

Chapter 11

STATE CAPTURE OF CIVIL SOCIETY EFFECTS OF PATRONAGE IN THE NORWEGIAN AID INDUSTRY

Asle Toje

Introduction

Civil society is the totality of civic and social organizations and institutions that form part of the basis of a functioning democratic society, distinct from the commercial institutions of the market and legally enforced structures of the state. Civil society organizations, including research institutions, are considered in most democracies to be independent of the government. They belong neither to the public sector nor to the private sector, but are rather something in between. Yet in a little over two decades, the Norwegian government has come to be the indispensable financier of Norwegian non-governmental organizations.

In return for state funding, civil society organizations are expected to work towards politically defined policy objectives. The government relies on private organizations to realize the many goals of the public sector. This is the case in a variety of policy areas from foreign aid to healthcare; for example, the Norwegian Red Cross receives government funding to run nursing homes or to achieve Norwegian foreign policy objectives in Haiti. Håkon Lorentzen has mapped this dependency on government money. A 2010 survey showed that fourteen different ministries have eighty-one grants available, which amounted to 4.7 billion NOK (\$800 million) in the 2009 budget.¹ These grants have quadrupled over the last 25 years, and the culture and sports sectors have been primary beneficia-

ries. Had the study included the aid sector, the figure would have been doubled to 10 billion NOK (\$1.7 billion).

A civil society bankrolled by the government invites a number of important questions with regard to financial dependence and political independence. If civil society's cordial relations with the government are a result of economic dependence, and if civil society has the role of being an extended arm of the central government, this raises the question as to whether this compromises the independence of civil society or the national interest that is the mainstay of the state. It also raises the question as to the extent to which close ties with the government translate into partisanship in civil society. These questions are all the more pressing because of allegations of public practice for private gain. In sum, has political control of the funding of aid NGOs prevented them from playing their corrective role—that is, their speak-truth-to-power function?

In Norway, such questions are rarely asked.² One example can stand in the place of many. Atle Sommerfeldt, the head of Norwegian Church Aid the, in 2011, largest recipient of government largesse, responded to questions regarding the effects of dependence, "It has not succeeded, for scientists to point out specifically how the state has affected Norwegian aid organizations working in a way that undermines their independence and critical role for government policy in the field." He went on to claim, "Government money will ensure that operations are increasingly professionally managed and not dependent on commercial collection strategies and the whims of wealthy patrons."³ The validity of this claim is dubious. Several seminal studies have demonstrated that high levels of government funding can significantly restrict independence of action and independence of spirit.⁴

There is, in other words, a clear case for inquest. Using clientele as the point of entry into five interconnected challenges—(i) institutional capture, (ii) agenda chasing, (iii) partisan politics, (iv) moral hazard, and (v) crowding out—this chapter will seek to flesh out the main challenges that arise when civil society is primarily funded by the government. Examples will be provided from the Norwegian aid industry. This segment is singled out because it is the civil society sector that receives the largest amounts of state funding relatively and in absolute terms. The ties to the government are tight and the dependence is concrete. The study is all the more relevant because the Norwegian shift towards fully state-funded NGOs can be seen to have originated in the aid industry.

This is not an attempt to provide a comprehensive account of government-civil society relations; rather it intends to shine a light on a particular problem—the adverse effect of government financed NGOs. The examples provided illustrate the relevance of these challenges for the

Norwegian case. The ambition is, in other words, limited—to persuade the reader that challenges associated with clientelism are also relevant in the specific case of government funded aid NGOs. In order to assess the scope or depth of these challenges, a more comprehensive study will be required. The scope of analysis could have been broadened to include the media and state-financed research institutes—but the focus here will be narrowly on the state-NGO nexus. The main argument of this chapter is that potential problems stemming from a state-funded civil society are greater—both for the government and for non-governmental organizations—than generally acknowledged.

The Norwegian model

Since not all readers are familiar with the dominant role of the state in Norwegian society, a few words on the so-called Norwegian model may be helpful. The Norwegian model refers to the idea that government, civil society organizations, and research institutions are mobilized for concerted foreign policy engagement, in particular in such a way that the shared effort remains directed by the state. Iver B. Neumann explores several reasons for this. He argues that Norwegian diplomacy changed after the end of the Cold War and that the involvement of civil society actors is an integral element of this change. The state took on new responsibilities, more than the state bureaucracy could reasonably be expected to handle. The additional manpower was found in civil society. This has led to what he calls “dual-track diplomacy,” where one track concerns traditional governmental actors and the other the NGO sector.⁵

One reason for the increase in using NGOs was that the state, by fostering civil society, dramatically increased its own administrative resources, allowing for a more ambitious foreign policy than one might otherwise expect from a state with less than five million inhabitants. A second reason was the belief that NGOs are able to efficiently and cost-effectively implement projects in a sustainable manner, particularly those close to the grassroots. Terje Tvedt has pointed out that both substantial government funding for the NGOs and an extensive interpenetration of elites distinguishes the Norwegian Model, including exchange of personnel.⁶ He is supported in this assessment by Neumann, who concludes that we “might just as well, even preferably, treat such organizations as part of the state formation,” when most of their budgets are received from the same government to which they are accountable.⁷

What distinguishes the Norwegian model from similar aid-oriented systems in other countries is, according to Tvedt, that the system is dis-

proportionally larger in Norway in the sense that the number of organizations involved is larger.⁸ The aid segment is also relatively larger in the civil society sector and the government gives more, relatively, through the civil society than is the case in other states. In addition, the political consensus between the government and the civil society actors is greater in Norway than in other countries. The circulation among elites within the Norwegian model is more pervasive and the leaders in the civil society organizations have an unusual degree of flexibility when it comes to administering the funds that they are given from the government. One reason for this is that the Norwegian model enjoys relatively stronger popular support than is the case in other comparable countries.⁹

