

# **CORRUPTION AND MANAGING THE PROJECT CYCLE**

The Role of Corrupt Practices in NGO Cooperation in Pakistan

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## **ABSTRACT**

### **CORRUPTION AND MANAGING THE PROJECT CYCLE**

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This Master's thesis research explores the role of corrupt practices in development projects implemented by local NGOs in Pakistan. The intention is not to expose particular cases of corruption, but to study corruption risks and vulnerabilities in different phases of the project cycle and financial management. The study also explores other program support functions, i.e. procurement and human resources, and their vulnerability to corruption. The contribution of this research to academic literature is increasing awareness of NGO corruption and its different forms in Pakistan from the project management point of view.

This is a qualitative study. The empirical data is collected by interviewing development experts in Pakistan. The data consists of six interviews and the purposive sampling method is used to select the respondents. The respondents form intentionally a heterogeneous group, who represent different embassies, international organizations and INGOs. The focused interview method is used.

The empirical findings show various challenges related to corruption faced in NGO cooperation in Pakistan. Those include e.g. donors having limited access to the field, thus heavily relying on narrative and financial reporting; tight family, ethnic and political linkages that are affecting both donors' and NGOs' decision-making processes and hiring culture of NGOs; and financial management is not being prioritized by either donors or implementing organizations. The study recognized that managing the NGO development projects is in many respects a balancing act, and recommends a wider distribution of financial information with beneficiaries as measure to increase transparency and downward accountability. Similarly, the donors are strongly encouraged to proactively share their projects' financial information with other donors. It is also recommended to continue the research and further identify the best practices to prevent corruption in this particular context.

**Keywords:** Corruption, Corruption-Pakistan, Pakistan, Development cooperation, Non-governmental organizations, Project cycle, Financial management.

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## ABBREVIATIONS

ADB	Asian Development Bank
AJK	Azad Jammu Kashmir
CBO	community based organization
CIA	Central Intelligence Agency
CSO	civil society organization
DAC	OECD Development Assistance Committee
DEVI	development and international cooperation
EC	European Commission
EU	European Union
FATA	Federally Administrated Tribal Areas
FFN	foreign-funded non-governmental organizations
FIA	Federal Investigation Agency
GDP	gross domestic product
GoP	Government of Pakistan
HRCP	Human Rights Commission of Pakistan
IDP	internally displaced person/people
IMF	International Monetary Fund
INGO	international non-governmental organization
ITAD	Information Training and Agricultural Development Ltd.
KP	Khyber Pakhtunkhwa
LFA	logical framework approach
LFN	locally-funded non-governmental organizations
MFA	Ministry for Foreign Affairs
MP	Member of Parliament
NAB	National Accountability Bureau
NAO	National Accountability Ordinance
NACS	National Anti-Corruption Strategy
NCPS	National Corruption Perception Survey
NICL	National Insurance Corporation Limited
NGO	non-governmental organization
NRO	National Reconciliation Ordinance
OECD	Organisation for Economic Co-operation and Development
OIC	Organisation of Islamic Cooperation
PCI	Practical Concepts Incorporated
PCM	project cycle management
PCP	Pakistan Centre for Philanthropy
PNF	Pakistan NGO Forum
PPC	Pakistan Penal Code
PPP	Pakistan People's Party
PPP	purchasing power parity
TI	Transparency International

TIP	Transparency International Pakistan
TJN	Tax Justice Network
UN	United Nations
UNCAC	United Nations Convention against Corruption
UNDP	United Nations Development Programme
UNODC	United Nations Office of Drugs and Crime
UNODCCP	United Nations Office of Drug Control and Crime Prevention
US	United States
USA	United States of America
USAID	US Agency of International Development
WB	World Bank
WFP	World Food Programme

## PREFACE

After considering quite a few different topics for Master's thesis over the years and the constant postponement of finalizing my studies, the thesis idea finally clarified in April 2011 on the lush slopes of Kashmiri mountains in Pakistan. The idea, non-governmental organization (NGO) corruption in Pakistan, was initially proposed by my supervisor at work, Ambassador Osmo Lipponen. By then I had worked more than five and a half years in Pakistan in the development cooperation sector in the Embassy of Finland in Islamabad, and had some first-hand experience on the challenges to ensure the full accountability and transparency of development aid. I had also managed the local cooperation fund supporting NGOs, which had given me a good insight into the realization of development projects in Pakistan. Combined with my local connections this gave me a good starting point to execute this study.

By choosing corruption as my research topic, I took also into account my diverse and wide academic background. I am majoring in two separate faculties of the University of Jyväskylä; the Faculty of Social Sciences and School of Business and Economics. I wished to make good use of both fields of my expertise and to include both economic and development aspects in this research work. Therefore, with the permission of all my three professors this Master's thesis is jointly prepared for my two major subjects; specifically accounting, and social and public policy with specialization in development and international cooperation. Each major will receive their own copy based on the same empirical data.

Corruption is an enormous challenge in Pakistan, but there are ways to mitigate the effects of it. By completing this thesis, I hope to create awareness of the role of corrupt practices in NGO cooperation. I wish this information will help my fellow development practitioners in Pakistan to prevent corruption in the projects they fund.



## ACKNOWLEDGEMENTS

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Special thanks go to my former boss, Ambassador Osmo Lipponen, who gave me the final push and helped me to identify my research topic during our field visit to Pakistani Administrated Kashmir in April 2011. He also supported my study leave request, which enabled me to start the research process and data collection in summer 2011.

I am grateful to my home city Saarijärvi for providing excellent public library services. Finding a peaceful writing space in the second floor of the Saarijärvi Library was very important as it helped me to concentrate in writing. The staff of the library was always very helpful and friendly. I am also grateful to Hammerdata in Tampere for fixing the broken hard drive of my laptop in summer 2012. Without their expertise I would have lost a lot of thesis background material, original interview recordings and the latest draft of my thesis including three weeks of work, of which I did not have a back-up copy.

Special thanks go to my friend Katja. I wish to thank her for her continuous support, excellent counseling on academic writing, and commenting and proofreading the draft of my study.

And last but definitely not least, I wish to thank my mum and dad, who have over the years consistently encouraged me to write my thesis. They provided as always their warm support and care when I stayed at home in Saarijärvi for several months during my writing process in autumn 2011 and autumn 2012 - winter 2013.

# 1 INTRODUCTION

## 1.1 Overview of the Study

Over the past two decades donor agencies have increasingly recognized the urgent necessity to address corruption and fraud in the international development projects and programs they fund. However, more emphasis is put on the corruption prevention in the bilateral and multilateral development cooperation and less in the development assistance channeled through non-governmental organizations (NGO), although it constitutes a significant proportion of many donors' portfolios. This can be noticed e.g. by reading "Preventing Corruption: A Handbook of Anti-Corruption Techniques for Use in International Development Cooperation", which was published by the Ministry for Foreign Affairs (MFA) of Finland in 2003. Its main focus is on the bilateral and multilateral development cooperation, which are implemented through the government of a beneficiary country and through international organizations, like the United Nations (UN). Only one page in this handbook covers anti-corruption aspects of NGO support.

Instead, NGOs are seen as partners in the anti-corruption work. As Trivunovic (2011, 4) states, NGOs are often favored implementation partners because of their closer ties to communities, particularly in the context where state infrastructure is lacking, or due to the perception that NGOs are less corrupt than the governments of recipient countries. This notion is fully applicable in the context of Pakistan, since the state infrastructure, especially in health and education sectors, is not sufficient, and the government and political leaders are linked to numerous corruption scandals. However, NGOs are not immune to corruption and fraud either.

This study explores corruption in NGO development cooperation, particularly in Pakistan. This research topic is timely and relevant, as anecdotal evidences of NGO corruption in Pakistan are plenty and often heard. However, there is a gap in research as there are only few scientific studies on this topic. There is more scientific research and information available on corruption in public sector in Pakistan. My professional experience on monitoring NGO projects as well as my personal interest in aid delivery also favored selecting this topic.

This research studies common corrupt practices and trends in development projects implemented through NGOs by interviewing development experts in Pakistan. The study has a practical approach, as it looks at the corruption issues through the lens of international development practitioners working in Pakistan. The challenges caused by the different culture and environment will be also raised. Project management aspects will be emphasized and in the empirical findings the different phases of the project cycle and financial management, and the other relevant program support functions, like human resources and procurement, will be

underlined. The contribution of this study to the corruption research is increasing awareness of NGO corruption and its different forms in Pakistan from the project management point of view.

This study includes the following six chapters:

The first chapter of this study, Introduction, offers a short overview of the content of the study and explores definitions of key terms and concepts used in this research such as corruption and civil society. Pakistan, the geographical location of the study, is introduced too. The chapter also presents the objectives and research questions of the study. In the end it shortly discusses the scope of the study.

The second chapter, Theoretical Framework, reviews the theoretical framework pertinent to this study. This includes landmarks of anti-corruption work, theories of corruption including the principal-agent theory, and accountability in the context of NGOs. The chapter further reviews in detail the project approach and project cycle management (PCM), as they are some of the focal theories of this study.

The third chapter of this study, Pakistan & Corruption – Specific Literature Review, explores the corruption situation in Pakistan and reviews the anti-corruption mechanisms and the legal framework in place in Pakistan. It will also review the NGO sector in Pakistan and its regulatory framework and corruption situation.

The research methodology is discussed in the fourth chapter, Methodology. This study is a qualitative research and the main method to gather empirical data has been the expert interviews conducted in Islamabad, the capital of Pakistan. The respondents form a heterogeneous group, as they represent different organizations and are both expatriates and Pakistani nationals. By this method the research can uncover a wide variety of issues related to corruption prevention. This chapter presents in detail the empirical data, the methods of data collection, how the analysis was made and the validity and the reliability of the research. .

The fifth chapter, Empirical Findings, assesses the findings of the field research based on expert interviews. This chapter reviews corruption risks and vulnerabilities in NGO development projects in Pakistan. It emphasizes the different phases of project cycle, the financial management and other relevant program support functions. It will also bring out e.g. issues related to security and discusses negative consequences of the anti-corruption work.

The final sixth chapter, Discussion and Conclusion discusses the empirical findings of this study and their significance in relation to the research questions. It summarizes the main findings and concludes by providing recommendations for further research.

In the end of the study, after the final chapter, the list of references and two annexes are provided. The map of Pakistan and research questionnaire used in this research are attached as an annex.

## 1.2 Definitions and Forms of Corruption

There is no universal or comprehensive definition to what constitutes corrupt act or behavior. The term corruption is defined differently depending on the context and is used as a shorthand reference for a large range of illicit or illegal activities. Even the United Nations Convention against Corruption (UNCAC) itself does not provide a concise definition of corruption (UNODC 2004).

The Merriam Webster's Dictionary defines it as "inducement to wrong by improper or unlawful means (as bribery)" or "impairment of integrity, virtue, or moral principle". The Oxford Dictionaries defines corruption as "dishonest or fraudulent conduct by those in power, typically involving bribery" or secondly as "action or effect of making someone or something morally depraved". Dictionaries contain then both the dishonest or unlawful conduct and the moral aspect of corruption. (ADB)

However, the most common definition of corruption place greater emphasis on the abuse of public power for private gain. Transparency International (TI), the global civil society organization (CSO) leading the fight against corruption, has chosen a clear and focused definition of the term: "Corruption is the abuse of entrusted power for private gain".

Interestingly, the Government of Pakistan (GoP) uses almost the same definition in its National Anti-Corruption Strategy (NACS), in which a short definition of corruption is the following: "The misuse of entrusted power for private benefit".

A broader definition applied in the NACS is:

Corruption involves behaviour on the part of office holders in the public and private sectors, in which they improperly and unlawfully enrich themselves and/or those close to them, or induce others to do so, by misusing the position in which they are placed.

To further specify the term corruption, TI differentiates *according to rule* corruption and *against the rule* corruption. When a bribe is paid to receive preferential treatment for something that the bribe receiver is required to do by law, it is considered as according to rule corruption. On the other hand, when a bribe is paid to obtain services the bribe receiver is prohibited from providing, it is considered as against the rule corruption.

There are also other common distinctions of corruption in literature. Firstly, corruption is divided to *grand corruption* and *petty corruption*. Grand corruption refers to misuse of public power by the heads of state, ministers and senior officials for private gain and includes the exchange of large sums of money and major decisions or contracts. Petty corruption involves low-level officials and refers to smaller sums of money extorted as bribes or embezzlement for carrying out – or not carrying out – their duties or alternatively to illegal use of public resources by these officials. Secondly, corruption is also differentiated between *systemic corruption* and *individual*

*corruption*. Systemic corruption is institutionalized and spread through the entire government or ministry. Instead individual or non-systemic corruption is more isolated and sporadic. (ADB; Cheng & Zaum 2012, 6)

The definitions of corruption have traditionally narrowly focused on public sector, though present-day definitions, e.g. TI's definition, cover the private sector as well. Many public services, like water and electricity, have been prioritized, although still holding their monopoly position in markets. There are also actors, which have pointed out, that TI's definition is still far too narrow. Another international organization The Tax Justice Network (TJN) has indicated that TI's definition ignores the role of the offshore financial system in encouraging and facilitating capital flight and tax evasion, which is playing a major role in corruption. TJN wishes to broaden the definition of corruption and has suggested alternative definitions: "The abuse of the public interest by narrow sectional interests"

The more specific definition of corruption by TJN is: "An activity, which undermines public confidence in the integrity of the rules, systems and institutions that govern society, is corrupt". The advantage of the latter definition is that it focuses more on harmful or dangerous processes and not on bad people.

Due to the complexity and difficulty to define corruption there is also no single list, which would include all various forms and practices of corruption. The UNODCCP (2002, 3) differentiates between eight different forms of corruption: fraud, illegal political, embezzlement, bribery, favoritism, extortion, abuse of discretion and conflicts of interests. However, Tanzi (2000, 24-25) claims that corruption is generally not difficult to recognize, when observed. As this study focuses on the NGO corruption, Trivunovic et al. (2011, 4-5) offers a concrete and practical list, which includes the most common forms and practices of corruption in aid projects implemented by NGOs, most of them relating to financial management, procurement and human resources:

- "Fictitious" NGOs, established solely to generate income for executives or Board members;
- "Double-dipping", or seeking or accepting funds from more than one donor for (parts of) the same project;
- Financial irregularities such as inflated, duplicate, or fictional invoices of goods and services procured for a project;
- Kickback arrangements in procurement of goods or services; in hiring of project staff; or in distribution of goods and services;
- Extortion of bribes or other benefits (including sexual favors) from beneficiaries in order to include them on goods/service distribution lists;
- "Ghost" employees, participants or beneficiaries that inflate the cost of project activities.

It is noteworthy that behaviors and actions, which in some societies might be considered as immoral or unethical and hence misleadingly considered as corruption,

are not listed here. Global general definition of corruption is not including immorality in terms of person's sexuality, use of alcoholic or narcotic substances or other similar characteristics. However, identifying corruption is complicated in different social contexts, when there are different expectations and cultural norms in terms of family and kinship ties, and the distinctions between public and private spheres are blurred. (Cheng & Zaum 2012, 4)

As elaborated above the definition of corruption remains difficult to clearly define. This was also a challenge in the empirical part of this study, as it was difficult to the respondents to draw a line between corruption, bad management and local common customs in the Pakistani context. Corruption is seen as a very extreme term and a lot of ambivalence exists between corrupt and non-corrupt practices. No working definition of corruption was given to the respondents during the interviews by the researcher, as it was scientifically interesting to explore the respondents' views on corruption in the Pakistani context.

### **1.3 Pakistan: Nuclear Weapon, Islamic State and Developing Country**

During her term in 2005-2008, the former Finnish Ambassador to Pakistan, Mrs. Irmeli Mustonen often described Pakistan by three particular characteristics. First, Pakistan has a nuclear weapon, like India, Pakistan's neighboring country in South Asia and a long-time rival. Secondly, Pakistan is the second largest Muslim country in the world after Indonesia and its population is growing rapidly. Thirdly, Pakistan is an unstable developing country with widespread poverty.

All these three characteristics highlighted by Ambassador Mustonen are now described and combined with relevant political, cultural, geographical, economic and development information. These sub-chapters are fairly short and precise, as these chapters cover topics, which each could form their own research subject. The most relevant and substantial topic, corruption in Pakistan, will be discussed in detail later in this study, in Chapter 4: Literature Review. This background information about Pakistan illustrates well the complexities and challenges of the Pakistani society to get a sense of the context of the study and the societal realities in which NGOs operate.

#### **1.3.1 Nuclear Weapon and Complex Politics**

Despite the current democratic multi-party system, the military has traditionally been the most important political force in the country. Over the years the Western type of parliamentary democracy has not enjoyed full support in Pakistan, as the politicians, many of them being feudal landlords or tribal leaders, are often seen too incompetent and too corrupt to govern, and protecting only their own interests. There has been a military rule for nearly half of Pakistan's existence. The latest military coup took place in 1999 and General Pervez Musharraf remained as the President of Pakistan until 2008. (Bennett Jones 2003, 223, 242-244; CIA 2012)

In response to India's nuclear weapons, Pakistan conducted its own nuclear

tests in May 1998 and became the seventh acknowledged nuclear state in the world. This has created a genuine threat of nuclear war in South Asia. (Bennett Jones 2003, 193-194, 212-213) In 2004, the founder of Pakistan's nuclear program Dr. A.Q. Khan confessed to proliferating nuclear weapon technology to Libya, Iran and North Korea (e.g. Sayeed 2010, 38). Alongside nuclear rivalry, Pakistan's relationship with India is complex, as Nadeem Riyaz, Ambassador of Pakistan to Finland, recently confirmed. Pakistan and India are again engaged in a substantive dialogue process, which came to stand-still after the Mumbai terrorist attack in November 2008. Jammu and Kashmir dispute has been unresolved since the partition of Pakistan and India in 1947, but the situation in the area is currently fairly calm and the parties are maintaining cease-fire. However, Kashmir is the world's largest and most militarized territorial dispute. (Riyaz 2012, CIA 2012)

Security is one of the main issues in the country's foreign policy. Pakistan is an ally in the US-led war on terror, but its' relations with USA are like "a rollercoaster with many ups and with many downs" (Riyaz 2012). Pakistan claims that quantifiable losses to its economy due to war on terror is in excess of US\$ 80 billion. In addition, Pakistan has lost more than 40,000 civilians and over 6,500 defense forces and paramilitary personnel in the last 10 years. Regional instability is directly affecting Pakistan, especially the volatile situation of Afghanistan. China is a close ally of Pakistan, so called "all-weather friend". Pakistan is also an active member of the Organisation of Islamic Cooperation (OIC) and the United Nations (UN). (Riyaz 2012)

Pakistan is a federal republic with a parliament, president and prime minister. The Parliament is bicameral consisting of the Senate and the National Assembly. Each province has its own provincial assembly. There is a reserved quota of parliamentary seats for both religious minorities and women. The current the Pakistan People's Party-led (PPP) government has been in power since the parliamentary elections held in February 2008, the next elections will be held in 2013. (CIA 2012) Since 1999 Pakistan has been engaged in a decentralization process and the authorities of provincial and local institutions have been increased (Schultz 2007, 150, 155).

Pakistan is divided administratively into four provinces: Sind, Punjab, Baluchistan and Khyber Pakhtunkhwa (KP). In addition, there are two federally administrated areas: Federally Administrated Tribal Areas (FATA) next to the Afghan border and Islamabad Capital Territory. Pakistan includes de facto also a Pakistani-administrated portion of the disputed Jammu and Kashmir region consisting of two administrative entities: Azad Jammu Kashmir (AJK) and Gilgit-Baltistan. (CIA 2012, Riyaz 2012)

A map of Pakistan is attached as Annex 1. It is a useful reference to locate those names of the Pakistani provinces and cities that feature in this study.

### 1.3.2 Islamic State - Pakistani Culture

Pakistan is officially the Islamic Republic of Pakistan and according to its constitution no law should be repugnant to Islam and injunctions of Quran and Sunnah. Islamic clergy is a very strong pressure group in the country. 95 % of the population is Muslims (approximately Sunni 75 % and Shia 20%) and 5 % belongs to religious minorities including Christians, Hindus, Sikhs and Parsis. However, the country is multilingual and ethnically very diverse: the largest ethnic groups are Punjabi (44.68%), Pathan (15.42 %) and Sindhi (14.1 %). (Riyaz 2012, CIA 2012) There are also around 3 million Afghan refugees in Pakistan. (Riyaz 2012)

Human rights situation in Pakistan is fragile. Human Rights Commission of Pakistan's (HRCP) annual report 2011 highlights a wide range of numerous human rights violations related to e.g. fundamental freedoms, law and order, women, children, political participation, education, health and housing. The threats to human rights emanated both from state and non-state actors and human rights defenders were growingly threatened by feudal, radical or religious extremist elements. The report e.g. states that lawlessness and political, ethnic and sectarian tensions were striking, as the government was unable to ensure security in large parts of the country, and efforts to promote harmony and cohesion failed. In 2011, 44 suicide attacks and 1887 terrorist attacks were recorded in Pakistan. In addition, religious minorities were seriously threatened and the only voice on the debated blasphemy law was that of the extremists keeping the critical liberals quiet. (HRCP 2012, 1-2, 48, 56, 94) In general, religion is a very sensitive issue in Pakistan. Every citizen's religion is identified in his passport, and atheism or no religion is not an option.

Sectarian violence has claimed thousands of lives over the last two decades in Pakistan, and sectarianism has become a distinctively violent compared to the many other Muslim societies with sectarian tendencies. State's responses to curb sectarianism have been weak or absent. In the Pakistani context sectarianism often refers to the conflict between the Sunni and Shia traditions, although this view is too simplistic, as these groups are not homogenous but having their own subsects and local variants. (Riikonen 2007) Riikonen (2007) also states that sectarianism is not only about purity of religious dogma either, but in Pakistan, the political content of the sects and the religious content of politics are blurred realities. This is another good example that issues in Pakistan are rarely black and white, and defining a clear line is often difficult.

Traditional family values and patriarchal roles are highly respected in Pakistan. Honor of the joint family and kin is safeguarded. Men are largely regarded as breadwinners; women's main role is to look after the home and children. Most women face many social and cultural restrictions. However, there are many realities in Pakistan, and there is a major difference between the urban and rural areas and between the social classes. Rural areas are regarded as more conservative and ancient tribal customs are still highly valued there; many areas are led by feudal lords and tribal leaders. When urban high and middle class women can enjoy of good



education and may work in different professions; at the same time in some tribal areas militants are targeting girls' schools and women are barred from voting, though that is their constitutional right, as their electoral participation is considered being against tribal traditions. (HRCP 2012, 143-144, 156; Hussain 2008)

Media is operating fairly freely in Pakistan, though some of the most sensitive issues are commonly avoided and the media is not free of sensationalism and sentimentality. In addition, in 2011 Pakistan was the most dangerous country in the world for journalists, as at least 16 reporters were murdered, especially in Baluchistan, KP and FATA. (HRCP 2012, 93-95, 104)

The GoP is very worried of negative image of Pakistan in abroad, for the country is projected in the international media as a backward, insecure and non-progressive society. The Government wants anxiously to bring up the other aspect of Pakistan, which they think to perceive reality better: modern urban industrial Pakistan that does not often hit the headlines. (Riyaz 2012)

### **1.3.3 Developing Country Seeking Trade, not Aid**

Pakistan is the sixth most populous country in the world with approximately 190 million people. The population is growing rapidly; estimated annual growth rate is 1.55 %. Median age is 22 years and more than one third of Pakistanis, around 66 million, are under 15 years old. (CIA 2012)

Pakistan's position in Human Development Index in 2011 was 145 out of 187 countries. Although the GDP per capita (PPP) is US\$ 2,800, the UN Human Development Report 2011 estimates that 49.4 % of population lives in multidimensional poverty. It is noteworthy that 27.4 % lives in severe poverty. Inflation is currently 12 %, particularly food prices have risen, which has worsened the poverty situation. (CIA 2012) Official unemployment rate is only 5.6 %, but much of the economy is informal and underemployment remains high. In addition, a share of women engaged in and counted as the official labor force is low, 21.7 %. (CIA 2012, UNDP 2011) However, the Chief Economist for the Planning Commission has claimed that the real unemployment rate reached 35 % in 2011. (HRCP 2012, 191)

Some of the social development indicators are worrying: under-five mortality rate is high, 87 deaths / 1000 live births, and 41.5 % of under-five years old suffer from stunting and 31.3% from wasting (UNDP 2011). 15 % of children face absolute food scarcity (HRCP 2012, 7). Literacy rate is low in Pakistan, only around 55 % percent of adults are literate (CIA 2012). However, there are major differences between the provinces and genders; of all women 40 % can read, but in the tribal areas the rate is much less than 10 %. At least one third of children are believed to be out of school (HRCP 2012, 8). Only 0.8 % of GDP is used for public expenditure on health and 2.7 % of GDP for public expenditure on education (UNDP 2012).

