EXAMINING AID ACCOUNTABILITY IN INTERNATIONAL DEVELOPMENT

by Elizabeth Bersin

ABSTRACT

As globalization has become a part of our every-day lives, so, too, have the many aid-related international organizations. With this, the problem of aid accountability arises– how do we ensure that aid dollars are being used effectively and efficiently? Aid accountability in international development is a complex issue with many problems that hinder aid development from reaching its full potential. These problems include aid organizations not being held accountable to donors and stakeholders, dispersion of aid dollars, diversion of resources, and other secondary problems that arise because of intervention by aid organizations. This memo examines how the criteria used to evaluate the effectiveness of aid dollars have evolved over time. Next, this memo inspects current standards in aid distribution, possible alternatives to status quo, and the risks and assumptions associated with alternatives. Logic models and outcome matrices are then used to determine the most promising solution to ensuring aid accountability. This solution, despite being a viable policy option for many organizations, may not fit the needs of all organizations. Every organization should evaluate the tools at their disposal and decide, based on the analysis available, which mechanisms will be fit their needs.

INTRODUCTION

While globalization has positively impacted many efforts to bring aid to third world countries, it has brought with it the ability and desire to ensure that aid dollars are used effectively and efficiently. Transparency, as a part of accountability, can be a valuable tool in revealing "whether officials have performed their duties" as assigned.[1] Alongside this, effective aid also requires recipient government ownership of the policies they are implementing; donors aligning their own policies and resources in relation to these; donors harmonizing their procedures and strategies; a mutual focus on time-bound and measurable results; and donors and recipients being accountable to each other and to their own constituents for the use of resources and for securing results.[2]

As the main goal of these projects is to improve the quality of life and standard of living for residents of the countries receiving aid, it is both vital and challenging to accomplish these objectives.[3] This memo will examine the problems associated with aid accountability and transparency, considering why these issues exist, and what criteria can be used to assess aid accountability.

HISTORY OF INTERNATIONAL AID

The use of international aid as a foreign policy strategy began in the early 19th century when developed countries, such as Germany and Britain, began providing aid to their colonies overseas. Developed countries built-up the colonies' infrastructure which mostly served to benefit themselves, however they continued to provide economic support even after colonies gained independence.[4] By the Cold War, a very distinct world order had emerged - the first world (Western democratic countries that had already developed), the second world (the Soviet Union and its satellite states), and the third world (former colonies in the developing stage that were still fairly dependent on foreign aid).

In the post-Cold War decade the United States emerged as the world's major provider of foreign aid.[5] The United States found itself in this role after the creation of the Marshall Fund- the U.S.'s plan to rebuild Europe after the devastation from World War II.[6] The Cold War was a competition between the two super powers, the U.S. and the Soviet Union, each using aid as a means of fostering political allegiance with the recipients. Originally, the idea was that the former colonial powers would gradually phase out their aid-giving programs to allow for global organizations such as the United Nations and the World Bank to take over;[7] however, this did not happen. In the 1960's foreign aid funded

1 Wenar, L. (2006). Accountability In International Development Aid. *Ethics International Affairs, 20*(1), 1

2 Eyben, R. (2008). Power, Mutual Accountability, and Responsibility in the Practice of International Aid, Institute of Development Studies, 7

3 Wenar, L. (2006). Accountability In International Development Aid. *Ethics International Affairs, 20*(1), 2

4 Phillips, K. (2013, December 17). The History of Foreign Aid. Retrieved September 25, 2014, from http://www.abc.net.au/radionational/programs/rearvision/the-history-of-foreign-aid/5162100

5 Phillips.

6 USAID. (2014, May 15). USAID History. Retrieved September 25, 2014, from http://www.usaid.gov/who-we-are/usaid-history

7 Phillips.

by governments increased with the creation of various government aid organizations, including United States Agency for International Development (USAID). This trend ushered in the "decade of development" and foreign aid became a main component of foreign policy.[8] While the priorities of the organization have shifted during the last 50 years from focusing on basic human needs and free market structures to sustainable development, recent years have seen this focus turn to determining how to spend aid money most effectively.[9]

THE PROBLEM OF AID ACCOUNTABILITY

Most of the problems of aid distribution fall under the umbrella of accountability. As a general concept, accountability can be defined as "answerability for performance … and holding organizations responsible for performance against pre-established objectives" by official aid agencies.[10]

The primary aid relationship is between resource providers (the wealthy, individual funders) and aid receivers (the poor).[11] This relationship is based on the responsibility the wealthy have to help the poor; however, responsibility does not equal accountability. When affluent individuals give money and support, there are no sanctions that will be taken against them if the resources fail to show any progress towards relief of poverty.[12] When actors fail to fulfill their obligations, the "standard model" of accountability dictates placing sanctions against that actor, however less powerful actors simply cannot sanction more powerful actors.[13] Aid recipients have no real power, regardless of how large of a group they are, to argue that the development aid being generated is insufficient or ineffective.[14]

When rich individuals are not the ones actually distributing aid, accountability falls on intermediary institutions - the aid organizations receiving money from the rich and tasked with the job of allocating aid to the poor. The overarching concern with these institutions is that they "may fail to use the resources entrusted to them effectively to relieve poverty", as there is "little power of accountability found at either end."[15] When distributing aid, agencies have the power to decide where resources should be directed; they decide what countries to work in and what projects to fund. Again, those who are supposed to benefit have very little power to sanction even if aid projects are not having the intended effect. Many aid institutions are non-governmental organizations (NGO's),

8 USAID.

9 Phillips.

10 Eyben, R. (2008). Power, Mutual Accountability, and Responsibility in the Practice of International Aid, Institute of Development Studies, 11

11 Wenar, L. (2006). Accountability In International Development Aid. *Ethics International Affairs, 20*(1), 9

12 Ibid, 9

13 Rubenstein, J. (2007), Accountability in an Unequal World. Journal of Politics, 1

14 Wenar, L. (2006). Accountability In International Development Aid. *Ethics International Affairs, 20*(1), 9

15 Ibid, 9

therefore they are not always held to the same standard of accountability as for-profit businesses might be by their investors.[16] This often results in information asymmetry where funders are not always fully aware of what their money is being spent on; for example, aid could be going directly to the project to buy medical supplies, or it could be paying the salary of a secretary.

Another issue is whether aid is going to the countries most in need. Looking at Graph 1 and 2, we see that only a quarter of all aid is given to the poorest countries. It is the job of aid agencies to distribute aid to those in need, but oftentimes the decisions made on how to distribute aid are based on political reasoning rather than humanitarian need. When those most in need are not the ones receiving a majority of the aid, we find ourselves with a distributive justice failure resulting in inequity of outcome. If the government is tasked with distributing aid, this can turn into a government failure to target, where better represented and well-off areas may be given resources over those truly in need.

Once aid is distributed, we are faced with the diversion of resources issue. Frequently, the greatest challenge aid institutions face during project implementation is the intended beneficiaries do not receive all or most of the resources. This type of diversion is known as "phantom aid" – money that is not directly helping those in need. It is estimated that approximately half of all global aid ($37 billion) falls into this category, which includes over-priced services and administrative fees.[17] Phantom aid can in part be attributed to the unstable, self-serving governments in which aid institutions are operating.[18] When a project is executed through government there is the risk that resources could be diverted at the local, district, regional, or national levels.[19] If the project is being executed through an aid institution, such as an NGO, there are a host of other opportunities that could lead to resource diversion. To obtain permission to operate in a country, non-governmental organizations often have to pay local governments in the form of taxes. This money often perpetuates authoritarian rule and corruption in the bureaucracy. In extreme cases, NGO's will have to pay off warlords to maintain their headquarters or to pass through checkpoints to get supplies to rural areas.[20] According to the World Bank Institute, $1 trillion is paid out in bribes each year.[21] While this money may not all be coming from aid organizations, it significantly hinders development in these countries.

