategies. (Paragraph 107)

35. *DFID must fulfil its commitment to include parliaments in its new anti-corruption country strategies, highlighting the role they will play in efforts to curb corrupt activities in its partner countries. We look forward to seeing this when the new anti-corruption country strategies are published. (Paragraph 108)*
36. Civil society has a vital role to play in anti-corruption efforts and the availability of data is essential to empower citizens to hold perpetrators to account. Civil society activists and journalists who may come forward as whistleblowers exposing incidences of corruption must also be protected, but there are concerns that in many countries the space for individuals and organisations to speak out is closing. (Paragraph 113)
37. *DFID and the FCO should work with governments in its priority countries to encourage greater protections for whistleblowers, including through legislation. The UK Government must also ensure that it has sufficient protections and mechanisms in place for whistleblowers that come to officials in overseas posts with evidence of corruption. The Government should lay out these processes clearly in its response to this Report. (Paragraph 114)*
38. *DFID should also acknowledge that civil society has a vital role to play in anti-corruption efforts and outline how it will engage with local civil society actors in its forthcoming anti-corruption country strategies. (Paragraph 115)*
39. The evidence suggests that measuring the success of anti-corruption programmes is immensely difficult as it is difficult both to measure results and to attribute results to any particular intervention. (Paragraph 119)
40. *As it is difficult to measure results, and there is still insufficient evidence to determine 'what works' in its anti-corruption interventions in its priority countries, DFID needs to ensure that it allows flexibility in its anti-corruption reporting frameworks to ensure that responses to corruption can be innovative and adaptable. Whilst it is crucial to ensure value for money, anti-corruption programmes involve inherent risk and the outcomes of the programme may not always be as expected. DFID must find ways to ensure it is monitoring progress, whilst not constraining programmes to a very specific set of results. DFID should include details of its monitoring frameworks in its new anti-corruption country strategies. (Paragraph 120)*

Annex: Letter from the Chair to the Secretary of State regarding Tackling corruption overseas, 26 April 2016

Rt Hon Justine Greening MP
Secretary of State
Department of International Development

26 April 2016

Tackling corruption overseas

Dear Justine,

As you will be aware, the International Development Committee is currently undertaking an inquiry into the approach of DFID, and the wider UK Government, to *Tackling corruption overseas*. We have received 28 submissions of written evidence¹⁹⁷ and held an initial oral evidence session on Tuesday 22 March. Committee members also met informally with Rt Hon Sir Eric Pickles MP, UK Anti-Corruption Champion, on 20 April to discuss the ambition for the Prime Minister's Anti-Corruption Summit on 12 May.

The Committee had originally planned to produce a report in advance of the Summit. However, given the response we have received to the inquiry, and the increased public interest in the UK's anti-corruption efforts following the release of the Panama Papers, we will be extending our timeframe and inviting evidence from a Minister after the Summit before concluding our inquiry. In advance of the Summit, the Committee was keen that I formally draw your attention to some of the key issues raised by the oral evidence, in order to inform the agenda.

The UK must get its own house in order

We heard from Alina Rocha Menocal, Senior Research Fellow at the University of Birmingham:

“Here the real imperative, especially for the UK but also other western countries, is to get their own house in order, and start with the understanding that this is an international, global problem that has global causes. If the UK is acting as a hub that enables organised crime then there is a need for self-reflection. Having that, rather than a paternalistic look at what other countries are doing, at this level is very important.”¹⁹⁸

Shauna Leven, Director of Anti-Corruption Campaigns at Global Witness, told us:

“For the UK to continue to show leadership on the anticorruption agenda by cleaning up our own house. That includes extending our own public registry of beneficial ownership information to the overseas territories, better due diligence on the Tier 1 (Investor) visas, and cleaning up the facilitators of

197 All evidence to the inquiry can be found on the 'Tackling Corruption Overseas' webpage: <http://www.parliament.uk/business/committees/committees-a-z/commons-select/international-development-committee/inquiries/parliament-2015/tackling-corruption-overseas/>

198 Q18

corruption. We have not really spoken about that, but that would include ensuring that banks face meaningful consequences for laundering money and that lawyers and estate agents and accountancies are appropriately regulated.”¹⁹⁹

Prioritising enforcement

Aled Williams, Senior Adviser at the U4 Anti-Corruption Resource Centre stated:

