Aid and Corruption

- Possible solutions for the Babati District, Tanzania

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Abstract

In many countries poverty is widespread, and so is also corruption. Foreign aid is given to countries in need to combat poverty, but unfortunately corruption has a restraining effect on the effectiveness of aid. The aim of this thesis is to examine how Sida, the Swedish International Development Cooperation Agency, handles the issue of aid and corruption in the Babati District, Tanzania, where a field study were made, and what methods there are to handle this issue. The method used for this study is qualitative interviews in Tanzania and Sweden, and a literature study of previous research. The results indicate that corruption is a problem in the Babati District and that Sida is well aware of the existence of corruption in recipient countries, and the problems connected to it. Sida has prepared anti-corruption documents and regulations to use during cooperation with developing countries, and the agency is partly giving aid that reduces corruption and builds democracy. Previous research shows that there are additional methods to utilize that increases the effectiveness of aid, than Sida is currently using. One method that is well-founded is to withdraw all financial aid to countries with widespread corruption, and only focus on non-financial aid to decrease money flows and to build functioning public institutions. When corruption is eliminated, financial aid will be more effective and private investors will be attracted, and thus poverty reduction will increase.

Key words: Aid, corruption, Tanzania
Terminology

DC - District Council
ODA - Official Development Assistance
ODF - Official Development Finance
OECD – Organisation for Economic Cooperation and Development
Official person – Someone who holds an office in an organization or government and participates in the exercise of authority (http://en.wikipedia.org/wiki/Officials)
POM – Department of Policy and Methodology at Sida
Sida – Swedish International Development Cooperation Agency
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1 Introduction

Poverty is a severe global problem, (World Bank, 1998:iix) and more than one billion people around the world are living on less than $1 a day (year 2007). Even more people lack clean water, sanitation, electricity and educational opportunities, (World Bank, 1998:2) although there has been a considerable improvement during the past 50 years (World Bank, 1998:ix). One of the UN goals for the new millennium (2000) is to reduce the worlds’ poverty by half from 1990’s level until year 2015. (The millennium goals, homepage)

Foreign aid programs strive to eliminate poverty and enhance growth. (Boone, 1995:1) And it has succeeded several times, as it has dramatically reduced childhood deceases with vaccinations, and also given millions of people access to schools, clean water sanitation, electricity, health clinics and roads. African countries have with foreign aid moved from crisis to rapid development. Unfortunately the world has also experienced complete failures. At the same time as the African state of Zaire (now the Democratic Republic of Congo) saw no progress after a number of years of large-scale foreign aid, its leader became one of the worlds’ wealthiest individuals. (World Bank, 1998:1) There are several examples of failure that can be directly linked to corruption.

During the colonial period the Europeans destroyed traditional African institutions, and political and economic systems, in their effort to control their colonies. (Mbaku, 2000:1) When the African colonies later became independent their political systems where dominated by civilian and military dictatorship. The only reforms that were made had the purpose to strengthen the power of the leaders, the military and the police, and to allocate public resources in their favour. The areas critical to economic growth and development, like education, health care and infrastructure were neglected. This is the reason why many African states, during the last 40 years, have not been able to fulfil their duties of enforcing the laws and allocating resources. An environment where corruption and inequalities have been able to grow is the only accomplishment of the former African leaders (Mbaku, 2000:3)

Large-scale corruption tied to internal or international economic transactions can have very serious consequences. Every risk that corruption is connected to aid must be avoided. (UD, 1998:33) Sweden has signed and/or ratified various international conventions
with the intention of increasing transparency and reducing risks of corruption and is thereby undertaken to follow conventions. In addition, Sida (Swedish International Development Cooperation Agency) has instructions from the Swedish government to support measures to combat corruption. The foundation for Sida’s anti-corruption work is the Anti-corruption regulation and its’ main message “never accept, always act, always inform”. The regulation is the starting point of Sida’s efforts to counteract the risk of corruption, and to deal with existing cases of misuse of Swedish financing of the development cooperation. (Sida’s homepage) The Anti-corruption regulation states that;

“If proof of mismanagement or corruption emerges, Sida shall consider cancelling its support for the contribution. If no rectification is made, the agreement shall be terminated and Sida shall require repayment of the funds involved. (…) Sida shall never accept corrupt behaviour” (Sida’s Anti-corruption Regulation)

One of the countries that Sweden is giving the largest amount of financial assistance to is Tanzania. That cooperation has been on going for more than 45 years, as Tanzania is one of the world’s poorest countries. There have been great efforts made to reduce the country’s poverty through economic reforms and privatising of non-profitable companies previously owned by the state. These measures have contributed to a higher economic growth. During the last five years the growth has been about 6%, which unfortunately have not been enough. Furthermore Tanzania has become a more democratic country, but the legal system is still distorted and corruption is widespread, which is a major obstacle to development. (Sida’s homepage)

1.1 Problem

Tanzania has during many years received considerable amounts of financial assistance from Sweden. At the same time Tanzania is known to have severe problems with corruption. It is therefore interesting to examine the issue of foreign aid and corruption, when financial assistance is given to countries with widespread corruption. This may not be in accordance with the policy of the Swedish donor Sida.
1.2 Aim

The aim of this thesis is to examine how well the Swedish aid agency Sida is handling the corruption and aid situation in Tanzania. This will be done by studying the problem of corruption and aid in the case of the Babati District in Tanzania, by describing how Sida deals with it, and by discussing how it is best dealt with using theories concerning this issue. To meet the aim the following questions have been formulated:

**Question formulation:**

- How common is corruption in Tanzania and the Babati District?
- How is the fact that corruption exists in recipient countries handled by the Swedish aid agency Sida, and what does Sida do to prevent problems with corruption?
- What measures are available to handle corruption in aid recipient countries? And is Sida using them?
2 Background

2.1 Sida

The following facts can be found on Sida’s homepage and is the opinion of Sida.

