

Research Report

MUNISH '12



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Forum: Economic and Social Council

Issue: Measures to combat foreign aid corruption in LEDCs

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Introduction

In this world where natural disaster, civil wars, multinational conflicts, humanitarian disasters, and acts of terrorism are occurring daily foreign aid is becoming more and more prominent. The gap between the more economically developed nations and the less economically developed nations may not be widening now due to the recent economic crisis however it is still extraordinarily obvious the strong difference in the lives of the average citizen in MEDCs compared with their counterparts in LEDCs.

Corruption impedes development. Leaders keep funds for their own personal use. When the governance is corrupt in less economically developed countries this could mean that aid money given to the nation to help improve the lives of the citizens will never reached those that need it.

Definition of Key Terms

Corruption

Corruption is defined by Transparency International as, “the abuse of entrusted power for private gain.”

Less Economically Developed Countries (LEDCs)

Less economically developed countries are the nations which the United Nations recognizes as having the lowest socioeconomic standings. This is typically measured by the human development index (HDI) which is calculated annually by the United Nations Development Program (UNDP). Since 2011 the UNDP has used a new method of combining the three following indexes to receive the final value for their HDI: life expectancy index (LEI), education index (EI), and income index (II). The lowest ranking countries are the less economically developed countries. The UNDP has also developed a HDI which adjust for inequality.

Official Development Assistance (ODA)

Official Development Assistance is the technical term used by the United Nations for foreign aid. As defined by the International Monetary Fund (IMF), “flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective.” Bilateral ODA is when the ODA flows from a donor government directly to the developing country. ODA may also flow from donor government to multilateral institutions such as charity and non-governmental organizations. The multilateral institutions will then use the funds to promote the development of LEDCs.

General Overview

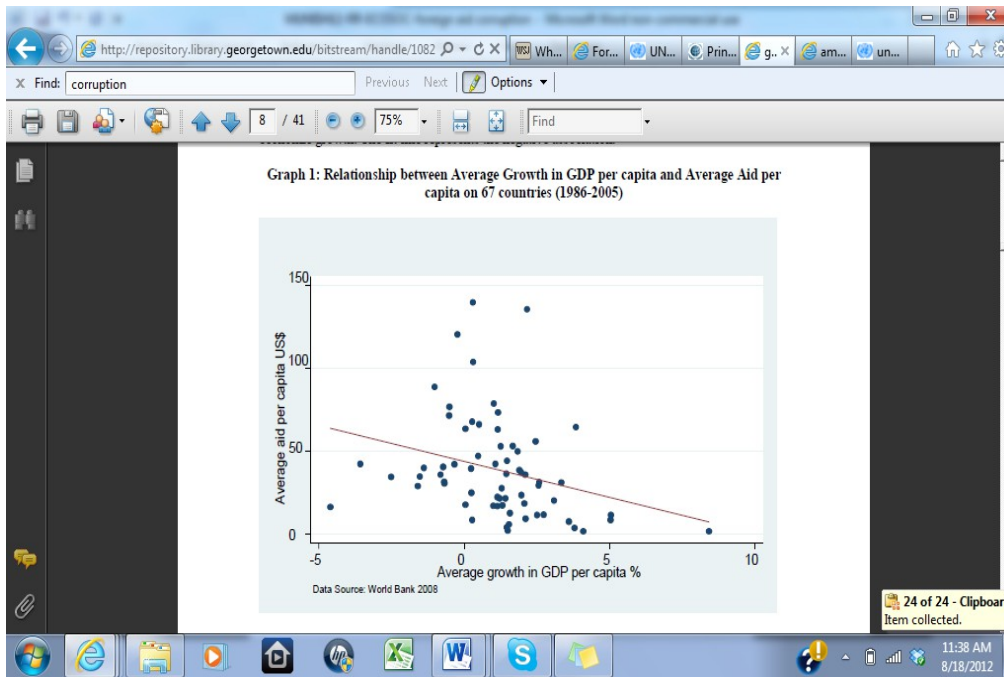
The History of Foreign Aid

The history of foreign aid began after the Second World War. Aid was given to rebuild the war stricken areas and their economies. In the 1950s the Soviet Union and the United States of America began to distribute aid for different reasons, to spread their political beliefs and to strengthen the military capacity of their allies. After the Cold War, 1989, aid became focused on what it is today, economic growth and social development of developing countries (LEDCs). Foreign aid after the cold war also saw a transition from bilateral ODA (directly from country to country) to multilateral ODA (from country to country through multilateral institutions. After the event of the 11th of September the United States of America has also been provide aid to its new allies in the fight against terrorism.

The Effects of Foreign Aid on Economic Growth

Some economists argue that foreign aid does not have a positive effect on economic growth. Economist Peter Bauer says that foreign aid is not necessary to take people out of poverty. He goes on to say that foreign aid promotes dependence on others and it encourages the idea that external help is needed to emerge from poverty instead of people’s own motivation.

