Policy Document

Australian Foreign Aid (2019)

Position Statement

AMSA believes that Australia should increase its foreign aid contributions to 0.7% of GNI. AMSA calls for an emphasis on ensuring a clear timeline of continual increase secured with bipartisan support.

AMSA views foreign aid as an important pillar in maintaining Australia’s relevance and standing in the international community. AMSA also firmly believes in the global health outcomes achieved and supported through foreign aid. In addition to philanthropic humanitarian pursuits, overseas development assistance also benefits Australian national interests and economic outcomes.

Ethically, Australia, as a prosperous OECD country, has a moral obligation and duty of care to contribute to the development, stability and security of developing nations.

In the interest of maximising the effectiveness of those monetary contributions, AMSA hopes to see robust methods of qualitative and quantitative review of Australia’s foreign aid programs.

Policy

AMSA calls upon the Australian Government to:

1. Increase its foreign aid expenditure to 0.7% of GNI through:
   a. Establishing a timeline for the attainment of this goal as soon as possible;
   b. Gaining nonpartisan support for continual progress irrespective of party in government
2. Establish clear directives and goals of foreign aid that serve humanitarian purposes beyond solely addressing Australia’s national interest, through:
   a. Increasing foreign aid to regions including, but not limited to Asia-Pacific, with the intention of improving humanitarian outcomes and to encourage stability, security and prosperity.
3. In allocating aid to partner countries:
   a. Respect the sovereignty of these countries;
   b. Base its overall support on the development strategies, institutions, procedures and performance reporting frameworks of these partner countries;
   c. Work with these partner countries, as well as other development actors such as international financial institutions, the private sector and local and international non-government organisations on local and international development goals;
   d. Cooperatively work with partner countries to develop and carry through three to five year plans to increase aid effectiveness and predictability.
   e. Be prepared to accept accountability for development results and maintain transparency in delivery and allocation of foreign aid.
4. In evaluating the effectiveness of aid:
   a. Continue annual internal review processes and support the undertaking of independent reviews,
   b. Support research into the improvement of aid evaluation methods,
c. Take into consideration and aim to incorporate suggestions from internal and external review processes into aid programs,
d. Support the development of and respect review processes in recipient countries,
e. Prioritise transparency and timely reporting in these processes.

Background

Philosophy and Purpose of Foreign Aid

The philosophical drive of Australian foreign aid exists under tension between two main views: orientation towards humanitarian goals, and orientation towards furthering National interests [1,2,3]. The balance between these two objectives has been outlined differently in consecutive budgets and by multiple governments [2].

Over the years, there has been a tendency to exploit humanitarianism as a façade goal, with the furthering of national interest as the intended outcome of foreign aid. This has been particularly true in recent years when, for instance, a major part of official development assistance (ODA) to the Pacific region was planned to be spent on the development of the Australian Infrastructure Financing Facility for the Pacific (AIFFP) and Export Finance and Insurance Corporation (EFIC). With a low level of concessionality compared to previous investments and limited growth prospects, these investments have been widely criticised by experts for benefitting Australia much more than the Pacific region [4].

The Lowy Institute has indicated; “National interest contributes far more to aid investment decisions than development priorities” [p.9, 2]. This was more clearly reflected in the 2019 – 2020 aid budget, with poverty reduction and development framed as a means to further national interest [5]. These two objectives are not mutually exclusive, but neither are they equivalent, and conflict between these priorities is inevitable. Philosophy behind aid is not only confined to the predilections of the Australian Government but is also influenced by OECD commitment and public opinion.

As an OECD country, Australia has a commitment to the United Nations (UN) General Assembly to uphold the transition to “0.7% gross national income (GNI) to foreign aid” initially pledged in 1970, and re-endorsed multiple times since [6]. Despite this commitment, Australia ranks below average amongst the OECD countries for ODA, possibly affecting its international standing and relations with neighbouring countries [7]. With an expected drop to 0.19% by 2021-22, Australia will rank in the bottom third of the 32 OECD countries for ODA [7], while ranking 8th in prosperity [8].

The Government have an obligation to take into consideration the position of the public to some extent. Polling research in 2014 indicated that approximately 74% of the population approved or strongly approved of Australian foreign aid, and 74% supported this aid being humanitarian in nature [3]. This sentiment is reinforced by Charities Aid Foundation, who ranked the Australian population second globally for their “world giving index” [9]. However, 57% of the population favoured a reduction in the quantity of aid currently being provided. In a democratic country, public opinion will always have some influence on policy [3].

There are multiple drivers and ideological determinants of Australian foreign aid, the interests of which are not all the same. This false dichotomy between humanitarian aid and national interest has been a recurring challenge for the Australian government when allocating foreign aid, which still struggles to balance the two.

Quantity of Foreign Aid

Despite an ongoing commitment to the aforementioned UN goal of 0.7% GNI, Australia has failed to achieve this commitment, and with current government projections of a historically low rate of ODA in the years to come, this goal currently
appears to be little more than wishful thinking [10]. In the 2019-2020 budget, $4.0 billion has been allocated to foreign aid, equating to just 0.21\% of GNI [5]. This reflects successive cuts to foreign aid over the past six years, with an average ODA of 24.4\% of GNI over the last five years [11]. With current budget projections, foreign aid spending will decrease further to 0.19\% by 2021-2022 [12].

In stark contrast, a number of countries have achieved or even exceeded this 0.7\% target, demonstrating it is a realistic, achievable goal for foreign aid [13]. The United Kingdom who reached the 0.7\% target in 2018 has legally enshrined this target as a requirement of the government [14,15], while Sweden has exceeded this target and has a long term commitment to providing 1\% of its GNI to development assistance [16].