Sida’s development cooperation is in agreement with Tanzania’s priorities. Tanzania has prepared a strategy to reduce poverty in the country; the National Strategy for Growth and Reduction of poverty (NSGRP). New guidelines on how the country best can coordinate all donors’ assistances have been drawn up by Tanzania. The guidelines are to make aid more effective and easier to handle, and emphasise on budget support as opposed to project support. Sida will thus increasingly give financial assistance directly to Tanzania’s government, which in turn can prioritize the allocation of the money in agreement with the NSGRP. This cooperation needs a mutual trust between Sweden and Tanzania, and a prerequisite is that economic reforms continue and that corruption is combated with power.

Budget support, as opposed to project support, has become an increasingly common form of aid. Budget support is when several donors join forces to support a government budget or a particular sector, on condition that the recipient country has a well defined strategy on reducing poverty. The advantages to this method are that the recipient country is able to make long-term plans, coordinate resources and gain an overview of all the different development efforts.

Corruption is increasingly noticed as a severe obstacle to development. Efforts to improve routines and systems for accounting and revision decrease the risk of corruption. Moreover, a free press and transparency in the government’s finances to media and citizens also decreases opportunities to corrupt behaviour. (Sida’s homepage)
Combating corruption is a central issue for Sida as corruption impedes the economic growth and counteracts development of a democratic society. Therefore the risk of corruption must always be considered in the cooperation, and effective barriers to hinder misuse of funding should be set. The foundation of Sida’s anti-corruption work is the Anti-corruption Regulation (2004) and its’ main message “never accept, always act, always inform”. The regulation is the starting point of Sida’s efforts to counteract the risk of corruption, and to deal with existing cases of misuse of Swedish financing of the development cooperation. (Sida, 2004) Besides the Anti-corruption regulation Sida has furthermore prepared three other documents related to Sida’s anti-corruption work; Fighting corruption – a prioritated issue (2006), Acting on suspicions of corruption – a guide (2003) and Korruptionens anatomi, - orsaker, konsekvenser, botemedel (2003).

In table 1 below, the annual cost of Sida’s cooperation with Tanzania during the years of 2005 and 2006 is shown. The emphasised numbers show the amount of money given to improve the management of the country, respectively reduce poverty in form of budget support. (Sida’s homepage)

Table 1. Sida’s development cooperation with Tanzania

<table>
<thead>
<tr>
<th>Areas of assistance</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>67 332 000</td>
<td>94 356 000</td>
</tr>
<tr>
<td>Education</td>
<td>165 456 000</td>
<td>108 914 000</td>
</tr>
<tr>
<td>Research</td>
<td>8 268 000</td>
<td>46 881 000</td>
</tr>
<tr>
<td>Human rights and democratic governance</td>
<td>72 461 000</td>
<td>105 432 000</td>
</tr>
<tr>
<td>Conflict peace and security</td>
<td>39 000</td>
<td>132 000</td>
</tr>
<tr>
<td>Humanitarian assistance</td>
<td>785 000</td>
<td>6 032 000</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>95 266 000</td>
<td>77 146 000</td>
</tr>
<tr>
<td>Trade, business and financial system</td>
<td>26 857 000</td>
<td>39 911 000</td>
</tr>
<tr>
<td>Natural resources and environment</td>
<td>32 183 000</td>
<td>26 256 000</td>
</tr>
<tr>
<td>Budget support, poverty reduction</td>
<td>200 000 000</td>
<td>300 000 000</td>
</tr>
<tr>
<td>Other</td>
<td>11 852 000</td>
<td>14 034 000</td>
</tr>
<tr>
<td>Total</td>
<td>680 499 000</td>
<td>819 093 000</td>
</tr>
</tbody>
</table>

Source: Sida’s homepage

2.2 Corruption Perception Index

Each year, Transparency International (TI) releases a Corruption Perception Index (CPI) that ranks countries based on how entrepreneurs, political and risk analysts, and the general public around the world perceive levels of corruption in these countries. The ranking system in the
CPI is designed so that countries, which are perceived to have the least amount of corruption, are given the highest score out of ten. The least score out of ten is assigned to the countries that are perceived to be pervaded by very high levels of corruption. (Mbaku, 2000:101-102) The CPI for Tanzania can is presented in table 2 below. The country that is in first place (least corruption) is also presented, so that the index can be seen in a context. Tanzania is ranked number 93 of the total 130 countries analysed, with a score of 2.9 out of 10.

Table 2. CPI for Tanzania

<table>
<thead>
<tr>
<th>Country Rank</th>
<th>Country</th>
<th>2006 CPI Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Finland</td>
<td>9.6</td>
</tr>
<tr>
<td>93</td>
<td>Tanzania</td>
<td>2.9</td>
</tr>
</tbody>
</table>

Source: Transparency International homepage

2.3 Babati District

The Babati District is located in Manyara region, north-eastern Tanzania. The population was, in 2002, about 300,000. The Babati Towne in the district is the capital of the region and has about 30,000 inhabitants (year 2002). (www.wikipedia.org)

Picture 1. Tanzania

Source: www.wikipedia.org

Picture 2. Manyara region

Source: www.wikipedia.org
3 Theoretical considerations and framework

3.1 Definition of aid

There are two expressions that are common in the context of aid; Official Development Assistance (ODA) and Official Development Finance (ODF). The difference between the two is that ODF covers all financial flows from the developed countries’ governments and multilateral agencies to the developing world, where interest rates can be close to commercial rates, while ODA includes only donations and loans where at least ¼ is a donation. The term “foreign aid” often refers to ODA (World Bank, 1998:6) and is almost always long-term development assistance and not emergency aid. (Cassen et al., 1994:3)