“The most recent large initiatives that we have seen have been things like UN conventions, such as the UN Convention against Corruption, and EU-level conventions as well. I would agree that we have more or less the normative frameworks in place for understanding and promoting an anti-corruption approach. What is important is the enforcement aspect.”²⁰⁰

Increasing transparency

We were told by Oliver Pearce, Policy Manager at Oxfam GB:

“Increased transparency through public country-by-country reporting, a commitment by all those attending the summit to implement it in their own countries, and alongside that public registries of beneficial ownerships, including action plans announced by the overseas territories. That would be great leadership and a great step forward for developing countries, and a precursor to a second generation of reforms of international tax systems.”²⁰¹

Gareth O’Hagan, Head of Extractive Industries Governance Team at Adam Smith International said:

“I will go back to my point on this charter for probity: a commitment to develop a charter for probity²⁰² that includes many of the elements that we have discussed today, such as the beneficial ownership register, strong public financial management systems and probably a long list of indicators that can demonstrate that a country is meeting a lot of the requirements to tackle corruption.”²⁰³

Robert Barrington, Executive Director of Transparency International UK, concluded by reinforcing a number of these themes, telling us:

“First of all, do not let the criminals spoil things. Keep them out, or if they attend shut them up. The second thing is that the UK needs to get its house in order if it is going to have any credibility talking about these things. We have mentioned five things we think are the UK getting its house in order: proper funding of the Serious Fraud Office, a plan for how to deal with the overseas territories, two issues about the City and the role in global money-

199 Q39

200 Q18

201 Q39

202 Adam Smith International’s submission on ‘An International Charter for Probity’ is included as an annex

203 Q39

laundering, and finally—and I say this with great respect to the people here—acknowledging that there are corruption issues in UK politics, and those need to be addressed as well.”²⁰⁴

The Committee will return to this topic in July and proposes to examine the outcomes of the Summit and the extent to which they align with the priorities highlighted by our witnesses, and to assess the contribution DFID, and the broader UK Government, are making to tackling corruption overseas.

I would like to use this opportunity to formally invite the Department to provide oral evidence to the Committee at that later stage.

Yours sincerely,

A handwritten signature in blue ink that reads "Stephen Twigg". The signature is written in a cursive, flowing style.

Stephen Twigg MP

Chair of the Committee

Copied to: Rt Hon David Cameron MP
Rt Hon Sir Eric Pickles MP

Appendix: Letter from the Secretary of State to the Chair regarding Tackling corruption overseas, 11 May 2016

Tackling corruption overseas

Thank you for your letter of 26 April updating me on the progress of your inquiry.

I read with interest the points you highlighted from those who have already given evidence to the Committee. These focused on the UK getting its own house in order, prioritising enforcement, and increasing transparency.

The Government's objectives for the London Anti-Corruption Summit align strongly with these concerns. The Government's priorities for the Summit are for agreement on a package of practical steps to **expose** corruption so there is nowhere to hide, to **punish** the perpetrators and support those affected by corruption, and to **drive out** entrenched corruption wherever it exists.

The Department is making a significant contribution to the proposals for the Summit. We look forward to being able to share our perspectives on the outcomes with the Committee next month. I can confirm that the Minister of State, the Rt Hon Desmond Swayne TD MP, will be pleased to give evidence.

JUSTINE GREENING

Formal Minutes

Tuesday 11 October 2016

Members present:

Stephen Twigg, in the Chair

Fiona Bruce

Jeremy Lefroy

Dr Lisa Cameron

Albert Owen

Draft Report (*Tackling corruption overseas*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 120 read and agreed to.

Annex agreed to.

Summary agreed to.

A Paper was appended to the Report.

Resolved, That the Report be the Fourth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available (Standing Order No. 134).

[Adjourned till Tuesday 18 October at 9.00 a.m.]

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

Tuesday 22 March 2016

Question number

Professor Paul Heywood, Sir Francis Hill Professor of European Politics, University of Nottingham, **Alina Rocha Menocal**, Research Fellow, Overseas Development Institute and University of Birmingham, and **Aled Williams**, Senior Adviser, U4 Anti-Corruption Resource Centre

[Q1–18](#)

Sauna Leven, Director of Anti-Corruption Campaigns, Global Witness, **Robert Barrington**, Executive Director, Transparency International UK, **Gareth O'Hagan**, Head of Extractive Industries Governance Team, Adam Smith International, and **Oliver Pearce**, Policy Manager, Oxfam GB

[Q19–39](#)

Tuesday 28 June 2016

Rt Hon Sir Desmond Swayne TD MP, Minister of State, **Phil Mason OBE**, Senior Anti-Corruption Adviser, Department for International Development, and **Richard Riley**, Director, Director Serious and Organised Crime, Home Office

[Q40–73](#)

Published written evidence

The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

TCO numbers are generated by the evidence processing system and so may not be complete.