In 2010, the Norwegian aid segment comprised of more than 200 organizations with over 3 billion NOK (\$500 million) in annual government support. These organizations encompass more than traditional relief and missionary work.¹⁰ Norwegian Church Aid, the Red Cross, Norwegian People's Aid, and Save the Children are the largest recipients. Individually, over the period from 1990 to 2010, these four organizations received between four and five billion kroner from the state budget, or almost 20 billion NOK (\$3.3 billion) in total.¹¹ Norwegian Church Aid alone received NOK 452 million (\$75 million) in 2009. The actual amounts received may be greater still, however, due to discrepancies in self-reported figures and government figures. For instance, the annual government budget operates with a higher figure, of NOK 489 million (\$82 million) in 2009 given by the government to the Norwegian Church Aid.¹² Other organizations, such as Norway's sports federations, have also received several hundred million NOK in state aid to conduct projects in accordance with political development goals.

Clientelism

Much, perhaps even most, of the debate about the relationship between civil society and the state is concerned with the old Bolshevik question: *Kto kovo*—who [dominates] whom? Economic dependence carries with it an inherent potential for clientelism. Clientelism refers to a form of social organization characterized by patronage. In such places, relatively powerful and rich “patrons” provide relatively weaker “clients” with jobs, protection, infrastructure, and other benefits in exchange for vocal support and other forms of loyalty, including labor.¹³ While this definition suggests a kind of “socioeconomic mutualism,” these relationships are fundamentally asymmetric, often resulting in indebted clients.¹⁴ Clientelistic relationships are often seen as providing perverse incentives and are therefore at odds with institutional or individual independence.

According to Simona Piattoni, clientelism is found “in a variety of political systems characterized by allegedly different [political] cultures and social systems in connection to the transformation of the set of incentives that make them viable and acceptable.”¹⁵ She carried out a seminal study on the incentives that make political clientelism and patronage into viable and acceptable strategies. This is a question of particular salience for the Norwegian model: why would civil society actors part with their main distinguishing feature and prized asset—their non-governmental nature? Part of the answer to this may be found in Robert Putnam’s study of Italian regional institutions. He asserts that the politics can be neatly divided into two broad categories: those with particular interests that are promoted at the expense of the general interest, and those in which particular interests manage to be expressed as cases of broader general interest.¹⁶ The Norwegian model is very much based on an assumption that, in the words of one Ministry of Foreign Affairs (MFA) official, “we are all in the same boat,” and that “insofar we are driven by shared idealism, ordinary rules of independence have not been seen to apply.”¹⁷ Former Prime Minister Einar Gerhardsen perhaps best summarizes this notion when, in the parliamentary debate that took place when Norway first became an aid donor, stated that Norwegians have “from their whole culture and history represented freedom and democracy, everyone knows that we cannot be suspected of having any interest in exploiting anyone.”¹⁸

Terje Tvedt calls this consensus “the regime of moral excellence” where the moral justification of the endeavor crowds out critical perspectives on misused funds, low goal attainment, and bad governance.¹⁹ As the government money has surged into development NGOs, other sources of funding have dwindled. In practice, all the large aid organizations are today completely reliant on government funding. While countries such as Britain attempt to keep the ratio of government support for development activities below 50 percent, no such rules exist in Norway. This is worth noting because there has been no lack of guidelines as to the balance between public and private money in the organizations so as to ensure institutional independence. Since 1962, the percentage of private money fell from 50 percent in 1962, to 20 percent in 1972, to 10 percent in 2001. Today organizations are often not asked to provide any funds of their own. According to Ian Smillie, the average Norwegian NGO has “a very high level of financial dependency on government.”²⁰

For the organizations, the dwindling part of private funding has not lead to a scaling down of activities, on the contrary there have been frequent and vocal demands that the government should compensate for the limited fund raising—out of concern for the world’s poor.²¹ The government money has allowed the organizations to significantly enlarge the

number of staff and their wages. For example, Norwegian Church Aid has gone from being mainly a volunteer organization financed by church collections with 8 employees in 1977 to become one of the “Big Four” aid organizations with 150 paid employees in Norway and 33 abroad.²²

In an economic sense, there clearly exists a patronage relationship between the government and civil society organizations in the aid sector. The nature of this relationship is that the government provide funds and the organizations carry out government objectives. This is significant since it goes to the heart of whom the organizations are actually representing. As economic independence has dwindled, leading aid organizations have been at pains to profess their independence prominently in printed and online material. A former state secretary drew a mischievous parallel: “No country that has the word ‘democratic’ in its official title has ever been a democracy.”²³ Let us then ask the question, as Sommerfelt did—so what? If the NGOs are funded by the state, are they not united in an altruistic endeavor? The following section will look at five challenges of clientelism that have affected the Norwegian aid industry since adopting of the Norwegian model.

Institutional capture

In his doctoral dissertation, “Clientelism,” Samuel Huntington described how federal agencies, exemplified by the Interstate Commerce Commission, get taken over by the very industries that they are supposed to regulate.²⁴ Institutional capture is defined as the ability of powerful actors to create broad laws and institutions that protect their advantages in the future and allow for their continued power and enrichment. It refers to the de facto take-over of entire state institutions by an elite cartel, which will often manifest itself in these actors’ ability to block laws or reforms that would level the playing field. The term was coined by researchers at the World Bank Institute, who noted that institutional capture involved “so-called oligarchs manipulating policy formation and even shaping the emerging rules of the game to their own, very substantial advantage.”²⁵

Looking back over the last two decades, it is striking how much the Soviet collapse opened a space for Norwegian foreign policy. The result was the so-called engagement policy.²⁶ A key to understanding the logic of the engagement policy is Jan Egeland’s *Impotent Superpower: Potent Small State from 1985*.²⁷ In this book, Egeland argues that Norway should spend its foreign policy resources on humanitarian endeavors. The claim is that the goodwill generated from state idealism would further national interest objectives. This engagement policy meant that Norway directed

its foreign policy resources to help it to play the role of a “humanitarian great power.”²⁸ This was made possible by directing disproportionate foreign policy resources to idealistic endeavors. One figure that illustrates the gravity of this shift is that in 2008, Norway used a historically low proportion of GDP for defense spending (1.3 percent), yet a historically much higher proportion of GDP (an estimated 1.2 percent) on engagement policy, of which civil society has been the primary beneficiary.

