

**TI-Canada Symposium**  
**Aid versus Corruption: Getting your dollars to the world's poor**  
**June 10, 2009**

**Raymond Fisman, Lambert Family Professor of Social Enterprise, Columbia Business School, Columbia University, Co-author, *Economic Gangsters: Corruption, Violence and the Poverty of Nations.***

- Outline: not laying out a grand theory
  - Instead, spell out central debate in foreign aid world, centering around corruption
  - Then offer principles that can reduce the opportunity for corruption
- The history of foreign aid has included rustic monuments to good intentions
  - This begs the question: why was money spent this way?
- If we look at effectiveness, sub-Saharan Africa has been a magnet of foreign aid
  - If we look at economic development, this region is not richer now than in 1960
- At the same time, many countries that spurned foreign aid - China, India, the East Asian Tigers – all experienced 'growth miracles'
  - So: did aid help at all? and How can we do better if aid was not applied effectively?
- Sadly, there is no obvious answer
- We can return to the question of whether we should give aid at all? If so, should it be increased or decreased dramatically?
- Dambisa Moyo argues that aid is bad
  - Repackage old argument that aid is responsible for impoverishment
  - That aid enables a culture of dependency and corruption
- The most illuminating reply to this came from an interview with S. Colbert, who asked
  - So what you are saying is that Africans need to pull themselves up by their own bootstraps. Should we not send them bootstraps?
- Her argument does hinge on an important point: corruption
  - Corruption has been explained as a symptom of poverty. (need food, education, if create governing institutions)
- Similarly, William Easterly remains skeptic and argues against aid
- On the other side, of course, are the Bill Gates's and Jeff Sachs's who take a 'Poverty Trap' view
  - Sachs: SSA is stuck in poverty trap, remaining unable to buy food, school, health - remain destitute
  - This, he argues, begets further destitution – thus need an external push
- A big push is expensive – Sachs claims an end to poverty is possible with a 5-fold increase in foreign aid
  - Sachs' Millennium Village Project is his attempt (questionable findings/study)
- Moyo et al would argue that this 5 fold increase would be wasting money 5 times as fast
- Easterly claims corruption is part of the problem of how aid is given by West
  - Like Soviet planners, economists sit at the Kremlin and decide how many x's are needed- Suggest lenders have no clue of what is really needed
- So these are two extreme views put forth by somewhat reasonable people
  - Neither of them are as strict (e.g. stop writing checks vs. send money to corrupt bureaucrats)
- So framing of these arguments obscures the all important question
  - How is aid administered?
- Remain a hopeless pragmatist
  - Budgets of aid will not increase 5 times nor will they be cut to zero

- Don't know how to administer 5x aid budgets
  - There are successful development projects under way (bed nets in Zambia, de-worming in Kenya, etc.)
  - Question remains on how to weed out good vs. bad projects
  - How to ensure less corrupt and less corruptible
- a- Proper evaluation programs
- Weed out what works and what doesn't - evaluate the corruptibility of projects
  - Use aid dollar as way to evaluate approaches that are better or worse at reducing society wide corruption
  - Evaluation is simple in biomedical sciences: clinical trials
    - Intervention and outcome can be reported after double blind study
    - This is only a recent phenomenon that has transformed modern medicine
  - In the development community, need to stop making grand pronouncements and focus on evidence
  - Can similarly apply to social intervention
    - How apply to corruption? Intervention and outcome that can be measured over time
  - Classic anti-corruption intervention: road building in Indonesia
    - 600 villages were separated into three groups and given \$9000 to build a road
      - In group A, village elders got the money, were told they would be audited
      - In group B, village elders got the money but were told to hold townhall meetings
      - In group C, village elders were told nothing
    - Townhall/direct democracy was seen as cure-all for corruption
    - Transparency surveys by engineers revealed that, in 1/3 of control group, corruption occurred
    - In group A with audits, the rate of leakage was about half as large (15%) and group B (community participation) was similar to control, 30%
    - So in context of road building in rural Indonesia, when money given to leaders, community participation did not reduce corruption
  - This evaluation nudges the beliefs that you cannot make vast generalizations
    - Corruption is a series of small steps (not all or none)
  - Have to think of shift in equilibrium - approach development through incrementalist perspective
- b- Approach
- Need incrementalist steps even for wholesale change
  - Visionary leader: Enrique Penalosa (Transformation of Bogota, Colombia)
  - Until early 1990s, Bogota had the highest murder rate of any country in world
    - Complete transformation by 2002 (friendly, safe, peaceful) - lowest crime rate in any big city in Latin America
  - Penalosa was a University professor (math and philosophy) and won with 70% support
    - This was an anti politician with a mandate
    - First act as mayor was hiring theatre students, paint white, act as mimes
    - Mocking people who broke the law
  - Two elements: Society was ripe for change, and the nature of change (everyone do what others do - nature of equilibrium)
    - Public interventions told people: we are changing
    - Needed to transform culture - murder rate drop
  - If want to reduce violence, need to get instruments of violence program

