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Corruption: Violent Extremism, Kleptocracy, and the Dangers of Failing Governance
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Chairman Corker, Ranking Member Cardin, and distinguished members of the Committee: thank you for inviting me here to discuss the United States Agency for International Development's work to combat corruption across the globe. I want to thank you for shining a light on this important topic, and for your continued leadership and ongoing commitment to root out corruption and advance accountability and transparency.

Corruption takes on many forms, from the bribery of public officials to collusion in public procurement to the wholesale theft of government assets. Although its different forms may cause varying degrees of harm, corruption as a whole tears at the fabric of society and hinders inclusive economic growth and democratic governance. Additionally, corruption poses major security risks to the United States, often enabling radicalization and violent extremism and fueling political instability and conflict. That is why President Obama views corruption as a fundamental obstacle to peace, prosperity, and human rights, and our Administration has sought to elevate anti-corruption efforts across our foreign policy and development agendas.

As the United States' lead development agency, USAID plays a critical role in the U.S. Government's strategy to stem the tide of corruption and hold to account all those who exploit the public trust for private gain. Our work takes us to every corner of the world, where we have seen firsthand the devastating impacts corruption can have on people, communities, and countries. But, encouragingly, we are also seeing new and promising trends on which to build.

Bolstered by the strong model of transparency and accountability the United States has constructed here at home, the fight against corruption has become increasingly central to our international development policy and strategy. As we continue to work with our partners to foster sustained and inclusive economic growth and promote open, effective, and democratic governance around the world, we are integrating anti-corruption efforts into the way the Agency does business – across borders and across sectors.

THE MANY COSTS OF CORRUPTION

For the countries where USAID works, the costs of corruption are significant and lasting. In some severe cases of systemic corruption, we have seen substantial portions of country budgets lost to waste, fraud, and abuse, stalling and in some cases halting development progress altogether. In total, according to the United Nations, corruption, bribery, theft, and tax evasion cost developing countries approximately \$1.26 trillion each year.

But the losses caused by corruption are not measured in dollars alone. We can also see the effects of corruption in missed opportunities for economic growth and development. Corruption lowers the confidence of the private sector in developing economies, hampering prospects for investment that can catalyze growth. Corruption siphons away scarce resources from public investments in much-needed social services and the productive sectors which fuel economic growth. It is worth noting that these opportunity costs are felt most acutely by the world's poor, who depend on those services and

stand to benefit the most from economic empowerment. Women, too, disproportionately suffer the impacts of corruption.

The costs of corruption are also evident in the eroding public confidence in government. Poor governance and corruption alienates publics in democracies and entrenched authoritarian regimes alike, as they see that a few people benefit from their connections while larger numbers of people are left out.

Additionally, systemic corruption fuels rising insecurity and enables dangerous transnational threats. The more corrupt an environment is, the easier it is for violent extremists to establish themselves as an alternative to ruling elites perceived to be immoral and unaccountable. Endemic corruption can also provide extremist groups with the enabling environment they need to access financial systems and align with criminal and other illicit networks.

EMERGING OPPORTUNITIES TO TACKLE CORRUPTION

Even as risks and threats posed by corruption continue to increase, we are seeing new windows of opportunity emerge. First, all across the world, there is growing popular demand for increased accountability and transparency from governments. It was a call to end corruption that helped spur the Tunisian revolution in 2010, and that same call drove hundreds of thousands of Ukrainians to the Maidan three years later. More recently the release of the Panama Papers turned the world's attention to illicit financial activity by the wealthy and well-connected on every continent, spurring massive protests and the Prime Minister's resignation in Iceland and sparking outrage and debate from North America to Asia.