The state took up the means, ends, and, importantly, the vocabulary of civil society and elevated them to the heart of foreign policy.²⁹ Any explanations about how this came about are bound to have a great number of variables. On a practical level, one factor—elite circulation—stands out. At the center of the aid system, and in the border zones of both state and industry, are a surprisingly large number of prominent figures who circulate within the aid industry. A single career typically spans jobs in the government, the research institutions, and in the aid NGOs. This not only applies to the top tier, but also the administrative level. In the aid sector, the three spheres (i.e., state apparatus, research institutions, and the NGOs) form a coherent career progression in which a given person will sit first on one side of the table, and then on the other.

The authors of the three-volume Norwegian foreign aid history underline close links between state aid bureaucracy, aid organizations, and research institutions.³⁰ Øyvind Østerud has pointed out that within this group there is a tendency to consistently overestimate the positive aspects of aid and peace building, while underestimating the negative. He believes that “practitioners from government, NGOs, and research will be a pressure group that blocks objections.”³¹ The three sides of the triangle have found a common cause in demands for more money to be directed to the aid industry. Resulting growth has been spectacular. Helge Pharo argues that the level of activity exceeds the administrative resources and that this is the single biggest quandary in Norwegian aid policies.³² This also means that limited MFA personnel resources are spent on donor activities. One diplomat interviewed lamented: “In Oslo we are spending very little time on national interests—extracurricular activity (*valgfag*) has become the core. . . . The logic and language of Norwegian foreign service has become that of the NGO.”³³

The logic is that the development lobby has succeeded in convincingly arguing that the good of humankind is synonymous with the aid industry’s self-interest, and that this in turn is synonymous with Norway’s national interests, what might be labeled the “NGO-ification” of Norwegian foreign affairs. The other side of the coin is a “governmentification” of the NGOs. The state-NGO consensus from the 1990s was increasingly seen by many NGOs as a logical extension of their project activities. The idea

is that their efforts may have an important community impact in poor countries, but which alone have little general impact unless carried out in a concerted manner. Over past decade, NGOs have dealt with the policy challenge in an ambivalent manner. The growing ambivalence has much to do with the operations in Afghanistan and the notion of “integrated missions” where the NGOs have been expected to formally or informally (the case of Norway) provide support for the military mission. Some have simply denied that there is any potential conflict of interests. Others, concerned about cost and possible government and donor reaction, have somewhat unrealistically argued that coordinating bodies such as The Norwegian Development Network (*Bistandstorget*), the Norwegian Missionary Council (the *Atlas Alliance*), or Forum for Women and Development (*Fokus*) can reasonably be expected to accept the risks associated with voicing concerns. It is a pertinent question whether the near-absence of a debate regarding Norway’s disproportionately large military contribution in Afghanistan would have come under greater debate had not the NGOs been so intimately linked with the Norwegian government.

Institutional capture is often assumed, rather than studied; the out of sight nature of the processes involved makes this a difficult issue to pursue. One reason for this is that the group tends to develop a shared set of norms and values. Dorothy E. Smith points out that “[i]nstitutional capture can occur when both [involved parties] are familiar with institutional discourse, know how to speak it, and can hence easily lose touch with experiential knowledge.”³⁴ This is no doubt bolstered by the privileges involved in the granting of well-paid jobs. A critical mindset can lead to expulsion, not from one, but from three different work arenas, though this is not to suggest a conspiracy. As Russell Hardin points out, no intent is necessary for institutional capture—it can result from the structure, or the formal rules, or from the unintended consequences of standard practices within the agency.³⁵

Agenda chasing

Agenda chasing, sometimes referred to as “rent seeking” or “ambulance chasing,” refers in the simplest terms as directing efforts to the goal of achieving visibility or securing funding.³⁶ The aid industry has on occasions been accused of focusing on the crisis that represents the best fundraising opportunities, and of responding in a manner that gives the highest public profile to the home country. The International Crisis Group roundly criticized aid organizations for clustering in the countries and regions where there are many television cameras, while harder-hit re-

gions, such as Banda Aceh, received less attention. Industry insiders readily admit to participating in ambulance chasing because of the financial rewards. As a Christian NGO leader once put it, “When a major disaster occurs that captures media attention, our donors respond with incredible generosity.”³⁷ Linda Polmann has called this phenomenon a “crisis caravan” that “moves on whenever and wherever it sees fit, scattering aid like confetti.”³⁸ As Jan Egeland, in his capacity at the time as UN undersecretary said: “aid is a lottery ... you have twenty-five equally desperate communities taking part in this lottery for attention every week. Twenty-four lose and one wins.”³⁹

Jan Egeland was himself caught up in a case study conducted by Professor Terje Tvedt. The former was accused of, while serving as the head of the Norwegian Red Cross, securing 100 million NOK in funding from the State Department to send 367 derelict military trucks to Africa. The salient point was that the trucks were sent to alleviate a “humanitarian disaster” that most reports agree had been grossly exaggerated in the Norwegian media with representatives from the government and the NGO community lending authority to the claims.⁴⁰ To what extent the Norwegian aid industry is more or less culpable in agenda chasing in comparison to their international counterparts is unclear. What is certain is that leading NGOs are remarkably attuned to changing government priorities, claiming expert competence in areas that, until a change in government priorities, had previously gone unmentioned. Another revealing example is that of former Minister for Development, Erik Solheim. After receiving a second government post as Environment Minister in 2008, he announced that he would treat climate change and development as interlinked questions. In a remarkably short time, all of the “Big Four” government-funded aid organizations developed an environmental focus, accepting and evangelizing Solheim’s hypothesis that saving the environment and encouraging development are two sides of the same question.

