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Bachelor thesis

Development aid: promoting progress or aggravating abuse?

A case study of development aid worsening Malawian state capacity and corruption

Abstract: Many Sub-Saharan African countries have been heavily reliant on development aid since their independence. While development aid is intended to promote progress in these countries, existing works of literature have stressed its drawbacks. Worsened state capacity and increases in corruption and rent seeking have been the focal point in these critiques. Understanding these drawbacks is essential in assessing the extent to which development aid can indeed effectively advance developing countries. In this paper, I investigate to what extent development aid has worsened Malawi's situation of state capacity and corruption. I make use of a three-way approach, combining a literature study, numerical aid and expert opinion in the form of a semi-structured interview with former high commissioner of Malawi Fergus Cochrane Dyet. The results do not suggest that aid indubitably leads to lower state capacity and more corruption. However, the research indicates that development aid is an enabling factor in bribery, intensified by the notion of redistributing wealth among inner circles which is prevalent in Malawian society. Also, increases of development aid in Malawi have been accompanied by worsening scores of state effectivity. This suggests that aid hinders governments in aid-recipient states to function effectively.

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Chapter 1: Introduction

International development aid has played a part in the history of many African countries. Since their independence, many African countries have been reliant on foreign aid. Terms like aid dependency and debt servitude have been coined to illustrate the negative effects that aid reliance can cause. While development aid is widely regarded as a necessary and almost morally obligated measure, some works of literature have stressed the drawbacks it brings. Weakened state sovereignty and corruptive practices are the points of focus in these critiques. Aid can be vulnerable to corruptive practices as local leaders can handle and allocate it at their own discretion. Political leaders often hold a position of monopoly over aid resources. Systems of accountability for aid are weak, enabling aid corruption to continue existing (Klitgaard, 1988). Works of literature on aid causing weakened state capacity and corruption are few and far between. Though causal mechanisms have been researched, the extent to which aid actually has damaging effects on aid-recipient states has been only scarcely examined.

In this paper I will examine the possible causal relation between aid and weak state capacity and corruption, as well as the extent to which it damages aid-recipient countries. The paper contributes to the debate on effectivity of international aid. Focusing on the case of Malawi, I will investigate the negative, unintended consequences of aid. This will be done by conducting a content analysis of literature on this relation, both for Malawi and altogether. Data on development aid, state capacity and corruption in Malawi will be used to illustrate the state of affairs in the country. In addition, a specialist interview with Fergus Cochrane-Dyett will be conducted. He was the British High Commissioner in Malawi from 2009 to 2011. Cochrane-Dyett experienced corruption in the country first-handedly. He was expelled from the country after his confidential telegraph – in which he criticized President Bingu wa Mutharika – was published.

Malawi is a highly aid dependent country and shows signs of a weak state and corruption; unfavourable positions on the Fragile State Index (Fund for Peace, 2019) and the World Bank Government Effectivity Score (World Bank, n.d.) affirm this. The corresponding research question is as follows: to what extent has development aid worsened Malawian state capacity and corruption? Firstly, the literature on negative effects of development aid in existing literature will be examined. Then, the history of Malawi and developmental aid will be

explained, as well as the current state of development aid in the country. Thereafter, the situation of state capacity and corruption in Malawi will be closely examined. Finally, the extent to which this situation can be explained by development aid will be researched. The paper contributes to the debate on effectivity of international aid. Highlighting the negative effects of aid on recipient states, this paper can be used to critically assess the desirability of offering aid to developing countries.

Chapter 2: Why Malawi? Methodology and research design

2.1 Malawi as a typical case: a background in numbers

Malawi is a heavily aid-dependent country. From 2008 to 2018, official development aid (ODA) accounted for 17.6% of Malawi's gross national income on average (World Bank, n.d.). Malawi also shows signs of weak state and corruption. Through the years 2008-2019, it averaged place 38.3 on the Fragile State Index, meaning it was the 38th most fragile state in the world in that period (Fund for Peace, 2019). It also scored poorly on the World Bank government effectivity score and the United Nations Human Development Index (World Bank, n.d.) (United Nations, n.d.). Malawi is qualified as a partly free country by the Freedom House Index, scoring an overall score of 62 out of 100, a political rights score of 26 out of 40 and a civil liberties score of 36 out of 60 (Freedom House, n.d.). Malawi's average GDP per capita in the period 2008-2018 was approximately 402 US\$ (World Bank, n.d.). By way of comparison, the Dutch equivalent of this statistic is approximately 51,200 US\$. In short, Malawi is a typical case of a highly aid dependent country with a weak state and corruption. It makes the country an appropriate case for testing the causal relation between aid and weak state capacity and corruption.

Malawi is a country with little conflict, especially compared to other sub-Saharan African states. In 2019, Malawi ranked 40th overall for most peaceful country and third on most peaceful Sub-Saharan African country on the Global Peace Index (Institute for Economics and Peace, 2019). As seen in figure 1, Malawi's state of peace has consistently been classified as 'high' since the introduction of this classification in 2012. Throughout the 2008-2019 period, Malawi was consistently one of the higher-ranking countries in Sub-Saharan Africa. Oftentimes, circumstances of weak state capacity and corruption can be explained by conflict that deteriorate states socially, economically and politically. The case selection

ensures that conflict is ruled out as the cause of weak state and corruption, meaning that the assurance of a causality between the researched factors is greater.