Cassen et al. (1994:3) describe aid as a transfer of resources on more generous terms than general loans on the world market. OECD’s Development Assistance Committee (DAC) defines aid as ODA-based on three criteria; it has to be “(a) undertaken by the official sector; (b) with promotion of economic development and welfare as the main objective; (c) at concessional financial terms, if a loan, having a grant element of at least 25 per cent”. (OECD, PDF)

3.2 Recipients of aid

According to the World Bank’s policy research report (1998:20) the main target for large amounts of financial aid should be countries with well-functioning and effective public sectors. It also recommends that aid does not only go to countries with good management¹, but

¹Good management is represented by “stable macroeconomic environments, open trade regimes, and protected property rights, as well as efficient public bureaucracies that can deliver education, health, and other public services” (World Bank, 1998:14)
that poverty levels are important. In the case of recipients with similar poverty levels the report recommends that the finance is allocated to the well-managed countries’ benefit. Not only the poverty level and kind of management have turned out to be key factors when donors choose recipient, but former colonies and political allies are favoured in that decision. Because of this, a large amount of aid has gone to countries with insufficient management. The Scandinavian donors are an exception. They base their decisions on poverty level and management, resulting in donations to the poorest countries that are democracies and have open economies. (World Bank, 1998:14-15 and Alesina & Weder, 2002:1126-1127) Generally, aid is not targeted to democratic countries; they get about the same amount as non-democratic countries. (Svensson, 1999:275 and World Bank, 1998:14-15 and Alesina & Weder, 2002:1126-1127)

Worth mentioning is that it is not always possible to decide whether a country has “good” or “bad” management, many developing countries are somewhere in between. (World Bank, 1998:14-15)

3.3 Definition and consequences of corruption

There is no globally accepted definition of corruption. (UN Anti-corruption toolkit, 2004:10) Mbaku (2000:9) lists the terms for corruption that are most common in literature on the subject: “bribery, perversion or misuse of public office or position, nepotism, patronage, sale of public office, etceteras”. Carvajal (1999:337) expands the definition by including: “agent-client relationships, infractions of the law, incompatibility with public opinion, and violation of public interest (…) departure from high moral standards in exchange for personal pecuniary gain, power or prestige”.

The United Nations Anti-corruption Toolkit describes two major types of corruption; grand and petty. Grand corruption involves the central functions of a government and distorts the rule of law and good governance, while petty corruption does not affect society as a whole it rather involves an exchange between individuals which is a departure from one’s obligation or duty. (UN Anti-corruption toolkit, 2004:10) Corrupt behaviour is usually the result of a conflict between a person’s professional responsibilities, often public interest, and personal interests. That is a conflict to which officials are constantly exposed. (UN Anti-corruption toolkit, 2004:15-16)
Carvajal (1999:335) describes corruption to have “the same effect on the development of a nation that cancer has on the life of a biological organism”. The governance that is practiced to continue large-scale corruption is the opposite of what is needed to support development. (Carvajal, 1999:335) The consequence of corruption is that a few individuals accumulate an enormous wealth, which misallocates resources and has a negative macroeconomic effect. (Mbaku, 2000:27) This is a vicious circle because the foreign entrepreneurs that are needed to provide resources that are vital for many African states to improve their macroeconomic situation are afraid to invest in Africa because of all the corruption. (Mbaku, 2000:xi)

Mbaku means that corruption has become a vital source of income for many officials in developing countries. (Mbaku, 2000:14) And as corruption is something that usually is not openly acted (Carvajal, 1999:337), it is possible that those who gain from corruption use their power to silence those who make it public by causing harm or reducing their security. (Carvajal, 1999:352)

Corruption is a direct consequence of political and economic cultures where institutions are poorly developed (UD, 1998:32 and Mbaku, 2000:5) and not the result of poverty and resource problems. African societies are vulnerable to corruption as the public sector is poorly developed and the traditional social relationships, where well-being of relatives is an important obligation, create an environment where corruption can get hold. (UD, 1998:32)

Large corrupt networks have the legal system as their main target, because when that part of society has been infiltrated it will no longer fight against corruption. It is extremely difficult to eliminate corruption in societies where the police and legal system are corrupt, and therefore development is constrained. (Carvajal, 1999:347) Mbaku (2000:x) suggests that corruption is one of the most important constraints to development.

3.4 Effectiveness of aid

3.4.1 Good governance and policies are the right environment for aid

Svensson (1999:275) and The World Bank’s report (1998:14-15) has found that aid has a positive impact on growth and poverty reduction in more democratic countries, why the degree of political and civil rights is significant for the long-run effect of aid on growth. In countries
where democracy and participation is not widespread, aid tends to be used for non-productive personal investments by the government.

Boone (1995:4) finds no relation between aid and improvements in infant mortality, which is an indicator of poverty reduction. This is, according to Boone, strong evidence that foreign financial assistance primarily benefits the official elite. Boone also finds that long-term aid with little or no conditionality increases consumption in a country but it has no positive effect on poverty, i.e. it does not benefit the poor. Thus, aid can only be effective when it is conditional on policy reforms. *(Boone, 1995:27-28)*

There is no global consensus about whether aid is effective or not. *(Collier & Dollar, 2004:F244 and Cassen et al., 1994:1)* The World Bank’s report (1998:2) establishes that aid has, in different times and places, been everything from highly effective to a total failure. That is probably what can be expected when almost a thousand billion dollars have been financing tens of thousands of projects and activities. Cassen et al. (1994:9) continues this argument by stating that there are hundreds of bankruptcies everyday, and some investments turn out to be several hundred million flops, but people do not call into question whether there is something wrong with the free enterprise system in which they exist. Yet when aid programmes or projects fail, it is seen by the critics of aid as typical and demonstrating that aid is ineffective.

