

# SUBSCRIBE NOW AND RECEIVE A FREE BOOK!



“*The Independent Review* does not accept pronouncements of government officials nor the conventional wisdom at face value.”

—**JOHN R. MACARTHUR**, Publisher, *Harper’s*

“*The Independent Review* is excellent.”

—**GARY BECKER**, Nobel Laureate in Economic Sciences

Subscribe to [\*The Independent Review\*](#) and receive a free book of your choice such as *Liberty in Peril: Democracy and Power in American History*, by Randall G. Holcombe.

Thought-provoking and educational, [\*The Independent Review\*](#) is blazing the way toward informed debate. This quarterly journal offers leading-edge insights on today’s most critical issues in economics, healthcare, education, the environment, energy, defense, law, history, political science, philosophy, and sociology.

Student? Educator? Journalist? Business or civic leader? Engaged citizen? This journal is for YOU!



Order today for more **FREE** book options

**SUBSCRIBE**

*The Independent Review* is now available digitally on mobile devices and tablets via the Apple/Android App Stores and Magzter. Subscriptions and single issues start at \$2.99. [Learn More.](#)



---

REFLECTIONS

---

Watchman, Who  
Watches Thee?  
*Donors and Corruption  
in Less-Developed Countries*

—♦—  
SALIM RASHID

The status of the professional economist, political scientist, or other social scientist is deeply committed, by training and by the need for security and advancement, to the official concepts, problems, and theoretical structure of his science.

—Robert S. Lynd, quote of the day at  
*Econ Journal Watch*, April XX, 2005

**T**he recent oil-for-food scandal at the United Nations (UN) brought to light several interesting facts. We see that the donor agencies entrusted with implementing humanitarian goals can be subject to considerable mismanagement and that they can vigorously deny any responsibility and adamantly refuse outsiders an opportunity to examine their books. Even the U.S. Senate was refused a look at the UN's accounts.<sup>1</sup> Leaks to the news media eventually forced the UN to disclose some relevant information. Is this case an isolated one, or does it indicate a deeper malaise in the world of humanitarian acts?

---

Salim Rashid is a professor of economics at the University of Illinois.

1. As reported by Fox News, Special Report with Brit Hume, November 12, 2004.

*The Independent Review*, v. X, n. 2, Fall 2005, ISSN 1086-1653, Copyright © 2005, pp. 411-418.

The economic approach to understanding society is based on examination of the consequences of self-interest, and this approach naturally makes us skeptical about altruistic motives. Perhaps the most important problem facing economists is world poverty. In this article, I turn a skeptical eye on the individuals who specialize in finding solutions to this all-important problem. Considering economic effectiveness alone, many observers, including the former research director of the International Monetary Fund (IMF), Kenneth Rogoff, have questioned the value of development-aid donors.<sup>2</sup> I begin my examination by presenting some general grounds for caution about altruism and then provide a concrete example from Bangladesh. My work has focused on the donor agencies, but to my sorrow I recently encountered an exposé—complete with names and dates—of corruption and wrongdoing by the medical scientists at the International Centre for Diarrhoeal Disease Research, Bangladesh, an internationally famed research center (Ali 2004). Perhaps the rot in the donor culture has spread.

The IMF and the Asian Development Bank (ADB) employ more than one thousand economists at salaries that range from a starting average of \$90,000 to approximately \$300,000 at the highest levels.<sup>3</sup> The World Bank has a similar scale. The salaries are tax exempt, so we can add another 30 percent to these numbers to get the approximate remuneration equivalent to a salary subject to taxation. I was unable to find any figures for the number of economists the World Bank employs, but if the bank's visibility is any guide, the number may be thrice as many as the IMF employs. Let us ignore the UN altogether—we already have enough examples to make my point. The total number of employees who are considered to be economists in these three donor agencies comes to some five thousand individuals. It is not inaccurate to say that these economists owe their living to the existence of poverty. *If* poverty is cured, where will so many bright, pricey professionals find new jobs? For all these individuals, there *is* an implicit tension between self-interest and altruism. “Poverty” has translated into considerable comfort for some people.<sup>4</sup>

Why should we be skeptical about the actions of the major donors, such as the United Nations Development Program (UNDP) and the World Bank? The simplest reason is that these organizations refuse to open themselves to public scrutiny. When sufficient leverage has succeeded in opening their books, grounds for concern have been obvious, and not just in the oil-for-food program in Iraq. Under the headline “World Bank Accounting Allegations Are Verified,” a communiqué from the Joint Economic Committee tells us: “The Joint Economic Committee (JEC) has obtained evidence documenting allegations of accounting irregularities at the World Bank in

---

2. See <http://www.house.gov/jec/press/2004/09-09-04.htm>.

3. I tried to get more disaggregated data for both the ADB and the World Bank, but I had no success. In looking at the IMF's Web site, I saw several positions advertised, but the salaries for the jobs advertised were not listed, and no names or addresses were given for queries.