The most obvious challenge is that this arrangement has weakened the NGOs functions as evaluators of government priorities. Furthermore, both because priorities change at a rapid pace in accordance with the Norwegian political debate (as opposed to in accordance with the priorities of the recipient countries), and because the ambitions are often unrealistic, the situation is all the more worrying. In 2004, the Norwegian Parliament adopted a “Comprehensive Development Policy” explicitly based on the notion that everyone around the world can agree on development goals and how they are to be achieved. The message was centered on good intentions and a directory of unrealistic goals. One goal stated an aim to ensure gender equality in primary education, “preferably by

2005.”⁴¹ Norwegian aid organizations rarely question the wisdom of the political priorities that come attached to the money they covet. Money has not flown to the organizations with the largest membership or public support. On the contrary, the organizations that have grown the fastest are those that have most whole-heartedly supported political priorities. One example is Norwegian People’s Aid, which, by specializing in clearing mines, bolstered its budget by some NOK 255 million in the period 1991–1996, after the Red Cross had turned the government’s invitation to meet government objectives in this area down.

It is not possible to draw conclusions about how exactly the NGOs are influenced by this growing proximity to the state: there is simply a gap in the research. Janne Haaland Matlary observes that any suggestion that the close ties between leaders of the civil society organizations and the political elites that influence funding decisions might impair the former’s impartiality is generally dismissed as impertinent innuendo. She notes: “NGOs are logically based on the thesis of opposition, as a critical corrective to government and politics, in short, on independence. But Norwegian NGOs aspire to the state’s money, the major [aid organizations] have intimate relationships with the ministries, especially the Ministry of Foreign Affairs. The principle and fundamental problem is that [he who pays the piper calls the tune]: If you have 90 percent of your income from the government, it is easier to swallow the criticism rather than bite the hand that feeds you.”⁴²

Partisan politics

With civilians functioning as both “militarized” actors and strategic targets in modern-day conflicts, the relief activities of humanitarian organizations in war-torn regions have become increasingly politicized. Factions targeting civilians view any kind of aid to these civilian “opponents” as supporting the enemy. As an aid donor, Norway has a long list of cases where Norwegian aid money has been used for political gain, and Norwegian NGOs have even taken part in the war effort in some areas—as was the case with Norwegian People’s Aid in southern Sudan.⁴³ This challenge also presents itself in the donor country where civil society actors can take on the role of “political Sherpas,” providing political support, or as partisans, needling the opposition. The politicization of civil society occurs when government, business, or advocacy groups use legal or economic pressure to influence the findings or the way information is disseminated, reported, or interpreted. The politicization of civil society may also negatively affect personal and institutional freedom of opinion.⁴⁴

In politics, a partisan is a committed supporter of a political party.⁴⁵ Majority governments elected through representative democracy, whether they consist of one party or a coalition of parties, are in this sense inevitably partisan. There is in a democracy, a constant tension between partisan politics and the need for a universalistic government—political responsiveness has to be tempered with a degree of neutrality.⁴⁶ Much of the research into the effects of partisanship has been carried out on British “quasi-autonomous non-governmental organizations”—QUANGOS,⁴⁷ Sommerfeldt’s previously mentioned assertion that QUANGOs provide a “democratic gain” has been challenged on a number of fronts: with regard to the undemocratic selection of leaders of QUANGOs; the lack of effective structures for scrutinizing QUANGOs’ focus and performance; and the secrecy surrounding them, which tends to restrict access to information on the work of QUANGOs.⁴⁸

The state funding of the aid establishment has coincided with a seeming rise in the employment of politicians in the industry. This parachuting of ex-politicians into leadership positions of NGOs is, I hasten to add, not a new phenomenon. Many of the aid organizations have historical ties to political parties, notably, the Socialist Left Party, the Christian People’s Party, and the Labor Party. What is new is that as party funding has dried up and government funding has taken its place, the politicization of the aid industry has continued tacitly. There are a great many examples of former politicians being recruited to the leadership of civil society organizations: the head of the Red Cross, Børge Brende, is a former conservative politician; Helen Bjørnøy, General Secretary of Plan Norway, is a former socialist (SV) minister. It should be noted that these posts come with (in a Norwegian context) high wages.⁴⁹ A senior MFA official observed: “Several political parties have in fact used the dependence on subsidies as a lever to place partisans in key positions. The positions are used as privileges, as rewards to loyalists. Let us have no illusions about this. This is problematic. Not least because it is consequently the main opposition party that suffers partisan ambushes masking as civil society critique, while Labor usually get off scot-free.”⁵⁰

This new form of politicization of humanitarian aid is seen to challenge these principles, by “subordinating humanitarian objectives to political and strategic ones.”⁵¹ This has taken the form of members of the aid industry using their role as independent civil society actors in the political discourse to condemn or support political parties. On general election day in 2009, the leader of Norwegian People’s Aid, Petter Eide, claimed that statements made by the Progress Party (*Fremskrittspartiet*, also known as *Frp*) “about asylum seekers [are] at odds with the Penal Code.” The implication was that the Progress Party was a criminal party.

Eide did not mention that he is a former SV politician. When the government later adopted the *Frp* policy, Eide did not repeat his accusation. Another example from the 2009 election was the Peace Council's "peace policy audit" of parties, where the governing coalition came out most favorably. Naturally, the Peace Council was aware that intentions expressed in the party program are not the same as actual policies, but they still drew far-reaching conclusions, claiming that a win for the opposition would make for less peace in the world. They failed to mention that the previous government cut funding to the organization, while the incumbent government had brought them back to life.