Year	Overall rank	Regional rank: Sub-Saharan Africa	State of Peace classification
2019	40	3	high
2018	44	7	high
2017	48	7	high
2016	45	7	high
2015	51	5	high
2014	77	13	high
2013	74	12	high
2012	60	12	high
2011	39	2	n/a
2010	51	4	n/a
2009	47	2	n/a
2008	73	10	n/a

figure 1: Malawi's scores on the Global Peace Index 2008-2019

Source: Institute for Economics and Peace, 2019

2.2 Research design

The main research question is as follows: to what extent has development aid worsened the Malawian state capacity and corruption?

The corresponding sub questions, along with their justification and methodology are as follows:

- What is the debate in literature when it comes to development aid?

The first step in answering my main question is to study existing works on the topic. By doing so, I will offer a detailed overview of the possible ways that aid can lead to a weak state.

- What is the history and current state of development aid in Malawi?

In order to draw conclusions on the case, it is necessary to have an adequate understanding of the history. Combining literature, numerical data and expert opinion, I will provide a detailed

understanding politics, economy and social relations in the country. I will also examine the extent to which Malawi is currently dependent on aid.

- How is the situation of state capacity and corruption in Malawi?

The next step in my research is to get a thorough understanding of the level of state capacity and corruption in Malawi. Literature on this subject, along with numerical data and expert opinion, will be used to depict the situation of state capacity and corruption and their consequences for Malawi as a state.

- To what extent can the situation of state capacity and corruption be explained by development aid in Malawi?

Finally, I will research to what extent the situation of state capacity and corruption can be explained by the effects of foreign development aid. This will be done by researching literature suggesting a causal relation, analysing the indicators in numbers through time, and examining expert opinion on this relation. This three-way approach ensures a detailed, multidimensional conclusion.

Chapter 3: Literature study: the drawbacks of development aid

Scholars in existing literature have formulated critiques on aid and its impact on aid-recipient countries. I will closely examine the causal mechanisms through which aid is argued to cause weak state capacity. Firstly, works of literature have demonstrated that development aid can cause dependency and loss of sovereignty for the aid-recipient country. Secondly, it has been argued that rent seeking and corruption are oftentimes the result of influx of capital through aid in countries where capital is low and aid is thus highly impactful.

3.1 Aid and dependency/limited sovereignty

Gould (2005) argues that development aid leads to a transformation of the political domain in developing, aid-recipient countries. This is characterized by a deterioration of the state's ability to maintain its own economy. Developing countries are often caught up in a situation of debt servitude and lose control of their sovereignty because of increasing potency of the donor countries or NGOs. Donors impose their views on the aid recipient country, often aligned to a neoliberal paradigm. Development aid can also negatively affect the domestic mechanisms for holding leaders accountable, especially in countries that are weak democratically. Bräutigam & Knack (2004) argue that aid dependence is an often overlooked, but problematic condition caused by influxes of aid. They define aid dependency as a

circumstance in which governments are not able to perform core functions like maintaining infrastructure or providing public services without assistance of foreign aid providers. Many African states find themselves in this predicament. Bräutigam & Knack argue that high levels of aid can worsen governance in two ways. Firstly, aid can weaken institutions through aid fragmentation and obstruction of possibilities to learn for themselves. Also, high levels of aid can create incentives leading to a collective action problem. This hinders the building of a capable and responsive state. The authors find a statistical relationship between high levels of aid in Africa and worsening of governance.

Bond and Dor (2003) argue that Africa has been marginalized in the globalized economy. Western strategies, often imposed by the Bretton Woods Institutions, failed to stabilize and recover African countries. Influence of foreign multilateral agencies and neoliberal conditionality of donor aid caused pressure to conform to neoliberal policies. These policies included removing trade barriers, currency devaluations and decreases in corporate tax, among other forms of liberalisation. Africa has endured unfair terms of trade in the world economy, caused by a focus on primary commodities with unstable prices. This makes Africa even more dependent on the Global North. Bond and Dor argue that the Bretton Woods Institutions blamed the victims for the negative effects of structural adjustment programmes by attributing the failures to internal problems in the aid-recipient countries. The neoliberal reforms as prescribed by Bretton Woods Institutions, in which the global North imposed conditions on the South, have been heavily criticized (Page, 2019). Critics stress that the programmes increase poverty instead of reducing it. The neoliberal reforms result in aid-recipient countries having less to spend on domestic issues like health and education while payments of debt and economic policies were favoured. Thus, the neoliberal conditional aid caused more poverty in developing countries.

3.2 Aid and rent seeking/corruption

Djankov et al. (2008) examine the relationship between foreign aid and political institutions. It has been argued that aid leads to rent seeking behaviour by political rulers in aid-recipient countries. They do this to appropriate resources and exclude other players from the political arena. This leads to a deterioration of political institutions and a less democratic and representative political realm. Little accountability and a lack of checks and balances allow this behaviour to go unchallenged. Djankov et al. run a statistical test on over 100 countries and find that being dependent on aid leads to a worsening of political institutions. Democracy

is reduced as the impact of foreign aid grows. The authors compare the 'curse of aid' to the notorious curse of natural resources and note that foreign aid carries a graver negative impact. Svensson (1999) also researches rent seeking as a result of foreign aid. He seeks to explain why foreign aid oftentimes has negative impacts on developing countries. He examines to what extent a relationship between concessional aid, widespread corruption and other types of rent-seeking can be concluded. Using a game-theoretic rent-seeking model, Svensson draws two key conclusions. Firstly, an increase in government revenue does not necessarily lead to an increase in the provision of public goods in developing countries. In some cases, the provision is even reduced. This implies that aid towards these countries does not result in the provision of public goods. Secondly, the expectation of aid can cause rent-dissipation which leads to a reduction of productive public spending. The author does however note that this result could be reversed if the donor community implements binding policy commitments.