The World Bank’s report (1998:ix) and Collier and Dollar (2004:F267) argues that effective aid reduces poverty, reduces the risk of conflict and it supports improvement of institutions and policies, which all are conditions for successful development. An important remark in this context is that aid is conditionally effective, which means that the assistance has to be in the right circumstances and climate to work. Financial aid has a satisfactory effect, as it leads to faster growth and poverty reduction, only when there is a good governance climate in the recipient country. Before countries reform the impact of financial aid is small. *(World Bank, 1998:x, 2-3)* When aid activities fail it is often due to the policy environment in which the recipient operates. *(Cassen et al., 1994:13)*

The empirical evidence of a positive effect of aid on growth is non-existing with a few exceptions. The reason is, according to the World Bank’s report (1998:14), that the studies have not distinguished between countries with good and bad governance. Even when countries with good governance have received only little financial assistance the growth per capita is evident, thus growth is very obvious in the good-management high-aid group of countries (2.7 percent per capita). For countries with poor managed public institutions there is no difference in growth per capita between those who have received little or much financial assistance, the
growth is in both cases non-existent (-0.5 percent per capita). Tanzania is an example of a country where aid at times, through the many failures, has proved to be ineffective because of the poor management. (World Bank, 1998:14) An explanation for the difference in growth could be that when aid is working in a good management environment, it increases the willingness of private investment; likewise, a bad management environment decreases the confidence of private initiatives. (World Bank, 1998:3)

3.4.2 Effectiveness

Cassen et al. (1994:6) defines effectiveness of aid by asking the following questions: “Does aid contribute macroeconomically or otherwise to growth? Does it reach the poor? Is the policy dialogue, which accompanies aid, successful and valuable? How have specific types of financial and commodity aid performed? What is the contribution of technical cooperation? What are the effects of having many donors working in a single country? Does aid help or hinder an appropriate functioning of market forces?"

Cassen et al. (1994:9) establish that only a fraction of all aid is affected by corruption, because the aid is distributed after, for example, the construction it supports is built. In that way it is more difficult for people involved to take advantage of the situation. The authors also refute that aid does not reach the poor, and that it has a negative impact on the private sector and investments. (Cassen et al. 1994:225)

Contemporary aid is often judged on past aid’s successes and more often failures, even though the conditions in the world are a lot different today than earlier decades. There are two strong reasons why contemporary aid might be more effective than in the past; the pressure to strategically provide aid to allies have declined since the end of the Cold War, and many developing countries have initiated economic and policy reform which contributes to an environment where aid can be effective. (World Bank, 1998:14-15) The prospects are now good for serious improvement in effectiveness of aid and development if the donors introduce an emphasis on policy-based lending. Several sub-Saharan African states have already reformed their policies and others will follow their example. (Cassen et al., 1994:1) The World Bank’s report (1998:x) establishes that “the climate for effective aid is the best that it has been in decades” because of all the reform programs that have been initiated all over the developing world to develop sound policies and governance. Cassen et al. (1994:10) explain why Africa’s development has been so slow even though they acknowledge that aid is effective. Aid has not been as much of a success in Africa as in other parts of the developing world, because of Africa’s
disadvantages compared to other regions. E.g. there are and have been unstable markets and political structures, poorly developed institutions with shorter traditions, less incentives for private investors and less percentage of literate and educated people.

Cassen et al. (1994:7) find that most aid does work, but more can be done. A significant quantity of aid does not turn out successful. (Cassen et al., 1994:225) To increase the efficacy of aid the World Bank’s report (1998:4) states that aid should be targeted to poor countries with sound management and policies, and not as it is today; countries with good or poor management receive equal amounts of assistance, and middle-income countries that do not need it get aid. To support development in countries with poor management, donors need to rely on other instruments. (World Bank, 1998:x) The World Bank’s report (1998:21) recommends that in the case of bad managed institutions in a recipient country, donors should withdraw the financial assistance because it is unlikely to have any positive lasting effect. Instead of financial assistance the donors should support activities and ideas that may develop the public sector into good management.

3.5 Financial donations is not the answer - critique of the contemporary aid system

Boone (1995:4) has found that aid does not reduce poverty or increase growth, but it increases the size of the government in the recipient country because of corrupt behaviour. Alesina and Weder (2002:1127) have, although there are poor data available, studied whether changes in corruption are connected to increases in aid. Their preliminary findings show that an increase in aid increases corruption. Knack (2001:310) suggests that aid dependence in combination with high levels of aid erode the quality of governance and public institutions by weakening responsibility and supporting corruption, inefficient policies and institutions, and the conflict over control of aid funds. Knack also finds that this gets even worse when aid is used in the effort to correct the problem.

Cassen et al. (1994:224) on the other hand confirms that the effectiveness of aid does depend on the recipient’s management, and also that aid has a positive impact on policies.
3.6 Non-financial aid

By targeting aid on advanced training for politicians and officials, it can support the development of sound policies and institutions, which may be a more effective means to achieve poverty reduction and growth than today’s aid system. (World Bank, 1998:17 and Boone, 1995:29)

Even in countries that are characterized as poorly managed often some people in the public sector are interested in an institutional reform, and it is these people that aid has to find and support. Donors have to recognise that ideas will be valued higher than large-scale financing - “more ideas, less money”. This assistance is staff-intensive, thus it results in less financial flows. (World Bank, 1998:4, 6, 25) The World Bank’s report (1998:4-5) suggests that instead of giving financial aid to less managed countries, which they do not recommend, there should be a focus on relatively inexpensive assistance such as developing ideas, training leaders, policy debates within civil society and transmitting other countries’ experiences. (World Bank, 1998:4-5) Boone (1995:29) argues that if the good governance stays strong long enough to improve education, literacy and health care, the poor may have the chance to be empowered in the public sector, so that poverty reduction becomes self-sustaining.

Instead of measuring the success of aid on the amount of money that is distributed, as donors currently tend to, they should evaluate the success on the extent that the aid has stimulated policy reforms and institutional changes. (World Bank, 1998:6)
4 Methodological considerations

4.1 Method

To meet the aim of this thesis I have used qualitative interviews and a literature study of earlier research. The interviews were made in Tanzania, during a three week field trip, and in Sweden.