From economic perspective Pakistan has enjoyed of sound, albeit fairly low, economic growth of around 2.4 % per year despite serious energy shortage, political disputes, low level of foreign investment and security issues. The tax system is not

working well and needs to be revised, as too few are paying taxes in Pakistan. Trade balance is negative; imports are 50 % higher than exports. Textile is the largest export sector. The European Union (EU) is the biggest trading partner of Pakistan. (Riyaz 2012, CIA 2012)

The GoP has highlighted several times over the past years that Pakistan needs “trade, not aid”. Officially it is not asking for international development aid, but enhanced market access and preferential trading terms, which would support socio-economic development and education. (Riyaz 2012) The biggest development partners of Pakistan are the United States (US), Saudi Arabia, the United Kingdom, EU, Japan, Germany, China; and the multilaterals Asian Development Bank (ADB), the World Bank (WB), UN and Islamic Development Bank. (DAD Pakistan 2013)

#### **1.4 Civil Society and Non-Governmental Organizations in the Context of Pakistan**

Civil society is an umbrella term for a variety of non-state and non-market citizen organizations and initiatives, networks and alliances operating in a broad range of social, economic and cultural fields. There are many diverse understandings of civil society across religions and regions, making it a topic of heated political debate (Belloni 2012, 220). In the Pakistani context, civil society and civil society organizations (CSOs) include formal institutions such as non-governmental organizations (NGOs), community based organizations (CBOs), trade unions, professional associations, philanthropies, academia, pressure groups, think tanks, and traditional, informal formations such as faith-based organizations, shrines, religious seminaries, neighborhood associations, burial societies, *jirgas* (council of elders) and savings groups. Civil society is heterogeneous in terms of values. There is a great difference between traditional civil society actors and modern secular ones, which are often perceived as Western. The term “civil society” has no equivalent in any of the local languages in Pakistan. (Sattar & Baig 2001, 1, 16)

There is no universal definition of NGO. Sattar and Baig (2001, 4) defined NGOs as private, non-profit organizations, pressure groups and support centres; and CBOs as a subset of NGOs, which are smaller membership-based grassroots organizations. Kaplan (2012) among many other researchers sees the role of NGOs potentially beneficial: “NGOs play crucial roles providing social services to the poor, they hold governments accountable, and help to shape public policies.”

The Minister for Social Welfare and Special Education, Mrs. Samina Khalid Ghurki informed the National Assembly in June 2009 that almost 100,000 NGOs and CBOs are working in Pakistan. Out of them, 60,000 to 70,000 organizations are registered under major laws regulating the civil society sector, but the exact figure was not known because of the fragmented registration regime. (Ghumman, 5 Mar 2010) Ninety percent of NGOs are in Punjab and Sind provinces and only five percent both in KP and Baluchistan. Seventy-eight percent of NGOs are based in urban areas, although two thirds of population lives in rural areas. The feudal system is one of the

reasons hindering NGOs from penetrating the countryside. The amount of NGOs has been rapidly rising since the 1980s, mostly in response to lacking social services. (Naviwala 2010, 4-5) Another major factor for the rise of NGOs was the Soviet invasion of Afghanistan and millions of Afghans seeking refuge in Pakistan. As a consequence, international development aid sharply increased to support Afghan refugees and NGOs engaged in development and relief work became one important target of this aid. (Hassan et al. 2000, 123)

Sincere development efforts are identified with charity and volunteerism to help the poor in the Pakistani culture. Local organizations often have their base in faith and philanthropy, both deep-rooted values of the culture<sup>1</sup>. Nowadays, thirty-five percent of Pakistani NGOs are involved in religious education or promotion and sixteen percent in secular education. Other large sectors where NGOs are involved are civil rights and advocacy (17 %), health (6 %) and sports (4 %). (Naviwala 2010, 4, 6)

Schultz (2007, 156) criticized the Pakistani civil society for not actively holding the government accountable for corruption issues, as there are only few organizations addressing corruption and lobbying for anti-corruption reform in Pakistan.

## 1.5 Objectives and Research Questions

This study focuses on local NGOs receiving funding from international donors and/or aid organizations and aims to explore corruption in development projects implemented by them in Pakistan. The main objective is to study common corruption trends, risks and vulnerabilities. The intention is not to expose particular cases of corruption. This research emphasizes the benefits of project cycle management and underlines the role of corrupt practices relevant to different phases of the project cycle and financial management. It will also explore other program support functions, i.e. procurement and human resources. In addition, the research aims to study, if corruption prevention can cause unintended negative consequences or a security threat to development practitioners. The respondents were also asked to share their best practices to recognize and prevent corruption, thus this study may provide some preliminary guidelines to best practices.

The ultimate goal of this research is to generate additional and useful information on NGO corruption to development practitioners and donor representatives working in Pakistan, which would help them to prevent and curb corruption in the NGO projects they fund.

Taking into account the focus and objectives of this study the following research questions are formed:

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<sup>1</sup> One of the five pillars of Islam, *zakat* means the giving of alms or a fixed portion of one's wealth to the poor and needy.

- 1) How severe problem corruption is in development projects implemented by NGOs in Pakistan?
- 2) Which phases of the project cycle and the financial management or which other program support functions are the most vulnerable to corruption?
- 3) How do you recognize corrupt practices in different phases of the project cycle and the financial management or in other program support functions? What are the typical examples or warning signs?
- 4) Can preventing corruption cause unintended negative consequences or compromise personal security of development practitioners?

## **1.6 Scope of the Study**

The corruption prevention is a wide and diverse research topic and it is not possible to cover all the aspects in a Master's thesis. For that reason, this study is limited to a specific theme. The main focus of this research is the NGO corruption in Pakistan, which is less studied and covered theme previously. The disadvantage is a paucity of Pakistan-specific NGO corruption studies available.

Corruption in the public sector in Pakistan is another wide and complicated research topic in itself, and the examination of it would have required extensive amount of research work and also good connections to some public sector officials, who would have been willing to share first-hand information. Corruption in the public sector would have also been more sensitive research topic, as the researcher was an employee of the Embassy of Finland in Pakistan. The status of the researcher and bureaucratic requirements would have limited the research work, and made arrangements for the interviews with relevant officials complicated. By studying NGOs, these problems were not faced. Instead, the researcher had as an embassy employee and development officer a unique position to do this research. There was an unrestricted access up to the level of Head of Missions, as the respondents were mainly other donor representatives.

The theoretical section and literature review of this study includes the corruption in the public sector. The corruption analysis is generally focused on the public sector and the understanding of the full corruption and corruption prevention framework in Pakistan is beneficial to the objectives of this study. The research also explores accountability and transparency in the context of NGOs, as they are essential in the enhanced corruption prevention.

## 2 THEORETICAL FRAMEWORK

Chapter 2 looks into the theories on corruption. It will research the leading and other relevant theories on corruption keeping in mind both the traditional approach of corruption research, i.e. association with government activities, and the focus theme of this study, i.e. development cooperation and NGOs. The chapter will also elaborate on accountability in the context of NGOs and review the project approach and project cycle management (PCM), which are commonly used in the NGO cooperation. Particularly, the phases of the project cycle will be discussed, since they will form the research outline in the empirical part of this study.

### 2.1 Landmarks in the History of Anti-Corruption Work

Corruption is not a new phenomenon. Already ancient Greek philosophers Plato and Aristotle pointed out human tendency to corruption. Rulers and politicians were not righteous, but were seeking their own benefits by using public resources. The fall of the Roman Empire is also claimed to be caused by widely-spread corruption and decadence. (Hellsten 2004, 171) Kautilya, the prime minister of an Indian kingdom wrote a book about corruption two thousand years ago. Medieval author Dante placed bribers in the deepest parts of hell and corruption played an important role in the writings of Shakespeare<sup>2</sup>. (Tanzi 2002, 19-20) Renaissance political philosopher Machiavelli affirmed that religion is fundamental to corruption prevention (Nurmi 1992).

In current days corruption scandals are making the headlines in every corner of the world. Even in Finland, which has been ranked in TI's annual Corruption Perceptions Surveys as one of the least corrupted countries, one of the most publicly discussed issues in the recent years has been the financing of political parties and the corrupt side of it. Particularly, many developing countries are perceived extremely corrupt according to the TI's index, although e.g. Russia is also among the most corrupted countries. Empirical literature on corruption confirms a negative association between corruption perception indexes and levels of economic development and economic growth. (Tanzi & Davoodi 2002, 198-199) It is to be noted that these cross-country indices are merely general impressions of the level of corruption, but do not tell where it is most harmful and pervasive (Rose-Ackerman 2012). Today, it is agreed that corruption, injustice and inequality are all linked to each other; poverty and corruption create a vicious circle. Corruption increases poverty, restrains the building of just society and prevents equal allocation of welfare.

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<sup>2</sup> See Noonan, JR. 1984. *Bribery: A Review of academic perspectives of bribery*. New York: Mac Millan for further reading on the history of corruption.

(Hellsten 2004, 171)

Over the last two decades the fight against corruption has intensified significantly and it has been taken more seriously at international forums. Some events, which took place in the 1990s, are considered major landmarks in the recent anti-corruption history. Cartier-Bresson (2000, 11) lists the following three: Firstly, in 1992 illicit funding of political parties and abuse of office for private gain was exposed in Italy. Secondly, in 1996 the World Bank (WB), led by Mr. James Wolfensohn, strongly committed to combat corruption, which it described as the “cancer” of developing countries. The WB's measures ranged from public-sector reform to debt cancellation. The other international financial institutions have followed the WB's example and are also playing a major role in the anti-corruption movement. The third major landmark was achieved in 1997, when 29 OECD Member countries and 5 non-member countries signed “the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions”. This first tangible result of global anti-corruption initiatives required parties to criminalize bribery of foreign public officials and stop tax deductibility of bribes, which were finally globally recognized as a serious threat to the development and preservation of democratic institutions. The process leading to this convention had been initiated by the United States already in 1989. USA was, as of 1989, the only country in the world, which had criminalized bribes paid in abroad under its U.S. Foreign Corrupt Practices Act of 1977, which was heavily affecting American exporters. Most of signatory countries had criminalized only domestic corruption by 1997. The 1997 OECD Anti-Bribery Convention entered into force on 15 February 1999. (Sacerdoti 2000, 29-30, 41)

During the preparation process of the OECD Anti-Bribery Convention the DAC adopted also “Recommendation on Anti-corruption Proposals for Aid-Funded Procurement” in 1996, in which the DAC Members agreed to introduce and require anti-corruption provisions governing bilateral aid-funded procurement. Although targeting only one dimension of the broader problem of corruption in development aid, it sent a clear signal that corruption will not be tolerated anymore and donors have intention to deal with the corruption problem. (Nicol and Walker 2000, 82-84) Similarly, shortly before the 1997 Convention, American countries had signed a regional Inter-American Convention against Corruption (Delare 2000, 96).

There were also other developments and global events in the 1990s, which arguably intensified anti-corruption work. Firstly, the end of the Cold War and the collapse of the Soviet Union created awareness of the cost of corruption, especially in the chaotic aftermath of economical transformation. (Abed & Gupta 2002, 1-4) Corruption was overlooked and not widely reported in the centrally planned economies. The end of Cold War also stopped the political hypocrisy, as some industrial countries had ignored the high-level political corruption in their ally countries, like Zaire. (Tanzi 2002, 20) Secondly, the international economic crisis took place in the end of the 1990s, which began with the collapse of the Thai baht in July 1997 and later escalated to other countries in Asia, Latin America and Eastern Europe.

The crisis was an example of macroeconomic failure, which showed the negative consequences of lack of good governance in public and private decision-making. (Delare 2000, 95) The trend of globalization and world economic integration has increased the pressure on countries to be more transparent and accountable in the management of their economies. (Abed & Gupta 2002, 2)

Similarly, the increased number of countries with electoral democracies in the late 1980s and throughout the 1990s in Americas, Africa and Europe has strengthened government accountability and a degree of transparency. This was linked to the growing role of civil society, free media and internet in those countries to counter corruption. The NGOs in developed countries also started to monitor aid spending of their own governments and effective use of the aid in the recipient countries. The world's leading anti-corruption NGO TI was founded in 1993 and it has currently more than 100 country chapters. (Abed & Gupta 2002, 4-6; Tanzi 2002, 21)

These events elaborated above revealed the major attitude change against corruption, which the international community had earlier considered "a painless, victimless problem" (Cartier-Bresson 2000, 11). There were also different views on whose problem corruption actually is. The industrialized world considered corruption primarily as a problem of developing countries, which then accused of multinational corporations being the real culprits. International financing institutions were unwilling to confront corruption. During the 1980s corruption was not viewed as an international issue. (Heimann & Hirsch 2000, 170)

The UN had abandoned its efforts to curb corruption in the end of the 1970s, when the preparation of a convention ran into serious political problems (Pieth 2000, 54). In December 1996 the UN General Assembly adopted a non-binding declaration against corruption and bribery. (Abed & Gupta 2002, 7) A major political breakthrough was achieved in October 2003, when a landmark international anti-corruption treaty, the United Nations Convention against Corruption (UNCAC), was adopted by the UN General Assembly. As of December 2012, there are 164 parties to the convention. UNCAC has a holistic approach to corruption prevention as it recognizes the importance of both preventive and punitive measures. States Parties must criminalize e.g. bribery and embezzlement of public funds and the Convention underlines the right to recovery of public assets. UNCAC is unique in the extent of its provisions, but not all the articles are mandatory. The de facto implementation of UNCAC is a challenge to many countries and further exploration on its role as an anti-corruption mechanism is still needed. (MFA of Finland 2012, 45- 52; UNODC 2012)

In addition, there have been recently a few notable international aid conferences on governance and aid effectiveness. To highlight one of them, the 2008 Accra High Level Forum on Aid Effectiveness made it clear that transparency and accountability are at the core of the aid effectiveness agenda. (MFA of Finland 2012, 16)

## 2.2 Corruption Research

### 2.2.1 Leading Theories of Corruption

Despite the current strong negative stance against corruption, the perspective has changed only recently as elaborated above. Until the 1980s academic research on corruption was largely limited to the fields of sociology, political science, history, public administration, and criminal law. It was only in the early 1990s, when economists in larger scale got interested in corruption, as the link between corruption and economic performance became increasingly evident. Researchers had earlier also identified many benefits of corruption along with the negative effects. (Abed & Gupta 2002, 1) Bayley (1966) listed, in addition to ten harmful effects, nine beneficial effects of corruption. Those included e.g. possible higher quality of civil servants and nepotism as an instrument to reduce unemployment. He also claimed that corruption provides non-violent entry into government affairs and administration, when political channels are clogged.

There are numerous theories on corruption in the different fields of science, as corruption has many forms, and it can even be embedded in cultural traditions. However, the corruption analysis is generally focused on the variant associated with government activity. (Leite & Weidmann 2002, 165) The term “rent-seeking” is widely used in the economic literature on corruption. Krueger (1974) introduced the term and it is associated with expenditures to influence governments to impose restrictions on economic activities. The private individuals or groups aim to create a monopoly position to obtain benefits for themselves by influencing the social and political arena by largely unproductive legal or illegal means, such as bribery and corruption. The outcome of rent-seeking is the welfare loss, as it benefits only the individual, not society, since it does not create new wealth. Krueger studied poor economies, whose economies were heavily regulated by the government. Thus situation created rents equal to a large share of GDP.

Today, the leading theoretical framework used by policy makers and scholars to analyze and conceptualize corruption is the principal-agent model, which is based on the work of Susan Rose-Ackerman (1978) and Robert Klitgaard (1988) (e.g. Persson et al. 2012, 252). According to this theory the principal delegates the power and performance of some tasks to the agents. There are different perspectives to define a principal and an agent. Firstly, the rulers can be defined as principals and the bureaucracy as agents. On the other hand, the citizens are also seen as principals and the ruling elite as agents. Principals are generally assumed to represent the public interest and agents favoring of corrupt practices, if beneficial to them. (Rose-Ackerman 1978, 6; Persson et al. 2012, 252-253) In the context of this study, the donors may be modeled as principals and NGOs as agents.

The risk of corruption arises from information asymmetry to the advantage of



the agents, and the conflicting goals of agents and principals. The agents may put their own interests ahead of their principals', and the agents may hide specific information from the principal. This provides the agents a great deal of discretionary power, and enables them to betray the principal's interest and rules. Third parties, who can benefit by the agent's action, try to influence the agent's behavior by offering him a monetary payment or other benefit. (Rose-Ackerman 1978, 6-7; Cartier-Bresson 2000, 12; Persson et al. 2012, 252-253) Rose-Ackerman (2012, 48) further defines that corruption occurs where private wealth and public power overlap, and it represents the illicit use of willingness-to-pay as a decision-making criteria.

Opportunities for corruption exist at every level of the administrative hierarchy, often divided to grand and petty corruption. Opportunities also depend on the size of the rents in the control of agents, the discretion they have in allocating them and their lack of accountability to society (Klitgaard, 1988). Other factors are the social stigma attached to corruption and the likelihood of having to pay a penalty. The risk is often low, as information asymmetry protects corrupt agents, proof is scarce, and it is difficult to mobilize large numbers of scattered victims against well-organized agents profiting from corruption. The passiveness of the victims encourages corruption. Control systems are relevant to the principal-agent theory. The theory suggests a regulatory system, i.e. effective monitoring and punishment regimes, as a means to prevent corruption. (Rose-Ackerman 1978; Cartier-Bresson 2000, 12)

However, the principal-agent theory is recently also been criticized, as in the majority of the countries corruption is the expected behavior rather than exception, and the "ideal-type" relationships between principals and agents do not exist. (Persson et al. 2012, 253-254) Persson et al. (2012) argue that systemic corruption shares the characteristics of an informal institution, and primarily resembles a collective action problem. When corruption is expected behavior, monitoring and punishments become ineffective, since there are no actors holding corrupt officials accountable. Nevertheless, they agree that the principal-agent theory still fits the analysis of non-systematic corruption quite well.

The public acceptance and definition of corruption also varies significantly across cultures as norms and values are context-bound. What is considered a bribe in the Western context is simply considered a gift which is a part of correct negotiating and relationship building in other countries. However, there are limits beyond which an action becomes corrupt and unacceptable, and the majority of countries and cultures decry it. (TI; Klitgaard 1988, 3) Heidenheimer (2002, 152) differentiates between "black", "grey" and "white" corruption, indicating different levels of public acceptance of different forms of corrupt behavior. Black corruption is condemned by a majority consensus of both elite and mass opinion. Grey corruption indicates that the majority is ambiguous, though some elements, usually elites, want to see the action punished. White corruption is tolerated by the majority of both elite and mass opinion.

## 2.2.2 Causes of Corruption

Although corruption is a complex phenomenon, there are both direct and indirect factors contributing to the frequency of corruption in the public sector. Tanzi (2002, 27-38) provided practical approach and identified the following causes:

- Direct causes of corruption;
  - Numerous regulations and authorizations, which give a kind of monopoly power to the officials who must authorize or inspect activities.
  - Taxes are based on unclear laws and frequent contacts between taxpayers and tax administrators are required.
  - Lack of transparency and of effective institutional controls in government's spending decisions in investments, procurement and extrabudgetary accounts.
  - The government engaging in the provision of goods, services, and resources at below-market prices.
  - Public officials having discretion over important decisions; i.e. tax incentives, public and private land use, authorization of major foreign investments, sale of public assets, privatization of state-owned enterprises and provision of monopoly power.
  - Lack of public money to finance political parties.
  
- Indirect causes of corruption;
  - Low quality of the bureaucracy linked to politically motivated hiring, patronage and nepotism.
  - Level of public sector wages. An increase in the wage level is likely to reduce corruption. However, it may lead to demands of higher bribes on the part of those who continue to be corrupt, as the opportunity cost of losing one's job is raised.
  - Ineffective, slow, politically biased and corrupt penalty systems.
  - Nonexistent or weak controls inside institutions and non-independent and ineffective external anticorruption offices.
  - The lack of transparency in rules, laws, and processes.
  - The wrong example provided by the leadership.

There are a number of other suggested reasons for corruption. Leite and Weidmann (2002) affirm that capital-intensive natural resources are a major determinant of corruption. The exploitation of natural resources can become a source of rents when they are sold at much higher price than cost (Cartier-Bresson 2000, 15). Lambsdorff

(2003) finds that a weak law and order situation and insecure property rights also encourage corruption. Some evidence suggests that presidential systems using proportional representation in the legislature may be especially corrupt (Kunicová & Rose-Ackerman 2005). This point is particularly noteworthy, as this system is in use in Pakistan.

Humanitarian and development aid can also increase the corruption risks, especially in post-conflict circumstances. Von Billerbeck (2012, 82) states that the rapid large-scale disbursements of aid, which creates a potential source of rents and distorts economic conditions, makes post-conflict settings rife with opportunities for corruption. Often, the amounts of money that are brought in after a conflict or a humanitarian catastrophe are large relative to the local economy and can cause dependency on the flow of international assistance. In the worst cases the aid exceeds the country's official GDP. Also the salaries paid to expatriate aid workers are often huge compared to local salary level. If international actors are compelled to pay bribes to speed up their critical aid delivery or program implementation, this kind of inconsistent behavior signals to the political elite and to the local people that donors are not serious about preventing corruption. (Cheng & Zaum 2012, 14) However, in difficult humanitarian crisis situations the line between the primacy of humanitarian goals and the acceptable and tolerable level of spending on corruption is not easy to draw (Philp 2012, 36-37).

Donors are also accused of poor monitoring and evaluating of donor-funded projects. Donors often sub-contract development projects out to local NGOs, or hire international NGOs who in turn sub-contract local NGOs. This creates information asymmetry and a nested principal-agent problem. The agent has a lower risk of getting caught of corruption. (Cheng & Zaum 2012, 16-17) Donors are also criticized for fiscal limitations of their own internal budgets; it is more important to officials to spend the budgeted money than the impact of the money. International community has also a poor track record in punishing governments and local partners for acts of corruption. (Cheng & Zaum 2012, 17-18)

### **2.2.3 Effects of Corruption**

There are no direct ways to of measuring or quantifying corruption, but nowadays there is a broad consensus in the academia that corruption is unqualifiably bad and has a negative impact on development. Theoretical arguments favoring corruption have been countered in many ways. (Tanzi 2002, 38, 42, 44; Leite & Weidmann 2002, 161-162) These arguments have included e.g. corruption greases the wheels of commerce; keeps wages low; overcomes cumbersome government regulations, allocates investment to the most efficient users and acts as a political glue holding a country together. (Tanzi & Davoodi 2002, 197-198). Rose-Ackerman (1978) emphasizes that, once entrenched, bribery is difficult to limit to areas, in which it might be economically desirable. Corruption may have a short-term stabilizing effect

in post-conflict situations, but its long-term effects will always be negative, which may ultimately rouse the conflict to return (Von Billerbeck 2012, 95).

Corruption has direct qualitative effects on the economy. Corruption increases income inequality and poverty considerably (Gupta, Davoodi & Alonso-Terme 2002). It reduces public revenue and increases public spending, which results in larger fiscal deficits. Corruption also allows well-positioned individuals to take advantage of government activities at the cost of the rest of the population. Poverty is increased as corruption reduces the income earning potential of the poor. The economic growth, efficiency, productivity and foreign direct investments are also reduced, as corruption distorts markets and the allocation of resources. Particularly small and new enterprises suffer from obstacles caused by corruption. (Tanzi 2002, 45-48) Mauro (2002) found that particularly education spending is adversely affected by corruption, for it is an unattractive target for rent-seekers. Respectively, corruption lowers also spending on health care (Mauro 2002) and is associated with higher military spending (Gupta, de Mello & Sharan 2002). Lambsdorff (2003) stated that if a country such as Tanzania could achieve the corruption score of the United Kingdom, its GDP would increase by more than 20 percent and net annual capital inflows by 3 percent of GDP. Low-level petty corruption can lead to the unfair and inefficient distribution of scarce benefits, undermine the purposes of public programs, encourage officials to create red tape, and increase the cost of doing business. It will also lower state legitimacy, which lessens citizens' willingness to pay taxes. (Rose-Ackerman 2012, 49, 51)

In the context of NGOs, corruption can weaken the legitimacy of civil society, when NGOs play a watchdog role vis-à-vis the state. Corruption can also compromise the public perception of values and issues promoted by NGOs; and discredit the donor agency, as tax payers' support for developing efforts is undermined. (Trivunovic et al. 2011, 4)

Although economic and development effects of corruption are severely negative, ethically corruption may be acceptable in certain circumstances. Hellsten (2004, 181-184) contemplates if corruption could be justified, and considers the issue from moral and ethical perspectives. Sometimes the motifs of corrupted officials in developing countries can be altruistic and unselfish. If salaries are low and insufficient, then allocating public funds to his own home village or to the hospital care of his own children can be ethically justified from the perspective of his own personal moral. Often this kind of grassroots level corruption is accepted or at least tolerated in developing countries due to difficult circumstances. Sometimes well meant corruption can lead utilitarian maximization of good. Hellsten referred to Abraham Lincoln, who had had to bribe some congressmen to be able to change the US Constitution and to forbid the slavery. The difficulty is to recognize the fine line when the rationality of an individual or the fulfillment of social duties turns into decadence and institutionalized corruption.

