

Aid and Governance: issues in developing countries

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Abstract

Development aid has gained widespread criticism due to its inefficiency in solving problems. Vast amounts of aid are given every year for humanitarian assistance, economic development, and improvement in bilateral trade relations. While we cannot deny the hidden political aims of donor nations and organizations, or ignore the misuse of funds and corruption ensued by aid, it is still important to argue for the importance of aid. Aid is still necessary in different shapes and modes for the socio-economic development and infrastructure projects in developing countries. In cases where there is a bad governance, aid should be spent on solving governing issues at its initial stages. Eventually, we can start using aid for development purposes once we have setup the appropriate institutional machinery.

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1. Introduction

Religious scriptures encourage us to help people in times of need. God has bestowed upon us power and wealth, and we can spread justice by distributing what we have, so that any living human being may not be victim of poverty, malnutrition and etc. It is assumed that it is the responsibility of those who 'have resources' to look after those who do not.

Since developing countries do not have the capacity, expertise to use the available resources efficiently and to generate appropriate funds to tackle poverty reduction, healthcare problems and mismanagement of institutions, they look towards developed countries for aid and technical assistance.

2. Aid

Foreign aid includes charitable grants, technical assistance, loans for fiscal support, Official Development Assistance (ODA), for infrastructure projects, education, vocational and healthcare programs, aid in the form of soft loans (loans below the market rate of interest) from international financial institutions and private aid to the educational or non-governmental organizations for the declared cause loans and grants by individual countries for infrastructure projects.

2.1. Political Motives

Aid is a very soft way of trapping poor nations for hidden political purpose. It is also believed that aid is granted by the countries in terms of internal arrangements to fulfill the objectives of donor countries. President Kennedy said 'foreign aid can more' effectively play its part as an effective instrument of our over-all efforts for world peace and security' (<http://www.presidency.ucsb.edu/ws/?pid=8545>).

Besides that aid and donations are provided by some countries and charitable institutions to private schools run by particular sects for education in the poor and backward areas of South Asian countries. Donations on sectarian level for spreading specific ideologies accelerate the race among various sects in the aid recipient countries and leads to polarization of society on a sectarian basis. It not only divides the society politically but socially as well, by involving them in an unending conflict in the countries [2].

There is also news that some countries provide financial assistance in the form of literature and cash to support the different ideologies based on sectarian hatred and conflicts in Asian countries, to keep their sects strong in the region. This hidden conflict has already taken lives of thousands of people and now it is an open war like situation in Iraq, Syria and Asian region [15]. It highlights which sectarian trend is leaning toward today [16]. Since humanity is the basic reason for extending assistance, therefore, pouring aid for political gains will

raise temptations to lead people to adopt the routes which lead to confrontation, which is a wasteful aid on the part of donors and a disaster for the recipient countries.

2.1.1. Economic and commercial interests

Aid is considered as the carrier of commercial and economic interests of donors with the recipient countries. It is reciprocal wave, when recipient countries receive aid, they create soft corner for the donors and many compromises are understood in this situation. Japan is a donor country through JICA; it gives aid to Pakistan for technical assistance, training and funding for infrastructure projects and Pakistan has extended cooperation for production Japanese cars to establish their assembling plants in Pakistan. Honda, Suzuki and Toyota are the main cars manufacturers in Pakistan. Some countries attach conditions for giving aid that is called tied aid. In such cases donors asked the recipient countries to spend some percentage of aid amount for the purchase of services and technology from the donor country; in such a way substantial amount of aid is returned to the donor country which results negatively on the projects' outcomes ((Oliver Morrissey (1993). The Mixing of Aid and Trade Policies. *World Economy*, 16(1), 76)).

2.2. Corruption and misappropriation of funds

Nations receiving aid are still poor because they do not use their domestic resources or their foreign aid efficiently. The arguments against giving aid carry little weight with the plea that aid makes the country dependent on easy money obtained via aid. Governments become so addicted to aid that long-term national goals and self-reliance policies are pushed behind. They further argue that aid protects the interests of donors in one way or another, in line with concept of globalization.

