The Mean Country: whither Australia's overseas aid program?

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Australia's declining aid effort

Australia's commitment to giving aid to developing countries has been falling steadily during the last twenty years. It has fallen by about 15 per cent in real terms since the mid-1980s. Internationally, the ratio of overseas development assistance to a country's gross national product is used to measure this commitment (ODA/GNP). The decline in this ratio indicates the lack of importance Australia places on its contribution to development.

Table 1 **Australia's ODA/GNP ratio, 1969–92**

	ODA/GNP (per cent)
1969–70	0.55
1970–71 to 1979–80	0.44
1980–81	0.42
1981–82	0.43
1982–83	0.45
1983–84	0.50
1984–85	0.49
1985–86	0.45
1986–87	0.38
1987–88	0.36
1988–89	0.37
1989–90	0.33
1990–91	0.35
1991–92 (est.)	0.35

Source: *Australia's Overseas Aid Program 1990–91*, Budget Related Paper No. 4, Canberra, AGPS.

It seems disingenuous to link our declining aid effort to our economic difficulties. The principal decline in the Australian aid effort as measured by the ODA/GNP ratio came in the late 1980s when commodity prices were peaking and Australia was thought to be booming. Aid was cut for administrative convenience.

Claims on the Federal budget for all purposes are felt most strongly at times of recession when the pressure to cut overseas aid increases. The 1990–91 recession year has been compared in intensity with that of 1982–83, but the recession cannot explain the aid decline. In 1982–83 the ODA/GNP ratio was maintained at 0.45 per cent. It says much about our society that cuts to the aid program are the first 'cab off the rank' in our program of public expenditure.

Today Australia's effort compares poorly with other countries with similar standards of living. In the ranking of donor countries Australia had slipped from about average in 1983 to well below average in 1989. In contrast to Australia, many industrial countries have maintained ODA/GDP ratios and levels.

Australia's overseas aid, on present indications, is likely to be about $1.3 billion in 1991–92. This would maintain the ODA/GDP ratio of 1990–91, but would not put Australia among the caring nations.

Table 2 **ODA/GNP ratios for selected countries**
(per cent)

Country	ODA/GNP 1983	ODA/GNP 1989
Norway	1.09	1.02
Denmark	0.73	1.02
Sweden	0.84	1.00
Netherlands	0.91	0.93
Australia	**0.49**	**0.37**
Japan	0.32	0.31
United Kingdom	0.35	0.31
United States	0.24	0.15
DAC unweighted average*	0.51	0.51

*The Development Assistance Committee (DAC) uses both a weighted and unweighted average. The weighted index uses dollar amounts as weights and the weighted average is heavily influenced by the very large amount coming from the United States and Japan, both of whom have comparatively low ODA/GNP ratios.

Source: *Australia's Overseas Aid Program*, op.cit.

When these ratios are converted into absolute values Australia's relatively minor contribution becomes even more apparent. Australia and Japan are the two industrial countries nearest to the rapidly growing developing countries of Asia. Japan is now the world's biggest development-aid contributor, giving more than US$9 billion annually to aid. Australia's contribution is US$1 billion.

Table 3 **ODA contributions of selected major industrial countries** (US$billion)

	1988–89 average
Japan	9.0
United States	8.9
France	7.2
Germany	4.8
Italy	3.4
Australia	**1.1**

Source: OECD, *In Figures*, Paris, July 1991.

Budget priorities reflect the perception that politicians do not think that voters care about development aid. The politicians do have a case.

The Australian community is not making up the shortfall in official assistance through donations to development assistance non-government organizations (NGOs). On a per capita basis we lag badly behind other nations.

Table 4 **Grants by NGOs, 1990**[e]

	US$ million	US$ per capita
United States	2131	8.6
Germany	894	14.4
Canada	289	11.1
United Kingdom	285	5.0
Netherlands	220	14.6
Australia	**70**	**4.1**

[e] estimate

Source: OECD, *In Figures*, Paris, July 1991.

Why should we give aid?

Countries give aid for more than humanitarian reasons. Senator Evans (Minister for Foreign Affairs and Trade) has observed that:

> Our overseas aid expenditure is both altruistic and in our own interests, and is capable of being looked at from both these perspectives. All Australia's aid, to qualify for that description under international accounting rules, has to be altruistic: alleviating poverty and distress, promoting development or both. But equally, all Australian aid can be seen as promoting one or more very direct and very real Australian interests. ...What is important is that these altruistic and self-interested perspectives complement each other (Evans 1989).

There are synergies between humanitarian, economic and political objectives and the mix of objectives is not constant over time. Humanitarian aid responds to world catastrophes as interpreted by the media. The Kurdish populations of Turkey, Iran and particularly Iraq have been subjected to brutal treatment for decades. It was only when they became frontline news that they attracted humanitarian interest. Famine in the Sahel in Africa with the consequences flashed on television screens around the world pushes aid expenditures towards relief which is purely humanitarian. A cyclone makes television news of countries that have mismanaged economic de- velopment by misappropriating funds intended for cyclone shelters, and denying their populations productive employment, causing poverty. The result may be an uneconomic use of Australian resources, but the plight of people in Bangladesh or those in the horn of Africa cannot be ignored. Relief is widely supported by the public.