- e.g. bring in illegal handgun, get \$100

#### **Q/A**

**Q:** Public revenue streams/receipts of oil/ mining companies - if lack consistency, transparency, efficiency of macro-approach?

**A:** Corruption and HR in extractive industries is intimately linked – the Toronto Stock Exchange, because of its strong holding of mining companies, is a top culprit of HR abuses. All have also published the WEF pledges. Face same challenge that they lack bite unless get wide, broad participation. Can't have piecemeal participation in something like WEF (undermined i.e., by China). There are also gaps between what is said and what is done.

**Q:** In 'Confessions of an Economic Gangster' tied aid to buying at high western prices – but aren't there certain things that those with Western expertise do more effectively?

**A:** Sure, textile factory, for example. Cannot always ask for incrementally higher microfinance to increase effectiveness. Western companies know foreign wage premium and local microfinanced projects may not be as effective.

**Q:** Could there be an acknowledgement of positive local actors or recognition of positive actions in China, for example?

**A:** There is enormous policy experimentation within China and they learn from their lessons - understand policy evaluation. Allow change to happen like capital market if successful. Also alluding to importance of local knowledge: is there way to aggregate lessons learned (e.g. poverty action lab)?

**Q:** There are a number of ODAs in a range of programs to partnership assistance on ground with clear evaluation that is in public record. Not all aid gets to corrupt officials - there is such a thing as principles of aid effectiveness, and organizations lobby government around aid effectiveness (CIDA). Also, aid has not been decreasing – in Canada, increasing by 8% annually. The focus should not be on increasing the amount donated, but the capacity interested in building - sustainability demands capacity.

**A:** Yes, evaluation work is critically important – e.g. Millennium villages: evaluations are (deliberately?) misleading – for example the tripling of crop yield, sure, but underscore fact that droughts last three years. Need to do cost/benefit tradeoff of these villages when spending \$500 a person.

#### **Jim Keon, President, Canadian Generic Pharmaceutical Association**

- Role of trade associations

- CGPA: generics are now majority industry in Canada, fewer innovative products, not revenue but volume

- CGPA was a founding member of IGPA (international generic pharmaceutical association)

- Role of trade associations: represent interest of business members

- Frame as public policy: what is good for business is good for the people

- Create effective regulatory environment, and long term sustainability of industry (common objectives)

- Failed promise of the Canadian Access to Medicines Regime

- Excessive red tape, case-by-case, drug-by-drug

- Lack of sustainability in system (but there is a bill both before the House and Senate for amendment)

- But it is a private member's bill (generally do not pass and are not supported by the government)

- Drug counterfeiting

- Do not know anything about drug quality – greatest where oversight is weak

- More difficult to infiltrate supply chain of OECD countries (led to anti-counterfeiting trade agreements)

- Focus, however, has shifted from a discussion of public health to one of intellectual property

- Activities conducted by criminals, not legitimate businesses

- Over-enforcement on counterfeiters

- i.e., border measures: products that are legitimate are seized (e.g. Indian products halted by IP lawyers in EU)
- Should be wound down – need to reinforce the role of the WHO and its taskforce IMPACT
- Only way to gain back the support of India, China, Brazil, etc.

