Australia's 'New Aid Paradigm': Beyond ODA?

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Overview

Since 2013 the Australian Government has transformed Australian overseas aid.

- Aid has been redirected, to serve national interests first, poverty reduction second.
- Aid is distributed directly by the Department of Foreign Affairs and Trade.
- Aid programs are geared to 'economic diplomacy' over aid effectiveness.
- Aid funds are dubbed 'aid investment', not 'Official Development Assistance'.
- There is no target to increase aid, and it is a regular source of budget cuts.
- Aid is at its lowest level in relation to national income since the early 1970s.
- As aid is discredited, re-channelled and cut, it is losing public support.
- A new paradigm for aid is needed, grounded in solidarities.

Introduction

Since the election of a conservative Government in late 2013 the Australian aid program has been radically transformed. Under the Government's 'new aid paradigm' it is difficult to recognise aid as having a meaningful development mandate beyond promoting the private sector and growth. The official purpose of aid is now to promote the national interest, with aid explicitly geared to Australia's commercial, security and diplomatic interests. AusAid has been dissolved into the Department of Foreign Affairs and Trade, with aid fully integrated into Australia's 'economic diplomacy'. Private finance is lauded as the cure-all for poverty reduction and the primary purpose of aid has been transformed into a means of leveraging Australian private interests.

Having established its new aid ideology, the Government has cut the aid budget by almost 25%, reducing aid to its lowest level as a proportion of national income since the early 1970s. This recent Australian experience shows us the neo-liberal model of aid at work - negating the traditional conception of aid as development assistance and instead enabling a new corporate-state nexus, branded as 'economic diplomacy'.

Is it still Official Development Assistance (ODA)?

AidWatch believes it is now time to seriously question whether Australian aid indeed qualifies as 'official development assistance' (ODA). For the OECD, ODA must be "administered with the promotion of the *economic development and welfare of developing countries* as its main objective" (emphasis in original).[1] As with other donor countries, Australian national interests have historically impinged on these primary objectives. But, officially, national interest was always defined as a secondary concern. Until 2011 AusAid's objective was to "assist developing countries to reduce poverty and achieve sustainable development, in line with Australia's national interest".[2]

The national interest proviso was itself questioned by the Labor Government's 2011 'Review of Aid Effectiveness,' which proposed a rewording that prioritised anti-poverty. The rewording positioned national interest as a secondary by-product rather than as a precondition:

> "The fundamental purpose of Australian aid is to help people overcome poverty. This also serves Australia's national interests by promoting stability and prosperity both in our region and beyond."[3]

The change was implemented, but disappeared with the demise of AusAid in 2013. The declared objective of Australia's Department of Foreign Affairs and Trade (DFAT) 'Australian Aid' division is quite simply to "promote Australia's national interests by contributing to sustainable economic growth and poverty reduction."[4]

In official terms the 'main objective' of Australian ODA is no longer the "economic development and welfare of developing countries" as required by the OECD, but the promotion of "Australia's national interest." The question arises, is it still aid?

At one level this concern could be seen as a simple accounting matter to confirm whether public funding for Australia's overseas national advantage qualifies as aid. At a more fundamental level, however, it signals disenchantment with, and potentially undermines, the Australian public's commitment to overseas aid.[5]

For all its shortcomings ODA expresses development solidarity and a sense of public responsibility in the face of global needs. In recent years public support in Australia for overseas aid has fallen. For instance Australian National University (ANU) polling showed support for aid falling from 85% to 75% between 2001 and 2014. In 2014 only 20% of respondents to an Essential Media poll supported the 0.5% GNI target; in 2015 only 35% of those polled by the Lowy Institute opposed the AUS$1 billion cut in the aid budget. At the same time, the ANU poll confirmed that only 12% of the population supports the use of aid to promote Australian commercial or political interests, and in contrast, 75% support overseas aid geared to humanitarian objectives.

Aid certainly has been discredited as successive governments have sought to direct aid for political and commercial purposes. The previous Labor administration favoured Australia-based International Development Contractors. They used aid to promote trade agreements, to create a market in climate offsets and, most controversially, counted on-shore refugee detention as ODA. The current Government announced aid cuts on the eve of the 2013 election and has since dramatically reframed the role of aid to the point that it is now little more than an adjunct to private interests and diplomatic objectives. The overall effect has been "damaging [to] the integrity of the aid program … making it look like a piggy bank ripe for raiding". [6] The Government's 'new aid paradigm' dovetails with populist anti-aid rhetoric, and has contributed to the erosion of public confidence, which, in turn makes it easier to cut the aid budget.