Hodler (2007) adds foreign aid and rent seeking for public funds to the already existing Barro growth model. He notes that aid effectivity depends on fiscal policies, level of aid inflows and the quality of institutions restricting rent seeking activities. Because rent seeking impacts all three determinants, he concludes that rent seeking is a determinant of aid effectivity. The new model that includes aid effectivity suggests three findings. Firstly, foreign aid works better if taxation is kept low or moderate. Secondly, returns to aid are diminishing. Finally, aid works best if institutions are in place that limit rent seeking activity. Ultimately, Hodler concludes that rent seeking is partly responsible for poor effectivity of aid. Moyo (2009) notes the problem of corruption linked to foreign aid. Aid that is intended for the average African citizen is oftentimes captured by bureaucratic institutions such as country governments and donor-funded NGOs. Asongu (2012) opposes the view that aid deters corruption. Using data on 52 African countries, he finds a positive relation between aid and corruption. In his regression, Asongu concludes that foreign aid diminishes the control of corruption. Development assistance thus fuels corruption by mitigating the control thereof. Lancaster (1999) argues that aid can be used by corrupt governments to stay in power. Their regime is extended because the development aid strengthens their legitimacy and encourages their corruptive practices.

In light of the concern voiced by critics that aid ends up with the elite in aid-recipient countries, the World Bank conducted a research paper on the elite capture of foreign aid

(Andersen et al., 2020). Using World Bank statistics on aid disbursements and data on foreign deposits from the Bank for International Settlements, the authors examine the extent to which aid causes capital flows to foreign bank accounts. The authors find that aid directed to aid-dependent states coincide with increases in deposits in offshore accounts in financial centres known for secrecy and private wealth investment, while this is not the case for other deposits. As politicians, bureaucrats and their inner circle capture aid, these patterns go up consistently. Andersen et al. ultimately estimate a 7.5% leakage of aid for the average country that heavily depends on aid. This percentage increases along with the ratio of aid to GDP, suggesting that a considerable portion of development aid is lost to corruption.

3.3 Causal mechanisms in brief

Figure 2 offers an overview of the causal mechanisms of the negative effects of development aid, as demonstrated in existing literature. It explains in brief how aid is argued to lead to a weaker state and more corruption. Two main processes are prevalent, the first being aid dependency and a loss of sovereignty and the second being an increase corruption and rent seeking.

Dependency and loss of sovereignty	Corruption and rent seeking
economic dependency → donor view imposition on aid-recipient states → loss of sovereignty of aid-recipient states	development aid → appropriation of resources & exclusion of political opponents → deterioration of political institutions → less democratic and representative political realm
development aid → aid fragmentation, obstruction of possibilities to learn → weakened aid-recipient state institutions	expectation of development aid → rent-dissipation → reduction of productive public spending
high levels of development aid → incentives to keep receiving aid → collective action problem → no amelioration of state capacity	development aid → rent-seeking behaviour → negative changes in fiscal policies, aid inflows and quality of institutions
development aid → imposition of Western, neoliberal strategies → unfavourable economic position for aid-recipient countries	little control of corruption → capture of development aid by the elite
	development aid → strengthening of corrupt governments → extending corrupt regimes

figure 2: causal mechanisms of negative effects of development aid

Chapter 4: The history and current state on development aid in Malawi

4.1 Literature on development aid in Malawi

Before its independence, Malawi was ruled by Britain and was known as the Nyasaland protectorate (Page, 2019). In 1964, Malawi gained independence and two years later it became a republic. Since its independence Malawi has continuously been dependent on foreign aid. The country is heavily underdeveloped. Poverty and hunger are prevalent throughout the country, with two-thirds of the population living beneath the poverty line (Page, 2019). Like many sub-Saharan African countries, Malawi accepted financial aid by the Bretton Woods Institutions in the late 1970s, known as the Structural Adjustment Programmes (SAPs). This aid was tied to neoliberal ideological conditionalities. In 1979 the Malawi government implemented the neoliberal reforms. In 1999, the International Monetary Fund (IMF) replaced the SAPs with Poverty Reduction Strategy Papers (PRSPs) as the loan and debt strategy (Page, 2019). The PRSPs intended to improve growth and reduce poverty through macroeconomic, structural and social policies in the participating countries. These new strategies were still tied to conditionalities and were criticized for being equally harmful to the developing countries as former programs. At the start of the 21st century, the UN Millennium Development Goals (MDGs) were set and strategies shifted towards sustainable, pro-poor development. Critics of the MDGs argue that they were pompous but not realistic and poorly thought out. Furthermore, little differences were set in the targets for various countries, ignoring the differences in past achievements per country and socio-economic differences within these countries. Nevertheless, Malawi adopted the Malawi Growth and Development Strategy (MGDS) based on the MDGs. These strategies focused on six themes:

- sustainable economic growth
- social protection
- social development
- management and prevention of nutrition disorders and HIV/Aids
- infrastructure development
- improved governance

Between 2005 and 2010, Malawi's economy grew at an average 7 percent per year. The World Bank suggested that solid economic policies and an encouraging donor environment as the reason for this growth. From 2010, the growth staggered due to worsened policy environment (Page, 2019). Shortages in fuel and electricity followed and the costs of living

increased. Former President Bingu wa Mutharika faced strict conditionalities to pay out the loans received between 2004 and 2011, that totaled to more than 5 billion US\$. He had to rule while abiding to strict guidelines by the IMF and UN. During these times, Malawi endured problems regarding international donors. In 2009, Mutharika claimed that the Bretton Woods Institutions caused foreign exchange shortages by forcing Malawi to implement economic liberalisations (Page, 2019). In 2010, the IMF pressured Malawi to devalue its currency to ameliorate investment in trade, however this advice was ignored. Remarkably, the IMF asked donors to release their support towards Malawi. Donors became progressively concerned with the situation in Malawi, where corruption by the government was also prevalent. Key aid donors announced in 2011 that aid towards Malawi would be suspended if these concerns were not addressed and corrected. The United Kingdom, Malawi's largest bilateral donor at the time, decided not to continue its spending commitment in 2011. Various other important donors ended support to Malawi or sought to change internal policies on human rights. Following these decisions, Mutharika voiced his frustrations towards the donors and accused them of prioritizing civil society organizations over direct collaboration with him (Page, 2019).