In Guatemala last year, where impunity once reigned, people took to the streets and spurred the legal and orderly removal of the sitting President and Vice President. All over the world, civil society has intensified its demands for honest government and seeks to remove corrupt leaders from office through elections, impeachment, prosecutions, or civil protest. Second, we are seeing more – though still insufficient – top-down interest in reform, as leaders are increasingly demonstrating a willingness to put political capital in the fight against corruption. Some governments have shown they have the political will to build the institutions required to reduce and prevent corruption, increase transparency of public revenues and finances, and enhance accountability for budgeting and delivery of services. For example, Senegal passed a sweeping transparency law in 2012, and the Tunisian Minister of Finance is working directly with USAID to root out corruption in tax and customs collections. The leaders of Nigeria and Afghanistan – two countries historically plagued by severe corruption – have each made significant commitments to combat corruption and have followed up with concrete actions. In Nigeria, where corruption in the oil sector is especially pervasive, President Buhari's administration has undertaken a series of reforms aimed at reducing graft and improving transparency, including a restructuring of the state-owned Nigerian National Petroleum Corporation.

And in Afghanistan, President Ghani is personally invested in the fight against corruption. Along with Chief Executive Officer Abdullah and senior ministers, he established and chairs the National Procurement Commission, which meets weekly. His government has created a new High Council on Good Governance, Corruption, and Justice to coordinate anti-corruption efforts throughout the government and is also working to implement recommendations made by the Afghanistan Independent Joint Anti-Corruption Monitoring and Evaluation Committee (MEC). At the invitation

of the Afghan Ministry of Public Health, the MEC recently completed a comprehensive anti-corruption assessment, and the recommendations of that public report are under review for implementation. Other ministries have volunteered for similar corruption assessments.

In recent months, I have met with the leaders of Ukraine, Albania, Georgia, and Guatemala. In each of these meetings, these leaders raised corruption as a major concern, and asked for support in dealing with specific aspects of the challenge, ranging from technical assistance on customs reform to experts on transparent financial management. This kind of engagement is a necessary first step on the long road to ending corruption.

Finally, a global consensus is now emerging that transparency and accountability are pre-requisites for achieving sustained and inclusive development progress. It was not long ago that the United States was one of few governments consistently championing transparency and accountability, but that is no longer the case. This new global consensus is embodied in the Sustainable Development Goals (SDGs), which world leaders from 193 countries endorsed in September 2015. In part due to the hard work and engagement of the U.S. Government, the goals explicitly recognize – through Goal 16 – that corruption and related challenges hinder growth and progress. Importantly, the SDGs are more than just aspirational; they include targets against which governments – and their citizens – can measure progress. And growing multilateral partnerships like the Open Government Partnership are helping countries meet Goal 16 targets and pursue other governance reforms.

This global recognition has already translated into concrete commitments. In the Common African Position on the Post-2015 Development Agenda, African leaders affirmed their support for anti-corruption efforts and committed to adopting new measures to fight corruption and strengthen good governance. As another example of the global consensus at work, in May 2016 leaders of more than 40 governments gathered in London to commit to deepen and widen the fight against corruption through better coordination of government action, including efforts to advance beneficial ownership transparency, to increase revenue transparency in key sectors including energy, and to share know-how and data required to enforce laws against corruption and money laundering and to recover stolen assets

There is no question that the development, democratic governance, and security challenges posed by corruption have become more urgent and complex. But with increased citizen demand, growing commitment from leaders, and a shared global agenda, there is new and significant momentum behind U.S. efforts to attack corruption from all angles.

U.S. LEADERSHIP IN THE GLOBAL FIGHT AGAINST CORRUPTION

That is why – building on decades of U.S. leadership – President Obama has made fighting corruption a national security priority. The United States has been a leader in anti-corruption efforts since the *Foreign Corrupt Practices Act* (FCPA) – the first ever law prohibiting bribery of foreign officials – was enacted in 1977. Since then, U.S. Government agencies have developed a comprehensive, whole-of-government approach both to enforce the FCPA and other laws prohibiting corruption and to initiate policies and programs to institute good governance across the globe. In addition to USAID, those agencies include the Department of State, the Department of Justice, the Securities and Exchange Commission, the Department of the Treasury, the Department of Commerce, the Millennium Challenge Corporation, the Overseas Private Investment Corporation, the Trade and Development Agency, the United States Trade Representative, and others.