In Tanzania I made six interviews that I have been able to use for this thesis. One interview was with an employee at the District Council, where the aid money is distributed to the different projects. One interview was with two citizens, that one anonymous source informed me were willing to talk about corruption. These first two interviews were held in English. The last four interviews were made during a town-walk, where I came across four people in different ages, genders and occupations who I interviewed. During the town-walk I had translating help from a field assistant, from Swahili into English. I selected these informants because I wanted to have a spread in ages and occupations, to get a picture of the real conditions.

In Sweden I made two interviews with officials at Sida by telephone. The two informants that I got to speak to were not chosen by me, as I was put through to them from the telephone exchange, after asking for people with knowledge of aid, corruption and Tanzania.

The literature study was made after gathering previous research on the subject. I used Google Scholar to find the studies, using “corruption and aid” and similar as search phrase.

The entire interviews can be found in appendix 1.
4.2 Validity and Reliability

One of the main limitations with this study is the small number of informants. More interviews could have given a more reliable picture of the problem of corruption and aid in the Babati District. This was unfortunately not possible due to the limited time and possibilities to get in touch with informants during the visit in Babati for field studies.

When holding an interview, there are a numerous of uncertainties that could affect the results to be less reliable. As the respondents in the first two interviews in Tanzania were not responding in their first language, there is a risk that they could not answer correctly or in the way that they would have liked to. The four town-walk interviews were on the other hand held in the respondents own language, but what they said was translated through an assistant, and there is a risk that he did not (or could not) express exactly in English what the respondents said in Swahili. There is also the risk that the respondents, for different reasons, answered what they thought they should answer instead of their real opinion. The interviews should be read with this in mind.

The previous research that was used for the literature study was selected after recognising whether it seemed reliable or not. To establish this I mainly looked at their references.

Alesina and Weder (2002) add that their results should be interpreted cautiously as the data that they base their findings on is not sufficient. I have chosen to use their findings anyway, as some of the results are the same as other of my references'.
5 Results

5.1 Interviews

5.1.1 Interviews in Babati, Tanzania

To meet the aim to illustrate the problem of corruption in the case of Babati District in Tanzania, I made six interviews with selected people in Babati. In this chapter I will present the most relevant results from my interviews, while the entire interviews can be found in appendix 1.

Summary of the interview with an employee at the District Council (See appendix 9.1, interview A)

According to the informant, corruption is not a big problem when it comes to the foreign aid money that goes to the district. The DC is controlling the villages, which have to openly show how they are using the money. The informant claimed that the corruption that in fact exists is bribes for personal interests, but the DC is working against this. Though, he said, that there is a lot of corruption within for example the Land Department, Natural Resource Department and central bodies.

The foreign aid money goes to the village government and into the village bank account. According to the informant, the bank accounts have to have four signatories, thus, no money can be taken out from the account without the control of the DC. An important part of the control is also the follow-up and audit. DC gets monthly reports about how the money has been used. All this makes it practically impossible, the informant declared, for the villagers to use the foreign aid money for other things than the aid projects.

Summary of the interview with two citizens of Babati (See Appendix 9.1, interview B)
The respondents informed that bribes are very common in Babati, both among citizens and officials. It is the usual way to get what you need/want, an employment, grades in school et cetera. The informants also claimed that there is a problem with aid money disappearing into peoples’ personal pockets. They furthermore said that it is usual that villagers bribe officials for their projects to get part of the aid.

When I asked the informants about the DC and how I have been told that they are working to get people not to accept corruption, the informants laugh out loud and say:
The people at the DC are corrupt themselves, so they don’t want to work against corruption. The DC may say that they are working against corruption, but in the dark it's different. They wangle a lot.

**Summary of the four town-walk interviews (see Appendix 9.1, interview C)**
The informants were all positive to aid. One of them had a precondition for being positive to it: the implementation has to be good. It is not good when the money is reserved for certain projects that the donor country has decided. The informant thought that basket funding therefore is a better alternative, but it will not work with all the corruption.

When it comes to who gains from the aid the informants all said that the poorest people get some money but some money also disappears to the rich, the village chairmen and officials.

The informants’ opinions of officials were that they wangle, they take bribes and they put aid money into their own pockets. One example is the former Prime Minister of TZ who wasn't rich from the beginning, but now owns several hotels.

Corruption is common in Babati, according to the informants. They claimed that bribes are commonly used to get employment, and even in schools and the justice system. Everyone knows that corruption is common and "everyone" uses bribes. It is difficult for poor people to resist bribes.

The opinions on the DC’s work against corruption diverged among the informants. Two of them said that the DC informs citizens about the side effects of corruption and that they do a good job. The other two said that the DC does make some effort to inform about corruption,
but the officials are on the other hand corrupted themselves. All the four informants thought that corruption is wide spread in the district, which makes it hard to eliminate, especially as it can be difficult to tell the difference between a bribe and a gift.

5.1.2 Interviews with Sida

**Summary of the two interviews with Lisa Mossberg, Department for Europe, Division for South Eastern Europe and Ina Eriksson, handling officer at Department of Policy and Methodology** *(see Appendix 9.2, interviews D and E)*

Lisa Mossberg informed that the Swedish government regulates Sida’s development cooperation in collaboration with Sida.

Both the informants claimed that Sida’s opinion is that corruption decreases the effect of aid, and therefore a risk analysis is always done before cooperation begins. Ina Eriksson added that corruption is an obstacle, not only for aid but also for development. Therefore must Sida ensure the use of the funding.

Lisa Mossberg informed that Sida is giving aid that has the purpose of decreasing corruption; education/training, information campaigns, policy strategies, etcetera.

