



International Development Aid, Distrust and Lesser Impact

An Overview on Civil Society Perspectives

by

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**REGAINING CITIZENS TRUST: THE ROLE OF INTERNATIONAL
DONORS**

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Development aid has a significant impact upon the policies of developing and emerging countries. It is often a critical determinant in the lives of the least developed countries. Despite numerous and increasing eligibility criteria, development aid remains arguably a free, no matter how small, transfer of wealth from developed to less developed countries. This essential nature of development aid ought to account for great enthusiasm and receptivity in less developed countries. The truth is that it does not.

Citizens, civil society and watchdog organizations are increasingly vocal in their distrust of development aid. Their reasons are varied and multifaceted. They range from an alleged inability of development aid to tackle fundamental imbalances that exist in the crux of power allocation or sharing formulas in the sociopolitical and economic regimes of recipient countries, to unease with development aid's ties with foreign policy objectives of individual donor countries,² to repugnance of how development aid is used or abused by private contractors or recipient country bureaucrats. A growing body of literature captures both this wave of discontent, as well as what are submitted as its root causes.

Cataloguing arguments that form the basis for such distrust entails more perception than fact.³ A first group of arguments centers on the "micro" level of development aid: projects. Civil society has steadily raised concerns about the following perceived weakness:

1. Skewed project selection and design. Development aid is steered in undeserving projects that promote or protect narrow interests or in sectors that do not fuel

² United States Agency for International Development (2002) 'Foreign Aid in the National Interest' at: http://www.usaid.gov/fani/Full_Report--Foreign_Aid_in_the_National_Interest.pdf.

³ I acknowledge the U4 Anti-Corruption Resource Center's (U4) pioneering work in this area. U4 has effectively catalogued and spotlighted the concerns of civil society and the broader public about the accountability of international development assistance. See <http://www.u4.no/helpdesk/helpdesk/queries/query76.cfm>.

development. Faulty design processes favor particular bidders or result in unsustainable or undesired outcomes.

2. Slipshod Implementation. Concerns under this sub-rubric center on overbilling, misuse of funds, substandard services or goods, negligent or willful cost overruns, expenditure leakage or outright appropriation of goods or materials purchased with development aid funding, fraudulent procurement, and doctoring of records. A related concern is crooked or incompetent evaluation that leads to the perpetuation of wasteful projects, validation of unnecessary or misdirected investment, or the covering of abuses that are internal to a project.

A second group of arguments centers on the “macro” level of development aid: direct budgetary support:

1. Abusive Budget Formulation. Aid is often channeled in a budget formulation process that is distorted by certain elites or interests and ends up supporting sectors such as large infrastructure projects or defense where opportunities for and the incidence of corruption are greater.
2. Faulty budget execution. Budget implementation systems in a good number of aid recipient countries are so inadequate that it is impossible to meaningfully monitor the expenditure of funds. Limits may be ignored, and/or authorized amounts under-spent, both scenarios which give rise to opportunities for the diversion of funds.

Given the persistence and vehemence of these arguments, it would be ill-advised for the development aid community to disregard or treat them perfunctorily. Do donors indeed – albeit unintentionally – cause or condone corruption? There is increasing evidence that the answer is a

qualified Yes.⁴ There is no consistent, global, methodologically sound, evidence that development aid causes corruption. However, in certain cases, and in certain contexts, donors have caused or condoned corruption. It is these cases and contexts which concern us here and which warrant a closer look to determine trends, similarities, patterns, and to fashion appropriate responses.

It has been argued convincingly that aid increases corruption in settings where the population is fractionalized, while it reduces corruption in more homogeneous countries. It appears that in contexts where a multitude of distinct groups vie for the windfall that aid represents, aid appears more likely to have a detrimental effect in terms of rent-seeking and corruption.⁵ We're beyond a point of doubt that a number of projects have fueled or been plagued by corruption. Donor-sponsored rounds of privatization from the former Soviet Union to Africa are a good example.⁶

It is important to adopt in this discussion a tool already used and widely endorsed in the anti-corruption discourse: measurements of perception. Perception, particularly perception that survives near to mid-term timeframes, may be imperfect, but it is a rather consistent proxy for fact. Transparency International has been a trendsetter in anchoring its Corruption Perception Index into the mainstream of the anti-corruption efforts. The lesson for the development aid community is to acknowledge lingering perceptions of corruption as a proxy for actual, even unsubstantiated, corruption, analyze such perceptions more open-mindedly and more rigorously in order to develop appropriate responses and solutions, and to evaluate these responses and solutions against changes in perceptions.