Each agency makes up a vital component of a comprehensive agenda that has helped make the United States the global standard-bearer in countering corruption both at home and across the globe. For example, the Treasury Department works to protect the U.S. financial system from abuse by illicit actors, including corrupt individuals. And the Department of Justice (DOJ) pursues corrupt foreign officials who plunder state coffers for personal gain and then try to place those funds within the U.S. financial system, while DOJ, the SEC, and their law enforcement partners pursue bribe paying individuals and companies over which the United States has jurisdiction.

The Overseas Private Investment Corporation and Trade and Development Agency seek to provide financial and technical support to countries that have consistently demonstrated progress in strengthening good governance. The Millennium Challenge Corporation incentivizes countries to demonstrate a positive track record and concrete plan to reduce corruption in order to achieve eligibility. The Department of Commerce, through commercial diplomacy and other initiatives abroad and in numerous international fora, promotes transparency and anti-corruption efforts in our trading partners in order to create a level playing field for U.S. businesses.

By engaging such a diverse array of agencies in anti-corruption work – each with different missions, authorities, and tools – the United States is able to attack corruption from every angle, including through building and enforcing the rule of law; enhancing the disclosure, detection, and prevention of corrupt practices; and engaging civil society, foreign governments, and multilateral institutions as partners. For USAID, U.S. global anti-corruption efforts also include the promotion of human rights, participatory democracy, accountable and transparent governance, and economic empowerment.

HOW USAID TACKLES CORRUPTION

USAID’s primary role within the U.S. strategy is to empower citizens, embed norms and standards, and build accountable and transparent institutions. With programs in more than 100 countries worldwide, we are uniquely positioned on the front lines of the fight against global corruption. By leveraging this position – as well as our existing relationships with governments and civil society – we work to address corruption at its roots. And, where we can enlist governments and their citizens as able and willing partners, we are increasing the scale and impact of anti-corruption efforts in the countries, regions, and sectors in which we operate.

This is essential. Unless people, communities, and countries take ownership of their challenges and their progress, development cannot be sustainable or inclusive. The same is true for efforts to combat corruption. Guided by this principle, USAID works to be a strategic and effective partner of civil society and governments. We do this by: (1) advancing accountability, (2) improving open, effective, and democratic governance, (3) strengthening adherence to international norms and standards, and (4) promoting multilateral efforts to tackle corruption.

Advancing accountability

The United States should hold governments, corporations, organizations, and individuals to account through enforcement measures and by other means. But from a development perspective, accountability is most effectively sustained when a vibrant civil society has the rights, capacity, and tools to hold governments, businesses, and citizens to account. Through our support for civil society,

USAID and our partners enhance the capacity of citizen watchdogs to oversee local public spending, promote community development and reconstruction, and monitor the delivery of services. The civil society groups we support also educate the public on their rights, and on the many different tools available to them.

For example, in Pakistan, USAID's Citizens' Voice Project (CVP) is supporting provincial governments to inform people about the Right to Information Act, a new law that grants citizens access to information previously withheld from the public. CVP has supported nearly 200 civil society groups to amplify citizen voices and facilitate productive engagement with the government. And in Paraguay, web-based programs developed to improve citizen oversight of government data helped unearth multiple cases of corruption. This exposure led to the firing of 1,000 ghost employees in the Ministry of Education who had been receiving salaries without actually working, and placed two members of Congress and the Chancellor of the National University under criminal investigation.

But the continuing backlash against civil society and closing of political space in countries across the globe compromises the ability of citizen groups to demand transparency and accountability. That's why we have joined our partners in the U.S. Government, governments around the world, the philanthropic community, and multilateral partners to push back against these emerging restrictions and dangerous trends. Through the President's *Stand With Civil Society* agenda, we work to improve the policy environment for civil society organizations, increase multilateral and diplomatic pressure against restrictive laws, and develop innovative ways to support civil society where it is under duress.

