

## **CALL FOR EVIDENCE FOR THE BALANCE OF COMPETENCES REVIEW: DEVELOPMENT COOPERATION AND HUMANITARIAN AID REPORT – QUESTIONS –**

**Open date: 6 December 2012 Closing date: 1 March 2013**

### **Impact on the national interest**

*1. What are the comparative advantages or disadvantages in these areas of the UK working through the EU, rather than working independently or through other international organisations?*

I do not have enough relevant experience to give an informed response to this question.

### **Policy making and implementation through parallel competences**

*2. What is the impact of the current system of parallel competences on policy making and implementation in these areas, especially in terms of:*

- a) efficiency, effectiveness and value for money;*
- b) transparency (including checks against fraud and corruption); and*
- c) working with other international partner organisations (e.g. UN, World Bank etc.)?*

My experience mainly limited to implementation and policy making at sector level. So with this in mind:

- a) There is a tendency for DFID to be more attentive on policy making than EU – which is largely a reflection of a more overly bureaucratic EU. Bureaucracy seriously undermines effectiveness of development assistance. Delays in funding to partners such as NGOs and Government institutions not only means assistance not provided when needed but also leads to institutional fatigue and a loss of urgency on both sides. It can also be very wasteful (which changes attitude to development assistance) with overkill in terms of number of hoops required to be completed in preparing proposals but even then after all this input it can be rejected at the last hurdle. This in turn reflects on reputation of donors and again DFID probably on average faring better than EU. Reputation affects influence on policy making.

DFID, EU (and UN) are all guilty of too much bureaucracy and there is a need to strike a better balance to ensure funds provided to the deserving partners in timely manner but with the appropriate checks and balances. The long and heavy road of bureaucracy to finalise agreements tends to lead to a greater focus on disbursement than results despite good intentions. Again on the whole DFID probably slightly better than EU given specific focus on this area and slightly lighter bureaucracy. EU staff also tend to be more like bureaucrats than DFID but both are rather detached (to an extent “ivory towers”) from implementation with government and NGOs. However, Dfid has some advantage over EU in terms of accountability for their development assistance as a figurehead from bilateral donor (as representing one country) is more likely to “stand up and be counted” than one from EU (or UN). Again this relates to reputation as mentioned above.

- b) Tendency for disbursement pressures to derail transparency issues but would probably say less so for DFID than EU because of accountability factor (see above). However, I view the “Zero tolerance to Corruption” policy as counterproductive (see below and attached).
- c) Rather depends on quality of individuals but would say that it does help having an implementation arm as this helps inform policy and provides a reality check.

### **Relationships between development cooperation/humanitarian aid and other policy areas**

*3. How far do EU development policies complement and reinforce policies in areas such as trade, security, stability, human rights, environment, climate change etc., and vice versa?*

For who - donor country or UK? Most Development Partners have pretty similar policies on these issues. However, the most neglected area in my opinion is trade (to help developing country) and how to link development cooperation with overall long term trade strategy. EU and UK tend to focus more on old fashioned nostalgic projects from bygone era (e.g. railway infrastructure) while China (despite its apparent self interest) are way ahead of the game with real deals and investments. Could learn from China but develop policies that have long term interests of developing country at heart e.g. both opening trade access and supporting long term strategies to nurture its development.

### **Future options and challenges**

*4. Bearing in mind the UK's policy objectives and international commitments, how might the UK benefit from the EU taking more or less action in these areas, or from more action being taken at the regional, national or international (e.g. UN, OECD, G20) level – either in addition or as an alternative to action at EU level?*

Probably provides an opportunity to analyse comparative advantage of different agencies in different fields. Difficult to do as so much vested interest but must be able to map out strengths of the various partners but also look at individual countries where we would like to keep a special focus of interest and already have institutional memory.

*5. Are there ways in which the EU could use its existing competence in these areas differently, or in which the competence could be divided differently, that would improve policy making and implementation, especially in terms of:*

- a) efficiency, effectiveness and value for money;*
  - b) transparency (including checks against fraud and corruption); and*
  - c) working with other international partner organisations (e.g. UN, World Bank etc.)?*
- a) As mentioned above EU tends to be bogged down by bureaucracy and has not been able to rid itself of this reputation – so difficult to how it might change in the future. As per question 4, should therefore look at comparative advantage (according to reputation) of various agencies in different fields – EU may well lose out through this process though.
  - b) Policy on corruption should change... Zero tolerance tends to be counterproductive (see below) and donors need to be more transparent about what really goes on.
  - c) As per a) above.