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16 Ibid, 10

17 Shah, A. (2014, September 28). Foreign Aid for Development Assistance. Retrieved October 9, 2014, from http://www.globalissues.org/article/35/foreign-aid-development-assistance

18 Wenar, L. (2006). Accountability In International Development Aid. *Ethics International Affairs, 20*(1), 3

19 Ibid, 3.

20 Wenar, L. (2006). Accountability In International Development Aid. *Ethics International Affairs, 20*(1), 3.

21 UNDP. (2014). Anti-Corruption. Retrieved September 28, 2014, from http://www.undp.org/content/undp/en/home/ourwork/democraticgovernance/focus_areas/focus_anti-corruption/

In general, the poor have very little power and as resources tend to be taken by those with power, the poor are often left with nothing.

Another instance of resource diversion is theft, this can happen with little knowledge of the aid organization. Many organizations, such as USAID, hire outside contractors to do work or distribute aid, and may not have much oversight on projects overseas. Organizations have to worry about resources being sold off for profit by intermediary workers and have no way of knowing if this is happening unless they conduct investigations, like the USAID Office of the Inspector General (OIG) does. Even when there are investigations, monitoring projects can be difficult due to limited site visits. In a recent summary of challenges, the OIG referenced a project in South Sudan where a contractor began implementing a project without first getting approval from USAID, which led to $1.2 million in questionable spending.[22]

There are also secondary problems that arise because of interventions by aid institutions, as the flow of new resources into a country can create unintended consequences. If poor governments start receiving massive aid, they may become dependent on these resources and "less capable of independent political action."[23] Outside aid can "relieve pressure on recipient governments to establish the efficient policies and institutions necessary for attracting private capital" and even "increase political instability, by making control of the government a more valuable prize."[24] These governments may also become less responsive to the needs of their citizens and cater to the wishes of donors as they seek to retain or increase the level of aid they are receiving, generating a "domestic culture of rent seeking."[25] If there is a lack of coordination between organizations and governments, there is a substantial risk for waste, as well as conflict between governments and organizations, and coverage gaps.[26]

CRITERIA FOR DETERMINING IF AID IS BEING APPROPRIATED EFFECTIVELY

It can be difficult to find realistic and practical measures to determine if aid resources are being appropriated effectively. There are, however, a few measurable standards by which organizations can determine if aid resources are making a difference. The criteria used here to assess aid projects are similar to those we can use to improve the accountability of aid projects, and in this case can be used interchangeably. One such criterion is looking at whether or not the need requirements of a country or region decrease. If an aid institution funnels millions of dollars into a country to fund a program that should only need a one-time influx of funding, then receiving a request for a similar amount of money after the program has been implemented should signal that there is an issue. By

22 Carrol, M. (2013). Most Serious Management and Performance Challenges for the U.S. Agency for International Development (USAID). U. Administrator. USAID.

23 Wenar, 4.

24 Knack, S. (2001). Aid dependence and the quality of governance: cross-country empirical tests. *Southern Economic Journal*, 321

25 Wenar, 4.

26 Ibid, 4.

measuring levels of need before and after the start of a project, and then again every few years, organizations can see if a country is on its way to being able to support itself, or it if is becoming overly dependent on outside funding.

Another measure is whether quality of life and standard of living are improving where the project is being implemented. It is important to see that the aid is bringing about a real improvement in the lives of the intended beneficiaries. Measurable standards depend on what program is being implemented, but could include child literacy rates for education programs or HIV/AIDS transmission rates for sexual health programs. By measuring the rates before implementation, directly after implementation, and in interval years, aid institutions can better understand if projects are meeting the intended objectives.

MOVING FORWARD

As previously discussed, aid accountability in international development is a complex topic that, when not considered or properly implemented, could hinder aid development from reaching its fullest potential. Accountability problems include aid organizations not being held accountable to donors and stakeholders, dispersion of aid dollars, diversion of resources, and other secondary issues that arise because of intervention. When looking to alternative solutions, however, "the challenge of accountability lies in directly addressing [these] much neglected components in order to eventually find a balance between external and internal, upward and downward, and functional and strategic approaches."[27]

To better understand policy options, we must understand these types of accountability. External accountability refers to outside organizations and stakeholders holding an aid organization to a certain standard. This contrasts with internal accountability, in which an organization holds itself to certain standards.[28] Upward accountability pertains to responsibility that aid organizations have to international financial institutions, governments, and donors. This is the compliment of downward accountability, where an organization's accountability is to the intended beneficiaries: the poor. Lastly, functional accountability refers to aid organizations being held accountable for the use of resources and immediate impacts, whereas strategic accountability is the accountability an organization has for their impacts on the broader environment and other organizations.[29]
We must also understand the difference between two mechanisms used to define policy options: tools and processes. Tools "refer to discrete devices or techniques used to achieve accountability" and process mechanisms "are generally more broad and multifaceted than tools…. Emphasiz[ing] a course of action rather than a distinct end-result."[30] The criteria

27 Ebrahim, A. (2003). Accountability in practice: Mechanisms for NGOs. *World Development*, *31*(5), 826.

28 Davenport, E., & Low, W. (2013). From trust to compliance: accountability in the fair trade movement. *Social Enterprise Journal*, *9*(1), 88-101.

29 Ibid, 815

30 Ibid, 815

I will be using to evaluate the policies proposed in this memo include: cost, administrative efficiency, whether the need requirements of a project decrease over time, and change in quality of life based on project objectives. As we evaluate the current policy and possible alternatives, these concepts will help guide us to the policy option that will best help aid agencies to reach their goal, which is ultimately to get better results from development dollars and be held to a higher standard of accountability.

CURRENT POLICY MECHANISMS IN USE

The first type of accountability mechanism most often used by international aid organizations is disclosure statements and reports. It includes evaluations, legally mandated reports, and donor reports. Oftentimes these reports are mandatory for organizations operating under certain state or federal laws.[31] NGOs must usually provide detailed financial reports to donors and to both the governments of the countries they are working in, and are based in.[32] These financial reports allow for a certain degree of accountability to clients, donors, and the public.[33] NGOs may be audited occasionally as well, however the standards in terms of these financial reports are usually quite lax.[34] The issue is that, while these reports may show that NGOs are not misappropriating funds, they cannot show if the organizations are using them to effectively provide aid.[35] This evaluation tool places its emphasis on upward accountability and reporting of financial data, with little to no downward accountability to stakeholders.[36]

The second tool widely used by aid organizations includes performance and impact assessments, including external and internal evaluations. Evaluations conducted externally by donors (commonly done near the end of a program) are used to determine if goals and objectives have been accomplished, and to what extent. These assessments often focus on the short-term results of projects and are typically used to determine future funding for NGOs.[37] Many NGOs also conduct internal evaluations using their own staff to determine the progress being made on projects.[38] Again, there are certain problems with this approach. For one, many NGOs and donors disagree on whether the processes (participation, empowerment, etc.) should be evaluated or if products (tangible results, such as number of schools built) should be the focus of these evaluations.[39] Most evaluations tend to focus on the products, as they are much easier to measure with quan-