⁴ Kolstad, I., Fritz, V., O'Neil, T. (2008) 'Corruption, Anti-corruption Efforts and Aid: Do Donors Have The Right Approach?' London: Overseas Development Institute.

⁵ Svensson, J. (2000) 'Foreign Aid and Rent Seeking,' *Journal of International Economics* 51 (2): 437-61.

⁶ Hall, D. (1999) 'Privatisation, Multinationals and Corruption,' Public Services International Research Unit, Report No. 9909-U-U-Corrupt.doc.

Perceptions of causing or condoning corruption contribute to a trust deficit in the work of the development aid community. Despite billions of dollars spent on causes from fighting and preventing disease to helping institute more accountable government, trust in the outcome and process of these noble endeavors – whether it concerns their efficiency, effectiveness, or general advisability – is anecdotally at a disconcerting low. Such lack of trust manifests itself in civil society apathy or passive hostility toward donor-funded initiatives and in lack of local ownership by constituencies whose support is required for the success of these initiatives. Worse, the vacuum created by such distrust is abused and exploited by more sinister interests for pecuniary or political gain.

Trust is the sine qua non of local ownership, which in itself is a precondition for sustainability and success. Insisting on statistics to establish the causality between lack of trust and lesser impact would be an overly formalistic exercise that might miss the forest for the trees: the need for trust in development aid is axiomatic. A donor-funded Integrated Coastal Zone Management and Clean-Up Project in which the donor is informed that the host country government has agreed to a moratorium on displacement when in fact it has not, and which, in addition, is plagued by disputes about the application of safeguard policies, the scope of the project's activities, and the contracting of the Prime Minister's son-in-law as Project Coordinator is sure to lose the trust of the host country citizens and its civil society.⁷ Without such trust, the project is either doomed to fail or it is likely to generate undesired outcomes. A power plant administration project which because of mismanagement fails to improve power generation is

⁷ Fox News (2009), 'World Bank Spent More than a Year Covering up Destruction of Albanian Village' at: <http://www.foxnews.com/story/0,2933,490028,00.html>.

likely to generate distrust. If such distrust is further corroborated by findings that senior project management is siphoning project funds, the project has little if any impact.⁸

That a degree of causing corruption or condoning corruption is unavoidable in international development assistance ought to be beyond debate. This is not a statement of capitulation: it is a forward looking recognition of the complexity of disbursing aid and implementing projects. It is also an acknowledgement of the fact that no matter how harmonized donor and partner systems for control and evaluation are, there will always be a certain amount of variance and asymmetries of information which will create openings for abuse. Having said this, it is clear that not enough has been done to bridge the gap between optimum accountability and faulty modalities of design and delivery in international development assistance. A number of initiatives have been generated with varying degrees of implementation and success. There have been calls for a transparency index for donors.⁹ To date, no such index exists.¹⁰ There has been a significant push to better leverage the right to information as a tool of enhancing accountability and effectiveness in international development aid.¹¹ There have been some notable improvements in donor transparency. However, many donors are still encumbered by less than fully transparent processes and procedures. Knowledgeable observers have called for a more pointed use of IT innovations to improve aid effectiveness and reduce undesired outcomes.¹² There has been significant investment in improving the internal controls of bilateral or multilateral development

⁸ Kosovo, Country Reports on Human Rights Practices – 2007, Released by the Bureau of Democracy, Human Rights, and Labor, March 11, 2008.

⁹ Fjeldstad, O. (1999) 'Combating Corruption: a Transparency Index for Donors?' *Development Today*, Vol. 9, No. 3.

¹⁰ International Aid Transparency Initiative (<http://www.aidtransparency.net>), a coalition of donor and recipient countries and non-governmental organizations, has contributed significantly to greater transparency in development aid, but has stopped short of a transparency index for donors.