*6. What future challenges or opportunities might the UK face in the areas of development cooperation and humanitarian aid, and what impact might these have on questions of competence and the national interest?*

More focus corruption as a policy area – the more it becomes institutionalisation the greater its adverse impact on equity.

### **General**

*7. Are there any general points on competence you wish to make which are not captured above?*

## **The Aid Business and Corruption:**

### **Introduction:**

The aid business is huge! When we look at our TV screens or newspapers and see the sick or starving babies and adults in desperate plight no-one can deny the need for it and a multi-billion dollar industry has been created.

Most of the aid money comes directly from governments of rich countries and this amounted to a massive \$120 bn in 2008 (averaging 0.47% of GDP). NGO also raise funds directly from individuals and companies but this is minuscule by comparison. Most of this money is used for the long term development of countries less well off than developed or rich countries.

### **The Business**

How do donors reach the intended beneficiaries? Donors usually like to support the delivery of basic services (particularly for the poor) such as education, water supply and sanitation as well as good governance programmes that provide a fairer way of living together.

It is relatively easy to provide funds but not so easy to measure whether these funds are having the desired impact. Local monitoring and evaluation (M&E) systems are usually weak so it is difficult to obtain accurate information on the outcomes (services delivered to the intended beneficiaries) of the support provided. This is particularly true for government programmes and often donors will provide additional technical assistance (TA) to help improve the quality local M&E systems. However, it can become quite costly to obtain good quality information and a balance has to be struck between accurately measuring impacts and supporting measures that provide the right impact.

What tends to happen (the lowest common denominator) is that expenditure itself, rather than the result of expenditure, becomes the crude indicator of “performance”. It is much easier for donors to get accurate information on expenditures than it is on actual outcomes.

To a large extent expenditure has become the main way that development aid is measured. This perspective has also coined the insidious phrase “absorption capacity” which basically means the ability of recipient (local institution) to absorb the funds provided by donors. However, this is based on a very naive assumption that the systems used are robust enough for all “absorbed” funds to produce the required outcomes. This couldn’t be further from the case as explored below.

### **Institutional savvy**

Government institutions are by far the largest providing basic services to the general population. If we want improvements in providing services to be sustained it makes sense to support existing institutions such as government service providers (and national NGOs). These institutions are often termed as weak but in their own way they are actually quite robust though very different from what people in rich countries are used to. Government civil service vary from country to country but typical characteristics include:

- Inflexible institution with archaic rules unsuitable for a modern operation;
- Large but usually inefficient workforce,
- Relatively well educated staff but low salary;
- Little in the way of performance incentives (either in terms of promotion based on staff assessment or other incentives)

It is fairly typical for developing countries to have a relatively large civil service compared to its GDP as it provides employment opportunities (which are often limited) to the educated elite and helps to provide some sort of stability (particularly important for young emerging countries). However, being developing countries means that typically funds for programmes are also limited – that is until the donors come along!

Although official rules and regulations may change little over time, institutions are made up of people and evolve as they learn to adapt to changing environments. Even without additional donor funding there are many “leakages” within government systems as intelligent people find ways to supplement their low salaries via a variety of means. All institutions have systems for accountability so ways of siphoning off funds that do evolve are those the system does not detect. Such practices are informally shared amongst its members and become part of the institutional sub-culture. Usually almost everyone is implicated as it becomes very difficult for any individual to resist peer pressure to conform (it is somehow a necessity for this to work as otherwise anyone not conforming could pose a potential threat in exposing these practices). Although never condoned publicly this is

to some extent is accepted so long it never comes out in the open, is kept to manageable levels and some minimum level of performance is maintained.

The most common way of siphoning off funds is through kick backs from procurement of goods and services from:

- **Contractors for construction works** (such as roads, water supply etc). This is where the big money is. Construction works are usually contracted out and the contractor provides a “kick back” to officials procuring the works.
- **Suppliers of goods and services** (IT equipment, vehicles, garages, office sundries, stationary, hotels providing workshop facilities, consultants, etc).