In Australia an informed debate on the objectives of aid is lacking. The impact of aid on development and the implications for Australia of the current aid share of the budget rarely makes the press headlines. The last time there was public discussion of aid was when the Jackson Committee reviewed Australian aid in 1984. It then helped focus our aid effort. It was concluded that an effective aid policy should be 'focused on helping developing countries achieve growth that alleviates poverty and improves income distribution' (Jackson Report 1984:3).

Australia is close to the fastest growing region in the world. We are only now trying to take advantage of the trade available in our front yard. The most powerful argument for giving aid, particularly in our neighbourhood, is that it is in Australia's self interest. Instead, we are building up an image of a mean country.

Aid promotes growth which leads to trade

Pictures of immediate short-term benefits usually obscure the much greater gains for Australia of an effective aid program.

The short-term commercial interest in aid is in the sale of Australian goods and services through aid tied to Australian suppliers. The Development Import Finance Facility provides subsidies to Australian suppliers of capital goods. Such sales, represented by the size of Australia's bilateral aid program, are necessarily limited. They do not always stimulate efficient exports and hence do not lead to strong follow-up sales. Contributions to the multilateral banks in addition provide access to large flows of contracts through international competitive bidding, but Australian firms do not compete effectively for such contracts.

The long-term commercial interest associated with aid is of much greater importance. The key objective of aid—development—leads to rapid economic growth and poverty alleviation. The rapidly growing East and Southeast Asian countries have doubled their living standards every decade since the 1960s and become major importers.

Japan was the first of the developing countries to become a developed country. It is Australia's largest trading partner. The growth of these countries has been associated with a tremendous growth of Australian exports to them.

Table 5 **Growth in GDP and exports to Australia, 1979–90**

	Average annual growth in GDP (per cent)	Imports from Australia (US$ million)	
	1979–89	1979–80	1989–90
Japan	4.1	5648	9855
Korea, Rep.	9.7	451	2058
Taiwan	8.0	359	1406
Thailand	7.0	157	436

Source: Asia–Pacific Economics Group, *Asia–Pacific Profiles*, Canberra, 1991.

Aid diplomacy creates an awareness in neighbouring developing countries of Australia's capacity to service their needs. But many have grown from very low levels of income. They still need to develop.

Table 6 **ASEAN: per capita income, 1990** (US$)

	GNP per capita
Indonesia	530
Malaysia	2300
Philippines	740
Singapore	10300
Thailand	1450

Source: Asia–Pacific Economics Group, *Asia–Pacific Profiles*, Canberra 1991.

Aid to education and training, together with the provision of full-fee tertiary education places, particularly at the postgraduate level, are important to the development of long-term relations between Australia and our neighbouring countries. Such developments do not take place at the cost of Australian students. On the contrary, particularly at the postgraduate level, they enable specialized, high level education, that otherwise could not take place because of the lack of economies of scale, to be provided for Australian students.

Is our aid well spent?

The quality of the Australian aid program has improved markedly since the beginning of the 1980s. The efficiency and effectiveness with which each dollar is spent, particularly in the bilateral country programs, has progressed from year to year. The shrinking real volume of aid has failed to recognize these trends. Increased efficiency and effectiveness, moreover, are under constant attack.

Table 7 **Australian aid flows by region, 1990–91**

	$million		Percentage	
	1985–1987	1990–1991	1985–1987	1990–1991
Papua New Guinea	333.4	335.1	34	26
South Pacific	87.5	109.0	9	9
Southeast Asia	222.1	281.9	23	22
Other regions	131.3	218.5	13	17
Contributions to multi-lateral organizations	201.4	322.2	22	26
Total	975.6	1266.8	100	100

Source: *Australia's Overseas Aid Program*, op.cit.

Australian aid is still heavily concentrated in Papua New Guinea and countries in the South Pacific and Southeast Asia where we have a sufficient knowledge of the countries' circumstances to deliver aid effectively. The aid program is nevertheless under constant pressure to diversify into countries where short-term political or commercial interests see an opportunity to make headlines or profits. If such interests are allowed to fragment the Australian aid effort, the quality of the program will again decline. As well a significant part of aid funds goes to multilateral agencies.

Past experience has shown that 'Australia cannot undertake projects effectively in a large number of distant countries' (Jackson Report 1984:9).

It's time to think more clearly

A re-evaluation of Australian attitudes to aid is necessary. Balancing the budget by cutting aid, a marginal item, is ludicrous. It not only trivializes the seriousness of our economic problems, but demonstrates poor forward planning for our relations with the developing countries of our region. The Joint Committee on Foreign Affairs and Defence recommended a lift in the ODA/GNP ratio from 0.36 per cent to 0.5 per cent. Such an increase is estimated to cost over $500 million (McMullan 1989).

That $500 million has an opportunity cost—it could be used for many purposes and there would be no shortage of claimants. If the resources are to be used for the aid program then the objectives of the aid program need to be well-known to the public. To base our aid program on the engendering of a 'warm inner glow' is unlikely to convince the decision makers or the electorate.

The share of funds going to multilateral agencies is also increasing. To some degree, such contri- butions are effective. They enable Australia to participate effectively in assisting development in such large centres as India and China and such difficult areas as Sub-Saharan Africa. But the share of multilateral aid has grown from 20 per cent in 1986–87 to 26 per cent in 1990–91. It is still growing. The overbalancing in the direction of multilateral aid is not in the interest of efficiency or effectiveness of our aid program.

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