Ina Eriksson, who has knowledge of aid in Tanzania, did not see any problems with acting in accordance with Sida’s Anti-corruption Regulation, even in countries where corruption is not looked upon as wrong. She claimed that it is always possible to act, and that the problem rather could be that Sida’s acting is not understood in the recipient country. Therefore, she said, is preventative work like defining what Sida means by *corruption* very important.

The informants had no data on the frequency that Sida gets reports of corruption by their employees, but the departments gather all cases and do follow-ups. Ina could not answer how often Sida needs to withdraw funding, but she claimed that it happens and that sanctions are given. Funding is even withdrawn during investigation after suspicion of corruption, when a revision is made.
6 Analysis

How common is corruption in Tanzania and Babati District?

According to the interviews, the Babati District, Tanzania, has a severe problem with corruption in all levels of society. Bribes are a common way to get what you want, either in a work situation, in school or in the justice system. Corruption and bribes is a part of the social and economic system in the Babati District. This picture is shared by the seven respondents in this thesis, but to generalise that as the general opinion of Babati, shared by a majority of its inhabitants, would be wrong. The seven respondents’ opinions may be exaggerated, but the results must be interpreted as an indication that corruption exists and that it is a problem.

The theories on this subject also support the descriptions of the, by the respondents, perceived corruption. The World Bank’s report confirms that Tanzania is still struggling with corruption and that wangling has led to failures in aid programmes. The Transparency International’s corruption perception index further confirms that Tanzania has a quite high level of corruption.

How is the fact that corruption exists in recipient countries handled by the Swedish donor agency Sida, and what does Sida do to prevent problems with corruption?

Sida has adapted their work to meet the conditions in the recipient countries where corruption exists, and is actively working both preventative and reactive. Sida is well aware of the social problems that corruption creates and has therefore compiled several documents and an anti-corruption policy, which every employee ought to follow. The policy says that corruption is not accepted in any way. If any kind of corruption is discovered it must be investigated, and during investigation the financial assistance is withdrawn. The other part of the adaptation is, in preventative purpose, to communicate Sida’s policy on corruption to the recipient countries. The communication helps the two parties to meet and to see the situation from similar points of view. Another preventative action that Sida takes is that it tries to eliminate corruption by not giving it any space. This means that Sida sometimes does not give financial aid, and fo-
cuses on non-financial aid instead, e.g. creating a climate that encourages ideas to grow, etcetera. This action decreases money flows and thereby prevents corruption.

What measures are available to handle corruption in aid recipient countries? And is Sida using them?

There are a number of measures that are available to prevent, reduce and handle corruption. Most of the theories referred to in this thesis emphasise that aid is most, if not only, effective when it is distributed to countries with good management. As Tanzania has a proved problem with corruption, financial aid would not be the best alternative of assistance. A more effective alternative would be non-financial aid. Sida already uses this measure, as they are aware that corruption decreases the effectiveness of the aid. The non-financial aid, as used by Sida, has the purpose to build a ground for policy reform, as the activities consist of information, ideas and training of leaders. The other aim of non-financial aid in general is to decrease the money flow so that there will not be any opportunity for using aid money for personal interests. Currently, Sida is supporting Tanzania with both financial and non-financial assistance. If the non-financial aid contributes to changing the way people look upon corruption, and therefore builds a better functioning management, giving financial aid at the same time may reduce the positive effect. Money flows encourage already corrupted people to step aside from their official duties, and take advantage of the situation. The positive effect of a beginning of a reform is then reduced if financial aid still contributes to an increasing or non-differentiated corruption. Therefore Sida would probably do better if it, in the case of Tanzania, stopped all money flows and put the emphasis on policy reforming aid. To make policy reforming aid work Sida needs local support. This support can be found inside the public sector and, as the World Bank’s report recognises, Sida has to find just those people who are interested in an institutional reform.

Another measure is that financial aid only should be given with the conditionality of policy reforms; otherwise there is a risk that the positive effect of the assistance will not be in benefit of the poor. The positive result only reaches the poor when the political climate is based on good governance. The effect on poverty is small before political institutions reform. The effectiveness of aid would improve if donors would focus on policy-based aid.
There is also a measure that consists of not distributing any aid money until the projects that they are supporting are finished. This is a measure that quite certainly assures that the money is separated from all possibilities of corruption. If this is a measure used by Sida is unclear, as it was not brought up by the respondents at Sida. There are some obvious disadvantages though; it should be considered that recipient countries are in need of foreign assistance because they can not finance projects on their own. If countries only get their projects financed after they are finished, it will probably be a severe obstacle for the poorest countries that will not be able to get foreign assistance.

Another measure that may contribute to a better understanding, and therefore handling, of corruption, is a new way of measuring the effectiveness of aid. The success should not be measured by the amount of financial aid that is distributed, but a more correct way would be to measure it by the degree that is has improved the management of the countries. Through the years a considerable amount of money has been donated to developing countries, and if the effectiveness of that aid were to be measured only by the amount of the donations, the result would be a great development success as well. The reality is that the aid has made a difference, but as corruption and other problems have been obstacles, the success in many cases has been moderate. To measure the degree of improvement of management in the recipient countries may be very difficult and uncertain, but it would probably be more accurate than today’s old fashion way of measuring improvement.
7 Discussion

The result of this thesis indicate that corruption in Babati is not a deviant behaviour among a few people outside society, it is widespread and a part of the social system. People do not see bribes as something abnormal, which is the reason why it is difficult to eliminate corruption. Sida has during several decades tried to increase the development in Tanzania through financial assistance. Since the knowledge of corruption and its’ harmful effect on development became a fact, the purpose of the financial assistance from Sida has also been to eliminate corruption. Despite these efforts, poverty and corruption is still a considerable problem in Tanzania. The reason for the rather moderate effect of the aid might be the form in which the aid is given. The donors have to acknowledge that if corruption has infiltrated the society as a whole, financial assistance might not have the capacity of changing the common behaviour of an entire generation, it will probably only facilitate and strengthen the behaviour. Thus, there is a great need to rethink the form of aid to developing countries. The aid has to be focused on eliminating corruption first, because of the restraining nature of corruption on development. This can not be done with financial or financial-based aid. The aid needs to consist of behaviour-changing activities.