31 Ebrahim, A. (2003). Accountability in practice: Mechanisms for NGOs. *World Development*, *31*(5), 816

32 Werner, 14

33 Ebrahim, A., Accountability in practice: Mechanisms for NGOs, 816.

34 There is general agreement here that NGOs are financially responsible (Werner, 14).

35 Werner, 14.

36 Ebrahim, 816

37 Ibid, 817

38 Joint evaluations, where NGO staff work with external auditors, are used by some organizations as well.

39 Ebrahim, A. (2003). Accountability in practice: Mechanisms for NGOs. *World Development*, *31*(5), 817

tifiable results over a short-term period.[40] While these current policies provide upward accountability, there is limited downward accountability. Needless to say, a more balanced approach is needed.[41]

POSSIBLE ALTERNATIVES[42]

Stick with the Status Quo

There is always the option to not change the current policy – in this case, recommending that aid organizations continue to use disclosure statements and reports, along with performance and impact assessments. NGOs are seen as being relatively financially responsible, and most organizations publish financial reports for each fiscal year.[43] This allows donors and governments to track how an organization is spending its money. However, this also does not show if money is being used effectively or not. A financial report may state that $1.3 million was used for a program, but we may not know if $30,000 of that was used to pay bribes and gain access to a country if it is listed under a category such as "program support and development" on financial reports.[44] The risk here is that financial reports may be mistaken for project effectiveness reports. Additionally, while the public has turned its focus to a specific set of financial information – the amount spent on administrative costs versus that spent on fundraising – this has very little to do with actual programs.[45]

Evaluations are thought to help aid organizations "become better 'doers' by uncovering weaknesses in project planning or by developing more strategic interventions."[46] Many NGOs raise concerns because donors may base funding on how "successful" projects are (successful being, of course, a relative term). This punishes NGOs who attempt to use more creative and innovative approaches to development and rewards those who "stick to discrete and proven product-based approaches to development."[47] This system encourages NGOs to stick with what they know works and does not acknowledge that the definition of a successful project can be misconstrued. While a program may have improved literacy rates, could the overall cost of the program relative to the results measured be seen as reasonable? The risk here is that NGOs may stick with current policies because they feel that the success they see is enough, even though there may be a process through which NGOs could improve and increase output. When funding is tied to success, many

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40 Ebrahim, A. (2003). Accountability in practice: Mechanisms for NGOs. *World Development*, *31*(5), 817

41 A summary of characteristics of accountability mechanisms is available in Appendix A

42 Each alternative presented has been laid out in an outcomes matrix available in Appendix D, with all options (other than the status quo) having been mapped out using logic models, also available in the appendix.

43 Examples included in Appendix B for what many organizations publish.

44 This issue, diversion of resources, was discussed earlier as a major problem in aid accountability.

45 Wenar, L. (2006). Accountability In International Development Aid. *Ethics International Affairs, 20*(1), 1-23. Retrieved September 25, 2014, from Proquest, 14

46 Ebrahim, Accountability in practice: Mechanism for NGOs, 817

47 Ebrahim, A. (2003). Accountability in practice: Mechanisms for NGOs. *World Development*, *31*(5), 817

organizations prefer to play it safe. There is an inclination to associate evaluation with performance assessment. However, this type of evaluation tends to pass over evaluation of the organization itself, in favor of focusing all attention on certain projects.[48] While these types of evaluations are useful in their own right in assessing program progress towards objectives, they should not replace a holistic evaluation of an organization.

Social Auditing

Social auditing is an approach that arose during the 1990s "as a means of making private companies… accountable to the people and communities they touch. It is an attempt to answer the question 'Is this organization doing the right thing the right way?' And the point is to get the answer from the people who matter – those affected by its operations."[49] The idea behind social auditing is that organizations can take the reporting, monitoring, and documentation systems they already use to further develop a process that will allow them to be more accountable for the organization's economic, social, and environmental impacts (social auditing[50]). There is the growing perception that social auditing could be used in the non-profit sector as a means to help understand the various viewpoints of stakeholders and develop appropriate strategies to respond to stakeholder needs. Social auditing uses a combination of tools and processes, which makes it a valuable and viable option because it not only focuses on tangible techniques to achieve accountability, but also the processes that emphasize the road to that end result. This allows for a more holistic look at an organization's actions and accountability.[51] Social auditing can also allow organizations to clarify what they do with donation dollars and avoid information asymmetry with donors.

The first step in social auditing is identifying stakeholders – those affected by the organization's actions.[52] The stakeholders are then tasked with identifying key issues to be addressed, establishing indicators to measure the project's performance, and assessing the project.[53] Social auditing has the potential to significantly increase an organization's downward accountability, as those affected by the organization's actions are the ones passing judgment, based on criteria they themselves establish.[54] A social audit should also "provide regular, comprehensive, and comparative verification of the views of

48 Ibid, 817

49 Cowe, R. (2000, Nov 29). Society: Frontline: Ask the people: How do charities ensure they are providing the right services? roger cowe looks at the benefits of social auditing. The Guardian. Retrieved from http://search.proquest.com/docview/245577809?accountid=8285

50 Social auditing needed for NGOs. (2014, May 07). The New Indian Express Retrieved from http://search.proquest.com/docview/1521236433?accountid=8285

51 Ebrahim, A. (2003). Accountability in practice: Mechanisms for NGOs. *World Development*, *31*(5), 824

52 As previously established, stakeholders are the intended beneficiaries of aid in the case of NGOs.

53 Examples of frameworks for social audits can be found in Appendix C.

54 Cowe, Society: Frontline: Ask the people: How do charities ensure they are providing the right services? roger cowe looks at the benefits of social auditing

stakeholders."[55] Social auditing can be quite complex as it integrates many accountability mechanisms. These include: disclosure statements, participation, evaluations, and standards of behavior, combining the use of both tools and processes.[56] There are four main advantages that social auditing can offer:

- An organization can better monitor its performance through internal management with the development of environmental and social systems;
- Stakeholders hold more power and are considered when organizational goals are developed or revised, as well as when performance indicators are determined;
- When stakeholder information is taken seriously and used to make decisions later on, organizational learning and strategic planning can be greatly improved;
- Organizations appear much more legitimate, as the information they release is "based on verified evidence rather than on anecdotes or unsubstantiated claims."[57]

Much of the success of social auditing, though, depends on whether the standards used by the organizations are comprehensive and the processes are scrupulously applied. This is due to the fact that the audits are usually carried out by the organizations themselves.[58] Although stakeholders are engaged in dialogue throughout the auditing process, decisions are ultimately made by the organization itself.[59]

Participatory Development

Participatory development is similar to social auditing in that it "aims to engage the poor in the design, implementation, and evaluation of the development projects which target their poverty."[60] The goal is to involve the poor in projects to not only give them a sense of ownership in the projects, but to also become more aware of cultural traditions and local practices that may affect a project.[61] This alternative is differentiated from social auditing by the level of involvement stakeholders have. The most significant difference between the two approaches is that participatory development not only engages stakeholder in dialogue, but in decision making as well.