- 1 Adam Smith International ([TCO0022](#))
- 2 Adam Smith International (Annex A) ([TCO0031](#))
- 3 Alina Rocha Menocal ([TCO0006](#))
- 4 Bond Anti-Corruption Group ([TCO0016](#))
- 5 CAFOD ([TCO0017](#))
- 6 Center for Global Development ([TCO0007](#))
- 7 Charles Kenny ([TCO0020](#))
- 8 Christian Aid ([TCO0013](#))
- 9 Corruption Watch ([TCO0014](#))
- 10 Department for International Development ([TCO0025](#))
- 11 Department for International Development (Annex A) ([TCO0026](#))
- 12 Department for International Development (Annex B) ([TCO0032](#))
- 13 Dr Heather Marquette ([TCO0029](#))
- 14 Global Witness ([TCO0018](#))
- 15 IBLF Global ([TCO0010](#))
- 16 Mat Tromme ([TCO0019](#))
- 17 Mr Hamish Goldie-Scot ([TCO0012](#))
- 18 Mr Jie Sheng Li ([TCO0003](#))
- 19 ONE Campaign ([TCO0023](#))
- 20 Oxfam GB ([TCO0028](#))
- 21 Partnership for Transparency Fund ([TCO0021](#))
- 22 Professor Indira Carr ([TCO0009](#))
- 23 Professor Mushtaq H. Khan ([TCO0030](#))
- 24 Professor Paul Heywood ([TCO0004](#))
- 25 Professor Richard Rose ([TCO0024](#))
- 26 Publish What You Pay & others ([TCO0015](#))
- 27 Royal United Services Institute ([TCO0001](#))
- 28 Transparency International & Transparency International UK ([TCO0011](#))
- 29 U4 Anti-Corruption Resource Centre ([TCO0008](#))
- 30 UK Anti-Corruption Forum ([TCO0005](#))
- 31 VSO ([TCO0027](#))

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

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First Report	Syrian refugee crisis	HC 339
Second Report	Ebola: Responses to a public health emergency	HC 338
Third Report	UK aid: Allocation of resources: interim report	HC 927
Fourth Report	Crisis in Yemen	HC 532
Fifth Report	The World Humanitarian Summit: priorities for reform	HC 675
First Special Report	The Future of UK Development Co-operation: Phase 2: Beyond Aid: Government Response to the Committee's Tenth Report of Session 2014–15	HC 339
Second Special Report	Jobs and Livelihoods: Government Response to the Committee's Twelfth Report of Session 2014–15	HC 421
Third Special Report	DFID's bilateral programme in Nepal: Government Response to the Committee's Fourteenth Report of Session 2014–15	HC 422
Fourth Special Report	Department for International Development's Performance in 2013–14: the Departmental Annual Report 2013–14: Government Response to the Committee's Fourteenth Report of Session 2014–15	HC 420
Fifth Special Report	Syrian refugee crisis: Government Response to the Committee's First Report of Session 2015–16	HC 902
Sixth Special Report	Ebola: Responses to a public health emergency: Government Response to the Committee's Second Report of Session 2015–16	HC 946

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First Report	UK implementation of the Sustainable Development Goals	HC 103
Second Report	DFID's programme in Nigeria	HC 110
Third Report	The use of UK-manufactured arms in Yemen	HC 679
First Special Report	UK aid: allocation of resources: interim report: Government Response to the Committee's Third Report of Session 2015–16	HC 256
Second Special Report	Crisis in Yemen: Government Response to the Committee's Fourth Report of Session 2015–16	HC 557
Third Special Report	The World Humanitarian Summit: priorities for reform: Government Response to the Committee's Fifth Report of Session	HC 556

Fourth Special Report	UK implementation of the Sustainable Development Goals: Government Response to the Committee's First Report of Session 2016–17	HC 673
Fifth Special Report	DFID's programme in Nigeria: Government Response to the Committee's Second Report of Session 2016–17	HC 735