In some contexts, advancing accountability requires us to first help expose the nature and scope of corruption. This has the dual benefit of raising awareness among citizens and drawing the attention of prosecutorial and investigative bodies. One way we do this is through training investigative journalists and supporting high profile and high-impact reporting on corruption. In Fiscal Year 2015, USAID contributed approximately \$30 million to support media development in more than 25 countries. This relatively small amount of funding can eventually pay significant dividends in terms of transparency, asset recovery, and other law enforcement actions.

For example, USAID, along with the State Department, supported the Organized Crime and Corruption Reporting Project (OCCRP), a network of investigative journalists working across Europe and Eurasia. OCCRP's reporting has resulted in the recovery of at least \$600 million in hidden assets by tax authorities, as well as more than \$2.8 billion in fines, seizures, and asset freezes. Additionally, 1,300 companies were closed and 80 people arrested because of illegal activity exposed by the group.

USAID also works to enhance accountability by improving the auditing capacity within governments. In April 2016, we signed a Memorandum of Understanding with the Government Accountability Office's Center for Audit Excellence to collaborate on training and technical assistance efforts to strengthen auditing organizations in developing countries.

Going forward, USAID will continue to support citizens as they expose corruption and hold their leaders accountable.

Improving open, effective, and democratic governance

Fighting corruption is also central to our core strategic goal of supporting democracy, human rights, and governance. As we support citizens who are demanding change, and help build their capacity to

hold their governments accountable, we must also support governments as they work to strengthen their institutions and develop more efficient and effective systems – with built-in transparency. Our work to strengthen justice sectors offers a great example of this work. USAID is a global leader in the promotion of the rule of law, with a long history of joining with our interagency partners in supporting justice system reforms in every region of the world. This support includes a whole of government approach in developing training and professional development opportunities for judges and prosecutors, empowering them to take on corrupt officials and elites.

New technologies and innovations are accelerating our efforts. For example, we are installing computer automation to track cases in all 74 of Jordan’s courts to improve judicial efficiency, and in Honduras we supported the establishment of the country’s first Legal Assistance and Anti-Corruption Complaint Center. In Fiscal Year 2015, the Center tracked 65 formal corruption complaints, ultimately leading to 12 investigations.

Innovations and modernized systems are changing the way governments operate in other sectors as well. In vulnerable environments, we are leveraging programming in sectors like health and education to combat corruption. In countries with high vulnerability to corruption, we apply these innovative management systems in specific sectors like health and education, both to counter corruption and improve the delivery of services. To help governments collect revenues and budget more cost-effectively, we have helped implement standards of transparency and accountability for public financial management. And to help governments save costs, we have made great strides helping reform public procurement systems and institutionalize e-governance. These systems reduce opportunity for corrupt activity by limiting face-to-face interactions with public officials and automatically tracking all transactions.

For example, in Albania, we are supporting efforts to develop One-Stop Service Centers for all municipal transactions. These centers will help local governments be more responsive, while limiting room for corrupt practices. In some places, we are quickly seeing a sizable impact from these new systems. Less than five months after Ukraine introduced new electronic procurement software to cut down on opportunities for corruption, an estimated \$65 million has already been saved.

In 2002, Georgia had one of the worst reputations in the former Soviet Union for bribe-taking and corruption, with more than 4 out of 5 businesses reporting that they were expected to give gifts in meetings with tax officials. After the Rose Revolution and subsequent 2004 elections, USAID partnered with the new government in support of a major reorganization and other reforms of the tax and customs departments. By 2008, only 8.4 percent of businesses continued to complain about expectations of corruption by tax officials – an astounding drop of more than 80 percent. And from 2002 to 2011, Georgia increased tax revenue by about 12.6 percent of GDP.

Not only do improved systems save money and increase revenue, they also offer an opportunity for governments to reinvest those savings in the growth of their economies and in the well-being of their people. This can occur in any sector. After USAID supported an analysis of the central and individual hospital payroll systems in the Dominican Republic, the Ministry of Public Health took action to clean the payroll. In total, the Ministry eliminated more than 4,000 ghost workers, leading to a savings of \$9.5 million. And now, those savings are being used to hire health care workers and increase access to primary care across the country. The investments, along with the elimination of user fees and increased membership in national health insurance, are already paying off. One impoverished region witnessed a 500 percent increase in patient consultations over a one-year period.