There are many types of participation; yet, most organizations only utilize this process in two forms – the first being the availability of information to locals about a project. This can involve meeting with community members and leaders while still keeping all decision-making power in the hands of the organization. The second form commonly used by organizations is involving the stakeholders in the project at the most basic level – through labor, monetary, and maintenance contributions.[62] These levels of

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55 Thorne, D., & Ferrell, O. (2011). Appendix: The Social Audit. In *Business & society: A strategic approach to social responsibility and ethics* (4th ed.). Australia: South-Western Cengage Learning

56 Ebrahim, Accountability in practice: Mechanism for NGOs, 822

57 Ibid, 822

58 Ibid, 823

59 This can be seen in the figure "Stakeholder engagement and social auditing" in Appendix C (C3)– nowhere in the flow chart are stakeholders actually making any final decisions.

60 Werner, 16

61 Ibid, 16

62 Ebrahim, Accountability in practice. Mechanism for NGOs, 818

participation are not enough to really give a sense of downward accountability, though, which is why this alternative can also be labeled as a restructuring of the participation mechanism. In this case, we are looking for active participation from stakeholders (rather than passive participation) as it empowers those involved to make their own decisions, a factor that will become vital to the continued success of a program once the aid organization begins to withdraw from the project.[63] [64] Stakeholders can gain considerable influence in development interventions when joint arrangements are made between government agencies, NGOs, and communities. This can be accomplished partially through the use of certain tools, for example asset mapping and participatory appraisal. Accessibility to all information related to the project, open dialogue, and the use of a vote to make financial and program decisions, is key to involving the community in power sharing. Having stakeholders work as part of the management staff can also take this to the next level.[65] The goal is to increase downward accountability and address the issue of the poor having little to no power.[66] This can also allow for easier transitions when it comes time for aid organizations to withdraw.

Self-Regulation

Self-regulation as a form of accountability "refers specifically to efforts by NGO or nonprofit networks to develop standards or codes of behavior and performance… [it] presents a complementary path that allows nonprofits to address directly their own sector-wide problems while retaining some integrity."[67] Organizations that use this method develop standards of conduct to follow in order to establish legitimacy in the eyes of the development world. Self-regulation fills gaps left by governments that are lacking the capacity to effectively regulate, allowing NGOs who wish to be seen as credible and legitimate to retain a good reputation. Many NGOs also use self-regulation to take their accountability even further than government regulations require, which can help to balance multiple accountabilities.[68] This method can also be seen as a horizontal accountability mechanism, a type of self-regulation that can include ethics committees, administrative courts, and ombudsman.[69]

When following a more formal form of self-regulation, organizations obtain certification from an outside organization, which allows the aid organization to be more visible. When following a less formal path of self-regulation, multiple aid organizations come togeth-

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63 Bopp, J. (2003). *Participatory development: Mapping the terrain for effective practice*. Calgary: University of Calgary, Graduate Division of Educational Research, 44

64 A chart of levels of participation is available in Appendix C.

65 Ebrahim, A. (2003). Accountability in practice: Mechanisms for NGOs. *World Development*, *31*(5), 819.

66 As discussed previously, the poor are generally unable to hold aid organizations accountable because of their lack of power; by involving the poor in evaluations of the aid organizations, their control and influence can be increased.

67 Ebrahim, Accountability in practice: Mechanism for NGOs, 819

68 Lloyd, R. (2005). The role of NGO self-regulation in increasing stakeholder accountability. *One World Trust*, 6

69 Werner, 17

er and, without any certification process, simply encourage one another to use the best practices possible.[70] While these codes of conduct can be difficult to put in place at the international level "given the nascent nature of a global governance structure and norms within which to situate and enforce standards", these codes can provide organizations with a vast improvement of performance, accountability, and overall legitimacy.[71] The policy may include principles of behavior, behavior recommendations for working with certain groups, governance and administration criteria, and standards of financial benefit.[72] The main benefits of self-regulation include:

- A credible code can help raise the standards across the non-profit sector and "attract funding by demonstrating efficiency, accountability, and transparency"[73]
- It promotes learning among organizations, as NGOs share knowledge and best practices, along with personal experiences;
- Public confidence and trust in NGOs is boosted, which can improve cooperation and trust between aid organizations participating in self-regulation;
- It can reveal NGOs who have interests other than best practices and who may be considered "bad apples."[74]

POLICY RECOMMENDATION

Presently, the most popular mechanisms being used by aid agencies, disclosure statements and reports and evaluations, focus mainly on monetary accountability and short-term impacts of programs. To ensure programs provide lasting change however, a more strategic and complete approach to accountability is necessary.[75]

The main goal in improving aid accountability is to receive better results from aid dollars and the four criteria used to evaluate the options point to this goal.[76] By evaluating cost, we can ensure that program costs do not outweigh the benefits and do not exceed what an organization can realistically afford. Administrative effectiveness is important in showing that an organization's resources are not wasted on administrative costs, but instead used for actual aid. Looking at changes in need over time and improvements in standard of living allows us a quantitative measurement of whether aid was

70 Ehsan, M. (2013). Self-Regulatory Mechanisms for Non-Governmental Organizations: A Reference Guide for Non-Governmental Organizations in Afghanistan. Retrieved November 8, 2014, from file:///F:/Fall '14/606/Memo 2/NGO Self-Regulation Reference Guide.pdf, 16

71 Ebrahim, A. (2003). Accountability in practice: Mechanisms for NGOs. *World Development*, *31*(5), 821

72 Ibid, 821

73 Ehsan, 19

74 Ibid, 19

75 Ebrahim, A. (2003). Accountability in practice: Mechanisms for NGOs. *World Development*, *31*(5), 826

76 The logic maps for social auditing, participatory development, and self-regulation were used to evaluate the policies and make a recommendation, and results were laid out in the outcomes matrix (available in Appendix D).

effective or not.[77]

Based on this analysis, I am recommending participatory development. While costs may be higher than other policy options, the benefits far outweigh those costs, as they may decrease as programs continue. This alternative can also benefit organizations in terms of administrative effectiveness. As seen in the logic model, as the mechanism is implemented, stakeholders are drawn more and more into the decision-making process, starting with information dissemination and building up to integration. By integrating locals into management, part of the burden of running programs will be taken off the aid agencies once locals have been properly trained. While this training may cause an initial spike in administrative work, this will dramatically decrease once training has been completed.[78] Measuring success of programs can also be vastly improved through participatory development. As locals become trained to continue social programs, there will be less dependency on aid organizations to continue supporting programs long after they were supposed to be completed. By receiving training during the implementation phase, locals will be better prepared to continue programs themselves, especially because the aid organization will be better equipped to support them during the training phase.[79] The last criterion, improvement in standard of living, is also fulfilled through this policy option. One of the main ideas of participatory development is to empower locals. By providing training and teaching skills, many locals will be able to continue on and get jobs, which will help improve their lives in addition to the improvement the program is providing.

CONCLUSION

Current policies are severely lacking in downward accountability. Participatory development clearly addresses this issue because the poor are given significantly more power instead of being left to accept what they are given by aid organizations. Aid organizations are then held to a higher standard and can be held accountable for producing results. The problem of aid accountability in international development is one that may not be solved right away, and while this policy solution is viable for many organizations, it may not fit the needs of all organizations. Every organization should evaluate the tools at their disposal and decide, based on the analysis available, which mechanisms will be fit their needs.

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77 This is essentially measuring if aid dollars produced results.