4.2 Aid in Malawi in numbers

To this day, Malawi is heavily dependent on foreign aid. In 2018, official development aid (ODA) accounted for no less than 18 percent of Malawi's GNI. This percentage is the 12th highest, topped only by various microstates and African/Asian states in hefty conflicts (World Bank, n.d.). For its neighbouring countries, these percentages are lower. Mozambique, Zambia and Tanzania hold percentages of 12.6, 3.8 and 4.4, respectively. Malawi's biggest aid donor is the United States, which donated 449,7 million US\$ ODA on average between 2017 and 2018 (OECD, n.d.). The International Development Association and The Global Fund are the biggest non bilateral donors, donating 230,4 and 156,0 million US\$ respectively. In this period, a large share of aid was directed at the health and population sector; 37%. Education and humanitarian aid are other sectors where a big share of aid is directed to, with percentages of 16 and 13 percent of total aid respectively.

4.3. Expert opinion on aid in Malawi: Interview with Fergus Cochrane-Dyett

When asked about his history in Malawi and his involvement in addressing corruption in the country, Cochrane-Dyett described details about aid in Malawi. He served as high commissioner in Malawi from September 2009 to April 2011. A high commissioner is the

equivalent to ambassador for Commonwealth countries. As the relationship between Commonwealth countries is supposed to be especially close, the High Commission is a signal of that close relationship (personal communication, 20 May 2020). Cochrane-Dyett was tasked with leading the high commission. He states that the British mission in Malawi was heavily skewed towards development work. Specifically, money was supposed to bring services to the Malawi people and alleviate poverty.

The High Commission held a wide array of focuses. Supporting education, health, agriculture, the social sector and the private sector were all part of the mission (personal communication, 20 May 2020). Aid was provided in two forms. Firstly, sector support was provided to a particular sector. Secondly, budget support was in effect a check to the government. Not tied to one particular sector, this injection of money into government budget was intended to enable more spending in areas where donors deemed it necessary. Cochrane-Dyett stressed the interest of the High Commission to understand the Malawi budget system and the role of the government, because British taxpayers' money was at stake. Already, there was controversy surrounding international development. Aid spent in Malawi could have also been spent domestically. This causes a sensitivity on the subject and a degree of scepticism on foreign aid was apparent.

Chapter 5: The situation of state capacity and corruption in Malawi

5.1 State capacity and corruption in Malawi in literature

Anders (2002) names corruption as a common phenomenon in Malawian bureaucracy. Malawi has widespread and strong networks of affectionate relations. Within these networks, moral imperatives and obligations are central. Civil servants, a small privileged share of the population, are expected to support relatives although this violates office regulations. Civil servants exploit the situation of different normative orders - legal and personal - in order to maximise profits and ameliorate and secure their position. Anders views corruption not as a deviant behaviour but rather embedded in mainstream society in Malawi. Corruptive principles coexist parallel to official government regulations. Since the early 1990s, there has been a spread of corruption from top to bottom in Malawi (Anders, 2002). Anti-corruption measures were often taken under donor pressure. The 1998 donor-funded Anti-Corruption Bureau is a direct product of the promotion of good governance by international donors like the World Bank and IMF. Anders notes that the promotion of human rights and governance

by donors have contributed to a more open discussion of corruption. Whereas corruption had previously been seen as part of politics, accusations of corruptive practices have been widespread since democratisation.

The term *katangale* is often used to describe the corruptive practices in Malawi (Anders, 2002). It is less harsh than the term corruption and tied to the perception that it is not an individualistic wrongdoing but something that someone is drawn into because it is the way it is done. It is linked to the idea of sharing wealth and generally acceptable if others benefit. In Malawi, there is a strong notion and moral obligation to redistribute wealth and share it with inner circles. The patron is returned with substantial status. The connection to such a patron also contributes to the social status of a client. Although sets of rules and codes exist throughout Malawian bureaucracy and government, it is mainstream for civil servants to disregard and undermine these rules. Corruption by superiors is often accepted as long as everyone involved in the corruptive practices benefits. Official rules lack legitimacy in both higher and lower levels of democracy and are distanced from the reality of how Malawian bureaucracy is conducted. Enforcement of official rules is also hindered by unclear mandates and poor resources of controlling organisations.

When discussing corruption in Malawi, it is useful to understand the underlying causes of corruption in the country. Anders (2002) notes the existence of strong networks based on affectionate relations, which are prevalent in many sub-Saharan African countries.