No survey has been carried out in relation to partisanship in the aid sector. Aid organizations have accepted that Minister Solheim's claim that, "apolitical aid is nonsense," not only holds true in the recipient country, but also in Norwegian domestic politics.⁵² The head of the Norwegian Agency for Development Cooperation (Norad), Poul Engberg-Pedersen, concurred: "We should embrace being politicized."⁵³ In May 2009, the author of this chapter was present at a meeting to discuss aid evaluation where representatives from the aid organizations made up the audience. Erik Solheim gave a speech and ended his address by stating that it was the obligation of the aid industry to work for a continued left-wing government "because if we do not win, you will lose!" The clear implication was that a right-wing government might be less generous with government funding. Rather than protesting the suggestion that the organizations were the clients of a political system, the minister was roundly applauded. One interviewee at Norad argued that the main element of partisan politics in the aid segment is not the attacks on the opposition, but the failure to criticize the government, "when the NGOs accepted that the government placed the costs of running asylum camps in Norway on the aid budget, the lack of independence lead them to keep quiet, when they should have spoken out."⁵⁴

Moral hazard

Moral hazard occurs when a party insulated from risk behaves differently than it would behave if it were fully exposed to the risk.⁵⁵ Moral hazard arises because an individual or institution does not take the full consequences and responsibilities of its actions, and therefore has a tendency to act less carefully than it otherwise would, leaving another party to hold some responsibility for the consequences of those actions. For example, a person with insurance against burglary may be less cautious about locking their house, because the negative consequences of theft are the respon-

sibility of the insurance company. Economists explain moral hazard as a special case of information asymmetry—a situation in which one party in a transaction has more information than another. In particular, moral hazard may occur if a party that is insulated from risk has more information about its actions and intentions than the party paying for the negative consequences of the risk.⁵⁶ Moral hazard can occur when upper management is shielded from the consequences of poor decision-making.⁵⁷

Bertin Martens explains: “Like every contract, aid contracts are necessarily incomplete and some of the activities and results will be costly to verify. As a result, moral hazard and adverse selection are inherent in aid delivery.”⁵⁸ He continues with the argument that due to the “broken feedback loop” in foreign aid, inserting an explicit evaluation function in foreign aid programs is necessary to overcome the moral hazard of the aid service suppliers. He warns against those who see this as a panacea for performance problems, noting that evaluation is itself subject to moral hazard, induced by the same institutional and political incentives that affect aid performance.⁵⁹ This points toward one of the great, unresolved questions of foreign aid: How can so many positive evaluations lead to so little development? For example, overall development assistance to Africa is estimated at \$350 billion a year. Yet the real income per capita in Africa today remains lower than it was in 1970.⁶⁰ The number of poor has doubled since 1990. “The development that disappeared” is one of the great mysteries in aid research. Norad’s “great effort” to combat corruption uncovered NOK 12 million in the wrong hands, that is, 0.0004 percent of the budget was largely directed towards the world’s most corrupt states. According to William Easterly, moral hazard creates incentives for donor country NGOs and the recipient countries to keep the lid on bad news.⁶¹

Tone Ellefsrud provides a recent testimony of moral hazard in the novel *Monsoon (Regntid)*. This story, which takes place in Tanzania and Sri Lanka, describes how the aid agencies fail to take responsibility for the direct negative consequences of their actions. She describes the fueling of corruption and aid giving in ways that short circuit market mechanisms and democratic accountability.⁶² Part of the challenge is that what was once a job for shoestring idealists has, over time, come to resemble the lifestyle of diplomats. Shielded from the population they are intended to help, the aid workers in Ellefsrud’s book pass time in an almost neo-colonial fashion. The opinions placed in the mouths of the civil society experts are dishearteningly cynical. Rector of Buskerud Community College, Morten Eriksen, made a similar observation about the lack of “idealists” in the Norwegian aid industry. He laments a lack of will to cut back on the lavish lifestyles of NGO personnel in developing countries.⁶³

In an in-depth interview, a former director of Norad explained that the problem is that the volume of money is greater than the administrative resources; this creates perverse incentives. The result is a culture of accepting misallocation, misspending, and outright theft.⁶⁴ The moral hazard inherent in the Norwegian model is that bad practice goes unpunished. A cursory survey of the aid industry by the newspaper *Bistandsaktuelt* for 2006–2010 shows that although in the reported cases of bad practice two-thirds relate to the “Big Four,” the inflow of government aid to the same organizations has continued to grow year-on-year. Organizations caught up in bad practice, such as the misappropriation of funds, are not given smaller budgets the following year. Philip Gourevitch notes that—while some flinch at the tone of the debate, and others still insist that they don’t need to be told—NGOs “are all too aware of the moral risks of their work and are their own fiercest critics.”⁶⁵ This last argument is arguably part of the problem: a public institution that is self-policing is effectively un-policed, and deflecting the critique by claiming the critique is not viable is not a serious form of reckoning.

Crowding out

In economics, crowding out is any reduction in private consumption or investment that occurs because of an increase in government spending. While there are many reasons for giving foreign assistance, a major argument for such aid is that this assistance will increase the rate of economic growth in the recipient countries. The growth predictions of aid proponents, however, have often been disappointing. While much of this disappointment may be due to initial expectations that were unrealistically high, numerous reasons have been given as to why traditional aid might be largely ineffective in generating growth. The oldest explanation is that aid largely goes to consumption, crowding out domestic savings and investment.⁶⁶

In development studies, “crowding out” refers to the market dominance of the big aid organizations that corner so much of the available finance that they prevent alternatives from emerging. For this reason they are sometimes referred to as “ferns”—a plant that kills off the green shoots under its dense foliage. A key finding in Håkon Lorentzen’s survey is that the big national umbrella organizations that have been created, in part, to facilitate the allocation of funds from the public to smaller organizations, have an intermediate position that is potentially problematic. Umbrella organizations protect members’ interests. In this context, Lorentzen suggests, it might be tempting to limit the number of new

recipients in order to secure funds for themselves.⁶⁷ It is a distinguishing trait that the organizations that make up the backbone of a sector that is worth some \$5.8 billion (NOK 35 billion) annually depends only to a limited degree on funding from private individuals, corporations, funds, foundations, and other parts of civil society. Few attempts have been made to foster such a culture. Norway lacks, for example, a system of tax deductions for gifts similar to that in the U.K. or in the United States.