A country that lacks corruption and that has good governance might also attract private investors, as the World Bank’s report (1998) states. Foreign entrepreneurs are needed to help developing countries to economic growth, but they are often unwilling to invest because of the corrupt environment. If donors focus on activities that facilitate and encourage reform, this might change the behaviour of the officials and then spread out to the whole society. Poverty should not be an obstacle to this process, according to UD (1998) and Mbaku (2000), because political culture, and not lack of resources, is the factor that causes corruption. When grand corruption has been eliminated, the aid, if it is still needed, once again should be focused on decreasing poverty through financial aid. It will then be much more effective as corruption will no longer be an obstacle. The good management will also increase the confidence of private investors, which will have a positive effect on the country’s economic growth. That in turn will also increase the positive effect on poverty reduction. Thus, Sida needs to
consider this theory and begin translating it into action, if they want to eliminate corruption and make foreign aid effective.

There is a difference between well-managed and poorly managed countries, according to the referred theories. In well-managed countries the effect of aid on development and economic growth is considerably higher than in poorly managed countries. Still, it is the poverty level that seems to be of most concern, when analysing the amount of money given by Sida to poverty reduction versus democracy and management. The handling of foreign aid and corruption, might improve if the donors in all situations emphasise more on progress in countries’ management and less on contemporarily used factors. The conclusion of this is that when measuring the success of aid, the initial position should be if there has been any improvement in governance, rather than the amount of money that has been distributed. Moreover, when choosing which form of aid to use, the initial position should be level of corruption and the function of the management, rather than poverty levels.

Until today there has been progress in poverty reduction and economic growth through foreign aid, but it has not been enough. In 2015 the world’s poverty is supposed to be halved from 1990s’ levels. To attain this, greater efforts are needed and, as the earlier successes have not been enough; new ways of managing aid are needed as well.

The theories referred to in this thesis offer several examples of alternative ways of handling aid. Currently Sida is using some of them, but has decided to begin using a form of aid that is called basket funding. Basket funding means giving less money to individual projects and programmes, and more directly to the state budget. This new way of handling financial aid, demands a corruption-free environment to be effective as the money is given to the government to decide how it is used. As Tanzania is not free from grand corruption this action totally diverges from the measures supplied by the theories referred to in this thesis. This subject could therefore be interesting for further research. What effect will basket funding in countries with poorly managed institutions have, and is it compatible with the theories of policy-reform targeted aid?
8 Conclusions

- The results of the interviews in this thesis indicate that corruption is a severe problem in the Babati District, and that it is widespread in the society. This indication is substantiated by the fact that Tanzania’s corruption perception index (CPI) is as low as 2.9 out of 10, which indicates that corruption is common.

- Sida is well aware of the harmful effect that corruption has on development and has implemented measures with the purpose of separating the financial assistance from corruption. The focus, however, is still on poverty reduction and other areas to increase development.

- There are several measures to handle corruption, but Sida is only partly using some of them. The financial aid is not effective enough because of the corrupt environment, thus, Sida needs to use non-financial aid to solve this problem before poverty can be in focus. Emphasising on ideas instead of money could lead to the institutional reforms needed to provide the aid with the right environment to be successful.
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9 Appendix

9.1 Interviews in Tanzania

Complete interviews made by Emma Lidholm in Babati District, Tanzania on March 2006.

9.1.1 Interview A

8/3 2006 interview with an employee at the District Council

There is corruption, but they are working to eliminate it. The people that are corrupt are not as evident as they were, now that the DC is working against it. DC educates and informs the society, so that corruption won't be accepted. DC also cooperates with the Corruption Office.

Corruption is not a big problem when it comes to the foreign aid money that goes to the district. DC is controlling the villages, which have to openly show how they are using the money. The corruption that in fact exists is bribes for personal interests, but DC is working against this. Though, there are a lot of corruption within for example the Land Department, Natural Resource Department and central bodies.

The foreign aid money goes to the village government and into the village bank account. The bank accounts have to have four signatories, so no money can be taken out of the account without the control of the DC. An important part of the control is also the follow-up and audit. DC gets monthly reports about how the money has been used. All this makes it practically impossible for the villagers to use the foreign aid money to other things than the aid projects.
9.1.2 Interview B

14/3 2006 Anonymous interview with two citizens

Does corruption exist/is it common? And is it getting better?
People bribe their way to employment, and if you don't have enough grades in school you can bribe the decision-maker so that you can continue to the next level. It is also common to bribe the police if they stop you. It is common that officials use bribes. Although corruption is very common it gets better and better. It is also common that people steal cars in other countries and bribe the Customs.

Do you think there is a problem with foreign aid that "disappears" into peoples personal pockets?
Yes, that is a problem. It's also common that villages give officials bribes so that their projects will get funds.

I have heard that the DC is working to make people not to accept corruption..?
The respondents laugh out loud. The people at the DC are corrupt themselves, so they don't want to work against corruption. The DC may say that they are working against corruption, but in the dark it's different. They wangle a lot.

Is it different nowadays if you compare how it was before?
Well, nowadays many people are frightened because it is illegal. When somebody is trying to bribe them they are more careful because they are scared that the police are involved. In that way it is better now.

