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Results Not Receipts: Counting the Right Things in Aid and Corruption

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This brief is a summary of the book *Results Not Receipts: Counting the Right Things in Aid and Corruption* (Center for Global Development, 2017).

Summary

Donors should care about corruption—it is a serious tax on development that can hit the poorest hardest. But they should respond using approaches that work to deliver development rather than hinder it. Development agencies treat corruption as a problem that they can measure and improve through fiduciary controls and centralized delivery. But in fact, our ability to measure corruption is limited, and donors' standard responses reduce aid effectiveness and fuel harmful stereotypes about developing countries. To really tackle the impact of corruption on development, donors should focus on what matters: results.

Corruption is one of many development challenges

Failures of governance and corruption are serious stumbling blocks to development. As many as 1.6 billion people annually pay a bribe to get a government service, according to data from Transparency International. Firms bribe as well: the global total value of bribe payments may be as high as 2 percent of global GDP. The impacts of corruption are legion—from crumbling schools and absent teachers through capriciously enforced regulations all the way to kleptocracy on a scale large enough to drain treasuries. And aid projects have been derailed by corruption, with funds designated for hospital construction or technical assistance diverted to the pockets of government officials and contractors.

But for all of the evidence that institutional factors, including weak governance and corruption, are correlated with levels of development, there is still much more to progress than slow-changing, historically determined institutions. The link between measures of corruption and income *growth* is weak, as is the link between measures of corruption and the quality of service provision.

Widespread development progress—including in countries seen as poorly governed—confirms that development can continue despite corruption. Around 5.1 billion people live in countries where average incomes have more than doubled since 1960. Nearly 2.2 billion people are in countries where average incomes have more than *quintupled* over the past 50 years. This progress implies either that institutions

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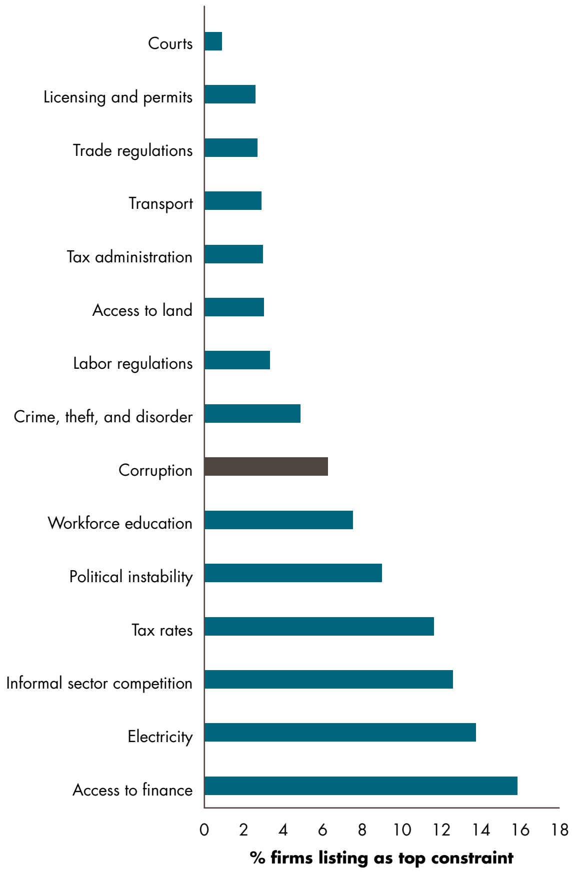
Figure 1: Corruption is not a top business constraint



Source: World Bank Enterprise Surveys

have, in fact, grown considerably stronger since the 1960s, or that the same quality of institutions is associated with far better outcomes. Evidence suggests both forces are at work.

This may be why most firms in developing countries do not place corruption at the top of their list of obstacles to running a successful business. Across all firms surveyed by the World Bank worldwide, about 6 percent rank corruption first (figure 1). Corruption was the most common answer in less than 1 percent of countries, and in only one out of seven countries did corruption even rank in the top three most popular responses.

Similarly, literature suggesting that aid only promotes economic growth in the presence of strong country institutions has not stood the test of time and robustness challenges. World Bank economists Cevdet Denizer, Daniel Kaufmann, and Aart Kraay find that while overall measures of country policy and institutional strength do correlate with improved outcomes from World Bank projects, roughly 80 percent of the total variation in project outcomes occurs across projects *within* countries rather than *between* countries. If country institutions were the dominant force in predicting aid project outcomes, that percentage would be considerably lower.

Donors rely on weak measures of corruption

Despite the fragile link between institutions, corruption, and aid effectiveness, a number of donors use corruption perceptions to help determine aid flows. This is problematic—one measure of corruption is a blunt instrument to capture a multifaceted phenomenon. And when that measure is based on perceptions, it faces the additional challenge of a potentially significant gap between perceptions and reality.

Take the case of Brazil: In 2013, authorities uncovered a scandal at the state-owned oil company Petrobras that involved $5.3 billion in payments to workers and politicians over the course of a decade. Brazil's current president was chair of Petrobras' board over that time, and more than half of both houses of Brazil's congress were facing charges of corruption or other serious crimes by 2016. But perception measures did not reflect this massive scandal. In 2003, around the time when the Petrobras corruption began, Brazil had a score of 39 out of 100 on Transparency International's perception index (where 100 suggests a country is free of corruption). By 2014, it had climbed to 43 (equal to Greece and Italy). Only well after the scandal broke did Brazil's score begin to fall—to 38 out of 100 in 2015.