4. **Editor's note:** During President Lyndon Baines Johnson's so-called war on poverty, the bureaucrats, contractors, and other interested parties commonly observed, “there's a lot of money in poverty.”

the 1990s, Chairman Jim Saxton said today. The new information corroborates allegations of accounting errors amounting to tens of millions of dollars made by former World Bank employees in interviews with committee staff.”<sup>5</sup>

Why will those who preach accountability and transparency to the whole world not open their own books? Leading by example has always been the most effective form of leadership. What ails the donors that they will not avail themselves of the chance to demonstrate the value of what they preach? Their refusal to take the obviously desirable action allows critics to suggest that more light be let in—sunshine is a good disinfectant. Nothing sinister need be at stake. Simple incompetence, bureaucratic inertia, and some officials’ self-interest suffice as explanations in many cases. But at what cost to the less-developed countries (LDCs)?

One might think that economists who work on LDCs would expose such dubious behavior. Consider, however, the following fact: Daniel B. Klein (2004) has shown that some 80 percent of the authors whose articles are published in the *Journal of Development Economics* have consultancies with donor organizations. Self-interest may bias economists against exposure of donors’ misbehavior. If economists believe in self-interest at all, consistency dictates that they give this claim—even though it is pointed at them—more weight. And if arguing from self-interest in such cases is credible, we should be all the more skeptical about supporting the institutional reforms that originate from the donor organizations.

General arguments may suggest tendencies toward donor misbehavior, but one needs specific examples to give force to claims of actual misbehavior. Much of what I have to say here arises from my work as editor of the book *Rotting from the Head: Donors and LDC Corruption* (2004). I conducted an unsatisfactory correspondence with the World Bank in an attempt to clarify issues discussed in the book, yet only by chance after the book was published did I find out about the bank’s inspection panel for dealing with grievances. So I asked a member of this panel, Werner Kiene, at a seminar at the University of Illinois in March 2005, whether the World Bank officials with whom I had corresponded were not obligated to inform me of the existence of such a review mechanism. To my surprise, he said they were under no obligation to do so.

The fact of corruption in LDCs has been widely publicized, often by the donor agencies, and many bureaucrats’ lack of competence in these countries is also plain to those who have dealt with them. This article is not an attempt to minimize or exculpate the actions of government officials in the LDCs. One has much sympathy with the view that because these officials are the primary parties involved in any official activity in a country, their virtues (or vices) will be decisive. This recognition, however, in no way justifies our turning a blind eye to the donors’ actions. How far are the difficulties in LDCs compounded by the actions of agencies that have the wealth and intelligence to know better? My claim is: *Donors compromise the bureaucracy in particular and civil society in general.*

---

5. See <http://www.house.gov/jec/press/2005/03-23-05.htm>.

We have to ask: Who or what party is most prone to using his or its power to affect the bureaucracy in an LDC? One vitally interested party is sufficiently obvious. A U.S. Agency for International Development (USAID) brochure states, “The principal beneficiary of American foreign assistance programs has always been the United States. Close to 80 percent of USAID’s contracts and grants flow back to American firms” (Berrios 2000, 53). Such service to U.S. foreign policy by benign means is part of the agency’s avowed aim, however, and is open to inspection. Indeed, of all donors, USAID is said to have the most open and accountable procedures. To a lesser extent, the same is true of all aid given by national entities because the agencies are eventually responsible to their own citizenry. Because ordinary people, unlike politicians, vote for foreign aid altruistically, the most likely violators of trust are those who have no direct constituency to answer to—the IMF, the World Bank, and the UNDP, the three most powerful, influential, and coordinated voices in the donor cartel.

Evidence of impropriety is often inaccessible because, among other things, it is covered by secrecy agreements. (For an example of someone with a conscience who felt stifled by such regulations, see Griffiths 2003.) More important, the rules are written so that anticipated deeds can be “legalized.” As added insurance, even the press and the audit office can be funded, so that the usual agencies of discovery become reluctant to investigate the donors. In Bangladesh, for example, the Federation of Environmental Journalists was being funded by the project that the federation was auditing. So what incentive did those journalists have to be critical of such a project?

Informal conversations will reveal that donor organizations’ frequently misdirected activities and some of their pernicious activities as well are actually circulated in the “gossip” columns. What is lacking, however, is clear and convincing documentation of donor misbehavior.

