

# **THE PROBLEMS OF MORAL HAZARD: HUMANITARIAN AID DURING VIOLENT CONFLICT**

**Kelly-Kate Pease**

Professor, Webster University

Humanitarian assistance, especially during violent conflict, has been under intense scrutiny and criticism in the last decade.

Fiona Terry (2002), in *The Paradox of Humanitarian Aid*, argues that the international aid community has failed to take into account the political context of violent conflict. As a result, a paradox emerges in that the humanitarian aid, which is supposed to ease human suffering and preserve human dignity, may actually sustain the belligerents whose oppressive action caused the suffering in the first place.

Similarly, Dr. Pamela Grim (2000) in *Just Here Trying to Save a Few Lives*, highlights how humanitarian aid indirectly enables corrupt authorities to continue their brutal practices and prolong the violent conflict.

David Rieff (2003), in *A Bed for the Night*, also highlights the paradox but also how donor governments fund and exploit aid agencies for their own purposes and how aid agency collaborates in their own exploitation.

Dr. Sarah Lischer (2003), in *Collateral Damage*, explores how Humanitarian Assistance can be a cause of violent conflict.

In all of these important works, the role of humanitarian aid and the aid community in violent conflicts is argued to perpetuate the crisis and may actually be a source of future conflict. Needless to say, their arguments have, at best, had a lukewarm reception by advocates for the promotion and protection of human rights.

The central problem, as I see it, is to blame others for adverse consequences, while refusing to recognize that all parties involved in international conflict have direct responsibilities for outcomes.

My remarks are organized around two parts. First, I will discuss the concept of moral hazard. Second, I will detail the problems of moral hazard for the international aid community, donor states, and belligerents in violent conflict.

## **Moral Hazard**

The concept of Moral Hazard originates in classical economic theory and is most often associated with the insurance industry.

Moral Hazard refers to the propensity of human agents to behave opportunistically and how the relationship between risk and reward alters human behavior.

The provision of insurance is thought to cause individuals to behave differently than they otherwise would if insurance was unavailable. For example, a car owner is likely to drive faster and more aggressively if the car is insured. Conversely, if the car is uninsured owner will drive more

defensively and take better care of the vehicle. Insurance is thought to alter individual behavior, often in subtle ways, as it encourages individuals to take greater risks because they are insured against misfortune.

Robert Schenk (1998) argues that the problems of Moral Hazard can be even more pronounced when the insured value of the misfortune is greater than the actual value of the item. If the auto is worth 30,000 Euro and it is insured for 40,000 Euro, then it is rational for the owner to take steps to deliberately wreck the car. However, as Schenk (1998) states, "moral hazard does not require that people intentionally cause the misfortune. If they simply take fewer measures to prevent misfortune, the same outcome occurs."

The concept of Moral Hazard has been used to describe the unintended consequences associated with government welfare programs, deposit insurance, and the activities of the International Monetary Fund (IMF) and the World Bank. Government welfare programs that provide compensation during periods of unemployment may actually exacerbate the unemployment problem as individuals, who are rational and self-interested, take advantage of program especially. At the very least, individuals are less likely to seek work or are ambivalent about retaining the job they already have. Solutions include placing restrictions. Time, reason for unemployment, creating incentives for individuals to find and maintain employment.

Government programs that insure bank deposits, such as the Federal Deposit Insurance Corporation (FDIC) in the United States, also create problems of moral hazard. By guaranteeing bank deposit the government is subsidizing risks. Banks, knowing their deposits are insured, engage in riskier lending behavior. If banks faced the true cost of risk; they will balance the tradeoff between risk and return. (Prescott 2002).

Similarly the activities of IMF and the World Bank have also come under critical scrutiny. The IMF/World Bank bailout of Mexico in 1994 and Indonesia in 1998 illustrates the consequences of moral hazard. The bailout underwrites investors, bondholders, and bankers and socializes investment risks (Hawke 1995, 110). By disrupting the relationship between risk and reward, the IMF and the World Bank are, in fact, encouraging foolish investment. Investors are insured against loss, thereby insuring riskier investment. The bailouts serve to keep otherwise insolvent banks in business to continue their questionable lending to states in financial trouble. States in financial trouble face no consequences for mismanagement of the economy.