We may not expect ideal behavior from the nations who are economically, politically, socially and morally not so developed and civilized because they belong to poor areas. Rather the poverty, injustice and scarcity of resources made them behave negatively. It is a way for survival in poor countries. Uganda is one of the examples where development aid was frozen due to the misappropriation of funds. There was reason to believe that the money from European countries was going straight into the private bank accounts of officials of the Prime Minister's office [12; 13]. Similarly in 2012, Denmark suspended official development assistance to three climate change projects in Vietnam after a Price Waterhouse Cooper's report claimed of misuses of \$575,000 funds [7]."

Despite receiving billions in aid, a multi-donor funded project, the Social Action Program (SAP) was not a big success rather it left a question mark on the credibility of concerned provincial authorities – for poor service delivery – political as well as bureaucratic circles who always gave the impression that problems of sub-standard education and poor health services in Pakistan are due to the shortage of funds for social sectors. "The SAP alone costs \$8 billion over 10 years with nothing to show for the money or the time [2]".

Donors have lots of problem, while allocating funds for the required projects as the situation on ground is different. The basic structure or base required to start the projects are missing i.e. manpower, suitable site, technical knowledge, motivation, etc. Since developing countries have very little base for absorbing huge foreign aid, therefore, funds are misappropriated without the fear of accountability. "Large aid flows can result in a reduction in governmental accountability [10, p. 4]." Aid in the shape of soft loans may be allocated for projects, indirectly supportive for the economic development – to lay the solid base for economic development – i.e. education, healthcare, infrastructures, energy production, dairy and agricultural development, on turnkey basis, through international tenders and the role of the recipient country should be minimized by asking for proper legislation. After the project completion the same may be handed over to a trust consisting of people having good reputations to run that project but donors must keep an eye on that till the time the loan is repaid. All heads of institutions must go through compulsory trainings on integrity, efficiency and capacity building and should pass tests from the international organizations, so that they may contribute in eradicating corruption, maladministration and nepotism by introducing the best work ethics and upholding merit and accountability.

2.3. Growth

This research has shown a positive relationship between the aid and growth rates. However, a lot of work is to be done to find out the actual relation, by taking into account the various variables in the form of digits to arrive at an authentic relative value between the two. The problem with the researcher is how to standardize various factors as variables – the human, climatic, psychological, socio-economic and political one – into

digits to convert it from a hypothetical to actual for more authentic research analysis. However, keeping in view the fact that we are living in a digital age, the day is not too far away when we will be able to see the standards of required values, i.e. behavior, integrity, efficiency, capacity, social psychology, political and economic trends.

In the case where aid funding is allocated for education or training projects, it will increase economic growth, when the students or professionals will complete their studies/training and will become a part of economic activity. The rate of return of such investments is larger, however, takes time and living in a data-centric world that is scoring for immediate results, we need to give money its due course of time [9].

While pointing out the negative impact of foreign aid, some analysts believe that, if aid replaces domestic resources, the impact thereof will be negative on the growth, "if economic aid supplements the domestic resources, the impact of this pectoral aid flow on domestic investment should be positive," or "however, if it substitutes for domestic resources rather than supplementing them, its impact could be negligible or even negative [1, p. 57]". "This can be done by allocating aid to sectors or projects that are not under direct government control [1]".

3. Governance

Governance is an authority, equipped with the chain of command to rule by decision-making and implementation thereof through the process of consultation, participation and consensus within the ambits of law and rules and regulations made thereunder – to run affairs of the state [1].

Good governance can be described as an overall reflection of up-to-date enactment of legislation, efficient and active administration and speedy and independent judicial system, based on efficient management, strict law enforcement, socio-economic justice (without discrimination), respect for fundamental human rights, open job opportunities for all, education, healthcare, protection of life and property, efficient utilization of available resources, to keep the country on the track, leading to socio-economic development, by creating an awareness for discipline, compliance and enforcement, descending from the top order under strict accountability and transparency as envisaged under the law of the land in the democratic system of government. In fact good governance is a track-laying tool towards economic development, political stability and the prosperity of the nations [14].

These days the issue of good governance has been taken up seriously by the international financial institutions and OECD (DAC) with the recipient countries while allocating aid. In fact, a lot of complaints and reports regarding misuse of aid funding were highlighted in the media and on the website of Transparency International with reference to the African and Asian regions, where due to corruption and embezzlement in ODA funding, required results and targets were not achieved [2].