## 2.2.4 Prevention of Corruption

Challenges in the corruption prevention are tangible as there is no unified opinion of best practices. Researchers have presented a variety of suggestions. Rose-Ackerman (2012, 57-58, 60) does not agree with many other scholars that the main cure for corruption is economic growth and that economic growth is furthered by good policies, especially promoting of education. She underlines the importance of institutional reform, as corruption is a symptom of dysfunctional state-society relations. Governance reforms should include the protection of civil liberties and establishment of the rule of law combined with the professional and independent judiciary, and police and prosecution who have integrity and competence. People have to have means to seek remedies and make complaints. At the global level, international controls on money laundering should be stronger.

Some of the causes of corruption are easier to change than others. Because of the complexity of corruption, the prevention must be pursued on many fronts at the same time. The greatest mistake is to rely on a narrow strategy that depends exclusively on actions in a single cause, and then expect quick results. (Tanzi 2002, 50) Tanzi (2002, 54) suggests that any serious strategy to tackle corruption will require action on at least four fronts:

- Honest and visible commitment by the leadership to the fight against corruption, for which the leadership must show zero tolerance;
- Policy changes that reduce the demand for corruption by scaling down regulations and other policies such as tax incentives, and by making those that are retained as transparent and as nondiscretionary as possible;
- Reducing the supply of corruption by increasing public sector wages, increasing incentives toward honest behavior, and instituting effective controls and penalties on the public servants; and
- Solving the problem of the financing of political parties.

Gupta, Hamoodi and Alonso-Terme (2002, 479) suggest totally different actions to mitigate the consequences of corruption. They highlight (1) sound management of natural resources; (2) broad-based, labor-intensive growth; (3) efficient spending on education and health; (4) effective targeting of social programs; and (5) a low level of inequality in the access to education.

In the development context Trivunovic et al. (2011, 6-7) highlights the necessity of corruption risk management system, which includes both preventive mechanisms and sanctions. Prevention is essential, but no system can always prevent corruption despite numerous safeguards put in place. The corruption risk management system has five elements, which need to be integrated into various levels of institutional operations:

- Measures that identify corruption risks;

- Measures that reduce the corruption risks;
- Measures to detect corruption;
- Responses: investigative measures and sanctions to address corruption once it is suspected or identified with certainty; and
- Implementation mechanisms for the totality of the measures noted above.

These measures include e.g. partner selection criteria; and reporting and whistleblowing systems. Sanctions should be also fair and proportional, as criminological studies confirm that the likelihood of punishment is far more effective deterrent than their severity. On the other hand, the adaptation of zero tolerance slogan against corruption may be counter-productive in practice: it can prevent open corruption risk discussion and corruption incident reporting. (Trivunovic et al. 2011, 13-16)

Another option to curb corruption is by focusing on the accountability and transparency. This can be achieved by i.e. opening (government's) decision-making processes to public scrutiny and participation; the creation of independent oversight agencies (i.e. anti-corruption agencies); and benchmarking. Also a free media can play a watchdog role. (Rose-Ackerman 2012, 58) Accountability and transparency, particularly in the context of NGOs, will be discussed in detail in the next sub-chapter.

## 2.3 Accountability

### 2.3.1 Accountability in the Context of NGOs

Aid and development organizations, including NGOs, are nowadays required to demonstrate their commitment to accountability and transparency, as those are essential to good governance. Better governance leads to improved performance and aid effectiveness.

Accountability is a tricky concept and there are a number of definitions. Therefore, it is difficult to define it precisely. Edwards and Hulme (1995) fairly narrowly defined accountability as the means by which individuals and organizations report to the recognized authority(ies), and are held responsible for their actions. Dixon et al. (2006, 407) includes the social aspects of accountability and states that "accountability is not only a formal order, but also a moral order; a system of reciprocal rights and obligations".

The notion of accountability is broader than corruption prevention, as it extends to responsibility for outcomes of interventions. In addition, the civil society accountability discourse includes NGO legitimacy in claiming to represent particular communities. Integrity and corruption prevention service those broader goals. (Trivunovic 2011, 9)

Accountability has many recognized benefits. SustainAbility (2003, cited in Gray

2006, 337) has pragmatically identified drivers for accountability, which are the following:

- Morality - accountability is right in principle;
- Performance - accountability improves effectiveness;
- Political space - accountability increases credibility and thus influence; and
- Wider democratization - accountability of NGOs improves democracy in society.

Despite the increased requests NGOs to show their accountability, donors have traditionally seen NGOs as partners in corruption prevention: NGOs are acting as watchdogs in exposing cases of corruption among public authorities and providing “voice” to citizens’ demands for accountability and change. Nevertheless, the positive role of civil society in anti-corruption activities cannot be taken for granted. Many civil society organizations belong to a broader network of patron-client relationship in states divided along national, ethnic and religious lines. In those situations NGOs often belong to elite patronage networks, with negative consequences for their monitoring and advocacy role. Local NGOs’ anti-corruption activities have had a limited impact, particularly in post-conflict states. (Belloni 2012, 218-219, 223, 233, 235)

The operation of NGOs is also threatened by strong political pressure, ethnic ties, legal limitations and even physical threats. This can compromise accountability and transparency of the organizations, as e.g. NGOs may endorse the agenda of the political patrons or state authorities in order to survive or receive funding and privileges. Many civil society groups are small and starved of funding. On the other hand, foreign-funding may detach organizations from their roots, as professionalism tends to decrease their membership base. Without strong local constituencies, NGOs can be easily considered as agents of foreign interference. (Belloni 2012, 219, 222-223)

### **2.3.2 NGO Accountability Structures**

Along with state institutions and private companies, NGOs are implementing development aid projects and programs, but there are some differences compared to other implementers: NGOs are formed voluntarily (as opposed to state bodies) and their non-profit motive (as opposed to private companies). These specificities alone do not necessarily increase corruption vulnerability of NGOs. Instead, NGOs as private entities are not subject to potentially strict integrity regimes that apply to state institutions. Therefore, NGOs need to have effective internal standards and structures to ensure the highest level of integrity and accountability. (Trivunovic 2011, 5)

Edwards and Hulme (1995, 9) identified the following requirements for effective NGO accountability:

- A statement of goals;
- Transparency of decision-making and relationships;
- Honest reporting of what resources have been used and what has been achieved;
- An appraisal process for the overseeing authority(ies) to judge whether results are satisfactory; and
- Concrete mechanisms for holding account (i.e. rewarding or penalizing) those responsible for performance.

The essential NGO accountability structures can be divided in two parts: NGO internal governance and financial management. Firstly, NGO should have a clear governance structure, especially role of the principal governing body, i.e. the board. The independent, elected and effective board is necessary and it must be separate from management. Defined responsibilities and powers, frequent recorded board meetings, clear decision-making procedures and review of financial performance are required among others to ensure effective functioning of the board. Bona fide organizations have sound governance structures as above; “NGO businesses” have weaker governance structures as family members and friends of management are included in the board. In these cases the board members are not able independently and objectively to oversight the activities of NGO due to conflict-of-interest. (Trivunovic 2011, 5-6)

Secondly, NGOs should have a sound financial management system. In general, the system requires a proper accounting, financial reporting, record-keeping, auditing and fraud prevention practices and tools. Specifically, it would mean e.g. written policies and procedures that follow accepted principles of accounting and control; separation of key functions; existence of books of accounts, cash books and bank account records; annual financial statements and audits; and audit trails of transactions and money flows. Strong financial management requires appropriate human resources and adequate level of institutional capacity. (Trivunovic 2011, 6)

Accounting, internal controls and external audit can contribute significantly to the fight against corruption and bribery. However, ideally strong internal management control should prevent these illegal actions and create an environment that will stimulate companies (or in this case NGOs) to take the necessary measures to ensure that their staff do not engage in corrupt activities. (Beattie and Barbour, 2000, 136-137)

Complying with all the accountability structure requirements is a great challenge to NGOs as their capacities and situations vary significantly. The better approach would be setting the minimum standards. However, the full requirements provide a useful benchmark. Donors often manage the distinctions between smaller, less-experienced organizations and large, professional NGOs by varying the duration, form and size of support. (Trivunovic et al. 2011, 10, 19-20)

Donors typically have activity-level monitoring systems to detect corruption and fraud and to ensure smooth implementation of the program. These systems



include e.g. regular written activity and financial reporting and field monitoring. Albeit widely considered the most effective corruption risk mitigation measures, the corruption detection potential of these mechanisms is limited due to donors' reduced administrative and monitoring capacity in the field, as they have reduced the number of their staff for financial reasons. In addition, existing research suggests that the effectiveness of audit may be overestimated and evaluations are not fully effective in revealing corruption. (Trivunovic 2011, 8-9; Trivunovic et al. 2011, 11-12) There is a clear need to find other approaches to increase accountability, but at the same time to avoid undesirable consequences as elaborated in the following subchapter.

### **2.3.3 Towards Greater NGO Accountability**

Accounting scholars got interested in civil society and its accountability only in 2000s, and have demonstrated that NGOs need their own effective accountability mechanisms. The mechanisms used in public and corporate sectors are not fully effective and suitable. Despite the similarity in the essential nature of accountability in both for-profit and non-profit organizations, the key differences arise from issues of legitimacy and power. (Gray et al. 2006, 321)

Firstly, managers and donors of NGO may be quite distinct from the beneficiaries, who lack direct means to enforce accountability upon the donors and managers. Also defining the groups and stakeholders whom the NGO must express its accountability is not clear. Secondly, the performance measurement and accountability based on a bottom line or profit in financial measurement tends to dominate in the corporate world. This financial accountability approach is not applicable to NGOs, as it has little relevance with the actual performance of the organization, if they live within their means. However, many NGOs have adopted formal systems of reporting and disclosure similar to corporate approaches to accountability, although emphasis should be kept on substantial accountability, not on procedural accountability. (Gray et al. 2006, 333-334) Edwards and Hulme (1995) noted that the need to account transparently was an essential NGO practice in relation to enhancing legitimacy. However, they also stated that donor requirements distort accountability by overemphasizing short-term quantitative targets, standardizing indicators, focusing on individual projects or organizations, and favoring hierarchical management structures. There is a tendency to "accountancy" rather than "accountability"; audit rather than learning.

Goddard and Assad (2006) studied Tanzanian NGOs and came to a conclusion, that "the primary purpose of accounting was its symbolic use in navigating legitimacy". NGOs had a tendency to build credibility and manage good impressions with stakeholders in the beginning before seeking their long-term commitment and attempting to bargain for a less burdensome accounting and reporting environment. The strategies to build credibility included e.g. judicious conformity by meeting the multiple accounting and reporting requirements of donors on time, character witnessing by highlighting the names of the high profile donors in their reports,

managing the audit by appointing a multinational audit firm, improving organizational governance by hiring management consultants, engendering trust and fostering cultural identity by sustaining an activist culture. Later after the credibility was built, NGOs started to bargain for change, which included e.g. basket funding and joint venturing to lessen the burden of multiple donor financial reporting. However, this practice driven by external stakeholders' evaluation and monitoring interests had consequences. Despite the ascendancy of the accounting function, accounting did not have impact on internal decision-making and was only marginally relevant to internal accounting information needs. It also impacted organizational culture and activist ethos. Goddard and Assad concluded that superior accountability is not necessarily associated with stronger accounting systems but with organizational accessibility to societal scrutiny and transparency. (Goddard & Assad 2006, 387-397)

As the previous example demonstrated the upward accountability to donors may cause some undesirable consequences. By and large corruption prevention efforts and the request of greater accountability can cause also unintended negative consequences. Trivunovic (2011, 7) brings up that complex financial and activity reporting requirements combined with the requirement of high-level internal governance structures and strong financial management processes may automatically exclude recently-established and smaller, more grassroots community organizations. These organizations lack required track record of past performance and integrity capacities. Donors' strict approach would favor larger and more professional NGOs, rather than the development of authentic civil society. Also the constant pressure to reduce administration costs to the minimum can cause further problems to NGOs with low institutional capacities and encourage corrupt practices. Holloway (2004) found that to secure the survival of the organization some NGOs obtained necessary additional administrative funds and overheads by "skimming" from projects. (Trivunovic 2011, 7-8)

Key to reach greater NGO accountability is transparency: who the organization is; what it does; how it is funded; and what the organization does with the money it receives. Those are either essential pre-requisites for the development of accountability relationships, or a critical element in the discharge of that relationship. (SustainAbility 2003 cited in Gray 2006, 337). NGOs should at least publish annual reports that include financial statements, but more proactive understandable public information-sharing methods are recognized as a good practice (Trivunovic et al. 2011, 21). Stakeholders should not only know the basic facts and figures but also the processes and mechanisms.

Trivunovic (2011, 9) highlights the importance of downward accountability to beneficiaries. This approach promotes better and more extensive consultative and participatory mechanisms with beneficiaries and other stakeholders at all phases of the project. This approach would reduce risk of corruption by extending the range of interested parties of ensuring the intended use of the funds and providing them with the means to react in problem situations. As a consequence, the approach would

optimize development outcomes. There are diverse approaches to promote beneficiary engagement (e.g. feedback to needs assessments and reviewing strategies and activity plans). However, beneficiaries are not commonly examining financial accounts, which may be a very effective corruption prevention method. (Trivunovic 2011, 9-10)

Flexible and informal accountability mechanisms seem most suited to situations of close relationships between an NGO and its key stakeholders. There is no single solution, which would fit all, as the size and level of capacity of an NGO varies significantly. The imposition of rigid hierarchical and procedural accountability mechanism in such NGOs can be ineffective and threaten the viability of the NGO itself, thus jeopardizing the social and environmental benefits delivered by the NGO. (Unerman & O'Dwyer 2006, 315)

Despite the best efforts to enhance accountability the choice is not between accepting and not accepting corruption risks. The latter would mean not engaging in development activities at all. Development objectives should dictate how much corruption risk is acceptable and how much investment is required to mitigate the risk. Investments in accountability systems and NGO capacity development will inevitably cause financial burden. However, these costs should be considered as essential institutional and program investments rather than administrative expenses, which the public often considers as inefficient bureaucracy costs in development aid. (Trivunovic 2011, 11; Trivunovic et al. 2011, 25-26)

## **2.4 Project Approach and Project Cycle Management**

### **2.4.1 Project Approach**

Development cooperation consists of various approaches and forms and different type of distribution channels are used. In this study the focus is on the project approach as it is the most common approach used in the NGO development cooperation. Bilateral development aid between the donor and government of partner country is nowadays increasingly channeled through other approaches, like sector approach and sector programs; and budgetary aid. Since 1990s donors have made efforts to move from the project aid towards the sector assistance and ultimately towards the budgetary aid due to significant problems related to the donor-controlled project approach. The main weaknesses of the project approach, all applicable to Pakistan, are the following (EC 2004, 9-10):

- Inadequate local ownership of projects, with negative implications for sustainability of benefits;
- The huge number of different development projects, funded by different donors each with their own management and reporting arrangements, has

resulted in large transactions costs for the recipients of development assistance;

- The establishment of separate management, financing and monitoring/reporting arrangements has often undermined local capacity and accountability, rather than fostering it; and
- The project approach has encouraged a narrow view of how funds are being used.

Regardless of these weaknesses of the project approach, it remains an appropriate and often preferred aid delivery modality in many circumstances. These situations include e.g. delivering humanitarian and emergency aid; and supporting initiatives being implemented outside the public sector, such as through NGOs, civil society groups and the private sector. Also when conditions do not yet allow the sector approach or budgetary aid to be effectively used, projects will remain as the foremost aid delivery channels. (EC 2004, 13-14) One typical example of a condition preventing the other approaches is a high level of corruption in the beneficiary country.

There is no single definition of a project in development cooperation, but a project is often defined as a series of activities or development interventions aimed at accomplishing clearly specified objectives within a defined time-period and with a defined budget. A project also has clearly identified stakeholders, including the target group and beneficiaries; coordination, management and financing arrangements; a monitoring and evaluation system; and an appropriate level of financial and economic analysis. Objectives, scope and scale of development projects vary often significantly due to the vast diversity of project types in terms of size, length, aims and methods. (EC 2004, 8; MFA of Finland, 1997)

## **2.4.2 Project Cycle Management**

The project cycle is a detailed model of the entire lifespan of a development intervention. The model is commonly used by donors in development cooperation. However, there are many different variations to the model and each donor and international development agency seems to use their own slightly distinct version depending on the nature of their interventions. It generally includes at least programming, identification, implementation, monitoring and evaluation phases. The purpose of the project cycle is to divide a development project into divergent phases where each phase is linked to the preceding and the subsequent phase. The cycle is progressive; each phase should be completed successfully before proceeding to the next one. Sometimes previous phases may have to be repeated, if the project has to change its course based on the information produced at each phase. (MFA of Finland 1997, 9)

Project cycle management (PCM) is a term describing the management activities and decision-making procedures used during a project life-cycle. PCM also integrates the stages of the project cycle so that issues are examined systematically. (EC 2004, 17)

In the late 1980s the OECD Development Assistance Committee had published an analysis of the effectiveness of development aid, which illustrated a poor performance of a significant proportion of development projects. The main causes were the following: (ITAD 1999, 9)

- Poor project planning and preparation;
- Many projects not relevant to beneficiaries;
- Risks were insufficiently taken into account;
- Factors affecting the longer-term sustainability of project benefits were ignored; and
- Lessons from past experience were rarely incorporated into new policy and practice.

PCM was developed as a response to these shortcomings and donors started to adopt this new method, e.g. the European Commission/Union has used PCM method since 1992 to improve the quality of project design and management. (EC 2004, 1; ITAD 1999, 9)

PCM has many benefits. It provides a step-by-step structure, which makes a project concept and context clearer. PCM ensures that projects are relevant to the agreed strategy and to the real problems of beneficiaries. Projects are feasible and objectives can be realistically achieved within the constraints of the operating environment and capabilities of the implementing agencies. When objectives and outputs are measurable and logical, it enables more effective monitoring and evaluation. In addition, benefits are likely to be sustainable. (EC 2004, 17)

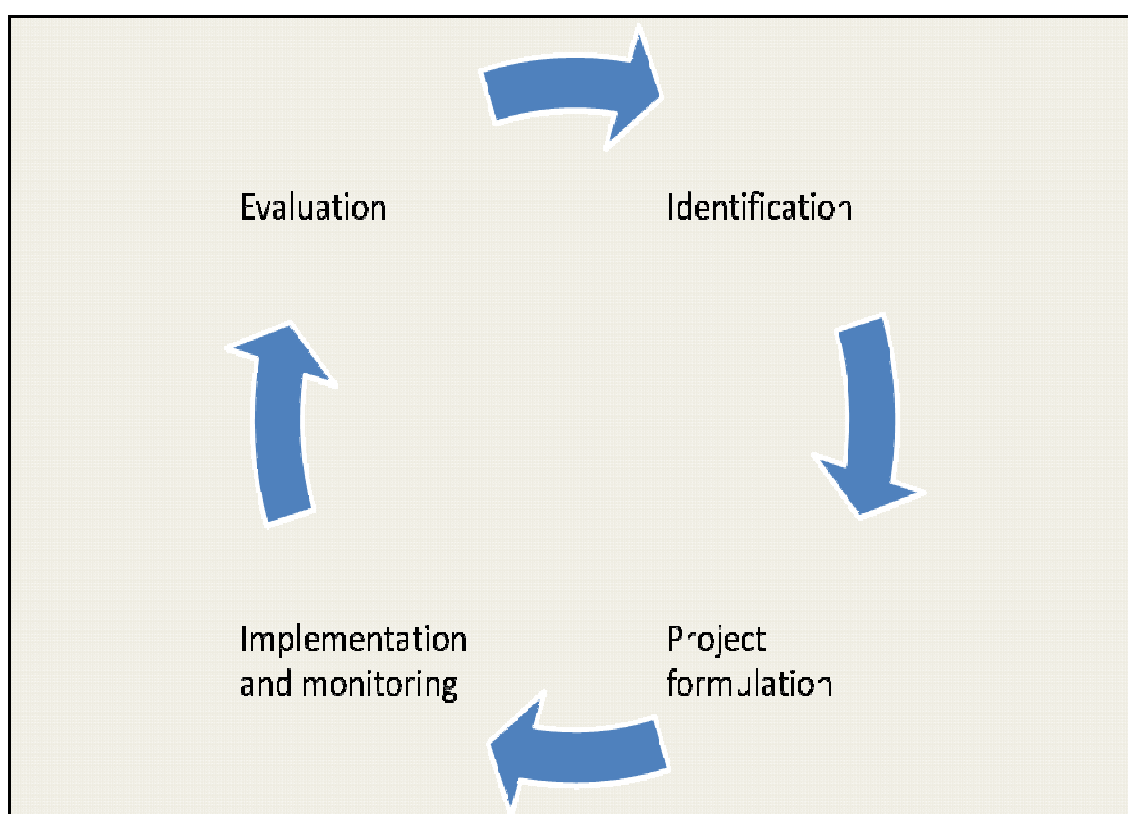
PCM is based on the Logical Framework Approach (LFA), which was developed in the late 1960s by the consultants working for the US Agency of International Development (USAID) (PCI 1979, I-2). Nowadays the LFA is an integral part of PCM and this analytical process provides a set of tools to support project planning and management. The documented end product of the LFA is the Logical Framework Matrix or shortly the Logframe. It summarizes the key elements of a project plan: project description, indicators, source of verification and assumptions, and on the other hand it also includes overall objective, purpose, results and activities of the project. Donors usually request NGO partners to include the Logframe in their project proposal, although for smaller partners and projects the LFA is considered sometimes as quite a heavy exercise, which requires plenty of expertise. The LFA is, when correctly applied, very useful and effective tool in the every phase of the project cycle. (EC 2004, 57-58; MFA of Finland 1997, 31) There are many sources providing further in-depth information on the LFA and its use<sup>3</sup>.

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<sup>3</sup> See e.g. European Commission's Project Cycle Management Guidelines, pages 57 - 94.

### 2.4.3 Phases of the Project Cycle

PCM is also very good tool in corruption prevention as it clarifies the project context. As there is no universal model of a project cycle, the simple 4-phase project cycle is applied in this research, as it is the most useful and functional for this research. Four phases are the following: *identification; project formulation; implementation and monitoring; and evaluation*. The fifth phase, programming, is often included before identification in the project cycle. However, programming is often done in the headquarters, and thus not relevant to the objectives of this study.



**FIGURE 1** The 4-Phase Project Cycle

The project cycle is on-going, but the starting point is the identification phase. A brief description of each phase and its main activities are the following keeping in mind the focus on NGO projects:

The first phase is the identification phase, which starts with a thorough situation analysis. In this phase the needs, interests, priorities and resources of the stakeholders are identified. (MFA of Finland 1997, 23) Both donor and partner organization have their strategic development priorities. Project ideas are identified, which are consistent with these development priorities. Potential NGO partners often submit their project proposals directly to donors or a donor can organize a public call for

proposals. Donors can also identify new projects through different networks, other donors and partners. The feasibility and relevance of potential project ideas are then assessed<sup>4</sup>. It is also crucial that an NGO as a local implementing partner shows ownership and commitment to the identified project idea. Without local ownership the NGO project has a little chance of a successful implementation. If a donor is running a program for projects, usually in cooperation with an international NGO or a NGO network, the financing decision can be made already in the identification phase based on a draft project list. However, usually the financing decision of an individual NGO project is made after the project formulation phase. (EC 2004, 27-28)

The second phase of the project cycle is the project formulation phase. Satisfactory project ideas are moved forward from the identification phase and the relevance and feasibility of these projects is re-checked<sup>5</sup>. Some project proposals received in the identification phase are already well prepared and in that case do not require much work in this phase. On the contrary, some proposals require much more preparation and consultations between the NGO and the donor. The goals and objectives need to be clearly defined. In addition, a detailed project design and a work plan are prepared; resources are identified and the use of resources utilizing the cost-benefit analysis is planned. A clear, precise and logical budget is an indispensable project document. It is also essential that there is an agreement on management, coordination and audit arrangements; and possible risk factors and assumptions are taken into account. To ensure the success of the next phase, it is critical to identify verifiable monitoring and evaluation indicators. The prospective NGO partner should take a lead role in this phase and the donor should actively support by providing technical assistance and advisory inputs. In the end of this second phase, the donor makes the financing decision for individual NGO projects and the financing agreement is prepared. Signatories of the agreement vary depending on the parties. Usually agreements are signed at the country-level by ambassadors and country representatives or their deputies. (EC 2004, 33-34; Networklearning 2009)

The third phase of the project cycle is the implementation and monitoring phase, which is in many standards the most critical phase. In this phase the project is actually put in practice, and it should deliver the planned activities and results; and fulfill the purpose and the overall objective of the project. The project should not run over schedule or budget and it should manage the available resources efficiently. During the implementation a systematic and continuous monitoring, as well as a periodic narrative and financial reporting, is necessary. This is in order to follow the progress that the project may achieve its goals in the end of the project period. NGOs are asked to report usually by half-yearly or quarterly. The progress reports should contain relevant and concisely presented information. If the physical or financial progress, the quality of process or the target groups' response has been unsatisfactory or problematic; the work plan and the budget can be modified. Also remedial actions can be taken, if necessary. The NGO partner is expected to take the primary

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<sup>4</sup> See more details: EC 2004, 30-31.

