

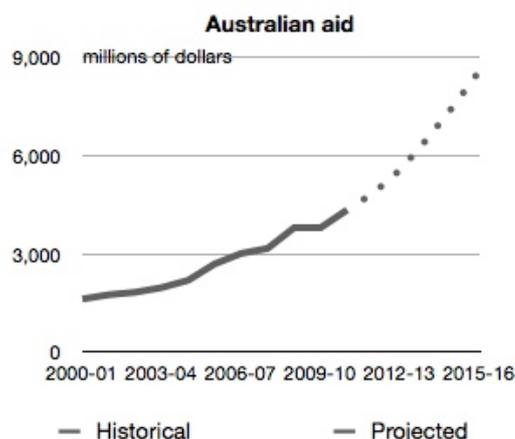
## Patterns and Trends in Australian Aid

### Key points

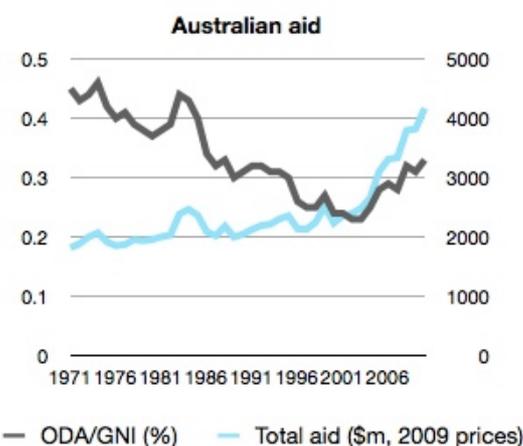
- Australia's aid has expanded rapidly over the last decade.
- There has been a shift in aid from PNG and East Asia to Solomon Islands, Indonesia, and Iraq and Afghanistan.
- Governance is the biggest spending area for the aid program, though in recent years the biggest increases have been in rural/environment and infrastructure.
- The share of aid given to technical assistance is declining, but is still very high.
- Contributions to multilateral donors have not kept pace with aid budget.
- Project size has fallen over time.
- Aid effectiveness is critical to the success of the next doubling of aid.

*This is the first Policy Brief of the Development Policy Centre. In this Brief, we consider recent patterns and trends in Australian aid. How much aid does Australia give? Where is it spent? What is it spent on? How does Australia compare to other donors? We hope that you will find this overview interesting and informative. It is not intended to be exhaustive, and we encourage you to share ideas and provide feedback.*

**Australia's aid has been expanding rapidly**, doubling in the last five years. Australia gave \$1.6 billion in 2000-01, \$2.2 billion in 2004-05, and \$4.3 billion in 2010-11. There is now a bipartisan commitment to increase aid to 0.5% of our gross national income (GNI) by 2015. As long as the mineral boom continues, and our fiscal position stays favourable, there is a good chance that we will reach this target. This means that our aid is set to double again to about \$8.6 billion in 2015-16.



**This is a dramatic break with the past.** Between 1970 and 2000, after adjusting for inflation, aid increased at best slowly and irregularly. The last decade is the only one in which, after adjusting for inflation, the aid budget has not only escaped cuts, but increased steadily.



As a result our aid/GNI ratio is now no longer declining. Aid (or Official Development Assistance – ODA) generosity is typically measured relative to GNI. Australia's aid/GNI ratio has been in decline since the 1970s. In 1970, aid/GNI was 0.45%; by 2003, it reached an all-time low of 0.23%. This long-term decline has now been reversed, and our aid/GNI ratio recovered to 0.33%, its highest level since 1988.

**The increase in aid has been driven by a more pro-active regional foreign policy and, post-2005, an expansionist aid policy.** In the first half of the last decade, increases in aid were the result of generous and pro-active responses to a range of regional developments. 1999 saw Australia start to provide support for an independent East Timor; 2003 saw Australia put together and lead RAMSI, the Solomon Islands stabilization force; and in late 2004 the Asian Tsunami tragedy gave rise to massive increase in aid to Indonesia. Then in September 2005, at a United Nations Millennium Development Goal summit, Prime Minister Howard announced that Australia would double its aid to \$4 billion by 2010-11.

### About us

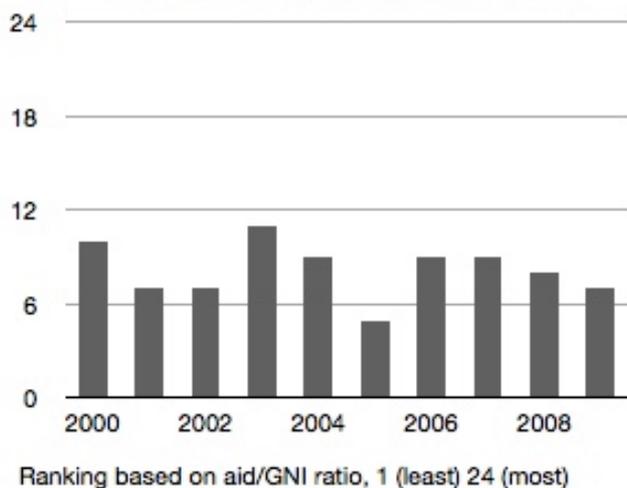
The Development Policy Centre is part of the Crawford School of Economics and Government at the Australian National University.