**Kel Currah, Chair GCAP (Global Coalition Against Poverty) G8 Working Group**

- Global G8 working group (not to be confused with G8 research group at Munk Centre)
- 150 organizations working informally to lobby G8 on its commitments
- Corruption matters to G8 because aid matters
- Anytime aid is perceived as ineffective, it hurts the goals of the G8
- Now during the financial crisis, aid is more important than ever
  - previously had the food crisis of 2007/08, then energy crisis, and now a financial crisis
- Hit developing countries more strongly (decrease remittances, investment and exports)
- What is the perception of aid and realistic figures? G8 asked for \$50 billion in addition to the \$25 billion requested
  - only received roughly \$25 billion
- Impact on poor: 25% of Mexico's poorest resort to petty crimes and corruption
- NGO: stifle debate on corruption of aid – instead, need to make the case for aid to public and academics
  - The WB refused to use the word 'corruption' even 10 years ago
- Capacity building at NGOs, not just financial issue but human rights (power and politics)
- Dispersed quickly at moment, long term planning: lead to corruption - mean diverted?
- Need for transparency, whistle blowing, info sharing, budget monitoring, local postings
- Must realize corruption happens in all countries
- Donors also have a lot to say about corruption by tying aid
  - e.g. Canada's 'Better Aid' bill - From Malawi to Latin America, we help the poorest of countries that are politically convenient
  - Need to address politically inconvenient countries where aid is also needed
  - Examples of tied aid gone wrong: US food aid
    - Spend \$1.6 billion: bought from US companies, shipped by 5 registered companies, doesn't touch ground, turned into cash, distributed
    - 65% of the \$1.6 billion is lost to transportation alone – this is absolutely wasteful
- Aid has also been used for more than political and industrial support
- Multilateral bodies don't always go through open transparency processes
  - In Cambodia – the WB and IMF loan agreements: bypassed parliamentary process – went to PM office
- Public perception on aid is horribly flawed
  - Asked public how much they think out of 1000 timbits we give to aid
  - From 1000 thought we give away 150 – in fact, we only give away 3
- Government doesn't help
  - Re-announce aid initiatives that are recycling of other tied aid projects
  - e.g. \$10b promised after food crisis was merely reallocated from other aid promises

**Jillian Clare Kohler, Assistant Prof., Department of Pharmacy, University of Toronto**

- Corruption in Pharmaceuticals

- Example of Pharma components in Rajasthan, India
    - After 7 year program, inspection of quality control lab led to an empty facility
    - How is the distribution of foreign aid monitored? Obvious gaps in the system
  - Drugs make sense as an investment: if people are healthy, economies do better – this has been shown
    - At the same time, 1/3 of the world lacks regular access to medicines
    - If get bad medicines, not only lead to therapeutic failure but can also lead to resistance and even death
  - The situation is not improving: demand for medicine exceeds supply while corruption continues
    - Institutions are not sound - lack of regulations, laws, which are also not effectively enforced
  - Transaction among number of players - create opportunity if not sufficient checks and balances put in place
  - Example of counterfeit medicines
    - No real figures, but estimate that annual sale of counterfeits are valued at about \$75 billion globally
    - Lack of transparency even among companies that stand to lose out
  - Pharmaceutical Security Institute - based in Rome
    - Attempt to make it a public undertaking - need for collective, transparent, international action
  - Good Governance and Medicines (of the WHO) - assess Pharma supply system
  - Need for collective action, globally
    - Need to reach for low hanging fruit first (easy victories)
- Q: G8 Collaborative approaches - civil society and corporate sector  
 A: tradeoffs by business - stimulates - push aid?  
 - on trade debates and IP, might diverge but with bigger picture on global summit: promises just don't produce  
 - cooperation with civil society and pharmaceutical companies - business successful of moving business interests, patents  
 - where civil society come forward - want to get good priced medicines to people - but now moving away from that  
 Q: greater transparency of manufacturing process, better ability to judge quality of product  
 A: generics strong globally, drugs only sold when approved

**Rosemary McCarney, President and CEO, Plan International Canada Inc.**

- Development community tends to focus on imperfections, not successes
- Aid does play role of catalyst to changing the status quo and public perceptions on accountability
- With respect to corruption in aid, need to start with zero tolerance and build capacity
  - Cultural sensitivities do not mean turning a blind eye
- Tension between local empowerment and need for global accountability
  - Need to manage this tension: should we err on the side of empowerment over accountability?
- If money goes missing, can do two things: ask questions and send in the auditors or give the community time to work it out and deal with the shortcomings
  - Let the community take ownership of both successes and failures
- There is a cost to accountability - Plan is a large organization that has the ability to hold audits, have binding codes of conduct, strict processes, etc. but these come at a cost.
  - Is there a tolerance by Canadian donors to fund these costs? Where is the trade off point?
- A rights based approach to international development, rights bearers and duty bearers – must also be applied locally