Good governance is basic requirement of social contract; however, its adaptation is gradual through the education and international relations. Under good governance, citizens enjoy facilities and rights as envisaged in the constitution. Whereas under bad governance, all the institutions of the state are at stake, corruption and maladministration in one institution spill over to other and a chain of corruption is created, which attracts like-minded people from all the institutions; and a type of cartel is established, which protects the illegal benefits of the certain groups in all the institutions with the result whole system runs on parallel, illegal practices and laws remains only in the books [6].

Currently OECD (DAC) is demanding strict accountability, more transparency and good governance to the countries asking for ODA. Most of the donors have the consensus that aid is effective and brings better results when there is good governance – aid funds and domestic resources are employed in better combination to achieve optimum level of development – in the recipient country. "Aid can work where there is good governance, and usually fails where governments are unable or unwilling to commit aid to improve the lives of their people," – Lee H. Hamilton.

The literature on the subject reveals that the experience of foreign aid remained different in various regions. It was successful in some East Asian countries, but failed to bring results in most countries of sub-Saharan Africa, where aid has been poorly managed and wasted [3]. During the last five decades of aid assistance programs, questions have arisen to prove the effectiveness of aid in bad governance, i.e., failures in making national strategies and developing strong state institutions despite receiving aid. Pakistan received

donors funding more than \$30 billion in the decade of 1990s but growth was low and economic enactors remained poor due to political instability, corruption and maladministration [4; 5; 8].

Aid should be given on need basis. If a country is full of institutional problems i.e. weak enforcement, low tax collection, low GDP, corruption, the aid may be given to strengthen those areas of the economy where efficiency is undermined due to corruption. "One area of reform that we believe Asian policymakers have to pay more attention to is the area of governance," says Changyong Rhee, Chief Economist of ADB [11].

Governance remained a big problem for the poor and developing countries and bureaucracy is the main character behind that. Bureaucracy comprising of civil servants who run the permanent institution of government under a secretary of grade 22 at Federal level and of grade 21 for Provincial level, whereas, Ministers and Prime Ministers are almost changed after 5 years through general elections but civil servants retire after serving at the age of 60 years. The dilemma for ruling bureaucracy of the Asian and African region is that they are caught between the complexes of the lower middle/middle class. On the one side, the bureaucrats by virtue of having the job, enjoy powers and status and at the same time want to get all those comforts, which they could not get in childhood or in early age – due to their poor socio-economic background – and sociological vis-à-vis psychological complexes are reflected in their personalities. When they join superior services they try to stretch their personality to make them at par with the social and political elite through any way. Since power plays its role to make them economically rich, therefore by misusing powers they get everything that they cannot otherwise afford in their lives and from there corruption, nepotism and maladministration starts and spreads through the whole society.

At the same time the political elite of developing or poor nations are not so well educated, if in case they are educated even from Oxford or Harvard, they behave like their grand generations as a landlord, a superior human being, and treat the poor as their slaves. Ministers socially and technically are not so competent enough to make active decisions; rather they rely on bureaucrats who are already indecisive and confused by virtue of their middle class background. The civil servants join the academy for training, where they have been given the impression that, they are superior; therefore they have to rule the country, but even than complexes of their middle class background are not wiped out from their personalities and neutral or normal behavior remained problem from the civil servants. Moreover bureaucracy remains united and it reacts and behaves as a class that is well disciplined from the top order even in corrupt practices.

Conclusion

Bad governance and autocracy destroy countries, even those that are rich in resources. Recent incidences in the Arab world indicate that it is revolt against bad governance and people are making their own factions and territories; anarchy has been spread in the region i.e. Iraq, Syria, Yemen. These states were oil rich but due to poor management and lack of democracy and without peoples' participation were in trouble therefore, regimes were brought down through popular uprising against the rulers. What is being proved is that bad governance creates economic and political crisis in the country.

Those countries which lack resources and look towards international donors for assistance should be more careful and vigilant during implementation of projects, regarding misuse of donors funding, as the loans are to be repaid with interest. If they fail to implement the funded projects in time and for repayment, they will need more loans from the international financial institutions against high interest rates and compound accumulation will negatively impact the economy.

Donors must dictate the terms of agreements for getting better results of aid funding. They may be aware of the day-to-day development regarding project implementation progress. Funding details should be available on the electronic media i.e. website, newspapers, so that the civil society may participate in the discussion and ask for accountability in case of misappropriations of funds.

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