We undertake analysis and promote discussion on aid and development, with a focus on Australia, the Pacific and Asia.

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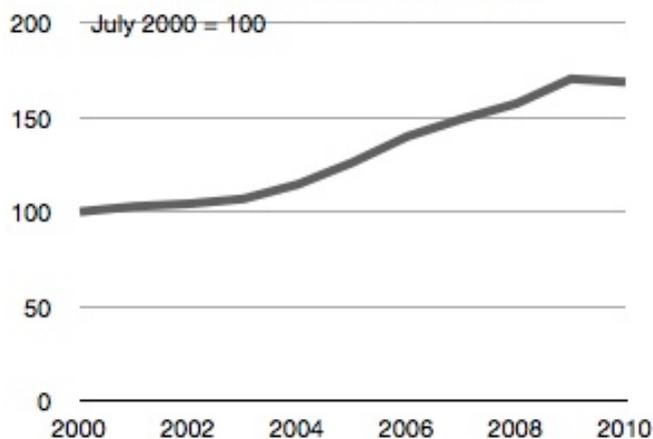
**Post 9/11, all donors have increased aid, and in relative terms Australia is still one of the less generous donors.** Australia wasn't the only country increasing its aid over the last decade. The boom of the last decade, and the greater sense of interconnectedness and vulnerability following 9/11 lead to expanding aid budgets all around the world. In terms of the aid/GNI ratio, Australia has always been one of the smaller donors. There are 24 OECD donors, and Australia is consistently in the bottom ten, and sometimes closer to the bottom five.

**Australia's aid generosity ranking**



**We can certainly afford to be more generous.** The resources boom has massively improved our terms of trade, increasing our wealth and improving the government's fiscal position.

**Australia's terms of trade**

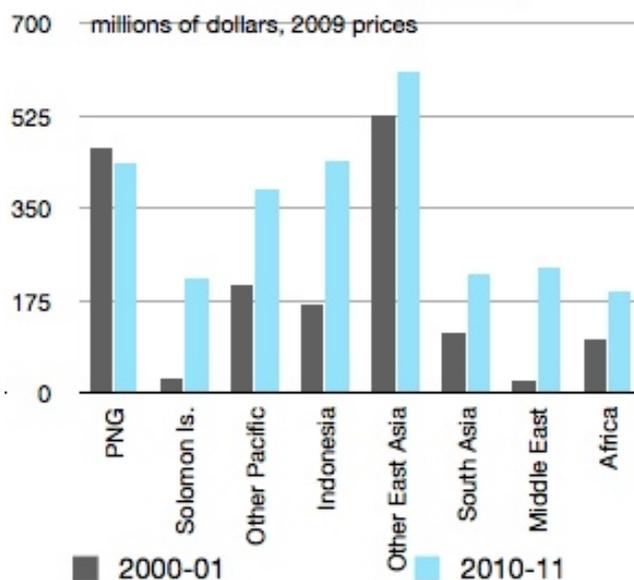


**The key question is whether we can deliver more aid effectively.** We'll be exploring this in future articles. In the rest of this one, we look back

over the last decade of expansion at how the extra aid money has been spent so far.

**The big winners from the increase in the aid budget so far have been the Solomon Islands, Indonesia, and Iraq and Afghanistan.** Aid to every major country and region is up, except for PNG. The biggest increases have been in: aid to the Solomon Islands (due to the RAMSI stabilization intervention), up from from \$27 million in 2000-01 to \$216 million this year; aid to Indonesia (due to the Tsunami response), up from from \$169 million to \$440 million over the same period; and aid to Iraq and Afghanistan, for obvious strategic reasons – Middle East aid (which largely goes to these two countries) is up from \$26 million to \$237 million over the same period. Aid to South Asia and Africa has roughly doubled, but so has the overall aid program, so their share of the program has remained the same.