Traditional networks, that lie at the base of corruption in many African states, are prevalent in Malawi as well. The current duty of redistributing wealth with inner circles could stem from this notion. Hussein (2005) states that there is no clear agreement on the causes of corruption in Malawi, while propositions include greed, immorality and unethical behaviour by political leaders. In Southern Africa, greed is the foremost underlying cause of corruption. In Malawi specifically, Hussein argues that economic, social, political and administrative elements enable corruption. Economic factors relate to poverty and the great discrepancy between rich and poor, which enables corruptive practices by public officials. Lower public officials struggle and turn to corruption to survive. Meanwhile, top-level officials turn to corruption to maintain their status and wealth. Scarcity of public goods further leads to corruption by those who urgently need them. Hussein adds that liberalisation, both politically and economically, enables patronage and clientelism. Also, foreign investors promoted corruption through bribing officials for contracts and business deals. Multinational corporations warrant

corruption, while a lax approach in ethics and low levels of commitment to fight corruption worsen the issue. Furthermore, cultural standards can increase corruption. There exists a social structure based on ethnicity and traditional values, characterized by assisting relatives or members of the same clan. Public officials who are influenced by traditional values often indulge in nepotism. If public officers adhere to traditional principles, corruption is enabled. Lastly, administrative factors are relevant in explaining causes of corruption in Malawi. Bad public delivery and rigid bureaucracy promote corruption. Because there is little automation in government departments, proceedings are slow and inefficient, causing clients to offer bribes in order to speed up the process. Regulations become selective and discriminatory, enabling corruption.

5.2 The current state of state capacity and corruption in Malawi

Today, weak state capacity and corruption still form a problem in Malawi. In the period 2006 up until 2019, Malawi scored 37th place out of all recognized states on average on the Fragile State Index (Fund for Peace, 2019). Recently, Malawi dropped on the index, showing a positive trend. In 2019, Malawi scored 49th, the most favourable position to date.

During these years, still, Malawi scores poorly for every indicator of the World Bank Worldwide Governance Indicators. These scores are rated from -2.5 to 2.5, where -2.5 is the lowest and 2.5 is the highest possible score. As seen in figure 3, control of corruption is poor, enabling widespread corruption. Furthermore, Malawi received unfavourable scores for its government effectiveness and regulatory quality, showing signs of low state capacity and corruption.

Estimate	2015	2016	2017	2018
Control of corruption	-0.8	-0.8	-0.7	-0.7
Government effectiveness	-0.7	-0.7	-0.7	-0.7
Regulatory quality	-0.8	-0.8	-0.7	-0.7
Voice and accountability	0.0	0.0	0.0	-0.1
Rule of Law	-0.3	-0.4	-0.4	-0.4
Political stability and absence of violence/terrorism	0.0	-0.1	-0.3	-0.3

Figure 3: Malawi's estimate scores on the WB Worldwide Governance Indicators (2015-2018)

Source: World Bank, 2018

The questionable state of Malawi government and governance is exemplified by Cashgate. Cashgate was a corruption scandal leading up to the 2014 Malawi elections (Zimmerman, 2015). Paul Mphwiyo, Malawi's budget director at the time, was shot. President Joyce Banda declared that the shooting was carried out in response to Mphwiyo's plan to combat district-level corruption. The incident triggered an investigation resulting in over sixty corruption related arrests. Baker Tilly, a British accounting firm, held an official audit report requested by UK's Department of International Development (DFID). Three forms of corruptive practices were discovered (Baker Tilly, 2014):

- 'cashgate transactions': Government funds were transferred into private accounts with no evidence of goods or services provided. These payments were classified as theft of government funds.
- 'inflated procurement prices': Payments were made to recently formed companies and lost, through theft or inappropriate spending.
- 'payments with no supporting documents': Other payments were made towards the new companies with no evidence at the time of the report.

Ultimately, over 32 million US\$ was revealed to be stolen (Zimmerman, 2015). The report states that control failures and poor usage of existing controls were key in enabling the wrongdoings. Because of poor accountability, non-compliance with the Public Finance Management Act (PFM) obligations was enabled. This illustrates the poor control of corruption and government effectivity in Malawi.

5.3 Expert opinion on state capacity and corruption: interview with Fergus Cochrane-Dyet

The interview with Fergus Cochrane-Dyet offered a deeper and more personal understanding of corruption in Malawi. During his time in Malawi, he noted that it was apparent that things were not heading in the right direction in the country (personal communication, 20 May 2020). Then President Bingu wa Mutharika was on his second term. Cochrane-Dyet notes that his first term was relatively stable. In this term, he led a minority government with strong opposition. On his second term, however, he led a majority government with weak opposition. Cochrane-Dyet argues that a lack of discipline caused the quality of government to unravel. Wa Mutharika was elderly and struggled with health problems. Furthermore, rumour was that he was an alcoholic and he was becoming increasingly paranoid. He changed state houses from Lilongwe to Blantyre, claiming the former was haunted. In short, Malawi had an unstable head of state who was in charge of a government funded largely by international donors. Cochrane-Dyet stresses the difficulty of collecting firm evidence of corruption. Evidence is often second-hand and circumstantial. However, he argues that there was enough reason to be concerned. Large sums of money were spent on personal goods. At the time, President Bingu wa Mutharika was building a new, private residence that was very extravagant and expensive. Reports stated that it was financed using government expenditure. Also, Cochrane-Dyet recalls the President organising his very lavish wedding at the state house. It was suspected that companies were coerced to contribute to the marriage, but the suspicion that it was financed by government capital was also high. Another instance of this personal spending of public capital was the unnecessarily high amount of money spent on travel. When travelling, the President took an excessively large retinue. In addition, Cochrane-Dyet recalled an instance where diplomats flew economy class, as is regulation for short flights, while Malawi civil servants travelled business class.

I asked Fergus Cochrane-Dyet about the notion and practice of sharing wealth with inner circles, and whether he recognized this during his time in Malawi. He affirmed this and brought up the theory of neopatrimonialism, stating that this theory was popular in the eighties and nineties but was challenged for being too simplistic. Cochrane-Dyet however finds that the theory still holds. Central is the idea that alongside the legal, judicial and bureaucratic system, there is a hybrid system where the ruler and his officials govern through vertical systems of clientelism. Patronage is pivotal, resulting in appropriation of state

resources and funneling to supporters in order to remain in power. Cochrane-Dyett notes that this is what was happening during his time in Malawi. The government did not have much own wealth and this form of corruption is particularly risky for international development given the reliance on aid donors (personal communication, 20 May 2020).