### Donor “leverage” of corruption

There are a number of reasons to suggest that donor support makes the above situation worse by creating more opportunities to a greater number of officials:

1. The large influx of donor funds to their preferred programmes can often create huge distortions in government budgets but the salary of officials managing these programmes remains the same no matter what size of budget. So the “temptation” to siphon off some of these funds increases especially as a larger budget usually means more work with no reward.
2. Donors are often in direct competition to provide funds for certain programmes and some do not take accountability of funds as seriously as others. Projects that provide greater opportunities to officials to “siphon off funds” will often be strongly supported by both local officials and donor even though actual performance is very weak. Some donors also attempt to influence top officials to favour their programmes by giving special study tours to their own countries.
3. TA support is a common part of all aid and often includes international consultants working directly with local officials to help introduce necessary reforms for more effective/efficient implementation. However, their salaries are often between 10 – 100 times greater than that of the counterparts which obviously makes local officials feel they deserve more for the work they do.
4. Officials involved in the programme design will often insist on certain items to be included so funds are diverted into more “lucrative” budgets lines. Common examples include: **a) workshops** (kick back usually comes from the hotel providing the conference rooms/accommodation and per diems); **b) Study tours and overseas training** (these are a favourite of most officials but selection process often means the wrong people, with little to do with the programme, end up going); **c) Consultants** (External technical expertise is used more and more for specialised services but officials often demand part of their fee ); **d) IT equipment** (it is much easier to get kick backs from the suppliers when technology and prices change so quickly); **e) Vehicles** (usually top of the range 4x4s is the first item on the budget list but managing a increasingly large fleet of vehicles is difficult for most government institutions so the potential for misuse from fuel scam, using vehicles for unofficial business and kick backs from garages for maintenance/repairs is considerable).
5. Performance of donor staff is often measured by disbursement of funds. This disbursement pressure can create a situation whereby the donor pro-actively encourages spending with little attention to whether this leads to the intended impact.

Many donors, particularly the more conscientious ones, have made attempts to address this situation. One obvious department is to improve the procurement procedure but this alone does not eliminate the above practices as the local institutions dealing with the new procedures quickly learn ways to manipulate the system particularly where the private sector is weak as is usually the case in developing countries. Most developing countries have a long history of nepotism with contracts being shared amongst friends and relatives and it is very difficult to break this practice.

Some donors introduce their own more complicated procurement procedures (e.g. World Bank) but this also has its downside as it often leads to long delays of activities which are critical to implementation so essential services end up stuck in a bureaucratic maize. In fact the more canny local institutions use this to their advantage as some sort of bargaining chip over the donor as the longer the delay the greater the tendency for donors to become more lenient on procedures and agreed conditions as disbursement pressure mounts.

More recently “value for money (VfM)” type audits have attracted attention as these attempt to assess amount of funds in comparison to results produced and the effective use (or misuse) of such funds. VfM audits are inherently more difficult to conduct (and more subjective) but may help expose some of the above practices particularly where the local institutions are unused these types of audits have not yet learned how to cover up. VfMs are gradually becoming more popular but the institutions (donors and implementing agencies) are also learning (to some extent) how to “managed” these to ensure that their findings are not too revealing.

### ***Donor Collusion?***

Donors are usually rigorous in conducting routine financial audits rather than VfMs and this reflects a more defensive approach where they wish to demonstrate that their funds have not been obviously used for purposes other than intended and the more obvious scams are kept at bay. However, there are reasons why donors are reluctant to dig too deeply as both donors and local institutions have little to gain and a lot to lose when corruption is exposed. Obviously for the local institution it tarnishes its reputation so others may be less inclined to provide support but, more ironically, there are also negative implications for the donor:

1. On the rare occasions when corruption is publicised the outcome often results in a messy showdown between the donor and receiving institution where funds are suspended until certain remedial actions taken. More often than not this drags out so the donors planned budget will often be re-assigned to other sectors or even other countries. Thus, those responsible for managing the funds are not performing well under the crude measure of disbursement;
2. Corruption is bad publicity for development work so any signs of it does not go down well back home in the donor country and can be used by lobbyist against increasing the amount of funds spent on “aid”.
3. To some extent donors are in competition with each other to provide support so when one donor makes allegations of corruption it may well lead to the recipient country or local

institution taking a less favourable view of that donor and turning to other (sometimes less scrupulous) donors for support.