Discarding the GNI target

Until recently there was a bipartisan political consensus in Australia that the aid program should be linked to a Gross National Income (GNI) target. Following the adoption of the Millennium Development Goals, the coalition under John Howard (Australia Prime Minister, 1996 – 2007) increased the aid budget to about 0.25% of GNI. When Labor gained the government in 2007, they continued this trend, raising ODA to about 0.35% by 2011. The Rudd Labor Government initially set a target at 0.5% of GNI to be achieved by 2017, and the target, but not the timing, was formally supported by the Coalition in its 2013 election platform.

Breaking this consensus on aid two days before the 2013 election, the Coalition announced major cuts to ODA and abandoned the timetable to reach the GNI target.[7] In making the announcement, Joe Hockey, who became Treasurer in the 2013-15 Abbott government, set ODA against domestic priorities: "We have to cut the growth in foreign aid, to fund Australian infrastructure because the stronger the Australian economy, the more generous we can be in future."[8] The target was later abandoned altogether by the Abbott Government's Commission of Audit (NCA). The Commission, which was established to conduct a "'thorough review of the scope, efficiency and functions of the Commonwealth government," was headed by the President of the Business Council of Australia.

The Commission's final report recommended that ODA be delinked from GNI, with "increased resources justified in terms of the overall fiscal context rather than to a set of funding targets." It also recommended that ODA be focused on "countries of strategic interest."[9] In its response to the NCA report the Government simply stated "Reforms to Foreign Aid are in the 2014-15 Budget." In formal terms the Coalition remained committed to the GNI target, but the "overall fiscal context" justified an immediate 20% cut with further reductions to follow.

In order to reach the 0.5% target in 2018, aid spending would have had to rise to AUS$9,482 million.[10] Yet maintaining this level even eluded Labor: In 2013 the Labor Government cut aid by AUS$100 million to AUS$5,032 million, and extended the deadline for achieving the 0.5% goal by a year. Under the Coalition, aid spending was maintained at this level through to 2015 and then cut by close to a billion to AUS$4,052 million. The most recent budget, in May 2016, planned a further AUS$200 million cut, to approximately AUS$3,800 million. As a result, in 2016 Australian aid is projected to fall to 0.22% of GNI, comparing with 0.30% for the OECD as a whole in 2014.[11]

This decline puts Australia out of step with the rest of the OECD, where a "fiscal context" of heavy indebtedness has generally not been weighed against ODA. In the United Kingdom, for instance, the Conservative Government has increased ODA to 0.7% of GNI even though it has a public debt equivalent to more that 90% of national income. In contrast Australia's public debt is equivalent to about a third of national income. "Fiscal context" is thus politically defined, as is whether ODA has legitimacy over and above domestic spending priorities. The current Government has effectively delinked aid spending from GNI, thus breaking the key means of ring-fencing aid. Ever-shrinking aid is now routinized into the budget process, and this reflects the "new paradigm" in aid policy.

Aid Effectiveness – for Australia?

The OECD debate on aid effectiveness, centred on the 2005 Paris Declaration and the 2008 Accra Agenda for Action, had its echo in Australia with the creation of the Office of Development Effectiveness (ODE) in 2006. The ODE retains its status as an "operationally independent unit" in DFAT, and also with the 2011 Independent Review of Aid Effectiveness, which itself led to the Independent Evaluation Committee overseeing the ODE.

The aid effectiveness agenda was transformed by the 2014 policy, "Making Performance Count", which links aid to a series of ten key targets.[12] These are essentially policy and performance targets focusing on private sector assistance and 'aid for trade' (discussed below).

The fifth performance target, which focuses on the Indo-Pacific region, seeks to ensure that at least 90% of country aid is spent in the region. Ironically, this regional re-focusing trumps concerns about aid effectiveness at the country level. The 2011 Review of Aid Effectiveness specifically recommended low expansion in PNG, the Solomon Islands and East Timor, citing governance concerns, whilst recommending high expansion in sub-Sahara Africa, Indonesia and East Asia. In large part the reverse has occurred as the aid program has almost completely retreated from areas where Australia is not deemed to have a foreign policy objective and maintained spending in areas where it arguably does.

The 2015/16 budget saw 40% cuts to programs in Indonesia, Sri Lanka, Afghanistan, Pakistan, Bangladesh, Vietnam, Burma, Laos and the Philippines. The program in Africa was, for all intents and purposes, phased out. Multilateral aid was cut by 40%. These cuts, however, have not been uniform. Countries of strategic importance, and those which cooperate with Australia's punitive and illegal offshore detention program, or have agreed to resettle asylum seekers, such as Cambodia, Nauru and Papua New Guinea, have been largely untouched by the cuts. This refocusing of aid on the 'Indo-Pacific' is not uniform, nor is it consistent with aid effectiveness criteria.