Below is a graph that compares economic growth and average annually ODA received for 67 LEDCs. From the graph there is a noticeable trend; when the ODA of a country is larger economic growth is smaller.



Relationship between Average Growth in GDP per capita and Average Aid per capita in 67 countries: data from 1986 to 2005

The Corruption of Humanitarian Assistance

The corruption of humanitarian assistance is causes the most human suffering of any corruption. The money and supplies given to nations when they are faced with a humanitarian disaster is meant to help those that without it would have an extremely large chance of death. In an emergency situation there is typically a damaged economy and general confusion. When large amounts of money is given in the form of aid it is an opportune moment for corrupt people to take part of the funds for their own personal gain because there is a limited structure and monitoring of where all the funding is going. Many supplies such as medicine, food, and water, can be taken and sold on the black market in this desperate time of need for personal gain. Those that have access to the goods and services first, those in power, gain the most out of the aid and leave those that need it most still suffering.

Monterrey Consensus and Millennium Development Goals

In 2002 the Monterrey Consensus was created. In chapter II specifically paragraph 40 it discusses aid effectiveness. It highlights the importance of a partnership between recipient country of aid and the donor which is based on the fact that the recipient country has the ownership over policy making and development plans. It also reminds that good governance, a government without corruption is necessary for ODA to be used effectively. The Millennium Development Goals (MDGs) as well as chapter IV of the Monterrey Consensus call for developed countries to make an effort to increase ODA to 0.7% of their gross national product (GNP). In order for this increase in ODA to be effective nations and organizations need to focus on improving developmental strategies and policies to prevent corruption.

The Paris Declaration on Aid Effectiveness

The Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) met in 2005 to agree upon the Paris Declaration on Aid Effectiveness. The Paris Declaration was a very important step which reformed how aid was managed and delivered and to improve the effectiveness of aid. It focused on five aspects; partnership, alignment, harmonization, management, and mutual accountability.

- Partnership: Developing countries have leadership over policies and development plans.
- Alignment: Developed countries base their bilateral ODA partners on their development organizations, procedures, and strategies.
- Harmonization: Developed nations should increase transparency and harmonization with creditors.
- Management: Improved management of resources and more effective decision-making for results.
- Mutual accountability: Both the donor and recipient of ODA are accountable for the developmental result.

In September 2008 a conference, Third High-level Forum on Aid Effectiveness, was held in Accra Ghana. At this conference governments, multilateral institutions, and other organization discussed with the OECD DAC reviewed the progress that had been made to implement the Paris Declaration of 2005. It will evaluate what actions need to be taken to further improve the implementation of the Paris Declaration. This led to the creation of the Accra Agenda for Action which proposes in detail action to be taken to fully implement the Paris Declaration.

Major Parties Involved and Their Views

Organization for Economic Cooperation and Development (OECD)

The Organization for Economic Cooperation and Development is an international organization which focuses on assisting countries with the issues they face in today's globalized economy. They focus on social, economic, and governance issues. They aim to improve the social and economic conditions of people around the world. One of their objectives is to diminish corruption in the public sector because it is a major reason of slow economic growth. They collect data from countries which allows them to assess the level of corruption in the nation and how to best fight this corruption and make sure ODA is not going into the pockets of corrupt governance officials. The Development Assistance Committee (DAC) of the OECD

The United States of America

According to the Organization for Economic Cooperation and Development (OECD) the United States of America (USA) contributed \$28.7 billion annually to ODA. This is 0.2% of the USA's annual gross domestic product (GDP). The Millennium Development Goals (MDGs) call nations to contribute 0.7% of their GDP to ODA. The USA has not shown progress to increase their ODA. The United States is also known for increasing bilateral ODA to nations that agree to cooperate with the fight against terrorism. For example after the 9/11 attacks the USA has given Pakistan \$11 billion annually, \$3 billion for socioeconomic development and \$8 billion for cooperating in the fight against terrorism and allowing the USA to gather intelligence in Pakistan.

Transparency International

Transparency International is an organization committed to making the world free of corruption from governments to businesses. It was created in 1993 and is now in more than 100 countries. So far they have been quite successful in creating international anti-corruption conventions, persecuted corrupt leader and seizing their riches they gained through corruption, and increasing companies' accountability for their action abroad as well as at their home country. Transparency International creates annual reports, monitors corruptions in nations, promotes policy making against corrupts, and most importantly gives advice on the steps that need to be taken to tackle corruption.

Timeline of Events

Foreign aid is a new phenomenon since the Second World War which has seen much development. As some nations have developed through time some nations have become trapped in poverty. History has seen the world awareness of corruption increase and with this awareness countries have been called to take action to assist the development of nations instead of merely giving them founding. Below is a timeline of key event and documents that have had an effect to combat foreign aid corruption.