Chapter 6: Development aid leading to low state capacity and corruption in Malawi

6.1 Evidence in literature

Evidently, international aid providers have had a large impact on Malawi by influencing policies through aid conditionality. When these conditionalities are not obeyed, a decrease or withdrawal of funds could be the consequence. This demonstrates how dependent the country is on the view of Western donors. This ties back to Gould's (2005) argument that aid can lead to a situation of debt servitude and loss of sovereignty for developing countries. Malawi's aid history also directly relates back to the Bond and Dor (2003) argument that Africa has been marginalized while having to adhere to Western strategies that oftentimes are not specialized in the country-specific cases of the aid-recipient states. It could also be argued that Bond and Dor's argument that the Bretton Woods Institutions blamed the victim for failures of the programs is applicable for Malawi, where aid was withdrawn because of internal problems of corruption.

In spite of this, literature on Malawi corruption rarely touches upon the link between aid and corruption. More attention is centered around the anti-corruption implementations that aid donors introduce. Anders (2002) mentions that there is a sense of discontent about the functionalities of donor agencies and NGOs earning noticeably more than Malawi civil servants. Burrowes (2018) does study the relation between aid levels of the sub-national level and experiences and perceptions of local corruption in Malawi. She argues that the expectation of corruption in aid is significant for the local community level, because the level of discretion is high. Using a regression analysis, Burrowes finds no significant relationship between levels of aid and citizens perceptions of corruption of local leaders. The effect is usually negative, meaning that if anything, aid activity might be associated with lower perception of corruption. The author argues that this might be the case because citizens view aid provision as a manifestation of fair and effective government, while it might de facto go paired with corruptive practices. Burrowes does find a significant, positive relation between

aid levels and experienced local corruption through bribe solicitation. This is in line with the work of Anders (2002), where he states that civil servants with privileged positions are expected to financially help their inner circle. Drawing from these conclusions, it could be argued that Malawi's culture of redistributing wealth among relatives is an enabling factor of corruption through aid.

A SEED, a Dutch NGO, produced a report criticizing the World Bank and its conditional aid. It was based on case studies of various developing countries, among which the case of Malawi. The publication reported a correlation between the WB policies and increased levels of poverty in various developing countries. In Malawi specifically, the World Bank provided Malawi with over 120 loans, primarily through the International Development Association program. These loans amount to roughly 3 billion US\$. Some of these loans were conditional and sought to liberalise the agricultural market and to privatize the Agricultural Development and Marketing Corporation (ADMARC). The policy implementation caused protest by the people of Malawi and the national assembly, as agriculture is the main source of livelihood for more than 85% of Malawians (Cabello et al., 2018). After the resistance towards the privatisation, the IMF declared Malawi off-track because the privatization was a big trigger point in the 2000 IMF Poverty Reduction and Growth Facility.

The World Bank continued an approach towards Malawian agriculture characterized by full sector liberalization, ignoring increasing questioning by government and other countries. This was done in spite of World Bank studies concluding risks for the livelihoods of the poorest members of Malawian society. The Poverty and Social Impact Assessment (PSIA), held by the World Bank, showed that the privatisation could negatively impact the lives of the rural, poor and vulnerable members of society in Malawi. ADMARC held an important role in ensuring food security, especially in low harvest seasons. Before the privatisation, ADMARC operated throughout Malawi, offering food, seeds and fertilizers at affordable prices. After privatisation and liberalisation, as demanded by donors, many ADMARC markets were closed in more remote areas. Farmers could no longer access cheap agricultural products, selling produce was hindered and harvests were reduced. Implementation of policies caused a lack of capacity in Malawi food security programs that could not be fixed by the private sector. In 2002, Malawi suffered a famine. The following year Malawi's government needed money, but due to being off-track on IMF programmes, it could not receive low-interest funding from other donors. The World Bank offered a 62m\$ loan, again tied to

conditionalities that progress on privatisation of ADMARC was made. This process, especially the fact that the World Bank imposed conditionalities based on previous failures that had negative effects for Malawi citizens, shows the lack of understanding of western donors on the effects of their aid on aid-recipient countries. At the end of the report, the authors argue that imposing neoliberal conditionalities implies a rejection of other visions offered by local governments or social movements. Donor countries, including the Netherlands, should work towards identifying new, more efficient ways of providing aid (Cabello et al., 2018).

6.2 Evidence in numbers

When discussing the extent to which development aid causes weak state and corruption, it is useful to look at the level of aid received and compare it to indicators of weak state and corruption.

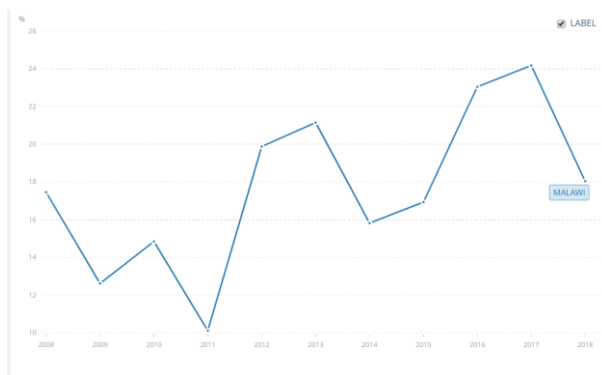


figure 4: official development aid as share of Malawi's Gross National Income 2008-2018

Source: World Bank, n.d.