Indeed, the OECD's aid effectiveness framework implicitly assumes the focus of ODA should be on development results for developing countries. Donor countries have legitimate priorities but these should be subordinated to the goals of development. Australia aid effectiveness is now circumscribed by Australian government priorities, as expressed in the 2014 'performance targets', not by development effectiveness. With the re-distribution of aid cuts at country level, the emerging geography of Australian aid now directly reflects Australia's diplomatic priorities. Australia now directs its ODA in ways that, first and foremost, deliver 'effectiveness' for Australian interests.

Assisting Private Finance?

The Government's 'new development paradigm' rests on the assumption that prosperity is best enabled by inflows of private finance. The official policy, *Australian aid: promoting prosperity, reducing poverty, enhancing stability*, argues there is a "need for change [as] aid represents an increasingly small proportion of development finance." Specifically, it argues, "private investment in developing countries is approximately six times the size of ODA flows."[13] This claim assumes development finance includes all private finance flows, which is patently untrue.

In 2014 OECD ODA reached US$137 billion, while aggregate foreign direct investment (FDI) to developing countries stood at US$681 billion and has been around this level since 2010. Contributions from NGOs and private benefactors provided an additional US$32 billion.[14] Unlike ODA, private finance can flow in the reverse direction (from poor to rich countries such as repatriated profit). The relevant comparison, then, is with net FDI flows to developing countries. In 2014 this flow stood at US$403 billion.[15] Setting aside personal remittances, which are not really a meaningful form of development finance, we can estimate that ODA is about a third of total net private investment.

Unfortunately, not all of this net FDI is development finance as such. A large proportion, US$233 billion in 2014, is in mergers and acquisitions, which delivers no extra local investment.[16] For developing countries the key is 'greenfield' investment, which in fact has fallen dramatically, from US$350 billion in 2009 to US$208 billion in 2014. UNCTAD defines "greenfield" investment as "all new investment projects and expansion of existing investments … where they lead to a new physical operation."[17] Not surprisingly, most FDI 'greenfield' inflows are to industrialising countries. In 2014 Hong Kong, China, South Korea, Taiwan , Singapore and United Arab Emirates together accounted for US$145 billion of the total $208 billion in 'greenfield' investment flowing to developing countries.[18] This means there was only US$63 billion in private 'greenfield' investment flowing to other developing countries, with US$13 billion to Africa. Even less 'greenfield' investment, about US$1.5 billion, flows to the least developed countries (LDCs), while about a third of all ODA, or US$41 billion, went to LDCs in 2014.[19]

ODA and other forms of non-private development financing therefore are critically important for developing countries (aside those that have industrialised). The OECD emphasizes the role of non-concessional official flows such as those through multilateral development banks and state-owned investment funds, as opposed to private FDI.[20] ODA is even more important for LDCs and the OECD itself confirms, "ODA makes up more than two thirds of external finance for the least-developed countries."[21]

It is important to recognize that ODA and FDI are very different financial flows. FDI is money invested for profit; ODA is money granted (or loaned) on the expectation of social and environmental impact. Aid is thus critically important for the poorest countries. It is misleading to suggest that all aggregate private finance flows are a form of development financing, and that they offer a meaningful alternative to ODA for developing countries. Furthermore, it is crudely self-serving for a government to make this assertion as a way to rationalise large cuts to ODA.

Aiding Private Players

When the Australian Government announced its 'new aid paradigm' in 2014, it argued that aid should help countries create strong economies. The examples given were China and South Korea, pointing out that both have delivered prosperity for their people and are now able to become aid donors in their own right.[22] This was offered as a key rationale for focusing on growth and the private sector. The irony is that a focus on facilitating the private sector directly dismantles exactly the very kind of developmental state that enabled China and Korea to industrialise.

Furthermore, private sector-led growth based on a neo-liberal model tends to concentrate wealth, thus exacerbating inequality and poverty, which negates development goals.

The UNDP's *Human Development Index* reveals there is no direct correlation between GDP growth and human development. A 2013 report maintained that instead high public expenditure on health and education is the key factor.[23]

Australia's record on integrating ODA with existing public sector programs has been weak. Under the Accra Agenda for Action on Aid Effectiveness, and later the Busan Partnership for Effective Development Cooperation, donors are required to ensure country ownership of aid through integration with national budgets. Australia has lagged on this, with the OECD, and then the Global Partnership for Effective Development Cooperation, reporting its failure to meet the required targets.[24] Post-2014 the focus of the aid program has been to downplay the role of the public sector and instead to fund 'market access' for private players. Increasingly, ODA promotes Australian interests at the expense of developing country priorities.