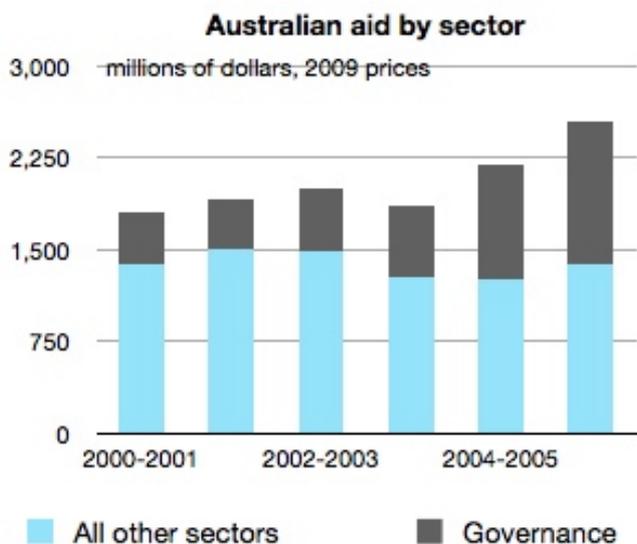
**Australian aid by country**



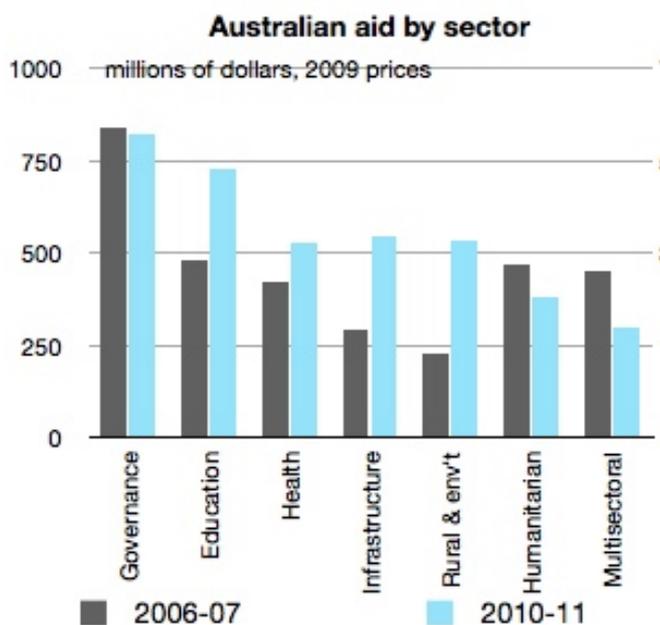
**The losers (relatively speaking) are PNG and East Asia (excluding Indonesia).** Aid to PNG has actually slightly fallen over the last decade once inflation is taken account of. Aid to East Asian countries hasn't fallen, but hasn't increased much either as increases to poorer countries such as Vietnam have been offset by falls in aid to countries such as Malaysia and Thailand that have graduated from development assistance.

**In the first half of the last decade, increases in aid were targeted at governance.** To examine the changing sectoral allocation of aid, it is useful to split the decade into two periods.

In the first, up to 2005-06, all the increase in aid went to 'governance'. 'Governance' aid comes largely in the form of advisers, and goes mainly to central departments (such as Treasury) and to law and justice agencies. Expanding aid for governance was a deliberate policy following the Simons Review in 1997.



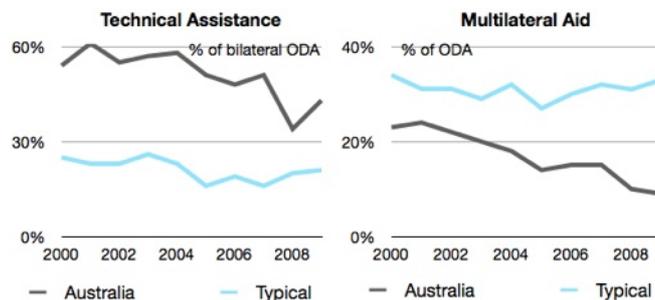
Improving governance is a worthwhile but difficult objective, and **post-2005, the aid program has diversified across sectors.** If the standard of governance can be improved in recipient countries, there is nothing that will have a bigger impact on development. But it is a difficult goal, and one



external actors often have little influence over. By 2005, the "governance first" strategy was starting to run its course.

Since 2005, governance spending has been held steady in real terms, and we have seen large increases in funding to education, health, infrastructure and rural/environment. Note though that governance remains the largest area of spending and that even within other sectors a significant proportion is spent on sector-wide governance.

**The share of aid given to technical assistance is declining, but is still very high.** More than half of Australia's aid used to go to technical assistance (some of it technical training and scholarships, but the bulk on advisers). While this ratio has declined now to around 40-45%, it is still very high compared to other countries. Among OECD donors, Australia is at the top end in terms of reliance on technical assistance, and well above the share of TA in the typical donor's aid program which is about 20%. The future of technical assistance is clearly one of the big issues for the aid program.