78 As agencies begin to transition locals, the administrative load will continue to decrease.

79 This implies that the need for aid dollars will decrease over time, which is a main goal and criteria.

APPENDICES

Appendix A

Accountability mechanism and how they hold organizations accountable[1]

ACCOUNTABILITY IN PRACTICE 825

Table 1. *Characteristics of accountability mechanisms*

Accountability mechanism (tool or process)	Accountability to whom? (upward, downward, or to self)	Inducement (internal or external)	Organizational response (functional or strategic)
Disclosures/ reports (tool)	—Upward to funders and oversight agencies —Downward (to a lesser degree) to clients or members who read the reports	—Legal requirement —Tax status —Funding requirement (external threat of loss of funding or tax status)	Primarily functional, with a focus on short-term results
Performance assessment and evaluation (tool)	—Upward to funders —Significant potential for downward from NGOs to communities and from funders to NGOs	—Funding requirement (external) —Potential to become a learning tool (internal)	—Primarily functional at present, with possibilities for longer-term strategic assessments
Participation (process)	—Downward from NGOs to clients and communities —Internally to NGOs themselves —Significant potential for downward from funders to NGOs.	—Organizational values (internal) —Funding requirement (external)	—Primarily functional if participation is limited to consultation and implementation —Strategic if it involves increasing bargaining power of clients *vis-à-vis* NGOs, and NGOs *vis-à-vis* funders
Self-regulation (process)	—To NGOs themselves, as a sector —Potentially to clients and donors	—Erosion of public confidence due to scandals and exaggeration of accomplishments (external loss of funds; internal loss of reputation)	—Strategic in that it concerns long-term change involving codes of conduct
Social auditing (tool and process)	—To NGOs themselves (by linking values to strategy and performance) —Downward and upward to stakeholders	—Erosion of public confidence (external) —Valuation of social, environmental, and ethical performance on par with economic performance (internal)	—Functional to the extent it affects the behavior of a single organization —Strategic to the extent it affects NGO-stakeholder interaction, promotes longer-term planning, and becomes adopted sector-wide

1 Ebrahim, A. (2003). Accountability in practice: Mechanisms for NGOs. *World Development*, *31*(5), 813-829.

Appendix B

B1. Example of financial report published by Doctors Without Borders[2]

MÉDECINS SANS FRONTIÈRES USA, INC.
DOCTORS WITHOUT BORDERS USA, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For The Year Ended December 31, 2013 With Summarized Information For 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2013	Total 2012
REVENUES					
Public Support					
Contributions and private grants					
Individual donors/Marketing	$ 89,302,745	$ 10,574,309	$ -	$ 100,077,054	$ 87,027,896
Sustainer giving	19,879,895	21,162	-	19,901,057	18,223,079
Major gifts	38,464,306	1,674,409	-	47,148,715	47,796,485
Planned giving	26,964,686	1,120,893	248,541	28,334,120	24,241,761
Foundations	4,433,556	3,027,603	-	7,461,159	6,092,110
Corporations	6,933,602	2,115,483	-	9,049,085	6,325,563
Contributions pledged					
Major gifts	-	868,836	-	868,836	2,608,481
Foundations	-	1,134,511	-	1,134,511	2,549,880
Total Public Support	186,210,790	22,527,186	248,541	208,986,517	190,305,455
Other Revenue					
Investment income, net	89,351	267,841	-	357,192	212,526
Unrealized and realized gain on investments, net	85,503	686,761	-	772,264	605,967
Actuarial gain on annuity and trust obligations	-	136,022	-	136,022	(32,201)
Other revenue	44,940	-	-	44,940	46,104
MSF network grants	2,782,134	-	-	2,782,134	2,349,507
Seconded field staff grants	8,500,706	-	-	8,500,706	8,122,439
Total Other Revenue	11,502,134	1,091,524	-	12,593,658	11,303,738
Total Public Support and Other Revenue	197,712,924	23,618,710	248,541	221,580,175	200,809,193
Contributions of Services					
In-Kind *(Note 3)*	1,404,695	-	-	1,404,695	2,538,868
Net assets released from restrictions *(Note 8)*	16,317,502	(16,317,502)	-	-	-
Total Revenues and In-Kind Services	215,435,121	7,301,208	248,541	222,984,870	203,348,061
EXPENSES					
Program Services					
Emergency and medical programs	171,134,520	-	-	171,134,520	162,366,427
Program support and development	5,915,530	-	-	5,915,530	5,363,430
Field staff	8,637,536	-	-	8,637,536	8,304,843
Communications	3,572,056	-	-	3,572,056	3,600,491
Total Program Services	189,259,642	-	-	189,259,642	179,835,191
Supporting Services					
Management and general	2,723,698	-	-	2,723,698	2,635,325
Fundraising	24,658,058	-	-	24,658,058	24,517,940
Total Supporting Services	27,381,756	-	-	27,381,756	27,153,265
Total Expenses	216,641,398	-	-	216,641,398	206,988,456
In Kind Services *(Note 2)*					
Management	1,404,695	-	-	1,404,695	2,538,868
Total In Kind Services	1,404,695	-	-	1,404,695	2,538,868
Total Expenses and In Kind Services	218,046,093	-	-	218,046,093	209,527,324
Excess (deficit) of revenue over expenses	(2,610,972)	7,301,208	248,541	4,938,777	(6,179,263)
Other Changes					
Investment return in excess of amounts designated for operations	-	25,389	-	25,389	-
Increase (decrease) in net assets	(2,610,972)	7,326,597	248,541	4,964,166	(6,179,263)
Net Assets					
Beginning of year	149,148,202	11,478,756	285,476	160,912,434	167,091,697
End of year	$ 146,537,230	$ 18,805,353	$534,017	$ 165,876,600	$ 160,912,434

The accompanying notes are an integral part of these statements. 4

2 Doctors Without Borders. (2013) *2013 Financial Statements and Report of Independent Certified Public Accountants.* Retrieved from: https://www.doctorswithoutborders.org/sites/usa/files/doctors_without_borders_financial_statements_-_final_20140429.pdf

B2. Excerpt from Oxfam Annual Report 2012-2013[3]

OXFAM CONFEDERATION EXPENDITURE*

This information is indicative and does not show the actual performance of any single Affiliate. Affiliates should be consulted directly for specific information.

Reporting period: 1st April 2012-31st March 2013. All figures in millions of Euros.

Category	€ Million	%
Program	**€705**	**71%**
Program Implementation	€599	60%
Development & Humanitarian	€539	54%
Influencing	€60	6%
Program Management	€106	11%
Non-program	**€285**	**29%**
Management & Administration	€63	6%
Fundraising-Marketing	€75	8%
Institutional Fundraising	€5	1%
Public Fundraising & Marketing	€70	7%
Trading	€147	15%
Total Expenditure	**€990**	**100%**

* Expenditure figures do not include €3 million loss, such as loss on foreign exchange.