To obtain such unambiguous evidence—assuming that the hypothesis of “donor dictation” is correct—we need documents showing how the donors demand that an LDC engage in certain actions that the LDC itself is reluctant to carry out. Who has access to such documents? Only a handful of people in the developing world. Not only are the potential witnesses few, but almost all can prove their case only by referring to or using documents bound by secrecy agreements. Some special circumstance, such as a court case, is necessary even to produce the relevant evidence. If the donors are thorough and farsighted, they will have enlisted some sections of civil society, such as the media and certain politicians, in their cause.

In view of the donors’ reach and influence, how can anyone learn about any malfeasance? One is helped in part by the fact that all human action is subject to error—people change and events alter perspectives. More important, perhaps, luck matters. Such happenstance seems to have occurred in Bangladesh when three separate cases were filed against donor organizations in 2001: two against the UNDP, one on policy issues and one on personnel; and one against the World Bank, which involved a mixture of personnel and general issues. Because of these court cases, documents that clearly appear to indict the donors have been obtained. Donor culpability is examined

at length in the book *Rotting from the Head* (Rashid 2004), with the focus on a case study involving UNDP's largest project for sustainable environmental development. The World Bank, too, was a moving party in this project. Using primary documents released by judicial proceedings, the book shows that multilateral aid agencies are frequently and actively complicit in furthering corruption and misgovernance in LDCs.

All organizations make mistakes, and one's first recourse should be to these organizations' internal auditors. This recourse was taken, and were it not for the fact that the Auditors General at the UNDP and the World Bank seem to feel that they had best ignore any complaints, one might have faith in internal means of redress for grievances. One might still be forgiving if the two organizations were not in the habit of disseminating such a mass of syrupy material on "good government," "governance and accountability," "transparency," and so forth. Those who preach morality so insistently also acquire the responsibility of setting a good example.

That foreign aid is not producing the effect the general public expects from it has been obvious for a long time. Few of the reasons for its failure are entirely new; they just keep reappearing in new combinations. Because my focus here is on Bangladesh, I suggest that for a more detailed picture of the widespread nature of the problem readers refer to *A Cautionary Tale* (Conroy, Murray, and Rosset 1996), a book whose subtitle is *Failed U.S. Development Policy in Central America*. This book's most important revelations describe in detail the creation of a parallel state apparatus to enforce the new privatization. Domestic laws were changed to allow the new capitalists free sway, and there is evidence of clear illegality by some members of the new coterie.

Many studies of corruption exist, but most avoid displaying a framework within which to embed the issue. A few propositions that guide my own thoughts are as follows:

- Market economies require strong, independent public bureaucracies.
- Social arrangements are hierarchical. If the top rots, the bottom must follow suit (hence the title of the book *Rotting from the Head*, a description of what foreign aid has done to the LDCs).
- The effect of foreign aid is to make the domestic bureaucracies "porous" and amenable to outside influence; as such, they become incapable of administering the laws and rules that is their *raison d'être*.

To understand why the bureaucracy is fundamental to the economy, we must remember that all economic transactions take place in the shade of law. Without this protection, no appropriation and no accumulation take place. If those who are to enforce the law are also given to self-interest, will justice not be bought and sold? In other words, if the economist's mentality extends indefinitely, private property will become insecure and the economy stagnate. The market needs a group of people who are to enforce the laws of the market, while being above its lure. The judiciary, the

police, and the administration are the people involved, and it is convenient to refer to them collectively as the bureaucracy. At the risk of seeming to be perverse, I believe it is possible to claim, in the sense specified earlier, that the bureaucracy is the backbone of the market.

Bureaucracies are hierarchies, and they are largely self-policing. Because they are arranged as pyramids, one can make anything flow from the top. If what flows is bad, it cannot be effectively stopped because those who direct the police are the very people who are incriminated. If one wishes to make the system falter, one need only compromise the integrity of the few who form the pyramid's apex. According to the *Bangladesh Statistical Pocketbook* for 1998, almost one million employees are in the pay of various bureaucratic offices and autonomous bodies. Of these, some eighty-three thousand are Class I officers; and of these only about fifty matter greatly in directing the flow of disposable resources. Donors who wish to exert active pressure have a very powerful potential lever if they can compromise these few.