Given the complexities of measuring corruption, it should come as little surprise that the evidence on measures designed to counter the problem—especially in more corrupt countries—is patchy and contradictory. In a review of evidence gaps in anticorruption, Jesper Johnsøn, Nils Taxell, and Dominik Zaum of the Chr. Michelsen Institute conclude that the gaps are larger than the evidence.

Demands for oversight reduce aid effectiveness

Concern with weak governance and the risk of malfeasance is also the primary justification for donor programs that involve heavy oversight or even project selection, design, and management from distant donor capitals. For US aid, 12 to 46 percent is disbursed with government agency agreement and just 2 to 6 percent uses recipient country procurement systems. As of 2014, general budget support to recipient countries accounted for less than 1 percent of bilateral aid flows, according to OECD data.

But as with anticorruption interventions more generally, the evidence on the efficacy of controls to reduce corruption in aid projects is weak. There has been no experiment comparing reported bribes for donor-funded contracts with bribes for similar contracts funded by recipient governments. Still, there is suggestive evidence that ring fencing does not work well: a recent survey of firms that bid on international contracts conducted by economist Tina Soreide finds that only 15 percent of respondents thought that tender rules were an obstacle to corruption.

Furthermore, donor procurement oversight and financial management systems alone are not enough to ensure quality delivery. Lowest-price competition absent the monitoring of outcomes can be positively harmful: good contractors bid a reasonable price while bad contractors can bid low even if the work cannot be completed to standard at that price. If donors fail to monitor outcomes, such firms can get away with delivering poor quality, which can incur a far higher economic cost than bribes that raise bid prices.

Regardless of its costs and efficacy in deterring procurement corruption, ring-fencing fences in only a small part of what matters to development outcomes. The evidence from a large sample of World Bank-funded projects is that, in general, the bigger challenge to achieving results in investment lending is not procurement risk, but delivery risk. World Bank economists Gerhard Pohl and Dubravko Mihaljek find that factors such as cost overruns and delays in delivery are comparatively minor in determining the gap between economic rates of return on World Bank projects estimated during project design and re-estimated after project completion. Factors before and after the procurement process made the largest difference.

Despite that, for most donor agencies, receipt-tracking has become a larger endeavor than result-tracking. The World Bank spends considerably more each year on procurement and financial management specialists and investigators looking for fraud and corruption than it does on evaluating projects outcomes in improving wealth, health, and wellbeing.

Donor responses fuel harmful stereotypes

Beyond reducing aid effectiveness, the response to corruption by donor agencies reinforces a damaging set of stereotypes about developing countries. All too many donors act as if they believe poverty is caused by the moral failings of the people in those countries. The median US survey respondent thinks that 60 percent of aid ends up in the hands of corrupt officials. More than half of UK survey respondents suggest that the single most important reason why poor countries are poor is corrupt governments.

The culpability of the poor for their poverty is used as an excuse to deny support. Given the historically unprecedented progress in income growth, health, education, and other development outcomes that many developing countries are achieving, the picture is clearly inaccurate: development is succeeding in those countries (and aid can help).

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This distrust of developing countries—and in particular developing country governments—is a big problem because no country has become wealthy without a large government involved in a huge range of regulatory, investment, and spending roles. No high-income OECD country has general government spending lower than 31 percent of GDP, according to OECD data. By pandering to those who distrust government in the West, donors are helping to hobble governments in the developing world, with bad consequences for aid levels and effectiveness as well as broader development progress.

Donors should emphasize results over receipts

It is time for donor agencies to fundamentally rethink their anticorruption approaches. Rather than trying to measure the dimensions of the black box of corruption and change its internal dynamics, donors should shrink the box by minimizing the impact of corruption on aid outcomes. If an aid project produces good results at a fair price, the rents that drive corruption will be reduced.

Donors should significantly increase the proportion of monitoring resources applied to ensuring that quality goods, works, and services have actually been delivered in projects while reducing the proportion of monitoring resources applied to procurement and fiduciary controls. In some cases, donors can simply pay for results: cash on delivery mechanisms pay governments on the basis of development outcomes achieved on a pro rata basis, for example, for each additional student that completes schooling and takes a test. The payments can be based on a survey of progress and can be set lower than the cost of provision to ensure that governments themselves have to provide financing (and thereby show commitment to the outcomes as well).

Much of what governments can and should do is not easily and uncontroversially measured. Similarly, paying for results is not always uncontentious; budget and humanitarian support to governments that are systematic abusers of human rights does not fit with the payment for results approach. But it is exactly where results are difficult to measure that the potential for diversion is greatest. Donors can choose to fund activities with results that are easier to monitor.

Providing public goods to support technology, transparency, and oversight

There is also a role for aid in support of governance-related public goods, both that improve national governance (for example, supporting organizations such as local chapters of Transparency International) and coordinating global governance responses through bodies including the World Trade Organization, the UN Convention Against Corruption, and the Open Government Partnership. Finally, a number of rich country domestic and multilateral activities beyond aid might help improve governance outcomes in developing countries. Donor countries should ensure steps like public registries of beneficial ownership (to reveal who controls firms and property), open contracting, and tax information exchange.

If corruption were an insurmountable stumbling block to development, and if we knew which countries were particularly corrupt, tight control (if it worked) and aid fatigue (if it did not) would be a logical response. But the evidence that weak governance is a barrier to all development progress or effective aid just does not stack up. And existing responses do little to help. It is time for a new approach: results, not receipts.

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