These are all examples of how the problems of moral hazard perpetuate problems rather than solve them.

### **Moral Hazard and the Provision of Humanitarian Aid During Violent Conflict**

I would like to approach the problems of moral hazard and humanitarian aid by describing the problems of moral hazard with all involved parties.

Let's begin with the international humanitarian aid community. The international humanitarian aid community consists of Intergovernmental Organizations (IGOs) and Nongovernmental Organizations (NGOs) that are committed to preserving human dignity and alleviating human suffering. This community delivers immediate humanitarian assistance to persons displaced by natural disaster, civil disorder, and violent conflict. It also works on a continuous basis with people mired in perpetual poverty providing development, medical and educational services. In many respects, this web of social-welfare IGOs and NGOs provide the only safety net that many people have. The problems of moral hazard also plague their activities.

The altruistic behavior associated with the humanitarian aid community often shields IGOs and NGOs from criticism or at the very least it is assigned less responsibility for adverse outcomes. Furthermore, a type of groupthink can pervade the aid community with symptoms such as the "we v. they mentality," rationalization, mindguarding, and a presumption of the inherent morality of the group. As a result, the aid community has a difficult time acknowledging its own self-interest in humanitarian crises.

But it does have self-interest and that self-interest can lead to moral hazard. First, there is a self-interest in relevance (see e.g., Vaux 2001). Being important and pivotal is a human desire that drives a lot of behavior. IMF had to reinvent itself after the collapse of the Bretton Woods. Similarly, the aid community had to reinvent after the Cold War as the frontline in "complex emergencies." Second, the aid community stands to benefit from humanitarian crises as their coffers are replenished and their budgets expanded. This means they can keep workers on the payroll and even expand their operations. Agencies seek to expand its operating budgets, which means they can expand their activities. Some NGOs have budgets that run into 100s of millions of dollars, and certain IGOs have billion dollar budgets. In invite you to consider the self-interest of officials of UNRWA and the ICRC in the Palestinian-Israeli conflict or the UNHCR in the Great Lakes Region or the UN and the Oil for Food Program in Iraq. In many respects, humanitarian aid community is in fact an industry in the business of providing relief (see e.g. Rieff 2003, Vaux 2001, Anderson 1999).

I am not saying the aid community causes the conflict, but their approach to the conflict is conditioned and tempered by what they expect to receive in the way of funding. It analogous to insurance companies being reimbursed by governments for claims. If funding is available, they are likely to get involved even if they are being used by donor states and belligerents or they know that their will not reach the most vulnerable. If the benefits outweigh the costs, they may even have an interest in continued conflict.

The self interest of the aid community is perhaps most apparent in cases where their own people are *en extremis* and when their assistance puts others *en extremis*. When aid workers a murdered, aid agencies often withdraw and scale back their activities even though it will mean additional and prolonged human suffering. However, if their activities enable belliger-

ents to continue their violent activities, the “starving child knows no politics” argument is presented as a justification for looking the other way.

### **Donor States**

The problems of moral hazard also plague the behavior of donor states. Using our insurance analogy, donor states can be viewed as purchasing insurance (through their donations to the humanitarian aid community) to guard against the humanitarian misfortune affecting others. They are buying protection against the actions of others. However, by funding aid agencies, states are then less likely to take the necessary steps to prevent the humanitarian misfortune in the first place.

This is enhanced by using humanitarian aid as substitute for a comprehensive policy for addressing the violent conflict in the first place. They throw money at the aid community, and then argue that they are addressing the problem. It allows them to avoid taking more definitive steps to resolving the conflict. Bosnia, Rwanda, Congo, and the Sudan are examples of this type of moral hazard.

Adverse selection is also at work. Adverse selection refers to the tendency of individuals to purchase insurance because they know they face large risk. Donor states that have a direct foreign policy interest in the outcome of a conflict will fund the aid community and then use the presence of refugees to justify their policy in the first place. The provision of humanitarian aid encourages donor states to engage in more risky foreign policy adventure.