<sup>5</sup> See more details EC 2004, pages 35-37

responsibility in this phase. Apart from providing financial and technical support, the donor monitors the implementation and ensures an appropriate level of accountability for the resources used in cooperation with the partner. Monitoring takes place at all levels of management and implementation utilizing both formal reporting and informal communication. A field visit is another form of monitoring applied by donors. In the implementation phase the NGO is responsible for satisfactory accounting and bookkeeping and is required to provide financial reports compiled on the budget format. Monitoring often includes also periodic auditing, especially in longer projects. In shorter projects auditing is a part of the evaluation. The length of the implementation phase varies greatly between the projects. It can be anything from a few days or weeks up to several years. (EC 2004, 39-42, 100; MFA of Finland 1997, 45; Networklearning 2009)

The fourth and the last phase of the project cycle is the evaluation phase. The evaluation measures systematically and objectively the ongoing or completed project against its objectives. It is checking, if the objectives have been achieved, how relevant the objectives were and what was the impact of the project. The evaluation also assesses efficiency, effectiveness and sustainability of the project. The rationale of evaluation is to improve accountability. The credible evaluation needs to be impartial and independent from programming and implementation functions. Therefore, it often incorporates external independent experts and their output. Many NGOs have, in addition to external auditors, their own monitoring and evaluation staff, who are not linked to program implementation. The evaluation process requires also the participation of different stakeholders in order that all views are taken into account. Useful evaluation also provides to decision makers timely recommendations for the future and lessons learned to be integrated into the project cycle of succeeding projects. The evaluation is periodical, typically the evaluation is done immediately after the completion of the project. Another option is a few years after the completion, so called ex-post evaluation. In a case of longer multi-year projects, also a mid-term evaluation is often prepared. In that event the implementation and monitoring phase and evaluation phase overlap. The international evaluation guidelines are often based on the OECD/DAC definition of evaluation. (EC 2004, 40, 46, 100; MFA of Finland 1997, 59; Networklearning 2009; MFA of Finland 2007)

Respectively, the project audit incorporates external input by involving auditors, who are expected to be qualified and independent. Besides of external auditors, larger organizations often have also their own internal auditors. The audit is an irremovable part of the evaluation and is done after the completion of the project. In multi-year projects it is recommended to audit the project annually. The key function of audit is to provide assurance and accountability to stakeholders. The audit assesses (1) the legality and regularity of project expenditure and income i.e. compliance with laws and regulations and with applicable contractual rules and criteria; (2) whether the project funds have been used efficiently and economically i.e. in accordance with sound financial management; and (3) whether project funds have been used effectively i.e. for purposes intended. The primary focus of the audit is



financial and financial management, whereas performance audits examine and assess efficiency, economy and effectiveness of project activities. Unambiguous project budgets and financial progress reports are particularly important to the audit. (EC 2004, 40, 42, 46, 50)

The project cycle is ongoing. After the evaluation, the identification of new projects starts again. PCM and the phases of the project cycle will be utilized in the empirical section of this study, as typical corrupt customs and best practices to prevent corruption are identified and discussed in each phase of the project cycle. In addition, the theories of corruption, e.g. the principal-agent theory, presented earlier in this chapter and particularly the root causes and effects of corruption are visibly linked to the following literature review and empirical sections. The following chapters will focus on corruption in the Pakistani context, especially in NGO development projects.

### 3 PAKISTAN & CORRUPTION - SPECIFIC LITERATURE REVIEW

Chapter 3 looks into the corruption in Pakistan through literature review, although there is a paucity of up-to-date written sources available, particularly covering NGO corruption as compared to corruption in the public sector. Therefore the literature reviewed includes also other published sources such as newspaper articles, press releases and material from websites. However, during the interviews Respondent D shared a lot of factual and historical information on corruption in Pakistan as he/she has a wide knowledge of the topic and the actions taken by the state. His/her views and the facts he/she presented were uniform to the ones presented in the literature.<sup>6</sup> As the interview of Respondent D is part of the empirical data, the information he/she provided is not included in this chapter, but in Chapter 5: Empirical Findings.

#### 3.1 Historical and Current Corruption Trends in Pakistan

It is widely acknowledged that corruption is rampant and endemic in Pakistan. Corruption is spread to all the levels of society and exists everywhere in the country. Corruption affects all aspects of people's lives with serious consequences. Living without paying any bribes is becoming more difficult. The survey of Transparency International Pakistan (TIP), National Corruption Perception Survey (NCPS) 2010, estimates that the average annual expenditure on petty bribery per household is 10 537 Pakistani rupees (ca. 90 €)<sup>7</sup>. The extent of the problem is visible on the website of TIP<sup>8</sup>, which documents corruption related news from Pakistani media at its website. A number of news are published daily and added to the long list of already existing news on corruption in Pakistan. Nowadays many high-profile cases are widely and openly covered by the Pakistani press, which was not the case only a few years ago (See Chêne 2008, 6). Corruption is also a common subject in cartoons like this:

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<sup>6</sup> See e.g. Sayeed 2010 or Schultz 2007.

<sup>7</sup> The local currency is Pakistani rupee. The approximate exchange rates as of December 2012 are: 1 € = 120 Pakistani rupees and 1 US\$ = 95 Pakistani rupees. The Pakistani rupee has depreciated more than 40 % since 2007. (CIA 2012)

<sup>8</sup> See <http://transparency.org.pk/news/newstip.php>.



**FIGURE 2** Cartoon on corruption in Daily Times (Hussain, 14 Dec 2012)

This alarming corruption trend has been acknowledged internationally. Pakistan has held low positions in corruption rankings during past years. The latest annual Transparency International's Corruption Perceptions Index 2012 ranked Pakistan as the 34<sup>th</sup> most corrupted country in the world (position 139 out of 176 countries) and Pakistan had a score of 27 (scale 0-100). In 2011 Pakistan was ranked as the 42<sup>nd</sup> most corrupted country (position 134 out of 183 countries) and in 2010 as the 34<sup>th</sup> most corrupted country (position 143 out of 178 countries). In 2009 the country was ranked as the 42<sup>nd</sup> most corrupted country. According to the index Pakistan is nowadays as corrupted as Nigeria, which has previously topped the ranking.

Corruption has been a major issue in Pakistan since its creation in 1947. Corruption and bribery were recognized as “poisonous” by the founder of the country and the first president, Mohammed Ali Jinnah, in his first address to the Constituent Assembly on 11 August 1947. Jinnah requested the Assembly to take adequate and strong measures against these practices and as a result an anti-corruption law was one of the first items enacted by the assembly soon after the independence. (Sayeed 2010, 33; NAB 2002, 11) However, despite the existing legal framework, Pakistan has not been able to resolve the corruption problem over the decades.

The first setback occurred immediately after the independence. In the aftermath of the partition of Pakistan and India approximately five to six million people left India for Pakistan and vice versa. This mass migration provided a window of opportunity for the genesis of corruption. After the end of British rule Pakistani

bureaucracy required a high number of new officers and junior officers were given promotions due to lack of educated and experienced civil servants. The state adopted a policy of granting land and housing left behind by Hindus, who migrated to India, to Muslim migrants from India based on claims of property they had left behind in India. Money and influence were used in granting these often fake claims. The policy resulted in a class of propertied migrants. (Sayeed 2010, 34; NAB 2002, 11)

The practice of land transactions, as well as allocation of state land to private interests, has continued over the years in different forms and it is a salient form of corruption in Pakistan. Different arms of the state can sell land cheaply to land developers or influential people, who later sell it at a higher price to commercial purposes or home dwellers. This corrupt practice is institutionalized as officers of the armed forces are entitled to residential, commercial and agricultural land at highly subsidized prices.<sup>9</sup> For example, residential societies in major cities are developed by the armed forces and infrastructure is developed largely at state expense. Later the officers can sell the land at the market rate and gouge hefty profits. (Sayeed 2010, 35-37)

Respectively, the state or state-owned companies can buy land and properties at highly inflated prices. In a recent case, which got a wide coverage in the Pakistani media<sup>10</sup> The National Insurance Corporation Limited (NICL) was accused of the procurement of land on highly enhanced rates, causing a multi-billion rupee financial loss to the national treasury. Like in this case, often politicians or their close family members are accused of involvement in these scams through middlemen. The land purchase scam took place after the appointment of a former night club manager in Dubai as the new Chairman of the NICL (Independent News Pakistan, 14 Dec 2010). Land transactions are also widely used for launder money acquired through criminal activities and corruption due to taxation loopholes and ineffective administration. State's actions against money-laundering are very weak. (Sayeed 2010, 35-36)

After the migrants' claims the next major corruption opportunity opened in the 1960's. In the pre-liberalization period the state strictly controlled and over-regulated the industrialization. Bribes were used to acquire the lucrative industrial and commercial licenses. After the economic liberalization of trade a monopoly pricing did not disappear, but a lack of regulation on cartels and market manipulation kept the prices at a high level in several sectors, particularly in the banking, automobile, cement, fertilizer, and sugar sectors. Moreover, the process of privatization of public monopolies and companies has lacked transparency over the years. Also willfully defaulted loans acquired from state-owned banks and financial institutions are common. (Sayeed 2010, 35, 39; NAB 2002) Still today many politicians have major business interests and businessmen exchange patronage and political support for tax exemptions, debt write-offs and other favors. (Schultz 2007, 152)

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<sup>9</sup> See Military Inc: Inside Pakistan's Military Economy by Ayesha Siddiqua, Oxford University Press, 2007, for details

<sup>10</sup> See e.g. <http://dawn.com/tag/nicl-corruption-case> or TIP website's Newsroom

Apart from transferring of public property to private possession various other forms of corrupt practices are also common across different state institutions. Civil bureaucrats are carrying out much of the bribery and extortion occurring within state institutions. The main reason for this is the lack of accountability of public officers. It is coupled with appointments not based on merit, low salaries, modest benefit packages, a lack of job security and low morale. The corruption ranges from petty bribes to a policeman or tax official to major kickbacks on procurement of materials and service. (Sayeed 2010, 35; TIP NCPS 2010, 5; Schultz 2007, 156) According to TIP's National Corruption Perceptions Survey in 2011 land administration is the most corrupted public sector department followed by police and taxation. Judiciary is on the fourth position.

Pakistan's tax and public finance administration is heavily affected by corruption. According to the World Bank, there is widespread collusion between tax payers and tax officials, which has led to tax evasion and lack of tax compliance. Public sector accounting and auditing does not comply with international standards and there are major gaps and weaknesses in the accountability chain. There is a great need to strengthen financial reporting. One of the main reasons for poor financial administration is low institutional and staff capacity. (Chêne 2008, 5) As a consequence the tax-to-GDP ratio in Pakistan is one of the lowest in the world, less than 10 %. According to the WB's tax revenue statistics it was 9.3 % in 2011. Quasi-fiscal regulations have become predominant and substituted taxes and public expenditures, which makes raising the level of taxation substantially difficult (Tanzi 2002, 53).

Military and politicians are the key players in state-led corruption. In principle, elected politicians should be accountable for their offences and the lack of delivery to the electorate in their constituency. However, in Pakistan the political parties are not considered fully democratic and political system is highly elitist. Political parties are often personality-driven and led by certain families or influential persons, largely coming from the feudal classes and also recently from the affluent business classes. Any difference in opinion among party leaders often results in a party subdividing into different factions. Politicians with tainted reputation have been re-elected time and again despite their conduct being public knowledge. Audit and accountability laws apply to politicians, which makes them potentially liable to legal provisions. (Sayeed 2010, 36; NAB 2002, 16)

On the contrary, the military is powerful enough to elude public accountability. The military's budget in Pakistan is not presented in detail to the Parliament. Moreover, civilian audit authorities do not audit the military budget, and to top it all, serving military personnel have been exempted from investigation by civilian anti-corruption watchdogs by law. (Sayeed 2010, 36)

Gradually over the years corruption has started to take root very systematically and various anti-corruption drives of the past have failed to address the problem adequately. From 1985 to 1999 five governments were dismissed on charges of corruption. Two of those governments were led by The Pakistan People's Party (PPP),

which is the current leading party and heading again the Government of Pakistan (GoP) since 2008. The judgments of the Supreme Court, which gave the legitimacy for throwing out the governments, named a growing corruption as one of the main reasons. Political elite was accused of voracious looting and building their personal assets. (NAB 2002; Chêne 2008, 2)

The current situation is not any better. Corruption remains a substantial challenge for Pakistan where it is still perceived to be systemic, widespread and deeply entrenched at all levels of society and government. Both petty and grand corruption are prevalent in Pakistan. (Chêne 2008, 1, 3-4) The recent survey carried out by Gallup Pakistan (2012) found corruption as the leading issue that Pakistanis dislike the most about their own country. It was cited by 16 % and ranked higher than e.g. inflation, terrorism or unemployment.

According to TIP, Prime Minister Yousuf Raza Gilani's 50 months tenure, which ended in June 2012, was the worst period in the history of Pakistan in terms of massive corruption. TIP claimed that Pakistan lost more than 8.5 trillion rupees (US\$ 94 billion) in corruption, tax evasion and bad governance during Gilani's regime. Indicating government's mismanagement TIP highlighted that during his term Prime Minister Gilani appointed four governors of State Bank, six secretaries of finance, four ministers of finance, ten Director Generals of Federal Investigation Agency (FIA) and three National Accountability Bureau (NAB) chairmen. In addition, Federal Ombudsman was absent the last twenty months of Gilani's tenure. TIP stated that "Pakistan does not need even a single penny from the outside world if it effectively checks the menace of corruption and ensures good governance". (Abbasi, 21 Jun 2012; Abbasi, 5 Feb 2012) The GoP has denied the claims of TIP (The News International, 7 Feb 2012). The current Chairman of NAB Admiral (Retd.) Fasih Bukhari has informally stated that Pakistan loses 5 billion rupees (US\$ 53 million) a day, 1,800 billion rupees (US\$ 19 billion) a year, in corruption in only three sectors of the economy due to oil mafia, agriculture cartel and tax evasion and theft. In order to curb corruption, he demanded that there is a dire need to depoliticize the civilian bureaucracy so that the civil servants could perform their duties without any fear or favor. (Abbasi, 24 May 2012)

### **3.2 Anti-Corruption Mechanisms and Legal Framework in Pakistan**

The first anti-corruption law, Prevention of Corruption Act, was enacted immediately in the beginning of Independence in 1947. The act is still in force and it criminalizes both active and passive bribery. The Pakistan Penal Code of 1860 (PPC) penalizes attempted corruption, in addition to extortion or abetment of extortion. Also money laundering and the bribery of foreign officials are included in the PPC. Over the years there have been three other anti-corruption laws concentrating on elected representatives and politicians, but all these laws have been later repealed. Controlling political enemies has been one of the main goals of anti-corruption work in Pakistan over the decades. (Sayeed 2010, 37-38; Schultz 2007, 153-154)

The third anti-corruption law currently in force is National Accountability Ordinance of 1999 (NAO). This ordinance was enacted soon after the military coup led by General Pervez Musharraf in October 1999. The National Accountability Bureau (NAB) was then established as Pakistan's apex anti-corruption organization with the responsibility of elimination of corruption through a holistic approach of awareness, prevention and enforcement. However, the NAO has been criticized for excluding important categories of officials, including the judiciary and active personnel of the armed forces. The NAO also provides extensive powers of pardon or release an accused in exchange for the "voluntary return" of corrupt assets, which may lead to impunity. In terms of international norms, Pakistan ratified UNCAC in August 2007. (Sayeed 2010, 36-38; NAB 2002; Chêne 2008, 8; Schultz 2007, 154-155)

Apart from the NAB there are two other specialized anti-corruption agencies: Anti-Corruption Establishments at the provincial level and FIA, which covers e.g. immigration, financial crimes, cyber-crime and anti-terrorism (NAB 2002; Sayeed 2010, 38). Other institutions relevant to corruption prevention include the Ombudsman's Office, the Auditor General's Office and the National Assembly's Public Accounts Committee. However, these institutions are not free from political influence and lack of capacity. Allegations of collusion between individual auditors and bureaucrats are also fairly common. (Shultz 2007, 154) The current Auditor General of Pakistan, Mr. Akhtar Buland Rana, is a controversial figure and considered to be affiliated with PPP and a family friend of former Prime Minister Gilani. (Gishkori, 3 Aug 2011)

The NAB has had a fairly strong record in terms of enforcement, especially in the first years of its operation when it enjoyed a reputation as the most effective anti-corruption agency in the history of Pakistan. Over the years the NAB has recovered over 233.3 billion rupees (ca. US\$ 3.8 billion) through "voluntary return" arrangements, bank defaults and plea bargaining by finalizing investigations against civil servants, businessmen, former military personnel and others. However, the NAB is blamed of ignoring cases involving the government's political allies. (Schultz 2007, 154, 162; NAB 2011, 10, 15)

The NAB prepared National Anti-Corruption Strategy (NACS) in 2001 - 2002 through a consultative and participatory process, although the NACS Project Team only consisted of both local and international external consultants and mid-career civil servants, who enjoyed extra incentives. The Parliament and political parties were sidelined in the process. The NACS is a comprehensive strategy and it includes very useful analysis and diagnosis of the corruption situation in Pakistan. It also includes the detailed program of recommended reforms. Officially this key strategy is still valid, but it is poorly implemented and ineffective despite its detailed implementation plan attached to it. The Implementation Committee headed by the Chairman of NAB, which was to meet in every three months to monitor progress, had not met at all for nearly two years as of August 2007. The researcher could not find any evidence from Pakistani media that the committee would have been reactivated afterwards. The NACS also excludes military and security personnel and religious

authorities. General Musharraf's declared interest in the NACS weakened following the parliamentary elections in 2002 after realizing that he needs the support of corrupt politicians in order to secure his own position. The implementation has also suffered from the weak interest of development partners. (Schultz 2007, 157-163, 167; Chêne 2008, 10) Schultz (2007, 165-167) highlighted various obstacles that have prevented the effective implementation of the NACS:

- Lack of political leadership;
- Structural constraints as a result of the NAB's contested authority;
- Weak positioning of the NACS within the NAB itself;
- Lack of demand for reform from external actors;
- Poor communication with public; and
- Raised expectations are not matched with supply of reforms.

A major step backwards at tackling corruption was taken in October 2007 when the then President of Pakistan General Pervez Musharraf issued controversial National Reconciliation Ordinance (NRO). It granted amnesty to politicians, political workers and bureaucrats who were accused of corruption, embezzlement, money laundering, murder, kidnappings, and terrorism between January 1, 1986, and October 12, 1999, the time between two states of martial law in Pakistan. Many of those cases were believed to be initiated for political reasons. The parliamentary elections were to be held in late 2007 or early 2008 and the ordinance aimed at e.g. promoting national reconciliation and making the election process more transparent. The main idea behind the NRO was to allow political leaders living in exile, particularly the leader of PPP Benazir Bhutto, return to Pakistan without any legal consequences or a fear of arrest; and to participate in the forthcoming elections. Shortly after her return Bhutto was assassinated in a political rally in Rawalpindi in December 2007 a few days before the elections. It is believed that USA and the United Kingdom supported the ordinance. In November 2009, the list of the NRO beneficiaries was published by the GoP. The total number of beneficiaries was 8041, most of them bureaucrats. However, it also included 34 politicians such as the President Asif Ali Zardari and four Federal Ministers. Consequently, the NRO caused a complicated political crisis and deep rift between the Supreme Court and elected political leadership. Eventually, the Supreme Court declared the NRO unconstitutional in December 2009, but the government has not properly implemented the NRO judgments and judicial proceedings are still ongoing. (TIP 2007; Gishkori, 22 Nov 2009; The Telegraph, 16 Dec 2009; Nelson 2011, 2, 8)

The position of the NAB has further weakened during the tenure of democratically elected PPP-led government, which came into power in 2008. The PPP officials have hesitated to reinforce the existing anticorruption efforts as they could face charges themselves (Nelson, 11). In practice, the NAB has been non-functional for long periods of time during the recent years. It had no Chairman most of the 2011 despite the directions of the Supreme Court to nominate a new chairman. The



appointment of the previous chairman Mr. Justice (Retd.) Syed Deedar Hussain Shah was declared illegal by the Supreme Court in March 2011. (Daily Times, 21 Sep 2011; Zulfiqar, 11 Mar 2011; NAB 2011, 10) As of September 2011, the latest annual report available on the NAB website was published in 2007 and the latest press release in January 2011. The actions of the NAB have been highly criticized by TIP and it has been accused of helping the corrupt avoid conviction by distorting and mutilating the evidence in favor of the influential accused. (Abbasi, 5 Feb 2012)

Over the past few years the Supreme Court of Pakistan has had a leading role in the fight against corruption. Under the leadership of Chief Justice Iftiqhar Muhammad Chaudhry the Supreme Court has taken strong stand against corruption and taken a number of suo moto notices at many high-profile corruption cases, which according to TIP have saved billions of rupees of public funds. Nevertheless, care must be taken that the judiciary does not overstep its constitutional role, as the independent judiciary should not appropriate more powers than prescribed by the constitution. (Abbasi, 5 Feb 2012; TIP AR 2011, 5, 23) The GoP has showed continuously non-cooperative behavior towards number of the apex court's notices, which has been evident in numerous high-profile corruption cases, often including ruling politicians and their family members. (TIP AR 2010, 26)

The NAB has become re-functional again after Admiral (Retd.) Fasih Bokhari was nominated as a new Chairman in October 2011. According to him the NAB is undergoing a process of revival by enhancing both the quantity and quality of manpower. The bureau is also shifting its focus from enforcement to corruption prevention, as policing alone do not create accountability. However, its resources are slashed and reduced to almost 30 percent of what it was during President Musharraf's tenure (Abbasi, 24 May 2012). The Bureau's Annual Report 2011 was released in March 2012. Interestingly, it does not include a single word on the Supreme Court's orders and directions to the NAB given in 2011 related to the previous Chairman, who left his office in March 2011, and non-appointment of new chairman for several months. (NAB 2011, 6)

Other worrying phenomenon has been the harassment of TIP by the Ministry of Interior. In 2010, the ministry ordered FIA to look into TIP's matters after the publication of constantly falling corruption rankings, NCPS 2010 and CPI 2010. The GoP labeled those publications as a measure to malign Pakistan. TIP has strongly criticized the current government and its lack of political will to curb corruption. (TIP AR 2010, 8)

Besides of the lack of capacity and poor strategizing on anti-corruption mechanisms, corruption is inseparably linked to socio-political imbalances in Pakistan. Effective and sustainable anti-corruption drive requires some level of agreement among different power holders to guarantee accountability across the board, which will lead to wider societal legitimacy for anti-corruption practices. (Sayeed 2010, 39)

### 3.3 Regulatory Framework of NGOs in Pakistan

Freedom of association is guaranteed under the constitution of Pakistan, although this fundamental right has been often curtailed and restricted in the name of the national interest. The state has banned public demonstrations and arrested civil society leaders several times over the past decades, if political situation has been very unstable. The state's attitudes toward NGOs have been diverse and vague and lacked consistency. It has appreciated the services and charity work provided by NGOs, but has perceived them as competitors for foreign funding and often considered their advocacy work as provocative, politically sensitive or threatening security. The attitudes against foreign-funded NGOs are harsher compared to locally-funded indigenous NGOs. Especially in the end of 90's the NGO-state relations were openly hostile and a number of CSOs complained of being intimidated by the intelligence agencies. (Sattar & Baig 2001, 11, 13; Pasha et al. 2002, 2-4)

Religious extremists have also threatened the lives and security of leaders and staff of some advocacy-oriented NGOs challenging the orthodox Islamic position with regard to e.g. the status of women, honor killings and blasphemy law. Extremists have accused organizations of being anti-Islam and spreading liberal and secular values. (Sattar & Baig 2001, 15; Pasha et al. 2002, 6-7) The security risk is real. Associating with aid agencies and NGOs has become more dangerous, especially after CIA run a fake polio vaccination scheme to track down Osama bin Laden in 2011. (HRCP 2012, 133) There has also been *fatwas* (religious rulings issued by Islamic scholars) issued against female NGO workers<sup>11</sup>. There have been a number of attacks on NGOs and aid workers recently which have resulted in many casualties.<sup>12</sup>

There is no uniform mechanism for NGOs' registration, regulation and monitoring in Pakistan. NGOs and CBOs can register themselves anywhere in the country. The general legal regime, which impacts philanthropic organizations, includes more than twelve Federal Acts; the organizations can register themselves under any of these Acts. However, the most significant ones are: the Societies Act of 1860, Voluntary Social Welfare Agencies (Registration and Control) Ordinance of 1961, Trust Act of 1882 and Companies Ordinance of 1984. (PCP 2012, 4)

The registration acts require NGOs to provide to government officials e.g. an annual report on their activities and audit report done by authorized chartered accountants. However, due to a complex regulatory framework, indifference and capacity constraints those acts are often poorly implemented. In practice after often a complicated registration process a local NGO conducts its development works without government oversight over its sources of funds, areas of activity and progress, if the organization has not been involved in humanitarian aid. NGOs often

<sup>11</sup> See e.g. Fatwa against female NGO workers condemned, Daily Times, 15 May, 2012 and Female NGO worker shot dead in Khyber Agency, The Nation, 5 July, 2012.