There is a great advantage in getting to those at the top. Very little needs to be explicit. Think of meeting a friend in a new city. If you had no meeting location prearranged, what would you do? Assume that you are meeting someone intelligent, and you ask yourself: How would he think? Soon you will settle on a central place, such as a train or bus station, and wait there till desire and intelligence lead your friend to the same place. In much the same way, even if nothing explicit is said, one can arrange a meeting of minds with someone who works in a donor organization or has connections to it. Is it a consultancy in the UN or the UNDP or the IMF? Time and circumstance will decide—all one needs is the equivalent of a wink and a nod. Although this approach serves to form an invisible cement at the highest levels, one has to be more careful in executing plans that require written documents. The problem is greatly simplified once the higher bureaucrats have become pliable. One writes—the formal word is *negotiates*—the rules so that one's prearranged wishes become legalized.

The ratio of foreign aid to the gross domestic product (GDP) of Bangladesh is just more than 2 percent. If a percentage as small as this is enough to give the donors such a determining influence over a country's political economy, consider the potential extent of worldwide influence that aid brings to donor organizations. We work crudely, not pretending to be exact, but only to give ourselves an order of magnitude. Some countries, such as Argentina, which receives virtually no aid, are nonetheless very much at the donors' doors; and some countries that get more than the 2 percent (compared to GDP) may well have a resolute and independent bureaucracy. Keeping these caveats in mind, we will find that according to the World Development Indicators, some sixty countries had a ratio of 2 percent donor aid to GDP or more in 1995 or 2000. The use of the 1995 figure is justifiable because it is taken as a presumption that once the bureaucracy has been permeated, less effort is required to keep the bureaucrats malleable. If one believes, as I do, that sustained growth can be expected to occur only when a country takes charge of its own affairs, and if the donors behave elsewhere as they do in Bangladesh, this worldwide reliance on aid is a depressing

fact. To those who believe that things are proceeding satisfactorily in the Bangladesh bureaucracy, I would ask why in 1994–95 only Taka 1,705 of aid was disbursed from a total commitment of Taka 7,062, and in 1995–96 the corresponding estimate was Taka 1,850 out of a possible Taka 7,182.<sup>6</sup> Is there actually an inability to spend money?

The roots of donor organizations' power run deep, and everyone involved recognizes its strength and capacity for malice. What is striking about the UNDP's sustainable environmental development project episode is that the newspapers were silent about any corrective measures for the corruption. When the audit became public knowledge, did the press splash its findings on the front page and then follow up on this issue? No. Can this press reluctance to be fair be unconnected with fact that one of the parties found at fault was the Forum of Environmental Journalists of Bangladesh? The silence of other foreign donors and of the excluded local nongovernmental organizations (NGOs) is no less revealing. A culture of intimidation is at work. Consider the lack of interest by a watchdog such as Transparency International Bangladesh (TIB) in donor organizations' possible malfeasance. In a report that was well received by the press, TIB showed that the loss due to domestic corruption exceeded the entire development budget of the Bangladesh government. Although TIB provided such penetrating accounts of domestic corruption, what has it done about the foreigners in Bangladesh? Why was there no study of or even any public curiosity on the part of TIB about donor transparency? Why was opaqueness at the UNDP and the World Bank beyond TIB's vision? Until some courageous Bangladeshis came forth and sued the UNDP and the World Bank, there was no judicial recourse for donor vindictiveness. It is an understatement to say that the donors move about like icebergs and that one sees only one-eleventh of the real danger they pose.

It is sadly ironic that the very poverty that induces aid to come to an LDC is an important reason why the aid can turn ineffectual. The bureaucracy in the LDC can be made porous and amenable to foreign directives; the press can be persuaded to avert its eyes; and the agents of civil society, such as the NGOs, can be made to see that it is in their self-interest to acquiesce to such informal colonialism.

## References

- Ali, Mahmood. 2004. What Is for the ICDDR,B? Available at: <http://www.mehbartar.org/2004/july/dvlp.html#icddrb>.
- Berrios, Ruben. 2000. *Contracting for Development: The Role of For-Profit Contractors in U.S. Foreign Development Assistance*. New York: Praeger.
- Conroy, Michael E., Douglas L. Murray, and Peter M. Rosset. 1996. *A Cautionary Tale: Failed U.S. Development Policy in Central America*. Boulder, Colo.: Lynne Rienner.

---

6. Data from the figures given to the Bangladesh Development Forum, 2002–2003.



Griffiths, Peter. 2003. *The Economist's Tale: A Consultant Encounters Hunger and the World Bank*. London: Zed.

Klein, Daniel B., with Therese DiCola. 2004. Institutional Ties of Journal of Development Economics Authors and Editors. *Econ Journal Watch* 1, no. 2 (August): 319–30.

Rashid, Salim, ed. 2004. *Rotting from the Head: Donors and LDC Corruption*. Dhaka, Bangladesh: University Press.