3 Oxfam. (2013). *Oxfam Annual Report 2012-2013*. Retrieved from: http://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/story/oxfam-annual-report-2012-2013.pdf

Appendix C

C1. Possible levels of participation[4]

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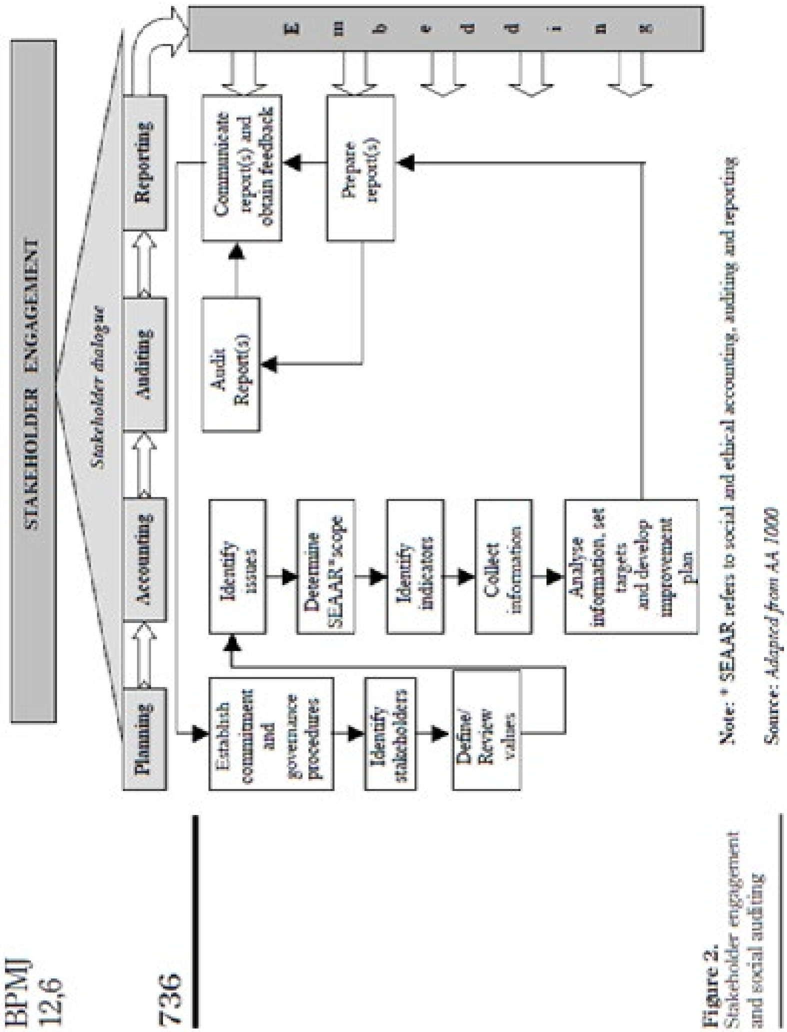
TABLE TWO - FROM PASSIVE PARTICIPATION TO SELF-MOBILIZATION

Passive participation	People participate by being told what is going to happen or has already happened. It is a unilateral announcement by an administration or project management without listening to people's responses.
Participation in information giving	People participate by answering questions posed by extractive researchers using questionnaire surveys or similar approaches. People do not have the opportunity to influence proceedings.
Participation by consultation	People participate by being consulted, and external agents listen to views. This process does not concede any share in decision-making and professionals are under no obligation to take on board people's views.
Participation for material incentives	People participate by providing resources, for example, labour, in return for food, cash or other material incentives. It is very common to see this called participation, yet people have no stake in prolonging activities when the incentives end.
Functional participation	People participate by forming groups to meet predetermined objectives related to the project. These institutions tend to be dependent on external initiators and facilitators, but many become self-reliant.
Interactive participation	People participate in joint analysis, which leads to action plans and the formation of new local institutions or the strengthening of existing ones. These groups take control over local decisions, and so people have a stake in maintaining structures and practices.
Self-mobilization	People participate by taking initiatives independent of external institutions to change systems. They develop contracts with external institutions for resources and technical advice they need, but retain control over how resources are used.

4 Bopp, J. (2003). *Participatory development: Mapping the terrain for effective practice*. Calgary: University of Calgary, Graduate Division of Educational Research.

C2. Stakeholder Engagement and Social Auditing[5]



5 Gao, S. S., & Zhang, J. J. (2006). Stakeholder engagement, social auditing and corporate sustainability. *Business Process Management Journal*, *12*(6), 722-740.

C3. The Social Auditing Process[6]

BPMJ
12,6

732

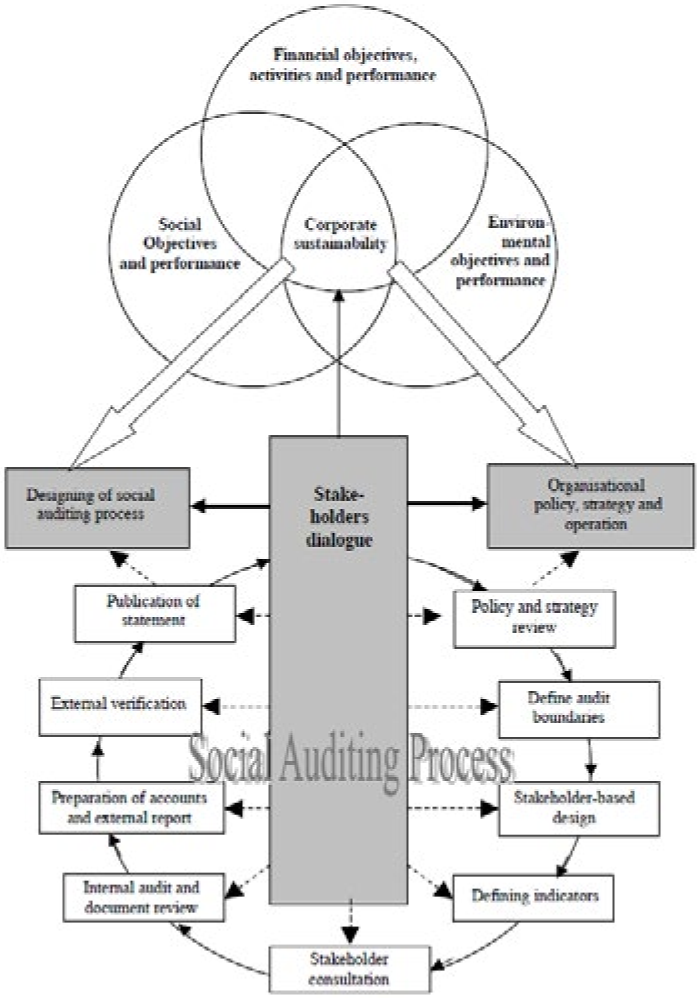
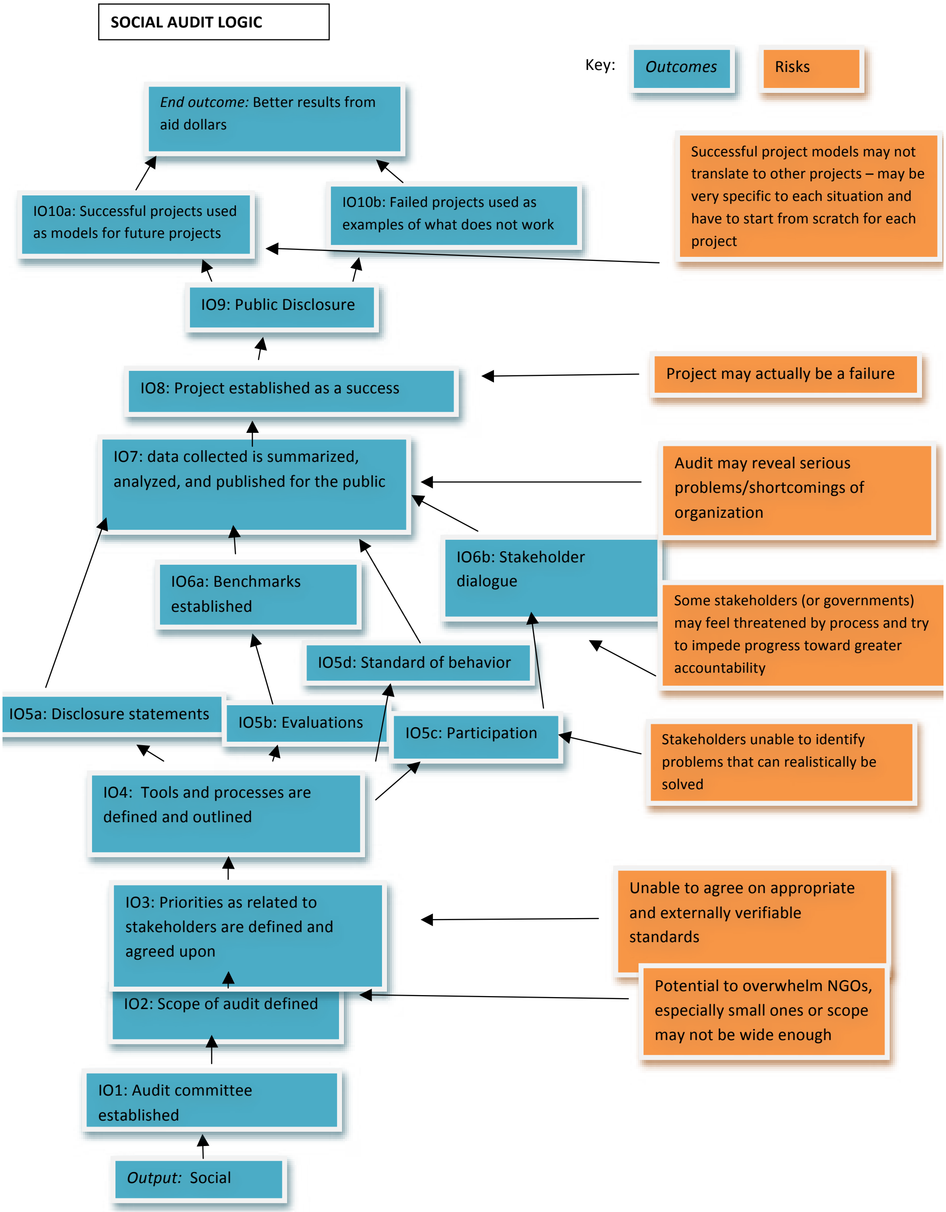