As these kinds of successes continue to occur, more countries are likely to replicate the results, which will be necessary to achieve the scale we need. USAID will continue to build the evidence base for smart governance reforms across all of the sectors in which we work, just as we will continue to encourage the adoption of innovative systems and technologies.

Strengthening adherence to international norms and standards

USAID also has an important role to play in developing and embedding the international norms and standards that incentivize anti-corruption action. U.S. leadership has been essential in establishing and implementing the international legal frameworks that guide corruption enforcement today, such as the UN Convention Against Corruption (UNCAC) and the Organization for Economic Cooperation and Development Anti-Bribery Convention.

USAID has helped to establish a powerful and visible platform to strengthen international norms in the natural resources sector, a sector ripe for corrupt activity in many countries. The Extractive Industries Transparency Initiative (EITI) is a multi-stakeholder initiative to increase revenue transparency and create a new standard of accountability. With strong support from Congress, USAID has contributed more than \$26 million between Fiscal Year 2008 and Fiscal Year 2015 to support country-led efforts to join or implement EITI.

By lifting up governments that are publishing key financial information or audit results, we showcase how these actions foster growth and make countries more attractive to foreign investment. In Peru, for example, we helped bring together oil and mining companies, government officials, and prominent civil society organizations to foster a dialogue on the benefits of EITI membership. And in 2012, Peru became the first country in Latin America to become EITI compliant.

USAID has helped emerging democracies meet their obligations under a number of other international standards for transparency and accountability, including UNCAC. Additionally, it is important that jurisdictions effectively implement the Financial Action Task Force global standards on anti-money laundering and countering the financing of terrorism, which include standards for the disclosure of true beneficial ownership of companies. Moving forward, every USAID mission will outline plans to support country-level SDG implementation in its five-year strategy, which includes support for meeting good governance and anti-corruption targets like the significant reduction of illicit finance by 2030.

We will continue to promote the adoption and adherence to the international norms and standards that provide a guide for global cooperation on combating corruption.

Promoting multilateral efforts to tackle corruption

Similarly, we will continue to bring the global community together in the fight against corruption. In many of the countries where we work, multilateral support and engagement is essential to help build the capacity and incentivize the steps required to achieve scale in our anti-corruption work. USAID forges partnerships with other donors, multilateral agencies, and civil society organizations to help leverage and sustain local initiatives and to help enable the sharing of best practices and replication.

The Open Government Partnership (OGP) – a multilateral initiative launched by the United States and seven other governments in 2011 – is the most prominent example of this approach. With 70 countries now participating, OGP helps reform-minded officials and citizens promote transparency, engage, and harness new technologies to fight corruption and improve governance.

As a multilateral public platform, OGP has been effective in engaging the interest of governments in greater transparency, but that alone is not enough. That is why USAID supports efforts to help countries become eligible for the OGP, and assists member countries with the implementation of their National Action Plans. Once again, our efforts here are bolstered by U.S. leadership at home. The United States is also meeting its obligations under the OGP, including by submitting our own National Action Plan for civil society scrutiny. In addition to being good practice, this kind of leadership by example also gives us more credibility on the international stage. More than a dozen USAID missions plan to provide \$14 million to support OGP in Fiscal Year 2015 and \$10 million in Fiscal Year 2016.

OGP is a dynamic example of the preventive, positive and scalable USAID approach. Since its launch in 2011, it has grown quickly to include 70 countries and more than 2,000 commitments to undertake reforms jointly developed by government and citizens. Brazil, Croatia, and Sierra Leone all passed Access to Information Laws—some of which were stalled for years—in order to join the Partnership. Following the UK Anti-Corruption Summit in May, Nigeria became the latest country to join OGP and commit to fighting corruption at every level.