![Figure 1: Australia's ODA to GNI ratio from 2012-13 to (projected) 2022-23][10]

This is in stark contrast to a 2019 report by The Joint Standing Committee on Foreign Affairs, Defence and Trade that recommended a commitment to a timeframe for reaching 0.5\% of GNI within 5 years and 0.7\% in no more than 10 years [17]. However to achieve bipartisan support and continual commitment to achieving the OECD average contribution at a minimum, a more gradual plan may be necessary.

**Effectiveness of Foreign Aid**

Australia’s aid programs have contributed to the significant global reduction of incident HIV infection, the world-wide prevention of malaria-related deaths and the education of millions of children [18]. India, China and Thailand have been able to “graduate” from receiving development aid to becoming Australia’s trade partners, increasing prosperity in our region. [19]. However unlike countries in Southeast Asia, which are moving away from reliance on aid, a number of Pacific Island countries will be dependent on aid from Australia for the foreseeable future [20]. These successes and responsibilities directly support the need for Australia to continue to their foreign assistance from a philanthropic perspective.

Economic modelling from the Australian National University (ANU) has found that every additional $1 spent on Australian foreign aid in Asia has resulted in $7.10 in Australian exports [21]. Australian aid also improves national security due to increased stability and prosperity within and beyond the neighbouring region [22].

A number of review strategies currently exist to evaluate the effectiveness of Australia’s foreign aid programs. The Department of Foreign Affairs and Trade (DFAT) conducts an annual internal review, the Performance of Australian Aid. The OECD Development Assistance Committee (DAC) undertakes regular Peer Reviews of donor countries, most recently for Australia in 2018 for follow-up in 2020 [23,24,25]. Furthermore, a number of independent reviews have also been undertaken. These include the Australian Aid Stakeholder Survey, performed by the Development Policy
Centre at the ANU for the second time in 2018 for follow-up review in 2021, as well as the Independent Review of Aid Effectiveness commissioned by the Australian government in 2011 [26,27]. A regular international independent review, the Quality of Official Development Assistance (QuODA), was most recently conducted in 2018 by Centre for Global Development and the Brooking’s Institution [28].

The overall consensus of these reviews over recent years has been that Australia has a good foreign aid program, particularly the focus on small island states and disaster risk reduction, the biggest weakness being the successive cuts to the aid budgets impairing the aid efforts [25,26]. Further caveats to the success of Australian aid include instances of corruption, the current volatility of aid delivery and the segmentation of foreign aid. The waste of Australian foreign aid through corruption is particularly relevant in PNG, where Australia has been accused of benefiting from this corruption [29]. Lack of predictability and segmentation have directly limited aid projects in PNG and the Pacific [30,31]. Criticisms of foreign aid programs in general include the arguments that aid creates dependency in recipient country, that it fosters corruption and currency overvaluation and undermines effective governance, which may be a more important factor in promoting development [37, 38, 39].

Recent studies show that when aid is unpredictable and volatile, its value is reduced by 15-20% [32]. Further, the lack of predictability of aid is regarded by recipient governments as an obstacle to effective planning [33]. By providing and abiding to three to five year plans, the World Bank suggests that donor countries can improve medium-term predictability of aid expenditure and assist recipient governments [34]. DFAT publishes Aid Investment plans, the strategic frameworks for provision of bilateral Official Development Assistance (ODA) based on 2020 bilateral budget estimates and the total Australian ODA estimate, which including implementation approaches and performance management benchmarks; however these are highly variable in terms of duration and at present the longest plans extend only to 2020 [35].

Issues with the current strategies to review foreign aid include lack of consensus/clarity of what exactly constitutes “effective aid” (varying parameters are utilised by different review strategies, such as DFAT’s internally set performance benchmarks or QuODAs indicators of aid quality [23,28]), the high number of factors that influence effectiveness in each context and the lack of evidence/evaluation of long term effectiveness.

It is also important to acknowledge the inherent conceptual limitation of aid and that graduation of countries from aid programs includes other high level projects such as remittance programs. Remittance programs, in which typically an individual sends money back to their home country, have been shown to correlate with quality health and education expenditure and be more stable and predictable than aid programs [40].

**Current Status**

As of 2019-2020, Australia is spending $4.0 billion annually on foreign aid. Overall, the main investment priority has been *Effective Governance*, to which 26% of the budget was allocated. This is followed by *Infrastructure and Trade* ranking as second priority, allocated 23.6% of the foreign aid budget. Other major areas of expenditure include $450m allocated to humanitarian assistance, $55m to Australia’s gender equity fund and $200m to support actions addressing climate change undertaken by developing nations [5]. Of the $4.0 billion, the Pacific region stands out as the largest recipient with $1.4 billion and secondly the South East and East Asian regions receiving $1 billion [5].

Australia’s aid program has met heavy criticism by experts. The establishment of the Australian Infrastructure Financing Facility for the Pacific (AIFFP) relies mainly on
non-concessional loans, putting a very high debt stress on a region that is already
one of the most aid-dependent in the world [4]. Additionally, the limited growth
prospects of the funding have been criticised. The Pacific region has the lowest
foreign aid programs success rate [4]. Yet, nearly $100 million is set to be reduced
from aid to Bangladesh, Cambodia, Indonesia, Nepal and Pakistan in order to be
redirected toward initiatives favouring the Pacific [41]. Critics suggest this move is a
push back against China’s rising influence in the region [4], rather than a genuine
attempt to improve Infrastructure in the Pacific Region.

The redistribution of resources was not the only aspect of the Foreign Aid budget that
sparked controversy. In fact, although Foreign Aid represents only 1% of budget
expenditure, it has made up around 25% of all budget cuts announced by the
government for the period from 2013 to 2019 [8].

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