- Can do this with capacity building of local governments, communities, etc - need to educate people on rights
- Encourage solidarity groups (women, health care workers, child workers, etc.) - important for effectiveness
- Statistics of positive impact of development:
  - GNP growing, hunger dropping, democracy on the rise (81 new countries held elections since 1980)
  - Stopping aid because of accounting problems would be irresponsible

**David Zakus, Director, Centre for International Health, University of Toronto**

- How is the government accountable? Needs to go beyond the ballot box
  - Accountability to business sector has been greater than that to development sector
- Need to know source of influence, so we can influence them
- Engagement of Canadians important - global development is never an election issue – but it should be!
  - e.g. sending public CIDA money to multi-laterals who are not accountable to Canadians
- Yes, CIDA may have new policies, but who holds them accountable to these when they change again?
- Physically, Canadians need to be more involved - expatriates, education and training programs...
- Zero tolerance can be difficult when, i.e., doctor is dependent on user-fees for wages
  - what we call corruption is survival for others - sensitive to local context
- Use of management and evaluative frameworks: emphasize results based, logical framework analysis
  - good frameworks, but one of many tools - does not pay attention on process, but output, etc.
- Need to get beyond band aid solutions (juxtaposing South Korea vs. Sudan - then and now)

**David Kirsch, PhD Candidate, Institute of Medical Science, Faculty of Medicine, University of Toronto**

- cynical view of aid: argue it's all about politics, military and trade
- question accountability in relief organizations
- problem when NGOs measure success based on how much money they raised
- propose focus on effectiveness of current aid rather than increasing it
- argue that long term planning/sustainability missed (what happens to these 5 years from now?)
- need to better rig incentives
- figures: if we remove the rise in India, China who have refused aid, would those numbers still stand?
- Q: Organizations are learning to tick the right boxes - do we have universal program evaluations?
  - A: Many organizations – World Bank (WB), EBRD, etc. - have aid effectiveness evaluations group
    - e.g. HAP (humanitarian accountability partnership), citizens/civil society needs to be engaged
- Q: New accountability mechanism, but there is a democratic deficit - open line of communication from top to bottom does not exist
  - Paul (WB):
    - a) accountability mechanisms need to exist (should not fund failing/corrupt projects), need to be more evidence based
    - b) Easy to say there is progress, but not because of retail projects, but good policies in middle income countries (India, China)
    - aid can come in form of money and policy advice - they didn't reject aid, rejected money - wanted the advice
    - c) evaluation: WB makes everything public, making it easy to criticize
    - transparency needs to be adopted by rest of aid community

- programs also need to account for risk management

**James Klotz, Vice Chair, Transparency International Canada, Co-Chair, International Business Transactions Group, Miller Thomson LLP**

- two solitudes of corruption: bleakness but also opportunity
- TI-Canada now a charitable organization (can raise funding, undertake research projects)
- new publication – TI Policy Paper, “Poverty, Aid and Corruption ([http://www.transparency.org/publications/policy\\_positions/pp\\_01\\_2007\\_aid\\_corruption](http://www.transparency.org/publications/policy_positions/pp_01_2007_aid_corruption)) contains list of recommendations - boiled down to two:
  - 1- eliminate taboo of talking about corruption
  - 2- evaluate, measure, assess, audit, etc.
- need to be able to shape public thinking
- focus on Canada and what Canadians can do to eliminate corruption
- overall, TI movement is global, but our focus should remain on Canada

Recommendation 1: David - demand transparency on cost and efficiency of delivery

- e.g. 2/3 of aid goes to transport - badly managed delivery or corruption or both?

Recommendation 2: How do you link aid to the needs of the recipient?

- Need to understand underlying values (e.g. Rosemary's Sri Lankan schoolchildren example)

Recommendation 3: Correcting misunderstandings of public (timbits example)

- history and current engagement of development