

Eliminating corruption in aid (a modest proposal)

by Terence Wood

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A [scandal with the Global Fund](#), allegations of [misappropriated school support in Indonesia](#)...once again the issue of aid and corruption is front and centre in the media. And, once again, serious types are asking what can be done to eliminate the risk of Australian aid being captured by the corrupt and unscrupulous.

This is a perennial issue; one which has plagued aid for decades. Yet it is also an issue that has defied solutions. People have bemoaned the problem, but no one has actually managed to come up with a way of solving it. Until now, that is. Because I have a solution: a means of finally eliminating the risk that Australian aid might be put to corrupt purposes.

My solution is this: All official Australian development assistance should be given to New Zealand.

This might seem like an unorthodox approach. But the reasoning behind it is impeccable once you think about it.

In the late 1980s and early 1990s New Zealand embarked on a series of bold political reforms. Key institutions such as the Central Bank were placed at arm's length from the political process. Watch-dogs were set up. And the public was empowered through mechanisms such as the Official Information Act. Governance in New Zealand was transformed. As a result your antipodean neighbour now ranks near the top in just about every international anti-corruption index. In the latest Transparency International Corruption Perception Index it [scored first equal with Denmark](#). If keeping your aid money out of the hands of wretches and knaves is your goal, then New Zealand is the place to send it. Indeed, aid money devoted to New Zealand would actually be safer than money left in Australia which, cough, only ranked 8th in the same Transparency International study.

It's true that there's not much need for new [hospitals and schools in New Zealand](#). Vaccinations are pretty well covered. But the sports teams could do with some help (maybe an AFL franchise?). So if eliminating the risk of Australian aid being put to corrupt ends is your goal, you won't find a better place to donate your money.

It's a near perfect solution. It is also completely ridiculous, of course.

The reason why it's ridiculous is because, at the end of the day, eliminating the risk of Australian aid being misappropriated really isn't the reason why aid is given. The actual reason is to eliminate poverty and promote development.

This is a rather different objective. Although the good news is that if eliminating poverty and aiding development is our end goal I still have some thoughts about how we should think about the issue of aid and corruption.

First, if we're going to give aid we're going to have to get used to the idea that some of it will get siphoned off by the corrupt. This is just inevitable given the governance environment in places such as PNG and Indonesia.

Second, everyone likes a good scandal, but media frenzies really aren't that helpful. For a start, as the recent Global Fund controversy illustrated, they are often **disproportionate to the scope of the problem.**

Fraud plagues global health fund

GENEVA (AP) —A \$21.7 billion development fund backed by celebrities and hailed as an alternative to the bureaucracy of the United Nations sees as much as two-thirds of some grants eaten up by corruption, The Associated Press has learned. [Emphasis added]

As Bill Savedoff, a senior fellow at the Center for Global Development, with more than 20 years of experience working on economic and social development issues, points out: the two-thirds of 'some grants' is \$10m, which is hardly a plague. Oh, and AP 'learned' about it because the Global Fund released the information – last year.

Sensationalist reporting also tends to punish those agencies that are the most transparent. In the Global Fund's case it's unlikely the media would have found out about the problem had the Global Fund not been open about it in the first place. Think about the incentives here. If donor transparency is rewarded by perennial controversy, do you think there will be more or less transparency? Just to be clear, I'm not saying newspapers shouldn't report these issues. I'm just asking that, when they do, they keep things in perspective, and aim for accuracy. And maybe balance

the negative reports with the positive too.

Third, trade offs are involved. Aid agencies could dramatically reduce the corruption of aid spending if they delivered and monitored every dollar themselves. But if they did this, all their staff would ever be doing would be delivering and monitoring aid. Which would raise overheads and curtail substantive work. So when you consider the cost of corruption you need to weigh this up against the cost of curtailing it.

None of which is to say that we should simply shrug our shoulders and do nothing about the misappropriation of aid. Far from it. And there is one form of corruption that we should have absolutely zero tolerance for. This is the corruption of aid spending that occurs in donor countries; the so-called boomerang aid that is awarded to contractors because of their political connections. (I wrote about my worries of this type of corruption taking place in the New Zealand aid programme on Development Policy blog [last year](#)). We can, and should, put an end to this sort of corruption.

And, of course, we shouldn't give up on corruption in developing countries where it's harder to tackle. There is still a lot we can do, ranging from careful design of aid agency monitoring systems, to choosing appropriate aid modalities, to empowering communities in recipient countries to let donors know when aid isn't reaching them. But as I said, we're never going to be 100% successful with this. There will always be bad news to be broken. But we (taxpayers, aid workers, politicians, and the media) need to keep it in perspective. If we don't, the sad paradox is, we may actually make our aid less effective in helping the poor, rather than more.

Terence Wood is a PhD student at ANU. Prior to commencing study he worked for the New Zealand government aid programme.

Author/s:

Terence Wood

Terence Wood is a Fellow at the Development Policy Centre. His research focuses on political governance in Western Melanesia, and Australian and New Zealand aid.

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