

Can aid agencies *really* help combat corruption?

The effect of donor policies and practices in East Africa

Questionnaire 1

Aid is only a fraction of what is required to meet the needs of the poor. Therefore rich countries should increase net flows of development aid.

1. Agree 2. Disagree 3. Don't know

Bank of Tanzania \$35m → \$350m?

Corruption?

Rent-seeking?

Waste?

Inefficiency?

Plunder?



The External Payments Account (EPA)

In September 2006, accountants **Deloitte-Touche** wrote to the governor of the **Bank of Tanzania** (BOT) questioning **\$132 million** that was paid to local companies between May **2005** and March **2006** under the **Commercial Debt Programme** (CDP). Outstanding CDP loans were kept in an **External Payments Account (EPA)**. According to the accountants, BOT officials made payments to a number of **Dar es Salaam**-based companies, most of which had been set up for the sole purpose of plundering the EPA. Under pressure from the **IMF**, the **Minister of Finance** instructed the **Auditor General** to make a full enquiry. Nearly **USD 25 million** were transferred to **Kagoda Agriculture Ltd**, the main beneficiary of the EPA transfers, just before the presidential and parliamentary elections of 2005. In all, Kagoda, part-owned by local businessman **Jeetu Patel**, received more than **USD 40 million** from the BOT. Opposition MPs accuse the ruling party of being involved. BOT officials and EPA recipients, including Patel, were later arrested over the scam. The BOT governor **Daudi Balali** later resigned but denied any involvement.

RATIONALE FOR PROTECTING AID AGAINST CORRUPTION

- **Global concerns with aid effectiveness**
- **Growing critique of non-transparency in aid**
- **Pressure to enforce anti-corruption conventions and legislation**
- **Rapid increase in total aid transfers, major new players**
- **Aid-supported institutional, anti-corruption and good governance reforms**
- **Growth of budget support**

AID AGENCIES' EFFORTS TO COMBAT CORRUPTION

1. INTERNAL

- **Staff integrity reforms**
- **Corruption hotlines**
- **Whistleblower protection**

**WB Department of Institutional Integrity
European Anti-Fraud Office (OLAF)
Etcetera**

AID AGENCIES' EFFORTS TO COMBAT CORRUPTION

2. INTERNATIONAL

- **Global and regional anti-corruption conventions and strategies;**
- **Investigations;**
- **Asset recovery;**
- **Global research and monitoring indicators**

AID AGENCIES' EFFORTS TO COMBAT CORRUPTION

3. AMONG AID RECIPIENTS

Direct state support: anti-corruption efforts

Anti-corruption commissions, ethics commissions, governance projects

Indirect state support:

Internal transparency and accountability

**Judicial, financial, civil service, local government, sectoral reforms;
parliamentary committees; supreme audit; joint reviews**

Non-state actors:

external transparency and accountability

**Core funding, capacity building and project grants to CSOs;
media and private sector support**

Achievements

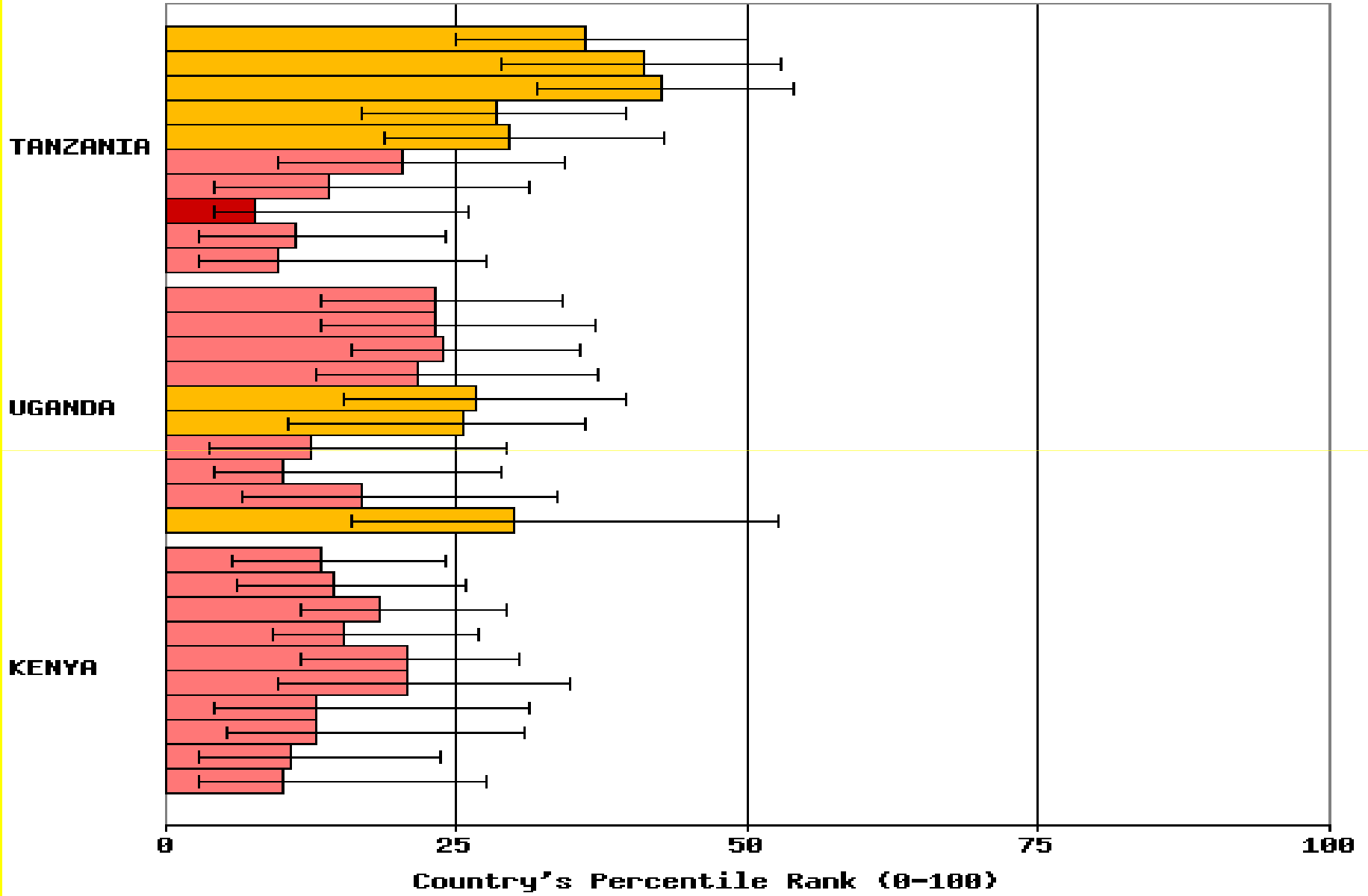
- **Agency staff sanctioned**
- **Companies debarred from tendering**
- **Sanctions on aid recipient governments**
- **Recipient officials sanctioned**
- **Assets recovered**