One example of crowding out is found in the case of the new segment of “philanthrocapitalists” in Norway. The term philanthrocapitalism was first introduced by the New York bureau chief of *The Economist*, Matthew Bishop, as a prescription to solve the world’s problems in areas where governments, NGOs, and the business sector have failed: “[it is] a new way of doing philanthropy, which mirrors the way that business is done in the for-profit capitalist world.”⁶⁸ Examples of Norwegian organizations falling into this category are *Stiftelsen et rikere liv* (Literally; *Foundation a richer life*), *Kolibri Kapital*, and *Voxtra*. In interviews, respondents note that especially civil society actors frequently view Norwegian hybrid organizations with skepticism. A recurring view was that the new sector was seen as unwelcome competition, and efforts were made to prevent the philanthrocapitalist from gaining access to the state apparatus and laboring in a system where many have come to see development to be a government issue.⁶⁹

Tvedt notes that although the large aid organizations are part of the same neo-corporate structure, they do not coordinate their relations with the government. Instead, they compete with each other and with smaller organizations. The main competitive advantage of the “Big Four” is the sheer size of their administrative resources, which means they can handle larger volumes of money—an important factor in a sector so well-funded that “getting rid” of the money is a primary challenge for government bureaucrats. From this perspective, it is advantageous to transfer larger sums to organizations with personal experience of the routines and habits of Norad. As one member of a small human rights organization put it—it is so much easier to apply for 2 million NOK than for 200,000. The handlers make no secret of the fact that the two represent the same amount of work—and that they would rather do it once than repeat it twenty times.⁷⁰

Conclusions

The Norwegian aid-sector’s culture of economic dependence predisposes it to accept government primacy in the organizations area of expertise.

The political setting with little accountability and government guarantees, and the various negative aspects of clientelism, be they in the shape of institutional capture, agenda chasing, partisanship, moral hazard, or crowding out are all present in the Norwegian case. To use Huntington's reasoning, clientelism is a rudimentary response to decision-making insufficiencies, the consequent social and political instability caused by an imbalance between the advances in political participation and rising standards of democratic governance, and the slowness of political institutionalization and administrative modernization to respond to those changes.⁷¹

Dependence leads easily to servility, for real criticism requires freedom from addiction. It weakens an entire sector when it is funded so heavily by the state, because "who pays the piper calls the tune." Questions need to be asked whether Norwegian civil society has slipped too far into public policy. This is a problem if the sector is to be corrective and not a tool of public administration. A case can be made for strengthening other power centers in society, away from politicians and key government offices. It is not necessarily easy to achieve this in a country where government is often confused with society, and where private generosity sometimes falls short of societal ambitions.

But this does not explain why the aid NGOs have given themselves so freely and so completely to the government. One possible explanation can be found in Columbia professor Jack Snyder's study on domestic politics and international ambition.⁷² Snyder explains why some states throw themselves into breakneck expansionist policies. He finds the answer lies with the interest groups in public, private, and academic sectors, which reap the benefits of escalation. These factions bind together in coalitions that grow so strong that they can put pressure on those in power. Through horse-trading, political support is exchanged for promises on foreign policy activism. He finds that the sum totals of the many discrete ambitions are often greater than any single actor had wished. No one planned to deprive Norway of a civil society in a traditional sense; it happened as a sum total of a great many expediencies.

A question that springs from this analysis is: Where is what Morton Grodzins called "the tipping point" located?⁷³ In sociology, the tipping point is when a once rare phenomenon becomes quickly and dramatically more common. In our context, the tipping point could be the percentage of funding where the NGO cannot be seen to be independent, but the issue is perhaps not so much whether the dependency ratio is 10, 50, or 60 percent, it is the ability to remain one's own master while remaining responsive to a multitude of needs and pressures. Some NGOs, such as *Bellona* (international ENGO based in Norway) and Amnesty

International have clearly achieved this, while others—notably the “Big Four” Norwegian aid organizations—cannot claim a similar reputation for independence. Their freedom to function implies that NGOs can do what governments ought not, or will not do: for example, for exposing aid corruption, addressing the abuse of power among cooperation partners, or asking questions about the impact of development projects on the local economy. There is good reason for asking whether many Norwegian NGOs are in fact guilty on this count. When reliance on government support reaches 80 or 90 percent, any perceived independence has been reduced to a fig leaf.

