Missing the big picture on corruption?

Author : Matthew Morris

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Reading recent headlines, you might be forgiven for thinking that Australia's aid program is failing: Foreign aid program stifled by corruption?; Millions lost in foreign aid programs due to corruption?; Australian aid agency answers corruption claims?; Fraud claims in Australian overseas aid program?. But are these stories missing the big picture on corruption and aid effectivenss?

Corruption is a major problem for poor countries, but the real victims are poor people in developing countries, not taxpayers in Australia. The latest batch of stories of 'corruption' in Australia's aid program potentially divert attention away from the bigger issues: how to tackle corruption in developing countries and how to improve the impact of Australian aid on poverty.

Zeroing in a tiny rates of aid fraud misses this bigger picture. As Peter Baxter has pointed out, the amount of aid in question is a miniscule proportion of total aid--$3.4m out of $20bn over the last seven years, or just 0.017%.

Much more important, in terms of value for money for Australian taxpayers and the impact on poverty, is the effectiveness of the other $19.9966 billion. Here it is important to look reports such as the Annual Reviews of Development Effectiveness, AusAID's own assessment of its performance, program evaluations, and the ANAO's assessment of AusAID--these provide a more complete picture of how the aid program is performing and are a better basis for discussion and debate.

These reports do point to some notable successes, including robust systems for controlling corruption in Australian aid, but they also highlight areas that AusAID could improve on: greater selectivity in programs, a more strategic use of partner country systems, more rigorous evaluation, and greater use of multilateral agencies. These are the issues that need genuine debate and that will ultimately drive better results for poor people and greater value for money for Australian taxpayers.

Turning to the issue of corruption in developing countries, which is also a key issue for aid effectiveness. Evidence suggests that the effectiveness of aid is related to the quality of governance in the recipient country, so improvements in governance should also improve the quality of aid.

There are several strategies donors can use to improve aid effectiveness in weak governance contexts--for more see Stephen Howes' recent paper.

The first is to target aid at countries that have relatively good governance. The World Bank, for example, does this by allocating aid to countries that score well on assessments of the quality of their policies and governance. DFID allocates more aid to countries that it thinks will be able to deliver better development outcomes. But there is a limit to how far this strategy can be pursued.

Many countries are poor and corrupt and require external assistance. Paul Collier's book 'The Bottom Billion' describes how many countries become 'trapped' by weak governance, and once trapped it is difficult for countries to turnaround without external assistance. Simply reallocating aid to better performing countries isn't the answer, so what is?

Another strategy is to use aid to improve governance. This typically involves using aid for capacity building and technical assistance, but it can also include using conditions on aid to push for reforms. While this strategy has intuitive appeal, the evidence on the overall impact on better governance in inconclusive at best--for more see chapters 12 and 14 in Roger Riddell's 'Does Foreign Aid Really Work?'.

That is not to say that some technical assistance doesn't work, and we shouldn't try, just that overall there is little evidence of impact. And there are lots of things donors can do to make TA work better--such as making it more selective and reduce costs--as we have seen with AusAID's recent review of advisers.

All of this might sound a bit gloomy, but there are also some new ideas that deserve discussion.

One is to create new institutions. Paul Collier has proposed independent service delivery authorities as a model for delivering services in governance-weak countries. The idea is that in countries where the delivery of education and health services is utterly failing, the government, civil society and donors could build an alternative delivery system--see *The Bottom Billion* p 118 and 120. Paul Romer goes further and proposes setting up charter cities with new sets of governance arrangements and external guarantees, which allows governance innovations to be adopted quickly.

Another approach is to link payments to outcomes. The Center for Global Development is proposing Cash on Delivery Aid that link aid payments to progress on agreed outcomes--for example $100 for each extra child passing a standardised school test. It's an appealing idea because it potentially removes some of the distortions in aid and helps donor taxpayers to see more clearly what impact aid is having. It's still early days, but DFID is piloting this kind of approach in Ethiopia and there may be lessons for the Australian aid program.

And finally, there are things, beyond aid, that rich countries can do to help tackle corruption in poor countries. The Extractive Industries Transparency Initiative requires companies to report payments to governments and helps auditing the receipt of those fund. The US has passed legislation to tighten up controls on bribery by US-based firms in extractive industries. Anti-money laundering legislation could also be used to better track ill-gotten gains from corrupt leaders, and better links between anti-corruption watchdogs can increase the chance of evidence gained this way leading to successful prosecutions.

There is much more that could and needs to be said about the nature and causes of corruption in many poor countries; it's impacts on poverty; and responses from donors and developing countries. These are critical issues that deserve more discussion.

Matt Morris *is a research fellow at the Crawford School and Deputy Director of the Development Policy Centre.*