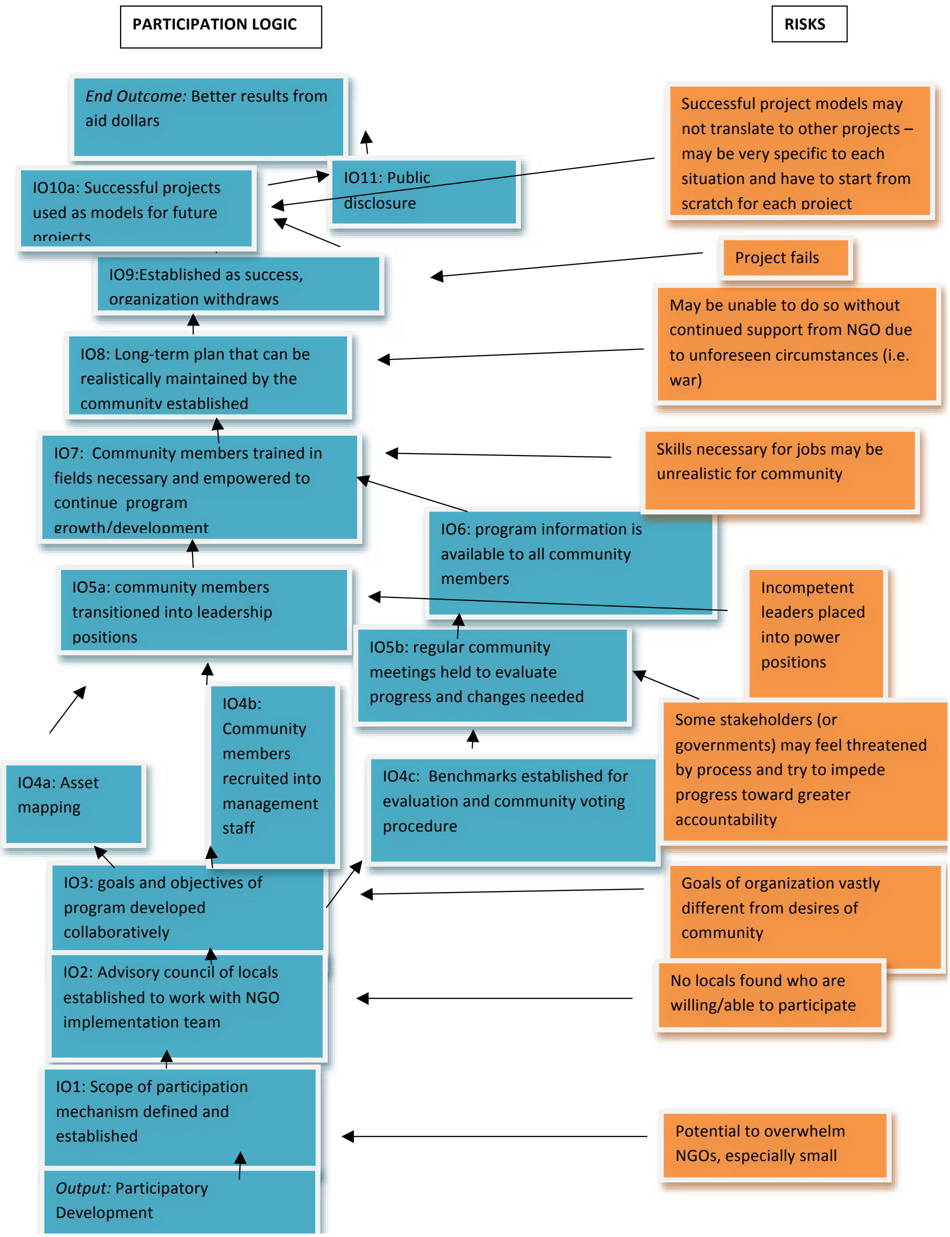
Figure 1.
Sustainability and social auditing process