We have also supported multilateral engagement at the regional level. This approach has shown promise in strengthening the capabilities of internal government watchdogs, like inspectors general and other auditors. For example, the U.S.-Africa Partnership on Illicit Finance is designed to promote action to combat illicit finance in Africa.

Senegal has joined the United States in developing a national action plan, and six other nations are writing their own.

And in the Middle East and North Africa, which has the least transparent and open budget process in the world according to the 2015 Open Budget Survey, we are supporting several countries – including Algeria, Egypt, Iraq, Morocco, and Tunisia – to implement international standards and best practices for government audit and oversight. And through the Effective Institutions Platform, we are helping support a learning alliance of Latin American Supreme Audit Institutions, and highlighting ways these institutions can strengthen their work to target government corruption and financial mismanagement.

PROTECTING TAXPAYER RESOURCES FROM CORRUPTION

The last thing I want to touch on is how we are working to safeguard USAID investments from corruption. This is absolutely essential.

We continually look for new opportunities to improve our monitoring approach and attack the challenges from every angle. For example, in Afghanistan, one of the most difficult places we work, USAID developed a multi-tiered monitoring approach. The approach allows project managers to gather and analyze data from multiple sources, triangulate information to increase our confidence in the reporting, and use the results to make programmatic decisions. In Syria, innovative tracking mechanisms are used to ensure targeted beneficiaries receive assistance; these include biometrics

such as ID cards, finger prints, or iris scans; electronic distribution of transfers; distinct marking of paper vouchers; regular in-person and unannounced visits to beneficiary households, distribution sites, or vendor shops. And in some places plagued by corruption, terrorism, violent extremism, and conflict – where our investments face the greatest risks – we conduct vetting programs to keep American funds out of the hands of bad actors.

We have also developed new tools to assess the capabilities of partner governments and other recipients to properly administer funds. One such tool is the Public Financial Management Risk Assessment Framework, which has led to several decisions not to utilize host government systems because of insufficient controls. Other practices like fixed obligation grants can ensure that disbursements are only made against agreed-upon results. Additionally, since 2012 Congress has required the publication of annual reports on fiscal transparency of governments that receive aid from the United States, ensuring that U.S. taxpayer money is used appropriately. These reviews also serve to sustain a dialogue with governments focused on improving their fiscal performance.

Of course, USAID’s Inspector General is also essential to protecting taxpayer dollars and preventing fraud, waste, and abuse, and I want to thank the Committee for confirming Ann Calveresi-Barr to serve in this important role. USAID missions around the world greatly appreciate oversight from the Office of the Inspector General, often proactively requesting investigations.

The hard truth is that, even with the smart steps we have taken and careful measures we have put in place, we are sometimes vulnerable. USAID is called to serve in some of the most difficult environments imaginable, where access constraints often hinder our ability to ensure proper oversight of projects. Despite these constraints, we are committed to working closely with Congress to prevent corruption and other misuses of taxpayer dollars. And we are equally committed to taking swift action upon learning of any such abuse.

CONCLUSION

I want to thank you again for the opportunity to share with you the important work USAID is doing, as part of a larger U.S. whole-of-government strategy, to invest in the prevention and elimination of corruption worldwide. Our experience demonstrates that the most effective pathway to reaching scale is to help create compacts between citizens and governments that enable countries to institutionalize good governance, deliver social services efficiently and fairly and provide wide access to economic opportunity. Our leaders, staff and implementing partners will continue to prioritize and practice anti-corruption no matter which sector they work in.

Going forward, we will continue to make progress in infusing anti-corruption work into the bloodstream of the Agency, including through mission-led country strategies, our broader democracy and governance work, and through our sector-based programming in fields like global health and education. Further integration into the way we do business will be instrumental to implementing a comprehensive and successful long-term anti-corruption strategy. USAID shares this Committee’s deep commitment to the values of transparency and accountability, and we will continue to promote them through our work to advance human rights and dignity around the world.

Thank you.