BUT AT THE SAME TIME...

- **Governance has not improved in Africa**
- **Aid has been growing and diversifying**
- **New forms of rent-seeking/corruption are emerging**
- **There are basic challenges to the ‘good governance’ agenda**

Control of Corruption (2008)

Comparison between 2008,2007,2006,2005,2004,2003,2002,2000,1998,1996 (top-bottom order)



Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2009: Governance Matters VIII: Governance Indicators for 1996-2008

Aid is growing...

NET IDA TRANSFERS TO EAST AFRICA USD PER CAPITA, 1996-2007

	1996	2001	2007
KENYA	22	15	34
UGANDA	34	34	56
TANZANIA	29	36	69
EAST AFRICA	28	28	53

Total IDA USD 2.4 bn

... and diversifying

- **More bilateral and multilateral donors**
- **More sources of soft loans**
- **Global health funds**
- **More INGOs and philanthropies**

Deutscher and Fyson (2008):

- » **280 bilateral donor agencies**
- » **242 multilateral programs**
- » **24 development banks**
- » **40 United Nations agencies**

New forms of corruption are emerging...

- **Political corruption:**
buying office, coalition support and votes
 - **Natural resources plunder**
 - **Allowances culture in government and NGOs**
 - **Global funds and NGOs**
 - **Plundering government budgets through cronyism and state capture**
- *Corruption drives waste and inefficiency***

Aid-dependency in East Africa has risen significantly in the last decade...

- **Global security concerns drive aid transfers**
- **MDGs, PRSP, pro-aid lobbies and electorates**
- ***Budgets* are increasingly aid financed (GBS)**
- **‘Local ownership’ reduces conditions on aid**
- **Project/programme aid and TA have also increased**
- **An almost totally dependent civil society**

Emergence of the *aid-dependent state*

... and aid dependency undermines development (see Cooksey paper, Appendix 1)

1. Aid undermines *institutions* and *accountability*
2. Given lending targets & political commitments to aid goals, donor organisations face a *pressure to spend* which sits uneasily alongside concerns with impact.
3. Aid-financed public spending *crowds out private investment*.
4. Aid inflows make it unnecessary for recipient governments to *take hard decisions* and implement reforms which would otherwise be forced upon them.
5. Aid may contribute to a structure of growth that is *skewed away from the most poverty-reducing economic activities*.
6. *Aid proliferation* and lack of coordination increase *transaction costs* for donors & recipients and reduce the net value of aid.
7. Aid may lead to the *Dutch Disease*.
8. *Short-termism* and *lack of predictability* reduce the effectiveness of aid.
9. Aid designed to incentivise the improvement of country planning, management and monitoring systems often does so in a superficial way, with *little trickle-down to front-line activities*.
10. The kinds of aid that do succeed in reaching down to the grass roots sometimes have *seriously perverse social impacts*.
11. Donor and recipient interest in evaluation is qualified by a *narrow, politically driven, concern* to 'show that we are having an impact', as distinct from learning about how to do better.
12. Insufficient *focus on results, insufficient evaluation, learning and feedback*.

Consequences of growing aid dependency

- Opportunities and incentives for *corruption* and *waste* are enhanced;
- Aid agencies *compete* for *market share*, *undermining* efforts at aid coordination, defragmentation, and harmonisation
- Aid agencies continue to turn a blind eye to evidence of massive corruption, waste and inefficiency
- *Development potential is undermined*

IF AID CAN...

- **Undermine governance**
- **Reduce state capacity**
- **Encourage waste and inefficiency**
- **Substitute for investment**
- **Etcetera**

THEN AID IS PART OF 'THE PROBLEM'

Challenges to the 'good governance' agenda

- **Good governance and anti-corruption policies have *generally failed* in Africa**
- **Globally, good governance has not been a precondition for rapid development (growth+poverty reduction)**
- **Strong arguments against precocious 'democratisation' in weak and divided states**
- **Risk of state failure**

Conclusion

- ‘Foreign aid provided a massive boost to rent-seeking.’ Patrick Chabal (2009:156)
- Protecting aid funds against corruption is undermined by *disbursement imperatives*, the emergence of *new sources of aid* and the consequent *growing competition between agencies* to maintain market share.
- *Aid agencies are also aid dependent*

Questionnaire 2

Aid is only a fraction of what is required to meet the needs of the poor. Therefore rich countries should increase net flows of development aid.

1. Agree 2. Disagree 3. Don't know

Thank you!