<sup>12</sup> See e.g. Pakistan: Growing risks for aid workers, IRIN, 7 January 2013. Available at: <http://www.irinnews.org/Report/97186/PAKISTAN-Growing-risks-for-aid-workers>.

only report to their donors and do not make their financial accounts or information about their general activities publicly available, thus lacking accountability and transparency. (Ghumman, 5 Mar 2010; Sattar & Baig 2001, 12-13, 19) When an NGO is obtaining most funding from foreign donors, there is little incentive for organizations to establish their credibility either to government or society-at-large (Hassan et al. 2000, 137). The GoP has no comprehensive data of utilization of funds given to NGOs by foreign donors. The National Assembly Standing Committee on Economic Affairs has expressed concern about the utilization of foreign aid through NGOs without government oversight as these foreign funds could benefit anti-state elements. Respectively, foreign agencies are seen using NGOs to pursue an “alien” agenda. (Ghumman, 5 Mar 2010; Pasha et al. 2002, 32)

Major changes in tax legislation with regard to the liberalization of deductibility of charitable contributions in the end of 1990’s improved the fiscal environment of NGOs. However, their application has been limited due to the very selective granting of the appropriate status for receiving donations to NGOs. (Pasha et al. 2002, 16)

There is no active self-regulatory umbrella body in NGO sector. The Pakistan NGO Forum (PNF), an apex body of five regional networks, was formed in 1994 - 1995 in response to the government’s attempt to bring NGOs directly under its control through a new NGO Bill, which in the end was never promulgated. PNF provided, according to its website, a national platform to over 5,000 CBOs and NGOs. PNF developed a code of conduct for Pakistani NGOs and CBOs in July 2000, which intended to establish self-regulatory practices and norms for NGOs, and would improve internal democracy and accountability. (Sattar & Baig 2001, 10, 20; PNF) In 2002 PNF, as an umbrella body, was still at an embryonic stage of development and since then it has become inactive and the code of conduct is not brought up in public discussion anymore. Forming umbrella bodies has been difficult due to the strong personality domination of many NGOs, as these charismatic leaders have preferred to operate individually. (Pasha et al. 2002, 24)

The only external Government authorized CSO certification agency in Pakistan is the Pakistan Centre for Philanthropy (PCP), which is registered as an independent nonprofit support organization. The voluntary certification program started in 2003 and it seeks to bring transparency, accountability and good governance in the nonprofit sector in Pakistan. The certification program involves the evaluation on internal governance, financial management and program delivery. So far PCP has had a limited impact. As of December 2012 it is certifying only 167 CSOs<sup>13</sup>. The certification is valid for three years. The certification fee is fairly high despite PCP sharing a portion of the costs. (PCP)

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<sup>13</sup> See <http://pcp.org.pk/cso.php>. Retrieved 7 December 2012.

### 3.4 Foreign-Funding and Corruption in NGO Sector in Pakistan

Since 2005 Pakistan has been hit by several humanitarian catastrophes; earthquakes, floods, cyclones and internal instability causing IDP (internally displaced people) crisis. Humanitarian emergency appeals have been launched one after the other followed by even higher financial needs in early recovery and reconstruction phases. Most of the foreign humanitarian aid has been allocated through international organizations: particularly the United Nations and the Red Cross Movement. The GoP's lack of transparency in utilization of funds received after the 2005 earthquake has not helped the government and kept donors cautious to channel humanitarian funds directly through the government agencies. Donors are ready to give aid but not without proper monitoring and transparency in aid spending. (TIP AR 2010, 6, 26) The GoP has tried to convince donors to channel the grants through the government systems and accused NGOs of siphoning off half of aid money based on the perceived performance of the United Nations and international non-governmental organizations (INGOs). (Naviwala 2011)

This situation has enabled NGOs to become a major partner of donors. For USAID the emphasis on NGOs is a world-wide general shift and local Pakistani NGOs have become the primary channel of the U.S. development assistance. However, in October 2009 according to a leaked memo USAID senior economist was worried that "very few Pakistani firms and NGOs can currently satisfy the stringent financial management audit requirements for USAID project funding." Nonetheless, supporting local NGOs has many benefits: e.g. it lowers the high overhead and security costs associated with Americans working abroad, especially in hostile environments, and promotes local ownership. (Naviwala 2011) In 2010 USAID established in cooperation with TIP, the Anti-Fraud Hotline to monitor and report fraud, wastage and abuse in USAID funded projects in Pakistan. Citizens and CSOs are encouraged to report cases via toll-free phone, email, website, post or in person. As of December 2011, it had received over 15,000 calls and 2,857 of these calls had been converted to complaints, half of them relating to flood relief. 42 NGO personnel and 9 education officers had been fired to that date. (Rashid 2012)

The term "NGO" is often perceived very negatively among the public in Pakistan. Generally it is associated with foreign-funded organizations or secular causes such as women's empowerment as well as perceived elitism, high material comfort (high salaries, fancy offices, expensive cars), and lack of visible signs of work. However, according to a recent study 87 % of NGO funding in Pakistan comes from indigenous sources, while less than 6 % is received from foreign governmental sources. (Naviwala 2010, 3-5)

Oxford researcher Masooda Bano, based on her survey of 40 CSOs in Pakistan, demonstrated a distinction between foreign-funded NGOs (FFN) and locally-funded NGOs (LFN), and found that international aid may have a corrupting effect on Pakistani NGOs. According to her research FFNs are often set up in response to the availability of aid, are entirely dependent on foreign aid, and were committed to

projects as long as funding was available. They have high material incentives, including lucrative salaries, imposing offices, and expensive vehicles; and are primarily responsive to foreign donors over local needs. Bano also claimed that FFNs have no civil society value due to complete inability to mobilize local resources and volunteers. On the contrary, LFNs are set up in response to an incident and needs of a clear beneficiary population, depend on local financial and material support, and were committed until the target was achieved. They tend to have a core group of volunteers, modest or borrowed office space, and NGO leaders invest their own funds in the organization rather than receiving salaries. (Naviwala 2011; Naviwala 2010, 11-12)

Bano further reported LFNs facing difficulty absorbing aid, as many almost collapsed due to the influx of foreign aid. They started to attract individuals interested in personal gain while sincere workers and volunteers left, and faced reluctance among local donors to continue support, as locals believed that their support is no longer needed. Large donors also typically offer huge contracts, which local NGOs cannot handle efficiently due to lack of capacity. By providing huge contracts donors try to decrease their own administrative burden, as they lack adequate capacity too. To avoid the problems caused by excessive foreign funding Naviwala (2010) recommended of providing small and flexible aid grants to reputable local actors. Grants should be small relative to the size of organizations to ensure that aid will not distort their budgets and incentives or to lose the local supporters. Aid should be demand-driven, instead of donor-driven, to promote local ownership. (Naviwala 2011; Naviwala 2010, 3-4, 11-12)

Seth Kaplan from Johns Hopkins University has provided another critical opinion on Pakistani civil society. He affirmed that development in Pakistan has suffered, as there is a very small number of NGOs compared to India and Bangladesh; and NGOs are playing far less prominent role despite a generally positive government attitude towards domestic organizations. There are only few respectable think tanks. Kaplan also stated that Pakistan lacks large-scale innovative and successful civil society projects. The explanations provided by him included e.g. lack of comprehensive approach to development and the importance of individuals instead of organizations. Kaplan also agreed that donors should nurture the independence of NGOs as donor-dependent organizations are unlikely to ever develop the capacity and relevance to make real impact on their societies. NGOs should be run by Pakistanis, fully funded by Pakistanis, and geared to meeting the needs of Pakistan. (Kaplan 2012)

Information about the scope of the corruption and embezzlement of foreign aid money in the NGO sector is largely anecdotal. Both donors and NGOs may be reluctant to bring the cases into publicity, because these may be misinterpreted as evidence of failure rather than successful performance of corruption detection systems (Trivunovic et al. 2011, 1). However, lately some NGO corruption cases have been covered in local media in Pakistan. This short list based on a few press reports in English-language newspapers (excluding Urdu-language newspapers) is by no

means complete, but gives an idea of the situation in Pakistan by bringing out a few notable and verifiable cases from past couple of years.

- Two American NGOs, Academy for Educational Development (AED) and Sheledia, were found involved in massive misappropriation, embezzlement and corruption and were probed by the NAB for corruption in 2010. The NGOs were engaged by USAID in two projects, which were part of US\$ 750 million FATA uplift program. USAID conducted forensic audit of the AED project for the expenditure of US\$ 3.5 million, which showed the spending of US\$ 1.5 million through fraudulent bids and proposals linked to the procurement of food and other items for flood victims in 2008. Three supplier companies involved were run by three business partners, who had manipulated the bidding process to get the contract. Sheledia was involved in the road construction project and the NAB identified an embezzlement of at least 80 - 100 million rupees (around US\$ 1 Million). (Abbasi, 11 Nov 2010)
- Pirbhat Women's Development Society embezzled funds totaling £135,000 which were originally allocated for operating expenses, overheads and human resources for the flood relief program in Shahdadkot and Larkana, Sind in September 2010 to March 2011. The investigators found falsified invoices and extensive manipulation of cheques to the supplier. Oxfam GB, which had provided the funds, made the case public and underlined its zero-tolerance policy towards corruption. (Sherazee, 13 Aug 2011)
- The Norwegian Refugee Council fired 16 of its employees in Bajaur Agency in FATA on charges of corruption and mismanagement based on the complaints of tribal elders. According to the internal investigation, the workers, including several senior staff members, were involved of taking bribes and other benefits from tribesmen. (Dawn, 9 Oct 2012)

Editorials and columns in newspapers also highlight NGO corruption occasionally. The Express Tribune's columnist Ayesha Siddiqi, a civilian military analyst and political commentator, accused the privileged civil society of local elitism. Since the NGO sector is the latest trend, donors do not consider the corruption in this sector. Good command of the English language, speaking the right jargon and getting published in a few newspapers and magazines creates enough credibility in the eyes of donors. Foreign donors are not looking for solutions but for partners in distributing money. (Siddiqi, 12 Dec 2010)

In his letter to the editors Dr. Akekh Khan considered USAID and other international organizations as the main reason for corruption in Pakistan. According to him, aid organizations never prosecute and hold responsible anyone involved in corruption. He referred to UNICEF funded KP education department program, in which corruption of US\$ 47 million was detected a few years back in the supply of equipment to government schools. UNICEF had fired all the corrupt employees and

had started an internal investigation against a few of them, but they never prosecuted any employee in the court of law in Pakistan. He also blamed USAID of unceremoniously kicking out three of their employees, who committed frauds worth more than US\$ 1 million, but never prosecuting them in Pakistan. The worst part was that these corrupt officials have got later new jobs in other aid organizations because of their USAID and UN experience. (Akekh, 12 Feb 2012)

Apart from these press reports and columns, there are a growing number of blogs, journals, discussion forums and online interactive spaces, in which people, including local development workers, bring up their thoughts and experiences on NGO corruption<sup>14</sup>. They do also provide a number of anecdotal cases. These sources of information are not referred to in this study in detail, but in general, the writers are often very critical and worried about the situation. They report on kickbacks in procurement processes and other types of mismanagement and fraud. They consider the management of NGOs as elitists, who belong to the ruling system. They also blame donors on overlooking, when handpicked evaluators, monitors and chartered accountants are giving a clean chit to projects. Foreign well-paid consultants are heavily criticized for not visiting the project sites, but going for their periodical stress leaves to other countries and otherwise sitting in their luxury offices in Islamabad.

To summarize this Literature Review chapter it is important to understand and recognize a number of underlying conditions and reasons causing this persisting widespread corruption in Pakistan. The NACS includes a useful analysis and lists a few key factors:

- Economic: Inadequate pay, pensions and public service provision, plus large families;
- Social/cultural: Conflict between demands of modern bureaucracy and demands of *baradri* (brotherhood), family, ethnic and other ties; social pressures for ostentatious demonstration of wealth, dowry and to provide for one's children;
- Developmental: Low rate of literacy, social empowerment and opportunities for self-improvement; inequitable distribution of wealth and economic growth;
- Political: The feudal power structure at the rural level; low levels of political competition; political instability, and intermittent military rule, have weakened institutions; with poor example set by politicians;
- Legal and judicial: Justice is inaccessible, slow and selective, encouraging contempt for the law and an attitude of "everyone for themselves".

These factors are still very valid and fully relevant both to public sector and NGO sector ten years later. Most of these underlying conditions will be highlighted in the empirical part of this study.

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<sup>14</sup> See e.g. <http://community.eldis.org/>

## 4 METHODOLOGY

### 4.1 Research Methods and Empirical Data

This study is a qualitative research. The empirical data is collected through interviews, and the focused interview method is used in this research. This method is semi-structured and is placed in between the structured interview and the in-depth interview. Open-ended questions are used. The typical element of the focused interview is that the questions do not have strict form or order. (Hirsjärvi et al. 2004, 195) When the interviews were conducted, the order of the questions depended on the flow of the interview and varied significantly between the interviews. For example procurement issues were sometimes discussed almost directly at the beginning of the interview, sometimes only at the last quarter of the interview.

This particular method of data collection was chosen because of its several benefits. Firstly, the corruption is a sensitive topic and there is a limited amount of information and research about this topic available in writing, specifically about the NGO corruption in Pakistan, the focus topic of this study. Secondly, the topic is complicated and during the interviews complex issues and questions can be further discussed and clarified. Thirdly, it underlines that the interviewee has to be seen as a subject, not as an object. People should be given an opportunity to bring up any issues and speak as freely as possible. (Hirsjärvi & Hurme 2000, 35; Hirsjärvi et al. 2004, 192-193)

The empirical data of the study is comprised of six focused interviews. All the interviewees lived in Pakistan at the time of the interview and have a long career linked to development and humanitarian aid sectors. As suitable respondents are purposefully selected by the researcher, the purposive sampling method is used for this study. This method is often used when there are a limited number of people that have expertise in the area being researched. (Silverman 2005, 129-130) The selection of the respondents was affected by their availability and willingness to share their expert opinions and knowledge, which could provide a valuable source of information on this specific research subject. The respondents formed intentionally a heterogeneous group, as the purpose was to gather information from a variety of experts, who did not share the same background, and hence to have a wider view on the topic. As planned embassies, international organizations (UN etc.) and INGOs are all represented in the research data sample. Another objective was to choose people belonging to different seniority levels: from top management positions to program management level.

Five of the interviewees were male and one was female. Three of the interviewees were Pakistani and three were expatriates living and working in Pakistan. The expatriates had at least three years experience in Pakistan. One notable



fact is that all expatriates are the senior level managers in their respective organizations and they are either Head of Mission/Organization or his/her deputy. The professional level experts are development specialists in program management or they have another specific expertise in their respective organizations. Respondent D is a legal expert with significant experience in dealing with corruption cases, who could be categorized both as a senior level manager and a professional expert. All the respondents represent different organizations. The following table categorizes the respondents according to the type of their organizations and their seniority. The code names used in this table are the very same as in the empirical section of this study.

**TABLE 1 The respondents according to the type of their organizations and their seniority**

	Senior Level - management	Professional Level - experts
Embassies	Resp A	Resp E
United Nations and other international organizations	Resp B	
INGOs	Resp C	Resp F
Private sector	Resp D	

The real name, sex or age will not be shared to protect the respondents' anonymity, as it was guaranteed to all participating in this study. Their respective organizations are not named either. Some specific details, like figures, are edited to ensure anonymity, if responses are directly quoted in the Empirical findings chapter, and if those details would make it possible to identify the respondent in question.

The interviews were lengthy as they covered a number of issues related to the topic. The duration of the interviews varied between 70 minutes and 2.5 hours, most of them being between 1.5 hours and 2 hours. The lengthiness caused a bit of tiredness at the end of the interviews, which may have caused slightly shorter responses to the last questions. The interviewees were encouraged to answer freely and to share as much information as they wished, which prolonged the interviews. However, it was emphasized that they do not necessarily need to share names of individuals or organizations involved in corruption cases, if they did not wish to do so. These precise details were not essential for this research as the focus of the study is more on processes and corruption trends. This starting point increased trust and openness between the interviewer and the respondents, and helped the respondents to share their numerous experiences without the necessity to identify any organization or individual. Even if the names of corrupt individuals or organizations were shared, these are not included in the empirical findings.

Depending on the respondent's background, the questions related to their specific expertise were emphasized in their interviews. For example, some respondents did not have so much information on procurement or auditing, but provided substantial information for example on project cycle or legal processes. The research questionnaire, which provided outlines to each interview, is attached as an annex. (See Annex 2) The questionnaire was given to the respondents in the beginning of the interview session, but they were not expected to fill it in. The main

purpose of the questionnaire was to orientate the respondents to the interview themes. The questionnaire was prepared in advance of interviews based on the preliminary theoretical research of this study.

The empirical findings are completely based on the information shared in these interviews. The personal experiences and findings of the researcher will be included and discussed in the last chapter (Chapter 6: Discussion and Conclusion) along with the relevant empirical findings. Other documented data sources are used as the source of information in the other chapters of this study. These include e.g. relevant books, studies, internet articles, newspaper reports, journals and presentations. These sources will be identified and referred accordingly in the chapters and in the list of references.

## **4.2 Gathering the Data**

As I have worked in the development cooperation sector in Pakistan for several years, I knew most of the respondents through my work connections. My rapport, experience and formal position as an employee of the Embassy of Finland in Islamabad were definitely helpful, when identifying respondents and arranging interviews. Two of the final interviewees were recommended during the identification process and I did not know them personally previously. In the beginning of the data gathering process I identified around ten respondents or organizations, who I considered to have strong expertise in the field of development cooperation and possibly some inside information on corruption in Pakistan. In order to collect diverse viewpoints I decided to have different types of interviewees, who had a wide range of expertise and experience in the sector.

I arranged the interviews either by asking directly face-to-face or by email. A couple of potential respondents declined my request to be interviewed for this study. My own assessment of the reason to refuse is that the topic is so sensitive. Without my rapport and professional experience in Pakistan obtaining access and organizing all these interviews would have been far more difficult process considering the sensitivity of the topic. Knowing some of the key respondents professionally and personally beforehand was a clear advantage to the success of this research. Nevertheless, I also knew the ones who declined my interview request through professional contacts, which indicates the great challenges in the empirical data gathering for this type of research.

All the interviews but one were conducted in Islamabad, Pakistan in August 2011, mostly in the offices of the respondents during their regular office hours. One interview conducted in Islamabad was organized in a quiet corner of a local café. The last interview was conducted through Skype in September 2011. I was then in Finland and my respondent in Pakistan. August 2011 was a challenging month to conduct interviews due to many expatriates being on their annual summer leave and due to Islamic holy month of Ramadan, when most Muslims are fasting in Pakistan and their working hours are shorter. In addition, because of long geographical distances

in Pakistan combined with the current poor security situation in the country; it was not feasible for me to conduct interviews neither in Lahore or Karachi, the two other major cities in Pakistan. This restricted my potential respondents to the experts residing in Islamabad. However, this was not a major setback, as majority of international donor agencies' offices locate in Islamabad. The biggest shortcoming was Transparency International Pakistan, whose office is situated in Karachi. Additional reason to limit the number of interviews to six was the long duration of each interview. The number of interviews was designed to being manageable from the point of view of research process, and at the same time being able to fulfill the aims of this research.

All the interviews were conducted separately; no focus group interviews were arranged. The interviews were conducted in English as it is one of the official languages in Pakistan and lingua franca of the Pakistani elite and most government ministries. One interview was conducted in Finnish as it is mother tongue of one of the respondents as well as the interviewer.

### 4.3 Analysis

A thematic analysis of the empirical data, a common form of analysis in qualitative research, was thoroughly conducted, as a fewer number of interviews, albeit lengthy, enabled in-depth analysis of each interview. The focus of the empirical data gathering was rather on the quality than the quantity of interviews. Due to a limited number of interviews, no computer-aided qualitative data analysis system was used. As all the respondents were purposefully selected by the researcher based on their expertise in the field of the research topic, their age or sex were not deemed important for this study. On that account, no analysis is made based on those demographic characteristics.

In the first data analysis phase all the interviews were transcribed soon after conducting them in September 2011, and the actual data analysis started with familiarizing with the data and tabulation in October 2011. The data was inspected and different categories and patterns were identified. The transcribed text was coded and divided into various fragments, which were then grouped under a number of preconceived categories, which were based on the questions of the research questionnaire (See Annex 2). These questions were formed before the interviews in August 2011 after studying academic researches on NGO corruption (e.g. Trivunovic 2011) and reflecting researcher's own professional experiences in Pakistan. The disadvantage of this coding scheme is that it is based upon a given set of categories, which can furnish a powerful conceptual grid from which it is difficult to escape. It also deflects attention away from uncategorized activities. (Atkinson 1992, 455, 459 cited in Silverman 2005, 182; Silverman 2005, 182)

The categories and their sub-categories are based on the main themes of the study and research questions, like e.g. the different phases of the project cycle or security. The categories were reassessed and their number was slightly reduced, e.g.

the category of bogus NGOs was removed, after conducting all the interviews and the initial coding. When grouping the text fragments, some fragments were grouped under two different categories, if relevant to both of them. Typically one category was then a phase of the project cycle and the other was a specific theme, like human resources. By including these specific themes as additional categories during the coding process, it was ensured that these very relevant and often highlighted themes during the interviews are taken into account and properly analyzed. If the number of the categories had been restricted e.g. to the phases of the project cycle and financial management, these additional themes would have got unjustly less attention. The headings of the Empirical Findings chapter form the final set of the categories and sub-categories.

The second phase of the data analysis started in October 2012 and lasted until November 2012, when the categorized data was analyzed in detail, the common themes were identified in each category and the empirical findings were drawn together. However, the categories were not changed, as the categories formed a clear and logical frame for the empirical section of this study. In the second phase it was also confirmed that giving a numerical scaling for the likelihood of corruption in Pakistan, or for the vulnerability of the different phases of the project cycle and financial management, was extremely difficult for the respondents. Most respondents were not able to do that and did not give any numerical rating, hence no statistical analysis or findings were made due to extremely limited data. Another difficulty faced in the data analysis was that the respondents did not always separate NGOs from other development actors. The corrupt practice examples, which they shared, might have actually been linked to the government bodies or even to other countries. I have not included these examples in the empirical findings as a rule.

The third and the final phase of the data analysis was done in December 2012 – January 2013, when the empirical findings and themes were reviewed. The overlapping and common themes in several categories were identified, which formed then a basis for the conclusions and recommendations of this study. The identified key findings will be discussed in the final chapter, Discussion and Conclusion. Also some missing themes and data related to theoretical framework of this study were identified accordingly. The final conclusions were drawn in the end of this phase in January 2013.

The respondents are referred to in the empirical findings, when applicable, even if it is not a direct quote. This way it is easier to assess the differences between the respondents' opinions and emphases.

The theoretical sections of this study were written simultaneously with the data analysis in autumn 2011 and 2012 in Finland. The final polishing of the text and the academic evaluation by the professors finalized the research process in January-February 2013.

#### 4.4 Validity and Reliability of the Research

When assessing the validity and reliability of this research, the main limitation is a small number of interviews, which restricts the possibilities to generalize these findings. However, the selected respondents are considered trustworthy information sources due to their long careers in the sector and their demanding managerial or expert positions. There is no reason to assume that the respondents would have given false or incorrect information during the interviews. The respondents widely cover the development cooperation sector and belong to different donor agencies working in Pakistan. They were also able to provide diverse viewpoints related to the research topic. (Hirsjärvi & Hurme 2000, 189, 192)

The common problem related to qualitative researches is anecdotalism (Mehan 1979 cited in Silverman 2005, 211). As Mehan identifies, research reports of conventional field studies can include a few exemplary instances of the behavior chosen by the researcher from his notes. Also the typicality or representativeness of those instances and findings are difficult to determine. To avoid anecdotalism, there are different applicable methods to increase the validity of the research. Three main applied methods are selecting a wider variety of respondents, using appropriate tabulation and reconsidering the categorization after conducting all the interviews. In addition, the validity of this study is increased by applying a comprehensive data treatment method. Comprehensiveness arises, because in the qualitative research all cases of data are incorporated in the analysis (Mehan, 1979, 21 cited in Silverman 2005, 215) and generalizations can be applied to every single gobblet of relevant data collected. If full generalization has not been reached, it is clearly underlined in the findings. Normally in the survey research, the researcher is usually satisfied, when nearly all the data supports the hypothesis and correlations are achieved. (Silverman 2005, 215)

All the interviews were audio-recorded with the consent of the respondents. None of them objected the recording. All the interviews were transcribed soon after conducting them. Due to long duration of each interview and a heavy workload required for full transcriptions, some of non-relevant parts of the interviews and off-topic or overly detailed examples were not transcribed. Some respondents shared examples also from other countries, which all are irrelevant to this study. Mumbling, pauses and unnecessary repetition of words and sentences are not transcribed either. Although most interviews were conducted in a quiet office environment, a few times background noises or overlapped voices of the interviewer and the respondent made the transcription of some words or at maximum a full sentence impossible. However, the most difficult interview to transcribe was the only interview conducted through Skype, which suffered of poor internet connection. It caused low sound quality and the sound was breaking up from time to time. The correct transcription of quotes used in the empirical part of this study was rechecked before the finalization of the writing process.