Notes

1. Håkon Lorentzen, *Statlige tilskudd til frivillige organisasjoner—en empirisk kartlegging*, Senter for forskning på sivilsamfunn og frivillig sektor, Rapport 2010: 4.
2. K. O. Åmås, “Er frivilligheten fri?” *Aftenposten* vol. 05, no. 10, (2010): 2.
3. “Staten må være en engasjert aktør,” *Aftenposten Morgen* vol. 07, no. 10, (2010): 4.
4. Steven Smith and Michael Lipsky, *Nonprofits for Hire: The Welfare State in the Age of Contracting* (Cambridge, Massachusetts: Harvard University Press, 1993).
5. Iver B. Neumann, “Norsk sørpolitikk: den disaggregerte stats diplomati,” *Internasjonal politikk* vol. 57, no. 2 (1999): 185.
6. Terje Tvedt, *Utviklingshjelp, utenrikspolitikk og makt: den norske modellen* (Oslo: Gyldendal Akademisk, 2009).
7. Tvedt, *Utviklingshjelp, utenrikspolitikk og makt*: 190.
8. Tvedt, *Utviklingshjelp, utenrikspolitikk og makt*: 80–81.
9. Tvedt, *Utviklingshjelp, utenrikspolitikk og makt*: 80–81.
10. Dutch scholar Sara Kinsbergen categorized the different types of non-governmental organizations operating in the developing world into QUANGOs (quasi-autonomous NGOs); BONGOs (business NGOs); ENGOs (environmental NGOs); INGOs (institutional NGOs); GONGO (government NGOs); and of course the ubiquitous MONGO (my own NGO)—one-off charities set up by individuals. Sara Kinsbergen, Lau Schulpen, and Anneke Smeets, *De Anatomie van het PI: Resultaten van vijf Jaar Onderzoek naar Particuliere Initiatieven op het Terrein van Ontwikkelingssamenwerking*. (Amsterdam: [etc: Nationale Commissie voor Internationale Samenwerking en Duurzame Ontwikkeling] [NCDO], 2010) etc.
11. In the 2011 aid budget, 1.2 billion NOK (\$0.2 billion) is earmarked for the NGOs. The same organizations also gain additional funds for emergency relief and humanitarian aid to the tune of 2.6 billion NOK (\$0.4 billion). Peace and reconciliation get 1.2 billion NOK (\$0.2 billion), environment and sustainable development get 2.5 billion NOK (\$0.4 billion), and 6.8 billion NOK (\$1.1 billion) is earmarked for “other” aid objectives.
12. *Prop. 1 S (2009–2010) Statsbudsjettet*, Appendix 4: 343. In this (the Norwegian government’s budget) support for 2009 is estimated at NOK 453 million.

13. James A. Robinson, Thierry Verdier, and Centre for Economic Policy Research (Great Britain), *The Political Economy of Clientelism* (London: Centre for Economic Policy Research, 2002).
14. Georges Casamatta and Charles Vellutini, "Clientelism and Aid," *Journal of Development Economics* vol. 87 (2008).
15. Simona Piattoni, *Clientism, Interests, and Democratic Representation: The European Experience in Historical and Comparative Perspective* (Cambridge: Cambridge University Press 2001): 2.
16. Robert D. Putnam, Robert Leonardi, and Raffaella Y. Nanetti, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton: Princeton University Press, 1993).
17. Interview, senior MFA official, The Norwegian Ministry of Foreign Affairs, Oslo, 23 November 2010.
18. Quoted in Knut Gunner Nustad, *Gavens makt: norsk utviklingshjelp som formynnerskap* (Oslo: Pax Forlag, 2003): 4.
19. Tvedt, *Utviklingshjelp, utenrikspolitikk og makt*: 26
20. Ian Smillie, "Changing Partners: Northern NGOs, Northern Governments," *Voluntas* vol. 5, no. 2 (1993): 155–192; 174.
21. One high profile case was when the government banned slot machines and the NGOs that operated them demanded to be compensated in full on an annual basis.
22. Aud V. Tønnessen, *Kirkens nødhjelp: bistand, tro og politikk* (Oslo: Gyldendal Norsk Forlag, 2007): 213.
23. The practice of boosting the aid budget by adding asylum costs began in 2005 and is widely seen in the NGO community as reprehensible, but few chose to criticise the government. Interview, Norad—Norwegian Agency for Development Cooperation, Oslo, 23 June 2010.
24. Samuel P. Huntington, *Clientelism: A Study in Administrative Politics*, Thesis (Harvard University, 1950).
25. Sanjay Pradhan and The World Bank, *Anticorruption in Transition: A Contribution to the Policy Debate* (Washington D.C.: World Bank, 2000): 45.
26. The term was coined in Rolf Tamnes, *Oljealder. Norsk utenrikspolitikk historie*, Bind 6 (Oslo: Universitetsforlaget, 1997): 69.
27. Jan O. Egeland, *Impotent Superpower—Potent Small State*, (Oslo: International Peace Research Institute, 1985).
28. For more on this see Asle Toje, "Norsk utenrikspolitikk: en kritikk," *Nytt Norsk Tidsskrift* vol. 1, no. 2, (2010): 206–217.
29. The 2004 government white paper on development illustrates this point. Utenriksdepartementet, *Felles kamp mot fattigdom: en helhetlig utviklingspolitikk* (Oslo: Det Kongelige Utenriksdepartement, 2004).
30. Jarle Simensen, Arild Engelsen Ruud, Frode Liland, and Kirsten A. Kjerland, *Norsk utviklingshjelps historie* (Bergen: Fagbokforlaget, 2003).
31. Øyvind Østerud, "Lite land som humanitær stormakt," *Nytt Norsk Tidsskrift* vol. 23, no. 4 (2006): 303–316.
32. Helge Ø. Pharo and Monika P. Fraser, *The Aid Rush. Vol. 1, Aid Regimes in Northern Europe during the Cold War* (Oslo: Unipub 2008).
33. Interview, senior MFA official, The Norwegian Ministry of Foreign affairs, Oslo, 23 November 2010.