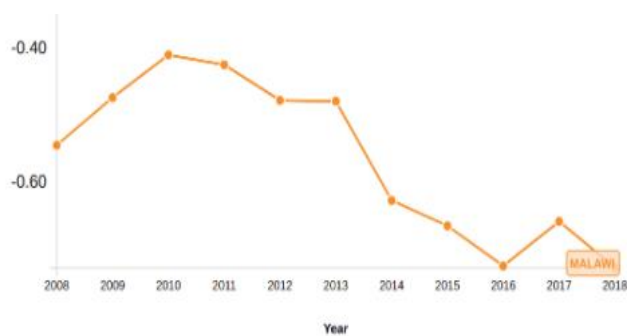


figure 5: Malawi's score on the WB government effectiveness score 2008-2018

Source: World Bank, n.d.

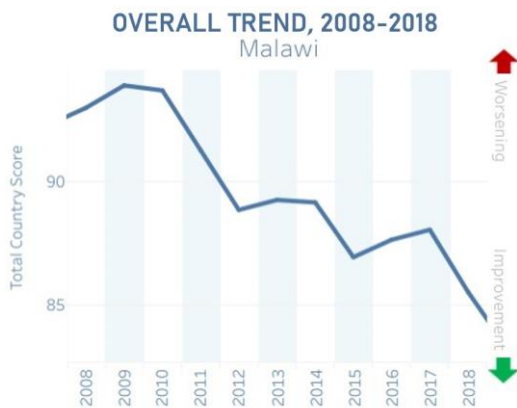


figure 6: Malawi’s score on the Fragile State Index 2008-2018

Source: Fund for Peace, 2019.

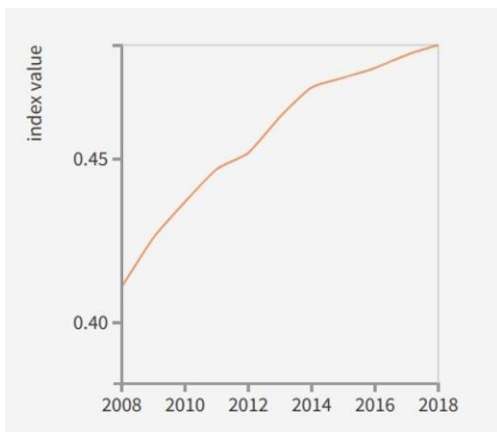


figure 7: Malawi’s index value on the Human Development Index 2008-2018

Source: United Nations, n.d.

Malawi has had an unruly history as an aid-recipient country, in which notable fluctuations can be seen. The percentage of ODA as Malawi’s gross national income from 2008 to 2018 was 10% at its lowest and 24% at its peak. A notable increase can be seen from 2011 to 2012, as well as sharp increases from 2015 to 2017. Sharp decreases can be seen from 2013 to 2014 and from 2017 to 2018. Overall, the graph shows an upward trend, meaning that aid became a larger share of Malawi’s national income over the years. In terms of Malawi’s score on government effectiveness, we see a clear worsening of government effectiveness through the years 2008 to 2018. However, on both the Fragile State Index and the Human Development Index, Malawi shows clear and consistent improvements.

The discrepancy between the Fragile State Index and Human Development Index scores and the World Bank government effectivity scores over time is remarkable. On the one hand, data shows that quality of life, economics and society in Malawi seem to have improved. At the same time, quality of public and civil services, quality of policy and credibility of government worsened. This could imply a double-sided effect of aid, where the aid recipient state sees improvements but its state fails to function independently and effectively. This implication is backed up by the literature on the matter, as described in the literature study, where loss of sovereignty is an often-noted negative effect of aid. Gould's (2005) argument that aid leads to increased donor potency is highly relevant. He argues that debt servitude causes a loss of sovereignty for aid recipient states, weakening domestic mechanisms. Brautigam and Knack (2004) note that aid dependency leads to a situation where governments cannot perform core functions. These theories seem to be applicable to the case of Malawi, where data shows that government effectivity coincided with a loss of government effectiveness.

6.3 Expert opinion on development aid leading to low state capacity and corruption in Malawi: interview with Fergus Cochrane-Dyett

During the interview, I asked whether Cochrane-Dyett believes influxes of aid could lead to more corruption in Malawi. He responded by stating that risks are involved, and it depends on how the aid is being provided. If aid is put through UN agencies, the World Bank, the International Monetary Fund or other reliable NGOs, the risk that governments will misuse it is diminished, because money should not be running through the government system in the first place (personal communication, 20 May 2020). He recalls a scandal in Zambia in 2018 where Britain was donating towards education and health but discover it was being misused, leading Britain to cut that fraction of aid. Providing aid directly to governments brings risks, however Cochrane-Dyett proposes that it might be unfair to solely blame these governments on corruption. Considering these governments must work with fragile institutions, it could be argued that it is irresponsible for aid agencies to use institutions they know are fragile.

Judging from Malawi's situation in 2011, Cochrane-Dyett argues that the lesson to be learned is that aid has to be delivered wisely. He stresses that he does not believe aid should be stopped, as there still is a grave problem of poverty in Malawi. However, it is vital to take account of the problem and work around the government to ensure the money is actually helping people. Close control is vital, as well as providing aid through third parties.