Can you give me any examples of corruption that you have seen?
As a citizen you try to ignore the corruption that you see. It is foolish to get involved, you can get in trouble.
Corruption exists in all sectors, even within the police and medical service.
Interview 1)

1 Sex: Female
2 Age: 29
3 Occupation: Tailor (apprentice)
4 What is your opinion on development aid?
   Aid is good because it contributes to the initiation of important projects.
5 What people do you think gain from development aid? (Is it the poorest, the not so poor, or is it maybe the village chairman or the people working at the DC?)
   A minor part goes to the poorest, but most of the money goes to the village chairman.
6 Do you think that officials sometimes take advantage of their position and accept bribes from people who want something from them?
   Yes, they cheat and accept bribes.
7 Do you think that corruption and bribes exist in Babati?
   Yes, you use the people in power to fulfil your personal needs.
8 Do you think the people in Babati District accept that corruption and bribes exist?
   Yes.
9 Do you think that the DC is trying to get people to understand that corruption and bribes is wrong?
   Yes, they inform about the side effects of corruption.
10 What is your opinion on the DC? Are they doing a good job?
   Yes, they do a good job.

Interview 2)

1 Sex: Male
2 Age: 20
3 Occupation: Student

4 What is your opinion on development aid?
Aid is good if the implementation works. It's not good when the money is reserved for certain projects and when the decisions about that are made in the donor country. In that way basket funding is better, but due to the high level of corruption it probably won't work.

5 What people do you think gain from development aid? (Is it the poorest, the not so poor, or is it maybe the village chairman or the people working at the DC?)
The poor are gained but money does disappear on the way to the needing.

6 Do you think that officials sometimes take advantage of their position and accept bribes from people who want something from them?
Yes. An example: the former Prime Minister of Tanzania had nothing from the beginning, but he now has a number of hotels (Royal Beach Hotel by Babati lake, among others), which is quite extraordinary.

7 Do you think that corruption and bribes exist in Babati?
Yes.

8 Do you think the people in Babati District accept that corruption and bribes exist?
Poverty is the reason to the corrupted society. Poor people can not refuse bribes.

9 Do you think that the DC is trying to get people to understand that corruption and bribes is wrong?
At some point, but even the people at the office are involved.

10 What is your opinion on the DC? Are they doing a good job?
PCB is a bureau that works to prevent corruption, but it is so wide spread that it is hard to get to the problem. Only a few have been prosecuted.

Interview 3)

1 Sex: Male.
2 Age: 46.
3 Occupation: Education sector.
4 What is your opinion on development aid?
Foreign aid helps, so it is good.
5 What people do you think gain from development aid? (Is it the poorest, the not so poor, or is it maybe the village chairman or the people working at the DC?)

100 percent of the money doesn’t go to the poorest people, some percentage goes to officials.

6 Do you think that officials sometimes take advantage of their position and accept bribes from people who want something from them?

Yes, it happens. Corruption exists.

7 Do you think that corruption and bribes exist in Babati?

Same as previous answer.

8 Do you think the people in Babati District accept that corruption and bribes exist?

Everyone in Babati knows that corruption/bribes are common and "everyone" uses bribes themselves.

9 Do you think that the DC is trying to get people to understand that corruption and bribes is wrong?

They do inform.

10 What is your opinion on the DC? Are they doing a good job?

Same as previous answer.

Interview 4)

1 Sex: Male
2 Age: 23
3 Occupation: Farmer
4 What is your opinion on development aid?
It is good.

5 What people do you think gain from development aid? (Is it the poorest, the not so poor, or is it maybe the village chairman or the people working at the DC?)

The ones who need the aid get it, but the rich also receive much money.

6 Do you think that officials sometimes take advantage of their position and accept bribes from people who want something from them?

Yes, officials take aid money.

7 Do you think that corruption and bribes exist in Babati?
Yes, corruption exists in Babati. It is common to bribe your way to employment, and even in the schools and the justice system bribes are common.

8 Do you think the people in Babati District accept that corruption and bribes exist?
Corruption is hard to counteract, especially because it can be difficult for people to know if it is a bribe or a gift.

9 Do you think that the DC is trying to get people to understand that corruption and bribes is wrong?
DC is trying to inform/prevent corruption, but not in a big sense.

10 What is your opinion on the DC? Are they doing a good job?
DC is corrupt. For example can a teacher who wants to be transferred to another school get his or her will if he or she bribes the DC.

9.2 Interviews with Sida

9.2.1 Interview D

15/1 2007 Interview with Lisa Mossberg, Department for Europe, Division for South Eastern Europe

How do you choose recipient countries? Do you in first hand give aid to the poorest countries with good public management?
The Swedish government prepares documents that regulate Sida’s work and which countries to give aid to.

Do Sida regard corruption as an obstacle that decreases the effectiveness of aid?
Yes. That is why a risk analysis always is made. Sida gives aid that has the purpose to eliminate corruption, for example education/training, information campaigns, policy strategies etcetera.
Do Sida regard corruption as an obstacle that decreases the effectiveness of aid?
Yes. It is an obstacle, not only for aid but also for development. We have to secure the use of aid.

Is there any difficulties acting in line with Sida’s anti-corruption regulations in countries where corruption is common and isn’t regarded as wrong or strange?
No, there are no difficulties with that, it is always possible to act. The problem could rather be how it is seen upon in the countries of cooperation. They could have a totally different view of “conflict of interest” for example and may think that it is rude not to help family members in situations that we in Sweden classify as conflict of interest. That is why it is important with preventative actions like, in the initial stage of a cooperation, explaining to the recipient country that corruption is not accepted and that “this is what we mean by corruption...”.

Is corruption that common that Sida counts on meeting corruption in the developing countries? Is the risk of corruption investigated before every cooperation? How well does Sida discover corruption connected to aid? Is there any statistics on how often Sida meets this problem or is it all over all the time?
Sida always prepares cooperation with a risk analysis, and corruption is then brought up as a risk. Sometimes there are other risks that are more severe and sometimes corruption is a very important issue. There are no statistics on how of ten Sida meets corruption, but the departments do collect cases and follow them up to see how common it is.

How often does Sida have to withdraw assistance and give sanctions?
I cannot answer how frequent it is, but it happens that aid is withdrawn and sanctions given. Aid is also withdrawn during investigation on suspicion of corruption, when a corruption revision is made.