I invite you to consider the self-interest of the US in Cambodia, Afghanistan, Central America in the 1980s. Not surprisingly, US contributions to the aid community operating in these conflicts were high. I also ask you to consider the interests of France in the Great Lakes region. And as Rieff (2003) points out, the aid community can become complicit in their own exploitation (perhaps because they have moral hazards of their own.). Adverse selection may also be at work with the US in Iraq and Afghanistan now, except the US status is not principally as a donor state but as a belligerent in the conflict.

### **The Belligerents**

The Moral Hazard of humanitarian aid for belligerents in a violent conflict is the most obvious. Since moral hazard alters otherwise prudent behavior and encourages risky and irresponsible human behavior (Wallander 2002), belligerents in a conflict seek to take advantage of humanitarian assistance.

Terry (2002) and Rieff (2003) have correctly identified how the belligerents in Central America, Congo, Rwanda, and Bosnia were able to take advantage of refugee camps as a military sanctuary. The proximity of the camps to the conflict enabled fighters to continue their activities and

then return to their families in the safety of the camps. While legally only civilians are entitled to humanitarian assistance during violent conflict, in practice the distinction between combatants and civilians is difficult to discern especially in the camps. Some cynics have suggested that you can tell the combatants in the camp, as they are the ones that appear to be well fed and healthy.

Another moral hazard problem of humanitarian aid is that it allows states to transfer their responsibility for the welfare of population to the aid community. This applies to states experiencing internal conflict and to occupying powers. For states experiencing internal conflict the advantages are two fold in that it can pass the costs on to the aid community, but the aid can help maintain the status quo, even when their policies are a cause of the conflict. The aid can even contribute to the war economy. While aid often maintains the status quo, it also can legitimize the opposition. The provision of humanitarian aid encourages risky if not reckless behavior on the part of the belligerents in a conflict.

## **Conclusion**

The problems of moral hazard surround humanitarian aid during violent conflict and I have no neat prescription for minimizing the hazard. What is clear, however, is that the aid community alone cannot develop codes of conduct. The existing codes turn a blind eye the self interest of aid agencies, and therefore, their own moral hazard. Each actor—belligerent, donor state, and aid agency—is responsible for their own actions and unfortunately the unintended consequences of those actions.

## **References**

Anderson, Mary (1999) *Do No Harm: How Aid Can Support Peace or War* (Boulder, CO: Lynne Rienner)

De Waal, Alex (1998) *Famine Crimes: Politics, and the Disaster Relief Industry* (Bloomington, IN: Indiana University Press)

Grim, Pamela (2000) *Here Just Trying to Save a Few Lives* (New York: Warner Books).

Hawke, Steve Bob Rubin, Meet C.N. Parkinson (1995) *Forbes* (March 13): 110.

Lischer, Sarah Kenyon (2003) Collateral Damage: Humanitarian Assistance as a Cause of Conflict. *International Security* 28 (Summer): 79-109.

Powers, Samantha (2003) *A Problem from Hell: America and the Age of Genocide* (Perennial Publishers)

Prescott, Edward Simpson. (2002) Can Risk Based Deposit Insurance Premiums Control Moral Hazard? *Economic Quarterly*. 88 (Spring): 87-100.

Rieff, David (2003) *A Bed for the Night: Humanitarianism in Crisis*. (New York, NY: Simon and Schuster).

Schenk, Robert (1997) *Insurance*  
([www.ingrimayne.saintjoe.edu/econ/RiskExclusion](http://www.ingrimayne.saintjoe.edu/econ/RiskExclusion))

Terry, Fiona (2002) *Condemned to Repeat? The Paradox of Humanitarian Action* (Ithaca, NY: Cornell University Press)

Vaux, Tony (2001) *The Selfish Altruist: Relief Work in Famine and War* (London: Earthscan)

Wallender, Celeste A. (2002) NATO' Price: Shape Up or Ship Out. *Foreign Affairs*. (November/December): 2-8.