¹¹ Rodrigues, C. (2006) 'Promoting Public Accountability in Overseas Development Assistance: Harnessing the Right to Information,' at:

http://www.humanrightsinitiative.org/programs/ai/rti/articles/cald_conf_paper_rti_oda_may06.pdf.

¹² Kaufmann, D. (2009) 'Aid Effectiveness and Governance: the Good, the bad, and the Ugly,' at: http://www.brookings.edu/opinions/2009/0317_aid_governance_kaufmann.aspx.

aid agencies. The European Commission established in 1999 its European Anti-Fraud Office (OLAF) which has become increasingly effective in fighting fraud and corruption in the operations of the Commission including in its development arm, EuropAid.¹³ In early 2009, the International Development Association (the development aid arm of the World Bank Group) conducted a thorough review of its internal controls which identified significant gaps and led to the adoption of significant action items for improvement.¹⁴

However, accountability and transparency in international development assistance are themselves directly proportional to the level of accountability and transparency in the governance systems of recipient countries.¹⁵ It is because of this circular relationship that notable improvements in accountability and transparency in international development assistance can only obtain after significant reductions in corruption in recipient countries.¹⁶

The donor community's framework response to fighting abuse caused or condoned by its assistance has been articulated in the Paris Declaration on Aid Effectiveness (2005) and the Accra Agenda for Action (2008).¹⁷ The Paris Declaration is very emphatic on the need for mutual accountability of donors and partners. The Accra Agenda builds on the Paris commitments to outline broad modalities for enhancing accountability in development aid. However, this joint response has not generated widespread enthusiasm and has yet to produce

¹³ European Anti-Fraud Office (2010), 'Annual Report,' at: http://ec.europa.eu/anti_fraud/reports/olaf/2009/en.pdf.

¹⁴ International Development Association (2009) 'Review of IDA Internal Controls: an IEG Evaluation of Management's Assessment and the IAD Review: Report on the Completion of Part ii; Management Response and Updated Summary of Management's Overall Assessment,' at: <http://siteresources.worldbank.org/NEWS/Resources/IDAControlsManagementResponseFinal.pdf>

¹⁵ Development Policy Forum (2009) 'Europe's Aid Architecture,' at: http://www.friendsofeurope.org/Portals/6/Documents/Reports/DPF_Aid_Architecture_Report-EN-web.pdf.

¹⁶ Kaufmann, D. (2009) 'Aid Effectiveness and Governance: the Good, the bad, and the Ugly,' at: http://www.brookings.edu/opinions/2009/0317_aid_governance_kaufmann.aspx.

¹⁷ The Paris Declaration on Aid Effectiveness is available at: <http://www.oecd.org/dataoecd/11/41/34428351.pdf>. The Accra Agenda for action is available at: <http://www.oecd.org/dataoecd/11/41/34428351.pdf>.

effects in countering civil society perspectives on how donor commitments root corruption.¹⁸ Indeed, there has been criticism that Accra's accountability promotion mechanisms lack teeth.¹⁹ To date, there is no straight, formal acknowledgment by any international development agency that its programs or aid modalities have caused or condoned corruption. Such an acknowledgment could be a very costly piece of truth vis-à-vis domestic constituencies that are not very development aid-friendly.

Clearly, an array of actions items (that are too complex for purposes of this overview) are required to address the issues identified in this paper. They can be grouped into three main policy directions. First, the Accra Agenda needs to be further fine-tuned. The international donor community needs to pay greater attention to and enhance Accra's actual or potential mechanisms for enforcing greater accountability across countries and across donors. Second, mistakes need to be acknowledged, analyzed, and an effective 'lessons learned' mechanism that genuinely incorporates civil society needs to be instituted. Third, more than mere harmonization and alignment are required in order to ensure greater accountability in aid. A greater focus on reducing corruption in recipient countries is a prerequisite of greater accountability in international development assistance.

¹⁸ European Network on Debt and Development (2008) 'Brief Analysis of Final Draft of Accra Agenda for Action,' at: http://www.eurodad.org/uploadedFiles/Whats_New/News/Brief%20analysis%20of%20AAA_25th%20July_Eurodad.doc.

¹⁹ Wathne, C. and Hedger E. (2009) 'Aid Effectiveness through the Recipient Lens' at: <http://www.odi.org.uk/resources/download/2746.pdf>.