Cochrane-Dyett adds that in the 1990s, aid was almost completely offered through NGOs. Later, the vision changed. Instead of offering aid through third parties, donors thought it would be desirable if government institutions gained experience in providing services. After discovering the corruption this often causes in practice, the vision shifted back to using NGOs. When describing his experiences of corruption in Malawi, Cochrane-Dyett noted a problem of spending money on a sector. When money was spent on a specific sector, oftentimes the government feel let off the hook in that respect. This then means that they have room to spend money however they please, resulting in private spending as seen in Malawi. This way, aid does seem to lead to more corruptive, private spending. I noticed a connection to literature, in which Lancaster (1999) argues that development aid encourages corruptive practices and Svensson (1999) concludes that increases in government revenue do not lead to increased public goods and that aid can lead to less productive public spending.

Chapter 7: Conclusions, limitations and further research

7.1 Conclusion

Existing literature has highlighted the unintended, negative effect of aid on aid-recipient countries. Drawbacks of aid have consisted of two main types of effects. Firstly, aid is argued to cause decreased state capacity and a loss of sovereignty caused by donor imposition tied to a neoliberal paradigm. Secondly, aid has been linked to corruption and rent seeking behaviour. Through exclusion and a lack of accountability, elites are enabled to capture aid for private gain. Literature shows a long history of conditional foreign aid in Malawi, which was indeed combined with neoliberal reforms. Numerical data show that Malawi, like many sub-Saharan African countries, is still heavily aid-dependent. In his interview, Fergus Cochrane-Dyett described the importance of aid in Malawi, which he experienced first-handedly. Development aid is spread towards many sectors of Malawian society. However, even with large influxes of aid, famine and poverty could not be prevented and liberalizations have been met with resistance. Literature shows that Malawi is a country with high levels of corruption. Sharing wealth with inner circles is a form of corruption that has been embedded in Malawian society for a long time. Data on Malawi still shows a great deal of corruption in the country, which was further illustrated by the Cashgate scandal.

In spite of the high aid dependency and high levels of corruption, there has been little research done on the link between aid and corruption in the case of Malawi. Existing

literature has not found a significant relation between levels of aid and perceptions of corruption in Malawi, though a link between aid and local bribe solicitation has been found. This ties into the Malawi culture of sharing with inner circles, suggesting that this is an enabling factor of corruption. Data on Malawian aid levels and indicators of weak state through the years show conflicting results. Fragile State Index and Human Development Index scores improved over the years while aid levels increased. Government effectivity scores, on the other hand, did show a clear worsening. A double-sided effect of aid is implied. While aid seems to improve quality of life in aid-recipient states, government functioning is worsened. This theory is supported by the notion that aid leads to a loss of sovereignty and debt servitude. During the interview, Fergus Cochrane-Dyett acknowledged risks involved with providing aid. He argued that this risk is diminished when aid is provided through third party NGOs, and when the use of aid is closely controlled. He also noted that increased spending in a sector can cause more spending in corrupt, private spending.

Combining the literature, data and expert opinion, it is apparent that aid in Malawi does not uniformly lead to a successful, strong state and a decrease of corruption. Evidently, Malawi still suffers from a fragile state where corruption is widespread and imbedded in society. Influxes of aid since independence were not able to avert this. To what extent has aid then worsened state capacity and corruption in Malawi? Drawing from the three-part approach, it cannot be unanimously concluded that aid worsens state and corruption. However, a study of literature has shown a significant relation between aid and bribe solicitation in Malawi. This corresponds with the Malawian culture of sharing public capital among inner circles, which was mentioned both in literature and expert opinion. Numerical data showed that aid in Malawi went paired with increased quality of life. It however also corresponds with a reduction of government effectivity, which is prevalent in existing literature as well. Aid has been argued to lead to debt servitude and loss of sovereignty for aid-recipient countries. Thus, while foreign aid does not damage state capacity and corruption in Malawi altogether, it is an enabling factor in bribery and decreased state effectivity.

7.2 Reflection

A strength of the research is the three-way approach. A combination of literature study, numerical data and expert opinion allows for a multidimensional interpretation. The different approaches reinforce each other. When findings are prevalent throughout the approaches, the insurance of a substantial conclusion is greater. Also, the interview offers first-hand

experience of the situation in Malawi. The research also established junctions in existing literature, further strengthening the findings. However, the research is also limited in scope, time and resource. With more time and resources, the research about aid leading to state capacity and corruption in numbers could have been more expansive. It could be expanded over a wider timeframe, possibly from independence to present if data allows it. Statistical tests could be carried out to achieve a more comprehensive study of the causality of the relation between aid and state capacity and corruption. Existing literature has found development aid to worsen indicators of weak state capacity and corruption through statistical evidence. A similar statistical test for a country-specific case could be useful to further assess the stability of this theory. From this research, interesting suggestions for further research are possible. More research could be conducted on the established link between development aid and bribery in Malawi. Malawi's culture of redistributing among inner circles could be examined as a decisive factor. Based on the finding that aid leads to improved quality of life but a weakened government in Malawi, this discrepancy of outcomes for aid-recipient states could be an interesting research. Lastly, tying into these two findings, further research could focus on researching ways of delivering aid that do not cause bribery or a decline in government effectiveness.

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Appendix

Semi-structured interview questions for Fergus Cochrane-Dyet:

1. What is your history in Malawi and your involvement in addressing corruption in the country?
2. How would you describe the situation of corruption and state capacity in Malawi?
 - 2.1 Literature on Malawi shows that there is a strong notion and practice of sharing wealth with inner circles, often defined by the term katanagale. Is that something you recognized during your time in Malawi?
 - 2.2 Over the years, have you noticed any improvements or worsenings when it comes to corruption in Malawi?
3. Malawi is a country that is dependent on foreign aid. Would you argue that influxes of aid have been affected by corruption too?
 - 3.1 Do you think that influxes of aid could actually lead to more corruption in the country?