

Whither Overseas Aid?

by Bill Frilay

As part of its election platform, Labor in 2007 announced that overseas aid (or Official Development Assistance) would be raised from about 0.28% of GDP to 0.5% of GDP by 2015-16.

This commitment compares to the UN target level of 0.7%, which the EU has agreed to achieve by 2015.

This was a substantial and laudable increase – from \$3.2 billion to around \$8-9 billion (in \$ of the day). And to date there has been a significant increase.

However, since December 2012, there have been significant changes – needless to say in the downward direction – to the timing as well as to the content of the aid budget.

Behind these changes lie three factors.

There is the Federal Budget deficit blowout. Expenditures over the next few years need to be reined in where practicable. Overseas aid is a relatively discretionary expenditure, which can be reduced when you are cash-strapped and looking for some cutbacks. It is not dissimilar in business – in tough times business will cut back on expenditure on such items as exploration or R&D which won't effect immediate operations.

Coupled with this is the imminent Federal election. In terms of the election and winning votes, sadly, showing fiscal propriety is much more important than the aid budget.

And there is the asylum seeker issue which has complicated and indeed overshadowed all of this. So what has happened?

In December 2012, the Government diverted \$375 million from the aid budget to pay for asylum-seeker processing. The Government was heavily criticised for this by aid groups and by the Opposition. The aid budget is for overseas development assistance – this expenditure was being spent neither overseas nor on development.

Then in the May 2013 Budget, the Government announced (the good news) that aid in 2013-14 would rise from \$5.2 billion to \$5.7 billion. However, (the bad news) was that this would include a further \$375 million to pay for onshore processing, and the target date for the 0.5% GDP was now delayed to 2017-18 because of budgetary shortfalls.



Medical staff examine a child for signs of malnourishment in DRC
by DFID UK Department for International Development, flickr cc

So, we have seen both diversion and delay.

Now of course we have the PNG strategy for asylum seekers. That was always going to have a significant impact on the aid budget both upwards and downwards. Downwards because of likely diversion of aid funds for the facilities and activities at Manus Island. And upwards because of the *quid pro quo* that would have been needed by PNG PM Peter O'Neill for PNG to agree to this.

And so it has (sort of) transpired. The 2 August Economic Statement reveals a further \$236 million reduction in the aid budget for the former, and an additional \$420 million aid to PNG over four years for the latter, *but* the additional \$420 million will come from within "existing AusAID resources".

I am not sure on a like-for-like basis how the aid budget targets now look. However, obviously, the increase for PNG (offset by cutbacks elsewhere in AusAID) has been driven by pragmatism rather than altruism, as have the diversions for asylum-seeker processing. Certainly the attainment of the 0.5 % target has receded into the distance, as has the original definition of official development assistance.

What about the Opposition? Leaving aside the asylum-seeker issue, I speculate they would have acted in broadly the same way. They are pushing for a reduction in the deficit also. They would argue that, had they been in government, the asylum-seeker issue would not have become out of control.

Looking back, there was an inevitability about these reductions and delays, given our changing economic circumstances. Probably very similar to the individual level – when times are hard you probably reduce your donations to charities.

There are two other points to make. The first is that governments of either persuasion add to the aid budget in an indirect sense through the tax deductibility of personal donations to aid NGOs such as Caritas, World Vision, and Oxfam. I suspect the balance of these donations is in the 30-45% tax bracket. I do not know the totality of these donations.

The other point is the effectiveness of the official aid. Do we receive value for the dollar? And do the recipients receive dignified assistance which permanently improves their lot? The latest AusAID report for the 2011-12 year set down a strategy through to about 2015 (now presumably changed substantially). There was a White Paper on aid in 2008, but to my knowledge no major review since. It would probably be worthwhile doing this again, but at a more stable time than the present.

To sum up, current and future aid budgets have been predictable casualties both of Federal budgetary problems and of the asylum-seeker issue.