Corruption of Foreign Aid

Why development aid has failed in Sub-Saharan Africa
Overview

Aid Based Development Model
- Donors and recipients
- Aid distribution
- How aid leads to corruption
- Corruption and the perpetuation of poverty
- Hidden costs of aid dependency
- A case study: Chad
- Politically exposed persons and the role of western banks
- Possible solutions
Aid Based Development Model

Donors & Recipients:

- Bilateral Donors-
  - MCC, USAID
- Multilateral Donors-
  - World Bank, IMF,
  - UNDP MDGs
- Recipients countries: Sub-Saharan Africa

Distribution:

- Budget Support
- Loans/Grants
- Debt relief
- Infrastructure projects
- Distribution among population
- Military intervention
- Humanitarian and disaster relief
- Food aid
**Forms of Corruption**

- Patronage Politics
- Cronyism
- Over consumption by the elite class
- Transfer of public funds to non-existent companies
- Displaced Persons
- Public Procurement
- Money redirected into foreign banks
- Resell food aid
Foreign Aid and the Perpetuation of Poverty

- Incentive structure is detrimental
- Leads to ethnic violence
  - Government benefits off of aid workers
  - Natural resource revenue is more easily stolen in an unstable state
  - Dutch disease - large capital inflows resulting from foreign aid or commodity windfalls inflates the local currency and causes for uncompetitive exports
Hidden Costs

- Aid dependency
- Lack of Foreign Direct Investment
  - In 2006, 1.2 trillion global flows of FDI
    - 400 billion went to developing countries
    - 16 billion went into Sub-Saharan Africa
- Conditionality and tied-aid
- Taxes are often not collected - populations forfeits their say in politics
- Spillover effects - inflation, public infrastructure collapse, civil strife, displaced persons
A Case Study: Chad

Agreement

- In 2000, a $4.2 billion “Revenue Management Project” headed by the World Bank and Exxon Mobil to build a 650 mile pipeline from Chad to the coast
- 70% of revenue would go toward poverty reduction programs
- 10% of revenue would go toward “Future Generations Fund”
- “International Advisor Group” in London would monitor the funds

Once the oil started to flow...

- World Bank lost leverage over Chad’s government
- Idriss Deby (former rebel warlord) stopped cooperating by 2005 rewrote the constitution to serve indefinitely as President.
- Most of the oil windfall was stolen but it’s impossible to say how much
- Revenue perpetuated conflict w/ rebels in the north and east of Chad
- Still no electricity outside the capital and living conditions are as bad as ever
The Role of Western Banks

- Politically exposed persons
  - Foreign aid & natural resource revenue is siphoned into foreign banks
  - Bank account set up under the head of state, his/her family, state owned companies,

- Western Banks (Riggs, Citi, HSBC)
  - Due diligence: who the customer is and where their funds are coming from
  - Banks can legally take dirty money if they file a report on a suspicious customer
  - Facilitate corruption and state looting
  - Equatorial Guinea
The way forward..

- Strengthen government institutions
- Civilian involvement
- Knowledge of domestic politics
- Sanction Western Banks
- Increase Foreign Direct Investment


William Easterly, *The White Man’s Burden: Why The West’s Efforts To Aid The Rest Have Done So Much Ill And So Little Good* The Penguin Press, 2006