Date	Description of event
May, 1996	Recommendation on Anti-Corruption Proposals for Aid-Funded Procurement
2000	The Millennium Development Goals call for developed nations to make an attempt to increase ODA to 0.7% GNP by 2015
2002	The Monterrey Consensus calls for improved aid effectiveness in paragraph 40 of chapter II
2003	Development Assistance Committee publishes Principles for Donor Action in Anti-Corruption
March, 2005	The Paris Declaration on Aid Effectiveness

UN involvement, Relevant Resolutions, Treaties and Events

- United Nations Convention Against Corruption, 2004
- The Paris Declaration on Aid Effectiveness, 2005
- Recommendation on Anti-Corruption Proposals for Aid-Funded Procurement, May 1996

Evaluation of Previous Attempts to Resolve the Issue

The United Nations Convention Against Corruption is the main document currently fighting corruption. The convention against corruption tackles corruption in general but not directly official development assistance, foreign aid. Many countries, most notably Japan, have re-designed their ODA charter. The re-designed ODA charters create a more effective and efficient system to give aid both long-term and in case of an emergency. One of the methods is tackling corruption however this still seems to be a weak point in the area at which the ODA is sent, the LEDCs. The LEDCs are in charge of creating the plans for the developmental projects so that they are more self-sufficient but this also means the donors have less control over the corruption in the LEDCs.

One of the major methods to tackle this local corruption is the creation of unanimous corruption complaint points where people can report corruption without fear. Pictured below is a complaint box in India for this purpose. This has proven effective in the countries in which they have been set up. In community situations a physical box placed in a secure place is more effective than a hot line being opened so those with reports can call.



A complaint box for corruption placed in India

At the base of all anti-corruption measures is a judicial, law, system which is corrupt. If the judicial system is corrupt then the fundamental human right of having a fair trial is broken. Having corrupt officials convicted by the local judicial system is also important but having a corrupt judicial system will make sure that will never happen. There has been much progress on this especially in the Convention Against Corruption because it is seen as a base to all corruption issues.

Possible Solutions

What are possible measures to combat foreign aid corruption in LEDCs? This is the important question in this issue. What actions can the developed nations, the LEDCs themselves, and supporting organizations take to prevent foreign aid corruption?

This corruption aid for humanitarian assistance is extremely shocking especially in emergency situation which is the reason it is the most 'tabooed'. Aid agency and governments do not openly discuss corruption of the supplies for humanitarian aid and therefore there has been less done to combat this specific type of foreign aid corruption. The first step to combating this is to analyze the risk of the different parts of the chain. This analysis could be done to decide the best path for aid to take if there is an emergency and how best to train staff. To get the communities themselves involved is also extremely important. If the community knows who is to get aid and how much of the supplies each person gets then it would be much easier to monitor if any supplies go missing. Do to the fact that the people that are corrupt typically have some sort of power in the community confidential complaint system are extremely important so that people can feel safe when reporting an incident of corruption.

A very important step is the sharing of information. An increase of transparency in the path of ODA would assist this. An excellent way to share information is through organizations such as

Transparency International whose goal is to decrease corruption and do not have any national ties. Nations and aid agencies could report to organizations such as Transparency International. Organizations such as Transparency International could then create reports summarizing the information they gathered from the nations. It is vital however that these reports also contain information gathered through a third party so as to remain as unbiased as possible. One important aspect of these reports is the identification of loopholes that could be used for corruption. The reports should suggest viable methods of combating corruption for a variety of circumstances are world faces currently.

The UNODC along with the support of the Austrian government are attempting to establish an International Anti-Corruption Academy. It may be interesting to support this academy and assign any details that have yet to be addressed by others organizations to the Academy.

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Appendices

- I The Paris Declaration on Aid Effectiveness
And
The Accra Agenda for Action

www.oecd.org/dataoecd/30/63/43911948.pdf

- II The Evaluation of The Paris Declaration

http://www.evropa.gov.rs/Documents/Home/DACU/12/129/130/The%20Evaluation%20of%20the%20Paris%20Declaration_EN.pdf

- III The Re-shaping of Japan's Official Development Assistance (ODA) Charter, a look at how ODA can be changed to prevent corruption

<http://www.mofa.go.jp/policy/oda/reform/paper0411.pdf>

- IV Recommendation on Anti-Corruption Proposals for Aid-Funded Procurement: Follow-up report

<http://www.oecd.org/daf/briberyininternationalbusiness/recommendationonanti-corruptionproposalsforaid-fundedprocurementfollow-upreport.htm>

- V United Nations Convention Against Corruption

http://www.unodc.org/documents/treaties/UNCAC/Publications/Convention/08-50026_E.pdf