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Presentation to the Task Force to Investigate Terrorism Financing

The issue of addressing illicit financial flows is understandably receiving increased attention in today's world. The rapid and accelerating growth of international trade in the post WW2 era has involved dramatic increases in financial flows, particularly in developing countries. It is perhaps unavoidable that over time the global financial system would increasingly become a target for the full range of criminal and terrorist actors; as the old saying about banks goes, "that's where the money is".

Moreover, given their weaker institutional capacities and systems, it is perhaps inevitable that developing countries, particularly lower-income developing countries, would become preferred targets for criminal and terrorist actors. Gaps in bank supervision capacities and weak technical skills make these countries attractive targets; moreover governance and corruption issues within government bureaucracies can often undermine even the efforts of honest governments in these areas.

From a development standpoint, the standard response to this situation has been to propose technical assistance (TA) – the provision of technical experts to fill capacity gaps and providing funds to help developing countries strengthen their financial systems and address underlying capacity issues. Indeed from the first days of development assistance, donors have funded experts and a full range of training (from short courses to graduate studies) for recipient government staff across all sectors of engagement: finance, agriculture, energy, education etc. Indeed technical assistance broadly defined has typically involved 15% or more of total donor commitments.

Given the substantial amount of funding involved, I wish I could argue that the development record of TA has been sterling; unfortunately, I cannot. While there have been real success stories (the so-called "Berkeley mafia" in Indonesia, the University of Chicago trained economists that have been central to the past 30 years of economic reform in Latin America, the capacity building success in Botswana, the impact of the Africa Economic Research Consortium(EARC) on macroeconomic capacity in Africa, and in a limited range of effective state owned enterprises), in my experience the more typical TA story is one of frustration and limited impact.

There are many problems underlying this performance, but a quick summary of common issues might be helpful. Often the recipient government does not provide an appropriate environment for either expert staff or the long-term capacity development programs funded by donors. Common problems involve resentment of the high salaries of expert staff, the failure to assign local staff to work with experts, the absence of comprehensive and time-bound ministry plans to ensure that local staff training programs are put in place which would allow replacement of outside experts over time, and sometimes the simple refusal to hire needed expertise.

Donor behavior presents problems as well. Coordination is problematic – experts from different countries will compete for the attention of senior officials and give conflicting advice, project-based funding will frequently end before adequate capacity is established, key government staff are poached by donors offering better terms than the government does, and donors often push for experts that recipient governments do not feel are required.

Therefore, while I fully agree that a concerted effort on building expertise and institutional capacity to address the challenges of illicit financial flows is a priority, I would at the same time argue that approaching this in a “business as usual” mode is unlikely to have the intended impact. Instead I would suggest that in order to be successful, any TA efforts would need to be qualitatively different than past efforts.

In a recent presentation I gave in Papua New Guinea on technical assistance and capacity building, I made an initial attempt to outline steps that can be taken to effectively meet this challenge. I began with developing a number of specific steps that need to be taken by recipient governments; this effort basically revolves around the need to ensure that governments are not giving lip service to this issue but instead are firmly committed to achieving real capacity improvement. I would suggest a number of actions as necessary to indicate clear recipient government commitment:

- * an explicit long range plan that would (i) set out levels of expertise required for what period and (ii) detail the needed training to ensure that local staff would be trained to replace all international experts;

- *an explicit commitment of the local staff required to both work with international experts and eventually replace those experts;

- *a budgetary commitment of the local counterpart resources needed to support any local benefits of international expert and salaries of local staff.

At the same time donors need to get their act together. I see the following changes in traditional practices as offering potential:

- * a commitment to fully fund the recipient’s proposed long term program of expert support and local training; in most cases this will require commitments beyond the typical 5 year project assumptions of most donors.

- * an agreement among donors on funding a single TA program with the assurance that all donor support would be subject to the discipline of the agreed program. The historical practice of each donor developing individual programs would cease, ongoing programs could be folded into one program and program supervision would be done jointly. It is unfortunate that Paris agreements on better aid coordination have not been a focus of most TA programs – the resulting lack of coordination remains a constraint that could be addressed through this approach.

- * a single donor should be given clear leadership of the donor effort; this would increase the likelihood of improved management of the program and reduce the burden of the program on typically limited recipient government capacity;
- * as the scholarship and training programs of donors will be a key resource for training, these funds should also be consolidated into a single funding source in order to ensure efficient and effective support for the long term training program identified by government;
- * the increased use of twinning recipient agencies with their counterparts from more developed countries; using general consulting firms for TA has numerous advantages but I feel that the longer-term programs suggested above can be better implemented by using the established capacity of government or banking staff that have real time responsibility for overseeing key financial flows;
- * there would be a prohibition on the poaching of key staff by donors for the duration of the programs funded;
- * finally, a consortium of a limited number of donor and recipient governments would be established to oversee the country programs; this would reflect the clear priority given this effort, and would ensure that standards are maintained, that the lessons of experience (good and bad) would be learned and that any funding issues could be more easily resolved.

In concluding I would note that none of these actions is particularly profound or difficult. The question of why this has not happened before this is therefore interesting. I would underline three factors. First, because TA is typically a modest part of most large project investments it has too often been an afterthought in investment development. Second, the myriad of different and complex donor requirements on aid administration generally and TA specifically makes working together impossible. Finally, the pressures across the donor community to deliver the level of aid promised has too often led to a willingness of donors to compromise on the time required to fully secure recipient government commitment and capacity to deliver on the necessary requirements for successful capacity building efforts.

Reflecting on this, I think that the issue of building increased capacity to deal with terrorist financing may offer a unique opportunity to attempt to build a more effective model of TA support. It has the advantage that it is important to both donor and recipient governments - no country can afford to be locked out of the global financing system. In addition, considerable capacity exists in developed country governments and banks to help deal with this issue, and the costs of addressing this issue pale in comparison to the risks of not addressing it. Thank you.