For these reasons the transcripts are not perfect, but even with these limitations, they cover all the relevant and essential information with sufficient details from the interviews. These transcripts are a good basis for empirical analysis. Thus the reliability of the data is not compromised. The full and detailed transcripts, including e.g. the length of each pause, are required, if the researcher is using conversation analysis method. As I am not using this particular method in the analysis of this research, Hirsjärvi and Hurme (2000, 140) also recommend more simple and less perfect transcriptions.

## 5 EMPIRICAL FINDINGS

As elaborated further in the previous chapter (Chapter 4: Methodology), these empirical findings are based on six expert interviews. The responses and opinions shared by these experts are categorized under seven sub-headings, which have been drawn from different themes and issues discussed during the interviews. This chapter concentrates on the respondents' perceptions of the issue. The further discussion and the further analysis of the key findings will be continued in the next chapter (Chapter 6: Discussion and Conclusion).

### 5.1 Corruption Risk in Development and Humanitarian Aid in Pakistan

All six interviewed respondents agreed on corruption being a major risk in development and humanitarian aid sector in Pakistan. Corruption was seen as a very severe problem, the existence of which could not be denied. One clear indicator of this is Pakistan's low position in TI's Corruption Perceptions Indexes year after year (Resp A). Corruption cases have been common in Pakistan in development and humanitarian aid since early 1980's and the influx of Afghan refugees to Pakistan. At that time the amount of aid directed to Pakistan and a number of players in the field suddenly multiplied. There was a little social organization before, but a strong movement of NGOs emerged, when international organizations came to Peshawar to help refugees. Regretfully, also ghost Afghan refugee camps were established and fake services were provided on paper with the assistance of the corrupt officials. (Resp D, E)

Some respondents found it difficult to exactly define corruption in the Pakistani context as there is often a fine line between fraud, corruption and simply bad management (Resp B). Respondent B went on saying:

The corruption is very extreme term for something, which is a common practice here. A lot of it falls in a grey zone here. If I make sure that my cousin is happy, is it corruption or is it a part of normal traditional way of coping? From Western perspective it is full corruption. But everybody will look at you with big eyes, when you say this is corruption, my friend.

Poverty and high-level corruption in the society were identified as some of the factors why corruption is so widespread in Pakistan. Poor people are not always aware of their rights. People tend to hold on to any opportunity they see: they might not realize that while it might serve their own personal purpose, at the same time they are denying other people of their rights. If somebody is caught of corruption, he often alleges that the President of Pakistan, army and judiciary are also corrupt. Everybody is seen corrupt in the Pakistani society. (Resp F) Corruption is seen as culturally tolerated behavior. This is coupled with the lack of appreciation of not having

corruption. There is more appreciation for being corrupt than not being corrupt. Respondent D further elaborated:

From anthropological point of view the corruption has become a norm. The norm that everybody thinks that it is ok. For example, if my brother is a government servant and he is receiving money, I would be happy that my brother is rich. If my brother is giving money, I will be defending him that he has to give money to get his work done. It is acceptable norm. That everybody knows who is corrupt and who is not corrupt but still go on doing it. This is the worst form of corruption, which is actually really difficult to take out. You are not talking about uneducated people. [...] It is institutionalized. If you don't pay up, you don't go ahead. Look at the richest people of Pakistan; they actually talk about how they became rich and successful, because they understand the system in Pakistan.

In spite of the critical situation it was brought up that the corruption risk can be mitigated in organizations by putting in place good systems and safeguards and by blocking the possible loopholes. (Resp C).

## **5.2 Corruption Risk in NGO Development Projects in Pakistan**

Generally all the respondents were of the same mind about very high corruption risk in NGO development projects. NGOs were seen as vulnerable to corruption as the other actors in development and humanitarian aid sectors in Pakistan. One respondent (Resp B) considered local NGOs to be even more vulnerable to corruption resulting from lower salary level. The risk level in general was considered to be the same, not only because of cultural reasons but also because of flaws in regulatory and political frameworks (Resp A).

One of the main problems identified was a high number of NGOs in the country and the lack of proper NGO legislation and regulatory body. There are more than 100,000 CBOs and NGOs in Pakistan, but limited coordination among organizations (Resp B). As there neither exists an umbrella organization and coordination system for national NGOs nor a regulatory body either from NGO sector itself or government, there is very little self-control and external control in the sector. INGOs have their own coordination system, Pakistan Humanitarian Forum, which concentrates particularly on advocacy and lobbying, but it does not look into the performance of their members. (Resp B) None of the respondents referred to any local umbrella body (like currently non-functional PNF) or certification agency (like PCP) for national NGOs. Bogus NGOs do exist, some for political reasons, some for fraud (Resp A).

In Pakistan NGOs are registered under various laws (See Chapter 3.3). The requirements vary greatly with the different laws, the Companies Ordinance being the more stringent. In general, the state has not been able to put good governance system in place for NGOs. (Resp E) However, the government itself should not control or interfere in the work of NGOs, especially if NGO's main work is e.g. to make government accountable in human rights or support other controversial issues. There would then be a clear conflict of interest in criticizing the government.



Therefore, it would be much better, if financial scrutiny is given to third party, like a national independent body of NGOs. (Resp D)

In the middle of this environment where you do not have culture of accountability, it is easy to have badly managed organizations with wrong intentions. Absence of good and transparent structures in top management can lead to weak implementation of rules and regulations within organization and these kinds of organizations are more prone to corruption or mismanagement. (Resp B, E)  
Respondent E continues:

Some of the NGOs are run by an individual champion, like a single guy running entire shop. He or she nominates the board of directors. Mostly the board of directors consists of either relatives or friends. There is not really any accountability factor there. (Resp E)

The respondents also reminded of the existence of different levels of corruption ranging from petty corruption to grand corruption (Resp D, E, and F). Also the level of corruption risk depends on the nature of the intervention, being higher in rapidly distributed emergency aid than in regular programs, which do not enjoy the same type of relaxation of rules and regulations (Resp E). Respondent D shared an illustrating example of problems faced in emergency aid, as local staff cheated an NGO:

Local staff was actually giving food to ghosts. So truckloads of food were distributed on paper. When they investigated they found out, these people had people who would pay and come to receive the goods. [...] These people would sell then the food again to the same shopkeepers where it was bought. [...] Because people are also corrupt, therefore it is very easy for them to cheat. In documents everything was fine. No government, no bureaucracy was involved in this set-up. It is an NGO hiring people and distributing food. Even in this simplest act, distributing food, you have corruption.

International development agencies and INGOs are not immune to corruption taking place at CBO/NGO level as they often implement their programs through local partner organizations. There are some actual corruption cases brought into publicity (See Chapter 3.4), but many are quietly kept outside of the spotlight. Respondent F states the following:

[International organizations] must have very strict and effective procedures, and we still can't say 100 % that there is no corruption. [...] In the organizations there are huge resources, staff, and different units. But it still happens. It really does questions the ability of international large organizations to prevent corruption, to make sure that it doesn't happen.

Respondent D brought up also another viewpoint and questioned how much project money is actually spent at the field for the intended target. A local partner organization working with an international organization can try to justify their corrupt practices, if international organization's own administrative costs and international consultancy expenses are the largest part of the whole program budget.

Due to such high external expenses the local partners might become unmotivated and they might seek for possibilities to distribute the maximum amount of the rest of the funds to themselves.

However, the gravity of the situation differs from organization to organization. Respondent B illustrates:

Let's not treat NGOs as whole as suspects. Let's look into the ways how NGOs are vulnerable to corrupt individuals. Is it an institutional set up to make money or is it an institutional set up, which allows individuals to make money? I have seen organizations in Pakistan. I was convinced they are institutionally corrupt. I have seen others, which have been overwhelmed, which has allowed certain individuals to take advantage of vulnerabilities.

The respondents B and C raised the importance of capacity-building and coaching as finding good partners in the areas of serious degradation is not always easy. Over the past three decades donors and bigger established (I)NGOs have taken smaller local NGOs under their umbrella, which has been a good model, though not always fully sustainable after the support of the (I)NGOs has been withdrawn.

Respondent E argued that you cannot control corruption hundred percent in any circumstances. However, vibrant, good rules and regulations, which are modified and reviewed regularly, can leave less room for corruption.

### **5.3 Project Cycle**

In the next four sub-chapters (Chapters 5.3.1 -5.3.4) the respondents identify corrupt practices in each four phases of the project cycle, which they find typical in NGO development programs in Pakistan. They were also asked to share any warning signs or how corrupt practices could be recognized or prevent. They also shared their views on how vulnerable to corruption each of these phases is.

#### **5.3.1 Identification Phase**

The respondents identified several vulnerabilities in the identification phase, which can lead to corrupt practices. Some of the respondents questioned international program managers' and officers' ability to fully understand the local linkages in this phase as many of the vulnerabilities are actually related to their organizations' own local staff.

Identifying a potential local partner organization is a challenging task for an international donor organization, when a number of local NGOs/CBOs is reaching tens of thousands and a high number of project applications are received annually. As the short-listing of potential projects is often done by the local staff members, there is a high risk of inclusion of family networks. Family linkages are an issue, which all the respondents highlighted in some point of their interview. In the Pakistani context, the neutrality of the reviewer is easily compromised. This can be due to conflict of interest, financial gain or emotional reasons, when a relative or his

own tribe/ethnic group is linked to any application. Accordingly, the short-listing process of project applications and proposals is a real grey area and extremely vulnerable to corruption, if the management has not set strict and fair selection criteria. A thorough capacity assessment or checking the historical performance indicators can be easily neglected. (Resp B, E)

In some specific sectors or areas especially related to humanitarian aid, in which NGOs have not traditionally been very active, screening the capable partners is even more challenging. Some organization can consider activities in a new sector as a good funding source without having much practical experience in delivery in this sector. (Resp B).

Respondent E brought out another challenge in the screening process. Bigger NGOs usually have professional proposal writers, who know the language and jargon, which donors want to hear. Respectively smaller organizations often lack these skills and their proposals are of lower quality in this respect. As they often copy-paste and recycle their old proposals, the ideas that could be worth implementing might be overlooked because of this. In general there could be more innovative and sustainable project ideas.

Apart from family and tribal linkages four respondents highlighted political linkages and three of them religious/sectarian linkages, which may also play a major role in the identification phase and lead to biased decision-making.

Other vulnerability is linked to identifying potential thematic and/or geographical areas. The senior management and expatriates might trust in the local word, although not necessarily true due to political influence. Other serious challenges are limited capacity in international donor agency, lack of proper statistical data and limited access to the field. Various power structures and powerful stakeholders can try to pull the project towards their vested interests. Needs and indicators can justify many project locations, not only the most vulnerable ones. However, the assessment should be based on fair criteria and exclude political linkages and other preferences. For example, a proposed location for a new school or hospital might have a strong political linkage and open to manipulation as people in different areas might have opposite political affiliations. (Resp A, C, E and F) Some government-run development projects have a very strong political or economical motivation. In humanitarian crises political factors have influenced aid distribution: some areas were excluded based on political reasons. (Resp A)

Warning signs in the identification phase can be fairly clear. Anonymous letters and calls are some common examples. A lot of allegations can take place after the short-listing process. Accusations of favoring certain tribes (e.g. Pashtuns or Punjabis, if a majority of the staff belongs to a certain tribe) and claims of monetary corruption are fairly common. These allegations can get very wild and program officers and managers need to be extremely careful what to take seriously and what not. (Resp B) Also a linkage to public authorities should be taken as a warning sign and possible political connections of NGOs and their managers should be checked. (Resp A).

### 5.3.2 Project Formulation Phase

The respondents considered also the next phase of the project cycle, the project formulation as vulnerable to corruption but they provided less concrete examples or the examples were similar to the ones in the identification phase. Respondent C argued that there is less room for corruption in this phase compared to the identification phase.

As screening and evaluation of project proposals takes place both in the identification and the project formulation phases and the financing decision can be made in either phase, I have included a discussion on the project screening and selection process in this sub-chapter to avoid repetition.

Respondent A brought up again the family and political linkages as a potential corruption vulnerability in the project formulation phase, as the beneficiaries and project activities are further defined in this phase. However, there should not be radical changes as compared to the previous phase, which will limit opportunities to corrupt practices (Resp C). In addition, the capacity of the partner organization and their expertise can be again questioned in this phase (Resp A).

The respondents identified some major weaknesses, which do not always get necessary attention in the project formulation phase. If these were taken into consideration, they could become important safeguards against corrupt practices. The first weakness is a lack of community participation and ownership. If a community is involved, it is up to the community to make sure that they actually get the promised goods and/or services. Unfortunately, communities are not often aware of the projects implemented in their own neighborhood. The desired level of community participation depends on the project, as sometimes in the Pakistani context the community can complicate the project implementation, if e.g. local elders start arguing over the beneficiaries and minor details. (Resp B)

This is one of the big dilemmas here. If you say too much, is not good. If you say nothing, is not good either. You have to find a middle way of not creating havoc in a community. (Resp B)

On occasion, the community participation can stay at a superficial level. For cultural reasons women and minorities are not always included in decision-making or their role is reduced to a mere wallflower after they are presented to the donors. (Resp B) The community participants do not always fully understand their role like the following quote exposes:

"Oh, we allow the health center to be build. [...] We agreed on the location. [...] We made sure that not all the building material was stolen." (Resp B)

The same haphazard practice can be linked also to cross-cutting themes and objectives, which are often donor-driven. Often e.g. gender mainstreaming is only lip service (Resp B). If a donor compromises their own principles and values and makes

unnecessary compromises, it is also seen as a corrupt practice (Resp A).

As the project formulation lays foundations for the monitoring and evaluation of the project, another weakness identified was a rush in this phase (Resp C). If the project formulation is simply weak, then it causes certain difficulties measuring the impact and output (Resp B). Also financial planning and budgeting is an essential part of this phase, which will be further elaborated in the Chapter 5.4.1.

To evade a non-transparent screening and selection process Respondent E highlighted the need of setting clearly defined criteria in advance before the call of proposals. In addition, a trained and multi-professional project review and selection committee, including both program and non-program experts, should be formed. The documentation driven process and the use of various tools developed to measure NGOs' capacity program-, finance-, HR- and organizational development -wise was highly recommended (Resp C). Each proposal should be evaluated at minimum by two independent assessors with local knowledge, by third if there is a significant difference between the scores of the earlier two. (Resp E). It is also essential that you should not change the rules during the review process, which should be as transparent and open as possible (Resp C, E).

In some cases, depending on organization's resources, bringing somebody from outside to work as an evaluator was seen beneficial to ensure the transparent screening process. (Resp B)

### **5.3.3 Implementation and Monitoring Phase**

The respondents identified also the next phase of the project cycle, the implementation and monitoring, vulnerable to corruption, and they provided a long list of concrete examples of those vulnerabilities related to this phase. Respondent F considered this as the riskiest phase. Overall, in this phase the respondents had more concrete examples of vulnerabilities compared to other phases, as most of the funds are used in this phase.

Respondents B, E and F were of the opinion that most of the donors have enforced strict accounting and reporting mechanisms at the policy level, but those are not always effectively implemented to expose corrupt practices. Usually there is only very little that you can detect from finance systems, mainly just simple mistakes. The monitoring system is not perfect and there are many loopholes. The respondents brought up also many issues related to financial management and procurement affecting implementation and monitoring, but those will be discussed with more detail in their own respective chapters 5.4 and 5.5.1.

The respondents' main concern in the implementation and monitoring phase was a limited field access (Resp B, D and E). In Pakistan donors have limited possibilities to physically visit all the project sites due to lack of time and resources or due to poor security situation. Especially security has become a bigger issue in Pakistan over the past few years as the security situation in Pakistan has gotten worse. Especially for expatriates, but also in lesser degree for national staff, it is

difficult or impossible to visit some of the areas in the country, especially the tribal areas. Respectively e.g. for Punjabis it is difficult to visit Baluchistan nowadays due to ethnic tensions (Resp C). The Government of Pakistan also restricts the free movement of foreigners, especially diplomats and development workers, and requires them to apply NOCs to visit certain regions. Those requirements have got much stricter recently.

If you have the time and resources to [visit the project site], absolutely it would be important. First of all for expatriates, the first issue is the security and you cannot go and visit. [...] You have to rely on the information which is here. What in the local context is very important? [...] Either you compensate the visit with your past experience and knowledge or you have to have a visit, because it is important. (Resp E)

The access constraints on the physical monitoring of a project are a major issue, which donors try to overcome by reforming their operative systems, e.g. some key staff positions have been nationalized and additional remote monitoring systems have been adapted, like photos and GPS coordinates. (Resp B, C). In addition, external monitoring teams, who do not need to follow organization's strict security restrictions, have been used, but their reports have not always been fully reliable. If ill-gotten gains are noticed, the exact extend of the corruption is difficult to uncover if access is limited. (Resp B) Respondent F emphasized the necessity of participatory approach and community involvement. If local people are strongly involved and project information is shared with them, it diminishes the risk of corruption. They are living in the area and have unrestrained access to the project locations. They also have a better understanding of the ground realities. However, the respondents did not highlight the need to share the financial information of the project with the community, except Respondent E through a project steering committee.

Regardless of all the alternative monitoring methods, the security situation is a major obstacle for effective project implementation, especially in the tribal areas near the Afghan border. Respondent D shared an interesting, but gloomy example of the involvement of government and politicians in corrupt projects. Though this example is not directly linked to local NGOs, there is no reason to doubt that the same could happen in their projects also.

A lot of international NGOs, especially US NGOs, like to spend more money in FATA, whereas there is no way on earth to check the spending of that money. I know a lot of projects, where money is given to government, spending through local Member of Parliament (MP), on the development of schools, basic health units, water wells. Basic facilities. On papers there are schools, wells, basic health units. There is a contractor who constructs them, there is a land bought, documentation is done. MP is giving the money. But if you go to ground with your camera, there is not even a single stone on that piece of land. But no one can check for sure because of security. Nobody from this part of the world can go to that part of the world. And if there is a big trouble, no worry we will hire Taliban to blow up a building and show it later on. [...] If I start to investigate a ghost school in Waziristan, and MP finds out it, MP asks Taliban to blow up a bomb, and they will make news report that the school was blown up by Talibans.

Apart from security restrictions also adequate monitoring capacity is an issue. Monitoring can be insufficient, as during the project cycle a donor puts a lot of emphasis and energy on the identification and project formulation phases, and actual monitoring in the implementation phase can be much less intensive as there is again a great need to identify new projects (Resp A). Each donor can have a number, even dozens, of partners and long-term close partnerships are not necessarily established. Donors need to be vigilant with short-term partners, which have less to lose as compared to long-term partners. (Resp C) Surprise field visits were recommended, but in practice these are often difficult to arrange, especially if a project site is far away (Resp E).

Respondent A questioned donors' technical expertise to monitor projects, especially construction projects. Respondent E underlined the importance of allowing the community members to speak rather than letting the management to make all the talk. The program officers need to know also each project very well themselves.

It is not that you just go and visit the activities and they show you something, and everything is fine. [...] It is a bit more than that. You need to observe, you need to know what is happening at the background. You need to be able to ask right questions there. You need to be able to read faces. You need to be able to see, if the patients in the health facility are they genuine or have been arranged? You need to be able ask questions in proper way to take the information. In the implementation an NGO could put together very well a program for you that will convince you that project is doing well. And this is normally what happens. [...] Giving indication [that we follow] is very important. All of a sudden you ask for something which is not imaginable. Then they get to know. [...] Signals are very important. When you go to the field then you have to be very alert. (Resp E)

The fake or modified narrative reports were not frequent or a main concern for the respondents, but certainly possible to some extent. Some facts, like how many people have been approached in the community, can be overreported, are almost impossible to verify. Even fake reports on community meetings are provided. It is more probable that some sophisticated NGOs with skillful report writing staff are slightly manipulating words and figures to impress donors. (Resp E). Respondent F highlighted the possibility of involvement of senior management as they often prefer to provide a rosy and almost perfect report. They can try to hide problems to save their own jobs and therefore giving a blind eye to what is actually happening on the ground. Reporting requirements should be strict and reports should also include e.g. photos, factual figures and clear attendance sheets of organized events. However, sometimes attendance sheets are filled by the trainers as the trainees are illiterate and might only give their thumb impression. (Resp E) Respondent B also brought up a very big cultural challenge, which might make reports unintentionally inaccurate. The Westerners are often very exact and accurate with figures and details, but based on his/her own experience the Asian culture is not very precise in this regard.

### 5.3.4 Evaluation Phase

As an exception to the previous phases of the project cycle, the respondents did not provide many concrete examples of corruption vulnerabilities related to the evaluation phase. Either the problems in the evaluation phase are similar to monitoring problems and so covered in the previous sub-chapter or the respondents do not consider evaluations to be very important in this context. In addition to evaluation issues, the judicial possibilities to tackle corruption in Pakistan will be elaborated further in this sub-chapter.

As in the previous phase, access to the field was again a major concern (Resp B). Respondent C recommended also that monitoring and evaluation teams should be totally separate, and should not include any of the field staff. According to Respondent A, evaluations do not dig deep enough and do not focus enough on the sustainability of the project. Concrete outcomes, like buildings, are highlighted, but what will actually happen after the project is closed. The real social and political impact is rarely discussed in the evaluations.

If fraud, financial mismanagement or other corrupt practices are exposed in the implementation and monitoring or the evaluation phases, the respondents are pessimistic of the impact of judicial proceedings in these instances. The judicial system in Pakistan is considered slow and corrupt and taking a case to a court is not often the first option. First of all, it is very difficult to prove corruption keeping in mind that there are a lot of gossips and anecdotal cases in Pakistan. Secondly, even in genuine cases getting proof can be difficult and the whole process becomes easily mucky and can also eventually harm the donor. Therefore, the third party investigation, possibly by auditors, is recommended. A court case should be considered only on the basis of solid evidence. (Resp E)

Judicial processes are lengthy in Pakistan and require a lot of resources. Respondent D do not recommend taking the cases to police, which is according to him/her vastly corrupt and inefficient, or to the local courts as their process will take usually 5-10 years. The ideal authorities to deal with corruption cases are the NAB, provincial anti-corruption establishment or alternatively FIA (Federal Investigation Agency). The trouble with the NAB is that it does not have a separate wing for NGOs, but it is more powerful and its powers extend further. In addition, its investigative mechanism is more sophisticated than of the local police. However, Respondent D recognized the strong political influences in the NAB and the bureau's ineffectiveness. Respondent D gave also an illustrative opinion on the NACS, country's main anti-corruption strategy, and its poor implementation:

[The NAB] had some surplus people and what to do with them. Let's put them in this national anti-corruption strategy programme. [...] There would be 10 civil servants sitting and just writing this paper. And finally when they wrote the paper, [the NAB] just published it. And every time when some dignitary would visit the NAB or Chairman would visit anywhere, he always would take one very nicely bound and colored book and presented to the people. Apart from that in the program the only implementation [the NAB] held was essay writing and drawing competition in



schools on anti-corruption. That was the only thing done in practice.

I use to make fun of the Accountability Bureau. The NAB's lower staff used two busses, which used to come from one village. That village was the village of admin/HR director of the NAB.

Donor respondents' personal experiences with the NAB have not been so far encouraging. Respondent B shared a comical case. The exact amount of money is removed from the quote to protect respondent's identity. The amount remains the same in each point.

NGO was caught by the NAB and was found diverting some X million rupees of donor money. There were a few rotten apples in the organization. We had tried to increase or enhance them too fast. [...] Hilarious bit of this was the NAB forces this particular NGO to pay in the NAB account X million rupees. The most hilarious was that they couldn't really figure out who was the donor who was cheated. They then requested the same NGO to identify other projects of X million rupees. So the same NGO ended up doing roads in some politician's village somewhere else actually with donor money.

Another donor respondent told about a corruption case against their own staff member and a partner organization running a fake project. The case had been taken to the NAB, but after several years, they decided to stop the proceedings as the case was not progressing. These cases describe very well some of the numerous challenges, which donors might face if they start judicial proceedings in Pakistan.

## **5.4 Financial Management**

In the next five sub-chapters (Chapters 5.4.1 -5.4.5) the respondents identify corrupt practices in each of four phases of financial management, which they find typical in NGO development programs in Pakistan. They were asked to share any warning signs or how corrupt practices could be recognized or prevented. They were also asked to share their views on how vulnerable to corruption each phase is, and which type of project expenses are more vulnerable. They gave also their opinion on auditing standards in Pakistan and on the frequency of double-funding.

### **5.4.1 Budgeting**

The respondents agreed that the budgeting is vulnerable to corruption as they all identified several vulnerabilities and risks linked to the budgeting process.