It is ironic then that the few donors brave enough to investigate deeper and publicise any corrupt practices uncovered are somehow tarnished with the same brush. Some even use such publicity to point fingers and imply that their funds are squeaky clean because of better programme design and adequate checks and balances. However, the truth of the matter is all donors have a very good idea of what really goes on but would this did not come to the surface. If they investigate too deeply they may have to deal the damaging affect on their relations with the local institution and consequent slow down in disbursement not to mention the negative publicity associated with corruption. Even when evidence of corruption comes out during routine accountability checks the tendency is to keep it quiet and make some token agreement for it not to happen again, rather than publically requesting appropriate punishment for those implicated. Thus in an arena where corruption is common place it is actually rare to hear about it so when someone does blow the whistle it becomes big news which actually disguises the fact that it is much much bigger.

There has been a move to the harmonisation and alignment of donor support (which is a positive step) but individual donors still, to a large extent, operate like little kingdoms within developing countries. They bring in money to the country so tend to be treated with some deference which in turns creates a feeling of self importance. As institutions they have also tended to evolve their own internal elaborate procedures for their support programmes. Hence, although donors (and their expensive consultants) may appear very busy with their internal procedures and keeping up to date with the “aid” jargon, they often lack the reality check of how the local institutions they support really operate. Consequently, some degree of collusion has evolved between the institutions of the givers and the receivers as both have more to lose by rocking the boat than by keeping the status quo.

### **What can be done?**

The main point being made here is that corruption is not a rare side issue but an inevitable consequence of the aid business. Some may argue that this is okay so long as it is kept to acceptable levels and the required impact (e.g. services reach the intended beneficiaries) is still achieved. However, the evidence suggests otherwise. There too are many examples of poorly constructed facilities (with too little cement or cheap materials not meeting the specified standards), resistance to transparent local accountability, workshops with no discernable outputs, masses of 4x4 vehicles with inadequate management controls, poor quality or poorly managed consultants, study tours for the wrong people, inappropriate IT equipment. Corruption often provides a “hidden agenda” in the decision making process whereby people seek to protect their own interests by influencing decisions in order to benefit from corruption rather than improve performance in delivering the required impacts. And the people that miss out tend to be the real poor who are most in need but least influential.

Corruption is not of course limited to the aid business and in many developing countries the general public are used to paying bribes in all walks of life (police, doctors, local officials etc). It is difficult for this to be addressed from within when it is ingrained as normal practice within a society but donors as external to this system are actually in a better position (some would say obligated) to help deal with this issue.

Some donors have tried taking the high moral ground and proclaiming that they will not tolerate corruption of any kind in their programmes. However, this only ensures that implementing agencies are more careful to ensure that they employ corrupt practices that are not easily exposed. This tends to either lead to some form of uneasy truce where neither side wants “not to rock the boat” too much in case something does appear or the other extreme when the donor is forced to pull out as it cannot tolerate the reality.

**Time for the donors to get transparent about corruption:**

1. Although much of the information provided here will not be new for people involved in the aid business, the general public (particularly from the donor countries) are less well informed. To some extent this type of information is suppressed and the main message to reach the public is “we are not doing enough and should do more.(to help the poor in developing countries)”. This is often good reasons (i.e. in order to protect the main message) but many believe that donors are in a privileged position and should be more responsible regarding public funds entrusted to them.

**Thus, information about Aid and Corruption should be more widely publicised in both donor and recipient countries in order to encourage greater debate about the issue and help bring about reforms in the aid business.**

2. There is no quick fix solution to corruption. Each country is different so each needs to develop its own unique strategy to address corruption. Donors are in a unique position to help raise the issue but policies such as “zero tolerance to corruption” tend to be counterproductive. What it requires is dedicated long term commitment by both sides but, a bit like alcoholism, the first step to a cure is to admit that there is a problem.

**Thus, under the harmonisation and alignment strategy, donors (and NGOs) should present a united front by accepting that corruption is widespread and open up dialogue with recipient governments in a transparent manner. Once this difficult step is taken then donors can then lend their support to help the local institutions develop and implement their own anti-corruption strategy by strengthening local accountability systems (including value for money audits), transparency and supporting local awareness campaigns.**