34. Dorothy E. Smith, *Institutional Ethnography: A Sociology for People*, The Gender Lens Series (Walnut Creek, C.A.: AltaMira Press, 2005): 225.
35. Russel Hardin, *Trust*, Russell Sage Foundation series on trust, vol. 8, (New York: Russell Sage Foundation 2004): 109.
36. Gordon Tullock, *Public Goods, Redistribution, and Rent Seeking* (Cheltenham, U.K.: Edward Elgar, 2005).
37. Paul W. Brand and Philip Yancey, *In His Image* (Grand Rapids, M.I.: Zondervan Publishing House, 1984): 302.
38. Linda Polman, *The Crisis Caravan: What's Wrong with Humanitarian Aid?* (New York: Metropolitan Books, 2010): 157–158.
39. Jan Egeland quoted in *Africa Renewal*, United Nations Department of Public Information 2006, vol. 19, no. 4: 7.
40. Terje Tvedt, “De Hvite Hjelperne i de Hvite Bilene,” *Aftenposten* 5 March 2007.
41. *Felles kamp mot fattigdom. En helhetlig utviklingspolitikk*. St.meld. nr. 35 (2003–2004), Innst. S. nr. 93 (2004–2005).
42. Janne Haaland-Matlary, “Avhengighet leder lett til servilitet,” *Aftenposten*, 10 October 2009.
43. Bengt Nilsson, *Sveriges afrikanska krig* (Stockholm: Timbro, 2008): 46–49.
44. Geoffrey Garrett, *Partisan Politics in the Global Economy* (Cambridge: Cambridge University Press, 1998).
45. Edward B. Portis, Adolf G. Gundersen, and Ruth L. Shively, *Political Theory and Partisan Politics*, SUNY series in political theory (Albany: State University of New York Press, 2000).
46. James Allan and Lyle Scruggs, “Political Partisanship and Welfare State Reform in Advanced Industrial Societies,” *American Journal of Political Science* vol. 48, no. 3 (2004): 496–512.
47. Liz Sperling, “Public Services, QUANGOs, and Women: A Concern for Local Government,” *Public Administration* vol. 76, no. 3 (1998): 471.
48. Stuart Weir, “QUANGOs: Questions of Democratic Accountability,” *Parliamentary Affairs* vol. 48, no. 2 (1995): 306–22; David Wilson, “QUANGOs in the Skelletal State,” *Parliamentary Affairs* vol. 48, no. 2 (1995): 181–92; Wendy Hall and Stuart Weir, *The Untouchables: Power and Accountability in the QUANGO State* (London: The Scarman Trust, 1996); Leo Pliatzky, “QUANGOs and Agencies,” *Public Administration* vol. 70, no. 4 (1992): 555–63.
49. “God Lønn for Fred og Bistand” online news NRK (the Norwegian Broadcasting Company): “Flere Tidligere Samfunnstopper Jobber Med Freds- Eller Hjelpe- og Bistands spørsmål.” <http://www.nrk.no/nyheter/okonomi/skattelister/1.7343945>.
50. The Norwegian Ministry of Foreign affairs, Oslo, 3 November 2010.
51. Devon Curtis, *Politics and Humanitarian Aid: Debates, Dilemmas, and Dissension*, HPG Report 10 (Humanitarian Policy Group, Overseas Development Institute, London 2001): 13.
52. *Bistandsaktuelt* 8 (2010): 9 and 11.
53. *Bistandsaktuelt* 8 (2010): 9 and 11.
54. Interview, Norwegian Ministry of Foreign Affairs official, Brussels, 19 November 2010.
55. Arantxa Jarque, *Repeated Moral Hazard with Effort Persistence* (Richmond, V.A.: Federal Reserve Bank of Richmond, 2008).

56. Bengt Holmstrom, "Moral Hazard and Observability," *Bell Journal of Economics* (1979): 74–91.
57. Allard E. Dembe and Leslie I. Boden, "Moral Hazard: A Question of Morality?" *New Solutions 2000* vol. 10, no. 3, (2000): 257–279.
58. Bertin Martens, "Why Do Aid Agencies Exist?" *Development Policy Review* vol. 23, no. 6, (2005): 644.
59. Bertin Martens, *The Institutional Economics of Foreign Aid* (New York: Cambridge University Press, 2002): 27–28.
60. Dambisa Moyo, *Dead Aid: Why Aid Is Not Working and How There Is A Better Way for Africa* (New York: Farrar, Straus, and Giroux, 2009): 37.
61. William Easterly, *The White Man's Burden: Why the West's Efforts To Aid the Rest Have Done So Much Ill and So Little Good* (New York: Penguin Press, 2006), 204–205 and 117–119.
62. Anders Nordstoga, "Norsk Hjelpearbeider i Tanzania:—Norge Bør Stoppe All U-hjelp," *Aftenposten*, 25 July 2009.
63. *Bistandsaktuelt* 8 (2010), 2 "letters."
64. Interview, Former Norad official, Oslo, 28 November 2010.
65. Philip Gourevitch, "The Moral Hazards of Humanitarian Aid: What Is to Be Done?" *The New Yorker*, 4 November 2010. <http://www.newyorker.com/online/blogs/newsdesk/2010/11/the-moral-hazards-of-humanitarian-aid-what-is-to-be-done.html>
66. Michael P. Shields and Monash University, *Foreign Aid and Domestic Savings: The Crowding Out Effect* (Clayton, Victoria, Australia: Monash University, Department of Economics, 2007).
67. Lorentzen, *Statlige tilskudd til frivillige organisasjoner*.
68. Matthew Bishop, "The Birth of Philanthrocapitalism," *The Economist*, 23 February 2006.
69. Quotes from data collected for the commissioned report "Private Actors in the Norwegian Aid Landscape" (Anne Welle-Strand, Pernille Dehli, Erik Kimmestad, and Christen Torp 2009) that was carried out in 2008/2009 by researchers at the BI as a part of the multilateral World Bank Study "Private Actors in the Aid landscape."
70. Interview, Deputy leader of Norwegian Human Rights organization, Brussels, 19 May 19th 2010.
71. Samuel P. Huntington, *Political Order in Changing Societies* (New Haven, C.T.: Yale University Press, 1968).
72. J. L. Snyder, *Myths of Empire: Domestic Politics and International Ambition*. Cornell studies in security affairs (Ithaca, N.Y.: Cornell University Press, 1991).
73. Morton Grodzins, *The Metropolitan Area As A Racial Problem* (Pittsburgh: University of Pittsburgh Press, 1958).