All the six respondents warned of overbudgeting, which they saw as a common practice in Pakistan. Draft budgets are usually prepared by local NGO partners. Budget figures are seen as inflated and unrealistic and are not based on real expenses. In some cases the budgeted figures have been later found out vastly higher than the actual price level (Resp F). If NGOs are informed of maximum funding level available, they might adjust their budgets to that figure, not to the planned activities

(Resp C).

To avoid overbudgeting funding partners need to critically review all costs based on balanced and up-to-date local knowledge of local price levels. Better accountability can be achieved through the better knowledge of actual circumstances, which in case of Pakistan can fluctuate a lot. (Resp A, D)

One reason for overbudgeting is a poor sustainability of smaller NGOs and their reliance on donor funding. If NGOs live from project to project, they try to grab as much as they can within one budget and to put as much money as possible aside to survive the dry period in between. (Resp B)

Question is if it is put aside for personal gain [...] or my NGO to survive. If it is put aside for my NGO to survive, it is for me almost like a gentlemen problem. We as a donor are forcing organizations to work that way. They have no other way of surviving. (Resp B)

Sometimes donors can actually knowingly approve overbudgeting and buffer funds, just in case if project costs get higher or if the project is delayed (Resp F).

Another specific example commonly found in Pakistan is the overestimation of required staff members in the project. Population is growing fast in Pakistan and there is no lack of labor, unlike jobs. Work efficiency is not highly valued. Inflated numbers of staff may have a direct link to a non-transparent recruitment process and nepotism (Resp E). Again the program officer/manager has to critically review and assess what staff is really required in the project.

Another vulnerability identified was lax definitions and titles of budget line items. For example, general and vague categories such as 'other costs' or 'communication' can include a variety of things. It is not always crystal clear which costs can be posted in each budget line. The major equipment to be purchased should be agreed in advance in this phase. Moreover, lump sums should be avoided, if possible. To overcome this particular problem it is important to develop standard budget formats and to provide sufficient guidelines on developing budget. Clearly defined budget is a necessity for financial control and audit. (Resp E)

The respondents were also asked to identify which type of a project expense is more vulnerable to corruption. Especially fuel and petrol expenses were considered challenging as the personal use of company cars is a common practice and difficult to control. The following table presents the specified expenses.

**TABLE 2 Project expenses vulnerable to corruption**

EXPENSE	RESPONDENT
Fuel / petrol	A, E and F
Procurement	B, C
Staff costs	A
Electricity	A
Maintenance costs	A
Daily smaller expenses	A

Cash grants	E
Micro credit	E

Respondent D provided a different viewpoint and strongly criticized INGOs and donor representatives for high administrative costs in development projects. One concrete example he brought up was the use of expensive 4WD cars, as a fuel-hungry SUV is not necessary everywhere in Pakistan. Another example was the inflated rent level, especially in Islamabad, the capital of Pakistan.

Rents are also always inflated. [...] Locals blame the international organizations on inflation in Islamabad. Islamabad is very small city with very limited housing. [...] [These organizations] destabilize the local rent markets in Islamabad. [...] The rents in Islamabad do not equate with salary of local person. Even you are a graduate and have a good job. Look at the government people. Let's say deputy director, 18<sup>th</sup> grade, gets salary with all the bonuses no more than 35,000 - 40,000 rupees. You can't even get a portion of a house for that money. How can we expect this person not to be corrupt? [...] The problem is that these administrative costs are justified with security situation. There is a security issue, but most of the time it is overplayed. (Resp D)

One proposed solution to surpass these budgeting problems was standardization; particularly in the form of a salary scale. Without proper coordination the same donor organization may approve totally different salary levels, for example NGO directors' monthly salary may vary between 250,000 rupees and 30,000 rupees (Resp B). INGOs in Pakistan have also made a comparison of their salary levels, though not all the organizations participated in the survey (Resp C). Respondents C and D were of the opinion that a higher salary level is preventing corruption, as corruption becomes less tempting, and lucrative salaries draw more talented and committed graduates to work in the sector.

Respondent E brought up the activity based budgeting as a preferred solution. The linkage between the narrative plan and the budget should be carefully checked. The activity based budgeting gives a better idea how the funds are used and if the activities are too ambitious or their average cost is higher than normally.

#### 5.4.2 Accounting

The corruption risks are still very concrete and very likely to happen in accounting and bookkeeping, though this stage is more mechanical and donors have become better in enforcing strict accounting and reporting mechanisms (Resp B).

Respondent A considered a high number of fake receipts as the biggest problem in Pakistan. Also other respondents agreed that fake, overvalued or inflated receipts can be found (Resp C, E and F). In rural areas you might not be able to get receipts at all, but you have to rely on expense certificate provided by the partner organization (Resp E).

Checking the validity of receipts is a time-consuming process and may require calling to phone numbers in the receipts, but in general it was stated that it is very difficult to recognize fake bills (Resp B, E).

We are weak, and particularly in Pakistan a big issue, as we ourselves have limited access. What are the methods to actually monitor the performance? I guess I can go into the books. That is what we all do. There we usually have maybe issues like wrong codes. There is actually very little you can detect from the finance systems. [...] These are mistakes.

Usual indicator is that NGO senior staff is being suddenly very wealthy. The cars they are driving. [...] Then you know. (Resp B)

Another specified risk factor is cash payments as electronic payment methods are not widely used in Pakistan, especially if the project is implemented in rural areas. Many salaries are paid in cash or by cheques as staff members do not necessarily have personal bank accounts. The amount of cash in hand can be significant all the time making embezzlements easier to conduct. (Resp E, F) One option to lower the risk related to cheques is a requirement of double signature (Resp C).

Decreasing the risk factors in the accounting requires expertise and strict monitoring (Resp A). Often headquarters provide guidelines to be followed to country offices as well as additional support, if required. At country level, some donors try to support their partners and organize financial training workshops for their partners (Resp C, E).

### 5.4.3 Financial Reporting

The financial reporting phase was not considered as the most vulnerable phase to corruption. Accordingly, the identification of corrupt practices and warning signs in the financial reporting phase was a challenging task to the respondents. The common opinion was that the financial reports usually are provided on time and standard computerized financial reports look good and professional, though smaller organizations might lack some capacity in financial reporting. (Resp A, B, C and E)

The difficulty is to prove if financial reports do not match with the financial state of affairs (Resp B). The financial report should verify what is delivered on the ground (Resp F). Talented accountants and organizations can play with figures, if needed. Their accountants are better qualified than their auditors. (Resp E)

Donor organizations should carefully assess how deeply they go into detail and which details they will leave to auditors, who will eventually determine what the eligible costs are and what are not. Respondent E continued:

If you have asked them for individual transactions, you could perhaps make a link and get to know. And you are able to ask questions. If you have asked for only the summary report, you wouldn't perhaps be able to.

Respondent C brought up the opposite viewpoint and reminded of the importance of trust between donors and their long-term NGO partners:

Partners with long-term relationship "graduate". We don't think that they need their donor breathing down their neck, when they have shown good financial reports. [...]

No one thing for all people. Longer-term more robustly managed partners, there is less checking. (Resp C)

#### 5.4.4 Auditing

The respondents agreed that the auditing is vulnerable to corruption and identified a few vulnerabilities and risks, which are closely linked to the problems occurring in the previous phases of the financial management. They were also especially concerned about the quality of the audit reports. Respondent A reminded that a proper auditing requires a lot of resources.

Like the financial reports, the financial audit reports provided to donors are usually fine. Only few things here and there are taken up in these reports. (Resp B). Respondent F blamed auditing firms for corruption and reasoned:

Auditors try to audit the project every year and they try to make organization happy. They will come up with some small negative stuff. [...] They give a report, which looks really good for a donor and trustees. A little bit there, okay. [...] There are a lot of gaps, things done very wrong. [...] I don't see the audit firms credible in Pakistan. Their credibility is very low, even the big names, I am shocked. [...] You are part of organization and you witness what is happening past whole year. You rarely see all wrong-doings, but you might see a few. [...] Then you see this audit firm auditing and their audit report says minor here and there. [...] How about the major issues? Why didn't you highlight major issues? Why did you cover? [...] Management is dealing with this. Corruption and fraud happens where you decide which organization will audit you. [...] Every year the report is pretty good. [...] In Pakistan audits are apart empty, they don't produce the outcome.

As the previous quote shows, the reliability and quality of auditors in Pakistan was strongly questioned by the respondents. Fake auditors also exist in Pakistan. (Resp B, D, E and F) However, some respondents (Resp C and E) found some auditors trustworthy, especially the bigger companies.

There are fake auditors. You can have your annual accounts audited with only 5,000 rupees. On the other hand, you have good auditors also. If you select good auditors, pay a little bit more. [...] You reduce your risk and the recipient knows as well that the auditor is top one and they know to be careful. (Resp E)

The selection of auditor or accepting the auditor chosen by NGO partner is a crucial decision, but requires a lot of know-how and inside information. When making the contract, donors should be able to recognize, which auditors are no good, and raise their objection, if required. It is also preferable that donors define the terms of reference for the audit. Then donors can check specific things when the audit is conducted. (Resp E) However, all international organizations and donors do not have the required inside information and expertise in the vast country of 180 million people.

Another major gap identified was the narrow focus of annual external financial auditing. Respondent B said that audit reports should also look into other elements besides the financial books, because normal auditing cannot detect all the corrupt

practices. Extensive auditing looking into fraud prevention is required.

One provided solution was development of the on-going and holistic internal auditing, which can highlight different risks. Going beyond paper trail was seen important. (Resp C). Respondent B continued:

Then we have internal auditing, we have external auditing, but we usually are not looking too much in processes. It may reveal some weaknesses in procedures, but it won't, in my opinion, look enough the whole cycle. We need to be a bit more innovative when it comes to internal monitoring, which looks into project management.

The auditing problems are not limited only to non-profit and private organizations in Pakistan. Respondent D criticized the Auditor General of Pakistan, which is auditing and checking the financial accountability of government departments. Firstly, the Auditor General's office is highly influenced by the Government and thus is not independent. Secondly, the staff of Auditor General is not properly trained in auditing. The staff members are not accountants, but instead they might be graduates in medical or humanities, who have only got three months training in auditing. Similarly to private auditors, they might only take up petty issues, but at the same time overlook the real issues. They do not look at the issues more systematic and beyond their competence.

On papers they can stop the budget. [...] They could impose penalties. [...] Practically it is hardly done. Favoritism, nepotism, corruption comes in. Auditors get a lot of corruption, as they have to approve all the bills. [...] For example, foreign office auditors group, they go to audit every embassy all over the world. [...] They are taken care of, entertained, taken to nice places, shopping. On top of it, if a big issue is pending, the embassy might offer some money. Very systematic. (Resp D)

The respondents also identified some disadvantages, if donors are increasing the audit demands. The pre-selection and short-listing of auditors, including mainly international companies, would keep audit costs at a very high level, but it would not fully solve the trust issues (Resp D). Increasing the audit demands would also cause a huge burden for NGO partners.

This [both organizational and project audit] is one of the recommendations to have. But we have to be careful, there are two sides. NGO has 10 donors, and when all the donors ask this organizational audit to be done, it becomes a nightmare for the organization. It has nothing else than responding to the auditors. (Resp B)

One potential solution would be some kind of certification and labeling system, and better NGO coordination where the NGO members have to provide general organizational audit for the inspection. Such system does not exist at the moment, as there is no umbrella organization or regulatory body for national NGOs. (Resp B)

### 5.4.5 Double-Funding

One special subject raised during the interviews was double-funding or “double-dipping”. The respondents were asked how common it is that the very same project activities receive funding from two or more donors. The respondents’ opinions on this issue differed, but only Respondent A did not consider it as a big problem in Pakistan. The other respondents (B, C, E and F) considered it likely or very likely to happen and they knew of some particular cases of double-funding. The issue is discussed in donor circles from time to time, but according to two respondents it is very difficult to prove or impossible to check. (Resp B, C).

The main problem is the poor communication between different donors and development actors. Donors are pleased to see that NGOs have also other partners; hence they are not totally dependent on one funding source. However, donors do not proactively ask NGOs to share project budgets of other donors. Sometimes e.g. salaries can be a sensitive issue and so prevent the sharing of the budgets, although quite a common example of double-funding is charging the same salary from several funding sources. (Resp C, E) Sharing the information between the donors was seen as a key solution in preventing double-funding (Resp E).

The respondent shared also some other prevention methods. Along with project audits also general audit of the organization should always be requested. This would assist in preventing double-funding, as the output of the organization is audited more holistically. (Resp B) Furthermore, extra vigilance on monitoring visits will help, because some organizations can even change project boards on project locations depending on visitors. Other possibilities to prevent double-funding were requesting original documentation and a clear branding of stationeries and visibility material. (Resp E)

## 5.5 Other Program Support Functions

In the next two sub-chapters (Chapters 5.5.1 -5.5.2) the respondents identify corrupt practices in other program support functions, namely in procurement and human resources. They were asked to share any warning signs or how corrupt practices could be recognized or prevented. They were also asked to share their views on how vulnerable to corruption these program support functions are. They also gave their opinion on how common nepotism and favoritism are in Pakistan.

### 5.5.1 Procurement

Procurement is often considered to be vulnerable to corruption in the literature (e.g. Klitgaard 1988) and therefore the respondents were asked to share their opinions on the situation in Pakistan. They shared similar views and considered procurement process being very vulnerable to corruption (Resp A, B, C, E and F). A proper procurement process requires a variety of safeguards (Resp C), and it is a very

challenging task for international staff (Resp A). Particularly in emergency aid projects the largest expenses are procurement costs as compared to staff salaries that are the largest expenses in normal development projects. Respondent C considered tendering to be the real issue in this context, not ghost workers for example.

A few respondents (Resp A, B and E) emphasized the problem of fake bids and shared their own personal experiences on different fraud investigations in Pakistan. There were a number of similarities in these bid investigations and the following key issues arose:

- On paper everything seemed to be perfect: three quotations had been asked as procedure required.
- Two of the quotations were falsified. Companies, which had provided these quotations, do not exist or bona fide companies are providing fake quotations as per required by the other company /or the organization itself.
- The quotations were expensive.
- High-level consumption of office supplies and materials was noticed, like an enormous consumption of tea per day per person including weekends.
- Procurement is always favoring certain suppliers. All or majority of the supplies are bought from the same supplier or service provider, which might even locate far off.
- Staff member/s of the organization is/are involved. The other option is a company cartel.
- Kickbacks are involved. Officer manager / Procurement officer receives either money or goods as kickbacks. Companies are often offering these very openly.
- The cases have often been difficult to notice, only small details had revealed, like all three quotations had the same folding or similar signature with only slight variations.

Along with fake bids and kickbacks bad or low quality of the supplies was stressed and Respondents C and F considered this even as a bigger problem in Pakistan. Quality issues provide a lot of opportunities for corruption to take place. Distributed goods are not the same quality than the samples provided to the organization's procurement committee beforehand. Gaps in delivery, especially in emergency situations, or lack of resources in procurement side can lead to compromised quality. A few actual problems related to building materials, like thickness of iron bar, quality of cement and weight of timber, were shared. In some cases physical verifications require technical expertise and may not be possible for program officers. Quality and quantity should be physically verified when delivery is done. (Resp B, C and F)

These building material problems might not be noticed immediately, but much later after finishing construction work or even a few years after the closure of the project. Sometimes organizations' own field staff and construction company have



made a deal including money or other kickbacks. These situations are very problematic for the organization, which does not want to damage its public reputation. It might seek for a solution at the local level to cover its mistakes. Solving these situations require zero-tolerance and a lot of resources from donors or organizations' headquarters, which have to conduct a thorough investigation and check if their own staff has a share in the scam. In the end the decision has to be made on what to do with the sub-standard buildings and how to respond to demands and needs of the local community. (Resp F)

Procurement requires a lot of safeguards. The partners need to follow right procedures and guidelines. The chances of corruption are reduced by strengthening the systems and doing procurement of materials and supplies through a committee, not through one person. (Resp E). A procurement committee should also include people with different professional backgrounds and desirably some without any links to the actual project. Procurement should not be left only to technical/project staff. (Resp C, F)

Pre-screening of suppliers, blacklisting of suppliers, sealed bids sent to a trusted person, bids opened publicly and strict financial authorization limits are other methods mentioned (Resp C). Tenders should not be tailored to only one supplier, which alone is capable of fulfilling the very detailed technical requirements. (Resp B)

Respondent B reminded also of ground realities in Pakistan such as family, tribal and political linkages and their impact on procurement processes. It is sometimes difficult to follow the guidelines as revealed in the following quote:

We have seen this happening. [...] They [in this case government body] even chose interestingly the most expensive supplier, who had submitted his bid later on. [...] There comes this whole sort of issue between traditional, again family ties. I cannot refuse to nephew of let's say of Chief Minister, when he has a company, to submit his bid late and if I don't give the contract to that Chief Minister's son, I am in trouble. A lot of organizations have this type of issues.

Similar problems are common in the whole country. Even if other suppliers would be much cheaper, those cannot be always chosen for family and tribal reasons. Respondent B continued:

If you don't give a contract to so and so or even a sub-agreement, it is seen as a total failure. You may lose your face. Maybe the way in this is that you document it. [...] Sorry, I had to select this. Of course the auditors don't like this, but it is the realities. In order to have an access and to get permission to operate in area X, I had to make sure that my supplies are coming from this and that supplier.

Particular tribe has a couple of business people, somebody else has same products, and outsiders are cheaper. Explaining this to the auditor, there is no way to get materials from outsiders into the area, where there are other suppliers. These are again mechanisms of justification and explaining. We have to work much closer with our partners in helping them to transit a note in the file. To document, that they don't have any other choice. They would be shot if selecting someone else. But this has not happened. Again fine line between corruption and circumstances of very very tricky environment.

By and large there is a clear need of stronger involvement from donor side. Donors and international organizations should provide standards, capacity building and technical input to partner organizations, as they should not expect partners to be flawless in procurement processes. (Resp B, E) However, donors are not always providing sufficient expertise and resources in order that procurement to be done correctly, which would also require resources for field visits (Resp B).

### 5.5.2 Human Resources

As suggested several times earlier in this study, human resources is another very challenging program support function in Pakistan and is considered very vulnerable to corrupt practices. The respondents were asked to elaborate further the problems related to human resources, including nepotism and ghost workers.

The respondents agreed that corruption is a very big issue in the sector. The respondents identified only few issues relating to their own recruitment processes, as majority of the issues related to recruitment processes of their NGO partners. Exceptionally Respondent D blamed international organizations for non-transparent recruitment processes, as these organizations mostly rely on recommendations rather than public advertising and educational merits due to difficulties to properly check the background of the applicants.

According to all respondents, family and tribal linkages are very strong in Pakistan, and it is a very common practice to hire own relatives. Respondent E underlined that it is something unavoidable in this society. There are many old cultural reasons for nepotism and favoritism, including land ownership. This practice is not usually even considered corrupted, just a normal practice. For international actors it is clearly a corrupt practice, as it restrains open competition, equal rights and a level playing field. (Resp A)

The management might not open vacancies publicly. If they do, they might have decided who to bring on board beforehand despite the formal hiring process and required qualifications and capabilities. In emergency situations hiring relatives is easier, as vacancies have to be filled quickly. (Resp F)

Nepotism exists everywhere in Pakistan in every stratum of society up to educated social class and political leadership. Nepotism begins at the household level. The first concept of a family includes parents, siblings, uncles, aunts and their families. Then it expands to castes and tribes and there is no easy way to break this vicious circle of expanding family definition. (Resp D) However, nepotism is particularly strong in the tribal regions. It is considered a total failure, if you don't manage to employ your cousins and other relatives. (Resp B)

The Pakistani respondents (Resp E, F) also brought forward the potential benefits of hiring a qualified relative, although they did recognize also the disadvantages. The main benefit is that managers have a better positive influence over their relatives. However, nobody should work under the direct supervision of

his/her relative. It would be difficult for a manager to take an action against his own relative, if required, and they could easily make compromised decision in the end. (Resp F)

Nepotism and tribal favoritism should be separated from the employing local population, which can benefit the project and support the local livelihoods. Hiring a local professional with merits and local unskilled laborers is a good practice. It also gives a better access to the area and can diminish security threats. (Resp C, E)

Apart from family and tribal linkages some other strong cliques also exist in Pakistan. Respondent A highlighted the army as a major stakeholder. A few local development and humanitarian organizations, e.g. Pakistan Red Crescent Society, are traditionally managed by former military officials.

Additionally government and political parties, both at the federal and provincial level, are major stakeholders and may try to influence the recruitment process. This is not limited only to the projects at the field level, but it also takes place when filling positions in Pakistan country offices of international organizations. Political networks are common all around the world, but in Pakistan they can override objectivity and impartiality. (Resp A) Respondent B gave one example of politicians trying to influence the recruitment process:

Every time, we as a donor, we get under massive pressure when something happens somewhere and our NGO partners recruit, we are getting lists. We used to receive a list from a former minister, a list with 200 names, and they were expecting us to recruit these people. So you have to place your family members or your relatives somewhere as a politician from your constituency. So that is a big issue.

Respondent D had an opposite point of view and actually accused international organizations of corrupt practices in recruitment. He criticized them for recruiting civil servants in their programs with phenomenal salaries. In the end there are no extra achievements or impact, but only lucrative salaries and fancy offices. Respondent D elaborates further:

A lot of international organizations when they hire the local staff, they also hiring civil servants in Pakistan. One underlying reason for this is because of so much corruption and red tape in this country. Hiring these civil servants on loan from the government would get their job done very quickly. So it is one sort of corruption, as I have strict principles of corruption. Why these people come and work for international donor agencies? If they are in their government department, they are getting e.g. 40,000 rupees salary per month. Now they get additional 200,000 rupees and in the end get then 240,000 rupees and they don't have to receive and give money as peer corruption. This is a sort of sophisticated corruption. They are actually doing the same job for same government. [...] They are just on loan. The working hours are the same, they are not working additional.

A connection between local staff working for donor agencies and implementing NGO staff is another real danger in Pakistan. Respondent B considered this as a big issue, which they cannot control. Family connections are often there, but it is very difficult to know who is a first cousin of whom and in the worst case scenario a staff member

is monitoring the project run by a relative (Resp B). Sometimes donors and international agencies do knowingly hire family members, but they should never be in the same reporting lines, and doing totally different tasks. Also a family member as an intern is a common practice. However, staff members need to be open and transparent. If the employer finds out later non-reported family connections, it is a big disappointment. (Resp C)

As discussed in Chapter 5.4.1: Budgeting, an overestimated number of required staff is a common local custom in Pakistan. Respondent B gave a further explanation:

Human resources are a commodity here. Human resources are here a social and economic safety system in a country, where you don't have it.

In spite of overestimated numbers the respondents did not consider ghost employees as a major problem in Pakistan. The donor respondents B, C and E said that they have not come across ghost workers in their projects, though Respondent B acknowledged that it does happen in Pakistan. Verifying is difficult, as billing based on attendance sheets and workers lists can be forged especially in construction projects (Resp B). Respondent E considered ghost workers to be a bigger problem in public sector and existing in lesser scale in NGO sector.

Instead the respondents were more worried of full-time staff members not working full hours (Resp A, F). Also financial frauds, like double-charging the same staff members to different projects or cheating in salary payments (e.g. 8,000 rupees is paid instead of 10,000 rupees, which is charged from a project), were highlighted. (Resp E)

To stop these practices, each staff members' and laborers' ID card copies and tax certificates, if liable to tax, should be strictly required and documented. During the field visits the presence of each staff member should be checked, if possible. (Resp F)

Respondent D thought that ghost workers do exist in large scale, but it could be resolved very easily. The only problem is a lack of local knowledge and the speedy rotation of international staff. These factors prevent donors and international organizations from tackling the issue. In addition, security concerns often prevent field visits and donors must rely increasingly on their local staff as international consultants cannot go to the field. (Resp D)

If there are problems in recruitment and human resources, public accusations and allegations often act as warning signs. Donor officials may receive letters, emails or phone calls which might be only leads to identify the problems. (Resp B)

## **5.6 Other Agents of Corruption and Consequences of Anti-Corruption Work**

In the next three sub-chapters (Chapters 5.6.1 -5.6.3) the respondents discuss some other agents of corruption and potential consequences of anti-corruption work, which are relevant to NGO development programs in Pakistan. They were asked to share

their opinion on gifts and gift-giving culture; potential effects of anti-corruption work on their personal security; and potential unintended negative consequences caused by corruption prevention.

### 5.6.1 Gifts

Hospitality is considered as a virtue in Pakistan and guests are generally treated as lavishly as possible. Gifts are commonly given. The respondents were asked to clarify, if and when this local custom becomes a bribe, which implies reciprocity.

Half of the respondents considered gift-giving as an endemic corrupt practice in Pakistan. (Resp A, E and F) Gifts, contrary to money, are not always perceived as corruption. Expensive free lunches in fancy hotels and other types of entertainment are other very common practices, which should be avoided. NGO circles organize many parties and social events beyond professional meetings and attending those can cause more pressure on donor representatives and affect the objectivity of their professional decisions. (Resp E, F).