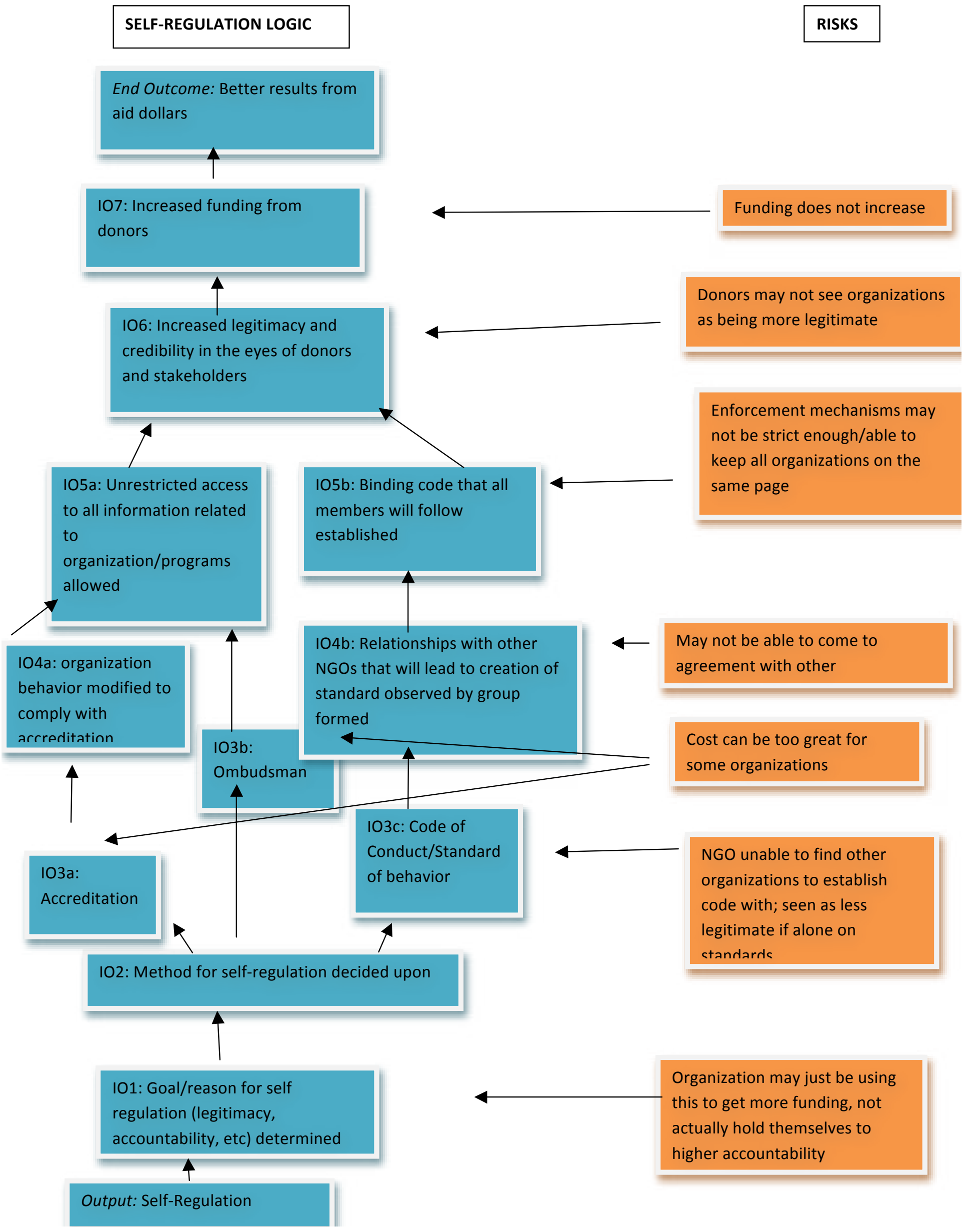
6 Gao, S. S., & Zhang, J. J. (2006). Stakeholder engagement, social auditing and corporate sustainability. *Business Process Management Journal*, *12*(6), 722-740.

Appendix D
Outcomes Matrix

		Policy Options			
		Status Quo	Social Auditing	Participatory Development	Self-Regulation
Goals/Criteria	Cost	Costs will stay the same	Costs may initially increase but are likely to diminish with time	Costs will increase during program implementation but may decrease after	Cost may increase for certification process, accreditation, and use of ombudsman
	Administrative effectiveness	May continue as is – for many organizations this means an ineffective system which takes money away from projects	May be increased administrative work during actual audit	Part of planning will be handed off to locals as they are integrated into project management– will help take some work off organization	May be increased administrative work to enforce standards
	Changes in need requirements over time	Depends on current program standards/ evaluation.	Need is more likely to decrease over time as concerns of stakeholders are taken into account through stakeholder dialogue – can help program be more effective the first time around	As communities are more involved in the process and integrated into program management and decision making, the likelihood of long term success without help is high	Depends on how new regulations change program requirements. (i.e. accreditation compliance requirements) AND EFFECTIVENESS OF SELF-ENFORCEMENT
	Improvement in standard of living	Depends on current program standards/ evaluation.	As program officers interact with stakeholders and engage in stakeholder dialogue, they may be able to better survey standards before and after program implementation	Emphasizes empowerment of locals which would improve lives along with benefits of programs; locals are given training which will provide more opportunities and help improve lives; program officers work closely with stakeholders and may be able to better observe changes	Depends on how measurement and implementation standards are changed and implemented. AND DEGREE OF SELF-COMPLIANCE


SOCIAL AUDIT LOGIC
Key:
Outcomes
Risks
End outcome: Better results from aid dollars
IO10a: Successful projects used as models for future projects
IO10b: Failed projects used as examples of what does not work
Successful project models may not translate to other projects – may be very specific to each situation and have to start from scratch for each project
IO9: Public Disclosure
IO8: Project established as a success
Project may actually be a failure
IO7: data collected is summarized, analyzed, and published for the public
Audit may reveal serious problems/shortcomings of organization
IO6a: Benchmarks established
IO6b: Stakeholder dialogue
Some stakeholders (or governments) may feel threatened by process and try to impede progress toward greater accountability
IO5d: Standard of behavior
IO5a: Disclosure statements
IO5b: Evaluations
IO5c: Participation
Stakeholders unable to identify problems that can realistically be solved
IO4: Tools and processes are defined and outlined
IO3: Priorities as related to stakeholders are defined and agreed upon
Unable to agree on appropriate and externally verifiable standards
IO2: Scope of audit defined
Potential to overwhelm NGOs, especially small ones or scope may not be wide enough
IO1: Audit committee established
Output: Social


PARTICIPATION LOGIC
RISKS
End Outcome: Better results from aid dollars
IO11: Public disclosure
IO10a: Successful projects used as models for future proiects
Successful project models may not translate to other projects – may be very specific to each situation and have to start from scratch for each proiect
Project fails
IO9:Established as success, organization withdraws
May be unable to do so without continued support from NGO due to unforeseen circumstances (i.e. war)
IO8: Long-term plan that can be realistically maintained by the communitv established
Skills necessary for jobs may be unrealistic for community
IO7: Community members trained in fields necessary and empowered to continue program growth/development
IO6: program information is available to all community members
IO5a: community members transitioned into leadership positions
Incompetent leaders placed into power positions
IO5b: regular community meetings held to evaluate progress and changes needed
IO4b: Community members recruited into management staff
Some stakeholders (or governments) may feel threatened by process and try to impede progress toward greater accountability
IO4a: Asset mapping
IO4c: Benchmarks established for evaluation and community voting procedure
IO3: goals and objectives of program developed collaboratively
Goals of organization vastly different from desires of community
IO2: Advisory council of locals established to work with NGO implementation team
No locals found who are willing/able to participate
IO1: Scope of participation mechanism defined and established
Potential to overwhelm NGOs, especially small
Output: Participatory Development


SELF-REGULATION LOGIC
RISKS
End Outcome: Better results from aid dollars
IO7: Increased funding from donors
Funding does not increase
IO6: Increased legitimacy and credibility in the eyes of donors and stakeholders
Donors may not see organizations as being more legitimate
IO5a: Unrestricted access to all information related to organization/programs allowed
IO5b: Binding code that all members will follow established
Enforcement mechanisms may not be strict enough/able to keep all organizations on the same page
IO4a: organization behavior modified to comply with accreditation
IO4b: Relationships with other NGOs that will lead to creation of standard observed by group formed
May not be able to come to agreement with other
IO3b: Ombudsman
Cost can be too great for some organizations
IO3a: Accreditation
IO3c: Code of Conduct/Standard of behavior
NGO unable to find other organizations to establish code with; seen as less legitimate if alone on standards
IO2: Method for self-regulation decided upon
IO1: Goal/reason for self regulation (legitimacy, accountability, etc) determined
Organization may just be using this to get more funding, not actually hold themselves to higher accountability
Output: Self-Regulation

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