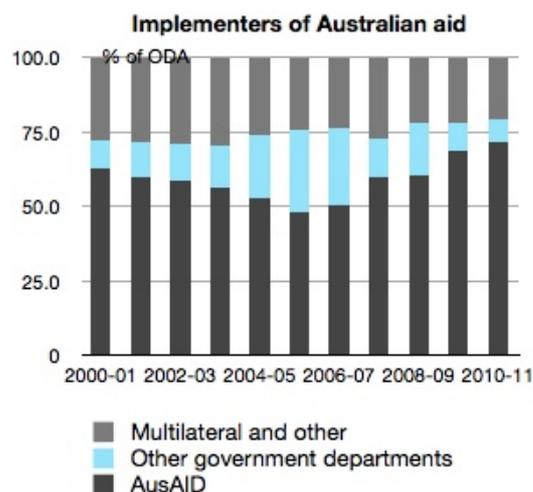


**Our contributions to multilateral donors have not kept pace with the expansion of the aid budget.** An important strategic issue for donor countries is how much of it they should give themselves (bilaterally) and how much through international organizations (multilaterally). Measured in terms of core contributions to multilateral organizations, Australia is the most bilateral of all OECD donors. In fact, our contribution to multilateral donors has fallen rapidly as a share of the total aid budget, from 23% in 2000 to 10% in 2008, compared to about 31% in the typical donor's aid program.

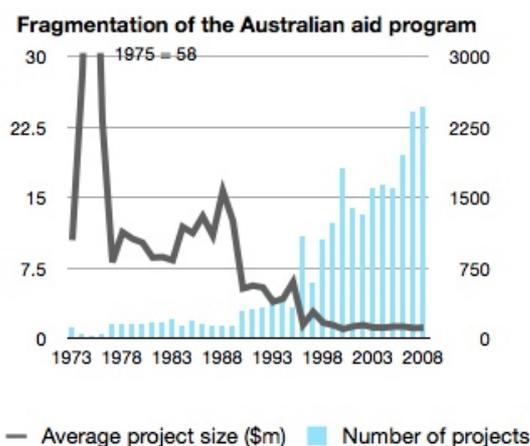
A couple of qualifiers to this analysis are needed. First, European countries give some of their aid money to the European Union to disburse. Australia doesn't have a similar club to give to, so we will never be as multilateral as European countries. Second, Australia tends to support multilateral agencies more through earmarked contributions than core contributions analyzed here. Total contributions to multilateral agencies are

about 20%. However, earmarked contributions are not counted under OECD rules as multilateral aid on the grounds that they allow bilateral ends to be pursued through the multilateral system. Whether Australia wants to become more (and more truly) multilateral in its aid program is another big question for the next round of scaling up.

**AusAID provides 70% of the Australian aid program.** In the mid-nineties, the Australian government started using other departments, apart from AusAID, to deliver the aid program. In 2005-06, AusAID's share of the aid program fell below 50% for the first time. But that trend has now been reversed, and AusAID's share of the aid program is now higher than at any time over the last decade. How well AusAID performs will be critical to how effectively aid is scaled-up.



**Project size has fallen over time.** Aid is given through projects. In 1973, the first year for which data is available, Australian aid supported 123 projects. By 1983, this had grown to 211, by 1993 454, by 2003 1,598 and by 2008, the most recent year for which data is available, 2,476. Average project size fell from \$20 million in the 1970s, to \$10.7 million in the 1980s, \$3.6 million in the 1990s and \$1.3 million last decade. This tendency towards more, smaller projects is known in the aid industry as 'fragmentation'.



It tends to escalate the administrative and transaction costs associated with aid. These can be especially serious for recipient governments, some of whom run the risk of being overwhelmed by the costs of trying to administer a thinly-spread aid program. If the average aid project size is not increased, then by 2015, we will have some 6,800 projects. That sounds unmanageable, and undesirable, and almost certainly is. Scaling up will have to mean not only more but larger projects.

There is much more that could and needs to be said about recent trends in Australian aid, but the aim here has been to provide a broad introduction and context. More specific issues will be taking up in the coming months as different topics are addressed. We look forward to your comments and feedback as we move forward.

## Notes

1. Data from Australian Government budget documents (for total aid, and aid by country and sector), the Australian Bureau of Statistics (for terms of trade, and inflation), OECD Development Assistance Committee data (for international comparisons, and for multilateral and technical assistance aid), and [aiddata.org](http://aiddata.org) for the number of projects.
2. The sectoral decomposition of aid up to and then after 2005 cannot be compared because before 2005 humanitarian aid was grouped with governance.

## Policy Brief

This is the first Policy Brief of the Development Policy Centre. Readers are encouraged to contribute comments by email ([matthew.morris@anu.edu.au](mailto:matthew.morris@anu.edu.au)) or by posting a comment on our blog at [devpolicy.org](http://devpolicy.org).

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