The other respondents (Resp B, C) did not consider gift-giving culture as a major problem in Pakistan. Donors and international organizations have strict guidelines of accepting gifts. Only gifts under a certain monetary value can be accepted. Gifts with lesser value are accepted as small tokens. Respondent C was also convinced of hearing through the grapevine or other staff members, if somebody would have got an expensive watch or carpet. Respondent B considered creating too friendly relationships as a bigger threat as reciprocity is expected and at some point difficult to avoid:

There is a tendency of putting you into a sort of cotton ball and being nice to you, so that it comes harder and harder to actually monitor and be tough and hard with the performance of the partner. It is more like this direction, not the gift culture, being your friend. It goes up to the moment when you say, friend or not friend; I monitor now your project. [...] Be conscious of the fact that everybody wants something from you that you don't fall in that trap. Suddenly you come under a pressure of hiring a nephew.

### 5.6.2 Security

Security situation in Pakistan is concerning and it has deteriorated significantly over the past few years. Terrorist attacks are common and attacks against international development practitioners and their offices have taken place. Some of these attacks have also resulted in casualties<sup>15</sup>. Staff members, both local and international, have also been kidnapped<sup>16</sup>. In this insecure and unpredictable situation, security issues

<sup>15</sup> See e.g. CHF International Profoundly Saddened by the Loss of Colleagues in Pakistan, Press release, 12 November 2008 (<http://www.chfinternational.org/node/32565>); and Statement on Number of Casualties in Attack on WFP Offices in Islamabad, Pakistan. News release, 6 October 2009. (<http://www.wfp.org/news/news-release/statement-number-casualties-attack-wfp-offices-islamabad-pakistan>)

<sup>16</sup> See e.g. Pakistan kidnap: Two foreigners seized in Multan, BBC News, 20 January 2012; and

are often high on meeting agendas and international organizations have taken extra measures to guarantee the safety of their staff.

The respondents were asked to give their opinion on potential security effects of anti-corruption work. They were asked to consider if preventing corruption further compromises personal security of development practitioners in Pakistan.

All the respondents unanimously agreed on anti-corruption work causing a security threat to development practitioners in Pakistan. All the international respondents (Resp A, B and C) considered it as a serious threat. It was seen as a tradition, which can potentially be deadly in Pakistan (Resp A, B).

They have all sorts of tricks. You have to be aware, if you put your nose into the networks, you are threatening the families, the clan networks. You are threatening the structures, which have been built for years. [...] You have to protect yourself different ways. [...] I have seen people in the field frankly being scared. (Resp B)

Also discharged staff members can potentially be threatening and even dangerous, if they do not leave the organization with positive mind (Resp C).

Some respondents (Resp B, C) referred to a couple of recent kidnapping and murder incidents against both local and international development practitioners. After the investigations the ultimate motives for these incidents were still unclear. There are a lot of rumors, but the motive is more likely financial than war and terror related. Respondent B elaborated further:

It is very difficult to say what has happened. [Organization] has had a casualty. [...] It was attempted kidnapping which went very wrong. [...] You never know the real story. [Organization's] own investigation - nothing. Police investigation - nothing. Was it a terrorist attack, don't know. Was it a criminal attack, don't know. Was [s/he] disturbing somebody? [S/He] was disturbing many for number of reasons.

Pakistani respondents (Resp E, F) recognized the threat anti-corruption work can cause, but considered it to be less serious and less common. A threat exists only at a verbal level, and it is not likely that NGO partners would really do any real harm to program officers. If it went any further, all the donors in the country would know it very soon. (Resp E)

Best practices to tackle these security issues are not the easy ones. The use of external interlocutors, bringing somebody from outside for quick inspection, was seen important (Resp B). If corrupt practices are found out in organization's own field offices or in local partners' offices, it is better to investigate the issue at the national level. Respectively, if the corrupt practices exist at the national level, help from the headquarters is important. (Resp B, C) External investigators need to provide cover up to field staff members, who are easily exposed every day. Otherwise local officers are unsure of their own safety and may decide not to "rock the boat" in the first place. (Resp B) Sensitivity is essential (Resp C).

### 5.6.3 Negative Consequences

The respondents were asked to share their opinion on potential unintended negative consequences caused by corruption prevention. In general, the respondents did not consider unintended negative consequences as a major issue. Respondents A and F clearly stated that the corruption prevention do not have any negative consequences. On the contrary, the corruption is one of the biggest problems in the society and severely harming the citizens. As the corruption is found at all levels in the Pakistani society, there are exclusively positive outcomes if this vicious circle is broken. (Resp A)

Respondents B, C and E acknowledged that corruption prevention methods, including all the additional reporting requirements and procedures, cause extra burden for NGO partners and it can be overwhelming for smaller organizations. However, all three emphasized the importance of training and coaching smaller organizations, which can help them to fulfill the requirements and enable partnerships. Coaching can also prevent malpractices, as donor has a closer look at the activities and the partner has fewer opportunities for corrupt practices. (Resp B)

## 5.7 Best Practices

At the end of the interview sessions each respondent was asked to share some of the best practices, which had not been discussed earlier on how to successfully minimize corruption in different stages of project cycle and financial management as well as in different program support functions. They were also asked how to increase accountability and transparency at the same time in the projects.

Respondent A pointed out that project officers need to be strong realists despite good goals and intentions. The circumstances in Pakistan are difficult as the low ranking in the corruption index indicates. The prevention of corruption requires extra investments in project management and monitoring. Therefore administrative costs will be higher than usually, but it is not fully clear when these expenses become too high for donors to accept.

Respondent D considered that the only way to stop corruption in a society like Pakistan is through enforcement of very strong legal actions and sanctions. People start obeying laws if there are strong sanctions. The donors need to have more local knowledge and have more strict control over their local partners. Networking among international actors should be better and a platform to share information should be created. Respondent D also urged that the NAB should take more active role in corruption prevention, help donors, strengthen law enforcement and speed up judicial proceedings:

One thing is sure; this [corruption case] is not to be dealt under the normal laws of Pakistan, because normal laws of Pakistan do not cater for such act. Even if it does, the system is so slow. There is no point of doing all this. You need to use special laws. Special laws already exist there in shape of the NAB Ordinance. All you need to do is

to use those mechanisms and cases can be processed very fast.

Benefit of the NAB is that they have their designated courts. So if your case of corruption goes to local court, which has already a backlog of thousands cases. There is no way that your case is processed faster. Whereas the NAB has specialized courts working with only NAB cases. They have low backlog. Your case can be processed faster. [...] If you can show to local markets that, if you mess with INGOs, you will have to pay for it in terms of punishment. [...] Now we get away with ghost thing.

Respondent B emphasized that a holistic view of the whole process is needed. Often program coordinators, accountants and logisticians concentrate only on their own specific responsibilities. A multi-disciplinary holistic approach with the good institutional understanding is considered necessary. In addition, Respondent B underlined again the influence of brotherhoods and tribal issues in Pakistan:

As long as you are aware, and your partner is aware that you are aware, you are helping. There are many things, which we can't discuss openly. [...] I am your donor; tell me what the story is? Who are the business people you have to make happy? [...] You need to get that direction especially in tribal environment. Where it is clear that they cannot do other ways. But they have to sort of put this behind the smoke screen, and don't dare to talk to you. [...] We can discuss on certain things when they come as friends or counterparts. If it would be possible to find a way documenting these things. We are trying to apply systems, which are far from the reality.

If you are there for more long-term, for development, you want to really make sure that the guy [feudal lord] [...] is not excluding part of the community. Again there is nothing wrong working with leaders as long as you have no exclusion.

As per Respondent E, a functional project steering committee plays a key role. The committee does not equal the management of the project, but it should involve other stakeholders and communities. The committee is an advisory board and oversees the project. The project team should keep the committee members updated and present them the entire process, activities and financial records regularly.

Respondent E also reminded of the importance of background checks of potential NGO partners. Those should include NGO's previous projects, references from their former donors and an analysis of previous financial reports and audits. The composition of the board and the by-laws should be checked as well.

Respondent C brought out the importance of good human resource practices: hiring the right people for the right job, sharing information with the staff and avoiding fast cycle of opening and closing projects. If a project is closed, a warning should be given months ahead. A true partnership for right reasons should be built between the international organization and the NGO. The donors should contribute to the development of civil society and partners should have a full ownership of each project. Staff of the international organizations should have a correct attitude towards the implementing partners and the donors should invest in strengthening this partnership concept right from the start and have continuous frequent contacts with their partners (Resp B).



This chapter explored in details the empirical data and empirical findings of this study. The respondents provided a wide variety of viewpoints on the role of corrupt practices in NGO cooperation in Pakistan. The following final chapter, Discussion and Conclusion, summarizes the main key findings and discusses the empirical findings of this study and their significance in relation to the research questions.

## 6 DISCUSSION AND CONCLUSION

### 6.1 Discussion

Pakistan is a complex and difficult environment for donors and international aid agencies to operate in. Challenges which hamper efforts to deliver aid are numerous: corruption, poor law and order situation, terrorism, regional instability, ethnic diversity, religious and political tensions, human rights violations, gender inequality, widespread poverty and low literacy rate to only name a few. The vast country has diverse natural conditions and long geographical distances coupled with often tough weather and road conditions. In addition, the GoP is partly restricting the free movement of development and aid workers by bureaucratic requirements. A quick field visit in a project site is not easy to realize.

No doubt corruption, both grand and petty corruption, has taken root very systemically in the Pakistani society and is currently endemic and institutionalized in the state structures. Despite the existing legal framework and anti-corruption strategy, meager and often politically motivated anti-corruption work by weak anti-corruption agencies has not been effective. Pakistan has held low positions in corruption rankings year after year and the current government bodies have shown in some cases hostile attitude against the anti-corruption work. Furthermore, defining corruption in Pakistan remains a challenge: it is difficult to draw a line between corruption, bad management and local common customs in the Pakistani context. Family and ethnic linkages are key characteristics of Pakistani culture.

This qualitative study based on six development expert focused interviews explored common corrupt practices in NGO projects in Pakistan, where a significant proportion of development assistance is channeled through NGOs, as they are commonly considered less corrupt than the host government. NGOs are globally seen as partners in the anti-corruption work, but it is also recognized that they are not immune to corruption and fraud either. However, the topic is still fairly sensitive, although the goal of this study was not to expose any particular corruption cases. Lately, some NGO corruption cases have been covered in Pakistani media. At the global level there have been the growing efforts to tackle corruption since the 1990s, including a landmark international anti-corruption treaty, the UNCAC, adopted in 2003 by the UN General Assembly.

The principal-agent theory model (Rose-Ackerman 1978, Klitgaard 1988) was analyzed in this study, as donors (principals) commonly delegate the power and implementation of aid projects to their NGO partners (agents). The Pakistani environment due to e.g. restricted movement provides an optimal ground for

information asymmetry, which increases the risk of corruption. Furthermore, the corruption risk is increased, since the country has suffered from numerous humanitarian crises since 2005 and received humanitarian and development aid in large-scale, which may be overwhelmingly huge compared to local partners' capacity to absorb funds (Von Billerbeck 2012). In addition, the accountability of NGOs can be compromised by strong political pressure, ethnic ties, legal limitations and physical threats. On the other hand, receiving foreign-funding may change the local opinion, and the local organization may be then considered as a foreign agent (Belloni 2012) or to lack civil society value (Bano 2008). Providing small, flexible and demand-driven aid grants to reputable local organizations is one solution proposed (Naviwala 2010).

## 6.2 The Empirical Findings in Relation to the Research Questions

Taking into account the focus and objectives of this study four research questions were formed in the Chapter 1.5. This chapter 6.2 will discuss the key empirical findings, and their significance in relation to the research questions.

The first research question asked how severe problem corruption is in development projects implemented by NGOs in Pakistan. The interviewed experts in Pakistan shared the view that corruption is a major risk and a very severe problem in development and humanitarian aid sector in Pakistan, which cannot be denied. In Pakistan corruption is culturally tolerated behavior as there is often more appreciation for being corrupt than not being corrupt. Family, ethnic and political linkages are tight. Therefore, these linkages can easily affect both donors' and NGOs' decision-making processes and hiring culture of NGOs. NGOs were seen as vulnerable to corruption as the other actors in the aid sector in Pakistan. The identified reasons increasing the vulnerability of NGOs included a high number of NGOs and CBOs in Pakistan, the complex legislative framework and the lack of NGOs' own regulatory body. None of the interviewees referred to any local umbrella body (like currently non-functional PNF) or certification agency (like PCP) for national NGOs. The respondents also recognized the weaknesses in NGO accountability structures related to internal governance, as in many cases organizations are run by the individual champion, and the board of NGO may miss the legitimacy and transparency. There is a clear need to check more properly the governance structures of a potential NGO partner.

Regardless of the weaknesses of the project approach, it is the most common approach used in the NGO cooperation. The effectiveness of the project approach is aimed to be enhanced by adopting project cycle management (PCM) methods. Therefore, the different phases of the project cycle and financial management, and other relevant program support functions, were emphasized in this research. The 4-phase project cycle (*identification; project formulation; implementation and monitoring; and evaluation*) was applied.

The second research question studied which phases of the project cycle and financial management or which other program support functions are the most vulnerable to corruption. The respondents highlighted a high number of vulnerabilities related to the different phases of the project cycle as further elaborated in the empirical findings. Out of the four phases, the respondents emphasized the vulnerability of the implementation and monitoring; and identification phases. They provided much less examples related to the project formulation and evaluation, although those phases were also considered vulnerable to corruption. Especially, the lack of emphasis on the evaluation was notable as it was often coupled with the monitoring. One reason for that may be donors' reluctance to open closed projects, if evaluation identifies corrupt practices, as the respondents were pessimistic of the impact of judicial proceedings in those instances. In addition, as Respondent A stated, there is a clear tendency to put a lot of emphasis on the first phases and less to the latter ones, as there is always a great need to identify new projects. Each donor can have numerous NGO partners and short-term partners were considered riskier in terms of corruption, as they have less to lose as compared to long-term partners.

There were a few themes related to vulnerabilities, which were repeated continuously in all project cycle phases: limited access to the field, and different linkages (family, ethnic, political and religious). The main reasons to limited access were poor security situation, and donors' own limited capacity due to lack of staff. External monitoring teams, who do not need to follow the strict security guidelines of the organization, have not provided a trouble-free solution. The consequence of the limited access is that donors' activity-level monitoring systems are more dependent on narrative and financial project reports. In addition, the respondents did not consider fake narrative reports as a major problem, although they recognized the possibility of overreporting, providing overtly optimistic reports and hiding the problems. Similarly, they considered that financial reports in general are provided on time and they look professional, although they might not necessarily match with the real situation. It is clear that donors should take a risk of fake or modified project reports more seriously. Different linkages were considered especially difficult in short-listings of potential partners or suppliers and monitoring.

Academic scholars have emphasized transparency and downward accountability to beneficiaries as key approach to increase the legitimacy and accountability of NGOs (e.g. SustainAbility 2003, Trivunovic 2011). The more extensive consultative and participatory approaches with beneficiaries were highlighted as a recommended corruption risk reduction method. The respondents' experiences on community participation in Pakistan were mixed: The community participation and communicating with the community members was considered as an important safeguard against corruption; on the other hand, their participation may complicate the implementation issues significantly. Also fair,

inclusive and balanced community participation is a challenging task to realize, and community participation stays easily at a superficial level. The respondents did not clearly highlight the need to share the financial information of the project with the community, which could create a strong safeguard against corrupt practices.

Judicial proceedings in corruption cases in Pakistan were found very cumbersome and slow. Therefore, the emphasis should be on prevention, not on sanctions. However, very strong legal actions and sanctions are necessary in corruption cases that people start obeying laws.

Financial management received relatively less attention from the respondents compared to the project cycle. One reason might be that the most respondents did not have a direct link to the financial management in practice. However, it is a bit worrisome to leave financial management issues solely to the accountants and program officers.

The respondents agreed on corrupt practices in the different phases of the financial management (*budgeting, accounting, financial reporting and auditing*). Out of those four phases, the budgeting and auditing were emphasized being the most vulnerable. The other two received less attention, as the general opinion was that it was difficult to detect corrupt practices from the finance systems, like e.g. fake, overvalued and inflated bills and receipts. Similarly, the double-funding was considered difficult to prove. Instead, more emphasis was put on the prevention of overbudgeting. This was linked to inflated and unrealistic budget figures, overestimated number of the required staff and unclear budget lines, which were commonly noticed by donors. In addition, the poor quality of the audit reports and the reliability of the auditors were also common concerns. This finding questions the donors' common reliance on audit reports in corruption detection. It is also to be noted that there is very little exchange of detailed financial information between donors and aid agencies. There seems to be a clear reluctance to share proactively project budgets or reports of a common partner NGO even with the other funding donor, though it would help in the prevention of corruption and double-funding. The accounting scholars' (Edwards & Hulme 1995) concern, that increased financial reporting requirements from donors cause a tendency for "accountancy" rather than "accountability", was partly recognized; half of the respondents considered the additional reporting requirements causing extra burden for NGO partners, which effects could be mitigated by training and coaching smaller organizations.

The respondents had a common view that the other support functions, procurement and human resources, are very vulnerable to corruption, especially as those costs can be a major portion of the total expenses. Fake bidding, kickbacks and low quality of the supplies were underlined. The major problems related to human resources were nepotism, which Pakistanis do not usually even consider a corrupt practice. Again family, tribal and political linkages were a major factor

affecting both support functions. Ghost workers were not found as a major problem in NGO sector, which can be considered a surprising finding or lack of attention. The Respondent D also provided a critical view compared to other respondents by criticizing the actions of the donors and international aid organizations. The Respondent D e.g. found flaws in their recruitment processes as well as reproached donors for high administrative expenses.

The third research question studied how to recognize corrupt practices in different phases of the project cycle and the financial management or in other program support functions; and what are the typical examples or warning signs. Compared to the identified corruption vulnerabilities, the respondents did not provide a high number of concrete ways to recognize corrupt practices or warning signs in different phases of the project cycle and the financial management or in other program support functions. However, a few issues were repeated often. In spite of difficulties to organize field visits, the value of those visits was indisputable. Talking directly to beneficiaries was one of main modes to recognize corrupt practices. Another highlighted custom included calls and letters, possibly anonymous tip-offs. A hotline (similar to USAID's hotline) would help receiving this information or beneficiaries and stakeholders should be informed, which embassy or aid organization to contact to report corruption, if necessary.

In addition, curbing corrupt practices require additional financial resources, skills and training, both from the donor and the NGO. Unfortunately, these are not always at the adequate level. The donor should have e.g. a trained and multi-professional project review & selection committee; and clearly defined selection criteria. The program officers and managers should have up-to-date local knowledge of local price levels and circumstances. They also should have a holistic view of the whole process. A multi-disciplinary holistic approach with the good institutional understanding was seen necessary. Since the donors often lack monitoring resources, they need to trust their NGO partners more.

Furthermore, the respondents provided a number of best practices to prevent corruption. These examples elaborated in the empirical findings may serve as preliminary guidelines to best practices.

The fourth and last research question was whether preventing corruption can cause unintended negative consequences or compromise personal security of development practitioners. All the respondents unanimously agreed on anti-corruption work causing a security threat to development practitioners in Pakistan, and the international respondents considered it as a serious threat. The evidence was anecdotal, but there is no reason not to take the security threat seriously. The external interlocutors from country office or headquarters were seen valuable to solve corruption cases. Instead, the respondents did not consider unintended negative consequences as a major issue.

### 6.3 Conclusion and Future Research Areas

This study had a practical approach as it looked at the corruption issues through the lens of international development practitioners working in Pakistan. The empirical findings discussed above illustrate well the actual situation and challenges faced in Pakistan. Unfortunately, corruption is playing a major role also in NGO sector, and it needs to be acknowledged. However, risks can be mitigated and not all the NGOs are corrupt, as the situation differs from organization to organization.

As a conclusion, a few key findings and recommendations can be made. Firstly, donors in Pakistan are heavily relying on NGO partners' narrative and financial reporting due to limited access to the field. However, donors do not fully recognize all the corruption risks and flaws related to those reports. Similarly, there is a reliance on audit reports in corruption detection, although the quality of audit reports is often questionable. Secondly, tight family, ethnic and political linkages affect both donors' and NGOs' decision-making and hiring culture of NGOs. Thirdly, in practice financial management is not prioritized by either donors or implementing organizations. Administrative problems and lack of capacity in financial management are common in many Pakistani NGOs. One indicator is that a program officer can often note a clear inconsistency between the narrative project proposal/report and the attached budget. There is a lot to improve in financial management, which also requires adequate financial and staff resources in the project cycle management, accounting section, evaluation and auditing.

However, managing the NGO development projects is in many respects a balancing act. There is no one solution to enhance the accountability of NGOs. The donor's request to improve financial management should lead to accountability, not to accountancy. On the other hand, the scholars have emphasized transparency and downward accountability, but the respondents' experiences on community participation in Pakistan were mixed and security threats at the field are real. Nonetheless, one of the key conclusions of this study is a recommendation to request NGO partners to share project's financial information and reporting with the key direct beneficiaries in the field. By sharing this information these beneficiaries would be fully aware of not only expected activities, but the intended use of the funds in their area. This measure would increase transparency and downward accountability of the project and reduce the opportunities to corruption. Similarly as another recommendation, the donors are strongly encouraged to proactively share their projects' financial information and reporting with other donors, particularly if they work with same NGO partners.

All in all, there is a clear paucity of up-to-date NGO corruption research related to Pakistan. The contribution of this study to academic literature was increasing awareness of NGO corruption and its different forms in Pakistan from

the project management point of view. In the future, it is recommended to continue the research and further identify the best practices to prevent corruption in the NGO context in Pakistan.

Lastly, it is fair to remind, that it is not possible to erase all the corruption risks by only improving the project cycle management. Operating in the challenging environment like Pakistan always contains risks. Risks can be mitigated, but some level of corruption risk need to be accepted, if a donor wishes to operate in Pakistan.



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### **INTERVIEWS:**

- Interview Respondent A: 11 August 2011  
Interview Respondent B: 10 August 2011  
Interview Respondent C: 22 August 2011  
Interview Respondent D: 15 August 2011  
Interview Respondent E: 17 August 2011  
Interview Respondent F: 11 September 2011

# ANNEX 1 Map of Pakistan



FIGURE 3 Map of Pakistan. Source: OCHA/ReliefWeb.

## ANNEX 2 Research Questionnaire

Thank you for devoting your time for this interview. This interview is a part of my Master's thesis research for development and accounting studies in the University of Jyväskylä in Finland. The working title of my research is "Preventing Corruption in NGO Development Projects in Pakistan".

It is appreciated that corruption is a sensitive subject. The intention is not necessarily to expose particular cases of corruption but to study common corruption trends and risks and to identify best practices how corruption could be prevented in NGO projects in Pakistan. The ultimate goal of this research is that this study could provide tools and additional information for development practitioners, like us, working in Pakistan to tackle and minimize corruption.

The initial plan is to conduct around 10 interviews, which will provide substantial information for this research. Donor, United Nations and (I)NGO representatives will be interviewed among others. Your contribution can be kept confidential, if you wish so.

The interview consists of general open questions and more focused questions. In some questions you may use the following scaling:

- 1 = very unlikely
- 2 = unlikely
- 3 = possible
- 4 = likely
- 5 = very likely

You are encouraged to share practical examples and professional experiences from Pakistan while answering these questions.

- 1) Do you find corruption as a great risk in development and humanitarian aid sector in Pakistan? (Scale 1-5)
- 2) How severe problem corruption is in development and humanitarian aid sector in Pakistan? (Scale 1-5)
- 3) Do you find corruption as a great risk in NGO development aid projects in Pakistan? (Scale 1-5)
- 4) How severe problem corruption is in NGO development aid projects in Pakistan? (Scale 1-5)

5) Which stages in the project cycle or program support functions are the most vulnerable for corruption? (Scale 1-5) How do you recognize corruption in different stages and functions? Which are the major warning signs in these stages? Can you share any typical examples in the context of Pakistan?

Project cycle:	Likelihood (Scale 1-5)	Typical examples in the context of Pakistan	How to recognize? Major warning signs?
Identification			
Project formulation			
Implementation and monitoring			
Evaluation			
Program support functions:			
Financial management:			
Budgeting			
Accounting			
Financial reporting			
Auditing			
Human resources			
Procurement			
Logistics			
Other functions, if any			

6) Any type of project expenses, which are more vulnerable for corruption listed in project's budget and financial reports?

7) How do you see the role and standard of auditing in Pakistan? Can audit detect corrupt practices?

8) How common are double funding or fictional NGOs?

9) In your opinion, how common are nepotism and favoritism?

- 10) How do you find gift giving culture in Pakistan?
- 11) Can preventing corruption cause unintended negative consequences?
- 12) Can preventing corruption compromise personal security in Pakistan?
- 13) Are there any particular best practices how to successfully minimize corruption in different stages and in different program functions and at the same time increase accountability and transparency?
- 14) Do you wish to add anything related to the topic of the study, which is not yet covered in this interview?

Background and how many years in Pakistan?