Under 'Making Performance Count' the first target for the aid program is promoting prosperity. The policy collapses prosperity into trade by defining the target in terms of "promot[ing] economic development by increasing Australia's aid-for-trade investments." There is no justification for this approach beyond an assertion that, "the evidence is clear that economic growth is the most effective means of reducing poverty."

The next two targets focus on benefiting private companies, including the stipulation that "all new investments will explore innovative ways to promote private sector growth or engage the private sector in achieving development outcomes," and that "all new investments ... will promote private sector growth." The policy further requires that "all country and regional programs have aid investment plans that describe how Australia's aid will promote economic growth in ways that provide pathways out of poverty."[25]

The new paradigm directly uses aid as an instrument for leveraging market access for Australian commercial interests. One of the key targets announced as part of the new 2014 package is the requirement that 'aid for trade' increase to 20% of total aid spending. In 2016-17 about US$750 million is to be spent on 'aid for trade,' which represents approximately 19.5% of the overall aid program. The first priority for this spending is to "encourage unilateral reform, promote open and transparent markets and deepen regional economic integration."[26] As part of this approach Australia is working with the World Bank to "address legal, regulatory, and administrative impediments to investments."[27]

Trade can play an important role in development but only when it is founded on human development and sustainability objectives. In Australia's program the emphasis is on free trade as part of the aid program and market-driven regional integration, often at the expense of local development, the protection of the environment and human rights. Australia is currently negotiating the PACER-Plus trade agreement with the Pacific Island countries. It seeks to extend market access in the region for trade in goods, services and investments as well as to improve trade and investment facilitation and economic cooperation. It is clear that this agreement will disproportionately benefit Australia and New Zealand to the detriment of many of these countries.[28] DFAT directly links its "economic diplomacy" to advancing PACER-Plus, stating that "negotiations ... include elements of trade capacity-building and trade development assistance designed to strengthen Forum Island Countries' ability to trade."[29]

Australia's ODA has been organised in ways that will directly assist private players. DFAT quotes the International Finance Corporation (IFC), a World Bank private financing agency, as endorsing the private sector as the key source of jobs in developing countries. To justify this claim it focuses on job growth after the 2007-8 financial crisis, a crisis largely caused by the private sector.[30] In terms of policy directions, the IFC analysis finds "almost no benefit" from reducing corporate taxation, and instead recommends more direct forms of assistance in the form of "investment facilitation" and especially "secured transactions."[31] Here, investments are insured against losses by the developing country government, which means in practice that developing country taxpayers bear the risks of private overseas investors.

Currently, donor country Export Credit Agencies (ECAs) play a key role in guaranteeing investments.[32] ECAs regularly under-write investments, especially where a country is identified to be high-risk. As a result, ECAs are estimated to create 80% of developing country debt.[33] In the 'new aid paradigm' ODA is literally renamed as 'aid investment,' and is to be directed to facilitate public-private partnerships, for example in infrastructure, to enable private finance flows to developing countries.

In this respect Australian ODA offers a new source of 'soft' public funding to bolster private sector projects. One focus has been on supporting private sector innovation, including an 'Innovation Xchange', launched in 2015 with a budget of AUS$140 million. There is no evidence that the Xchange has achieved anything substantial, as very little public information is available. The reference group is dominated by big business, including executives from Mastercard, private venture capital groups and corporate conglomerates. Another private sector funding stream, the 'Business Partnerships Platform,' offers 50% funding for any corporate initiative that can "deliver a combined social and financial return on investment."[34]

DFAT has also introduced direct corporate partnerships into the aid program. Of particular concern are the memoranda of understandings (MOUs) signed with two of Australia's biggest banks, Westpac and ANZ Bank. Both operate in many Pacific islands that are in competition with local banks (e.g. Westpac in Papua New Guinea, Fiji and Vanuatu and ANZ in 12 Pacific countries). These MOUs have not been made public and it has never been clear what financial value is attached to them. The agreements are pitched as increasing access to finance, support to private sector development and even female financial literacy. In reality, the aid program is working with Australian banks to bring more customers. The Australian Foreign Minister, Julie Bishop, in a media release at the launch of the Westpac Memorandum quite openly stated, “The agreement forms part of the Coalition Government’s economic diplomacy agenda, which aims to more closely engage with the private sector, the business community and non-government organisations to promote prosperity in our region.”[35]

DFAT’s first corporate MOU was actually with Carnival Australia in 2013. Carnival Australia, the Australian branch of the global cruise ship brand, Carnival, runs a large number of cruise ships from Australia to the Pacific Islands, especially Vanuatu. Again, this corporate partnership was made with little transparency. To date the only public information of the agreement has been a study based on a survey of cruise ship passengers in 2014.

In 2015 DFAT canvassed a partnership with Coca Cola to deliver medical supplies in the Pacific. Here a problem with health logistics becomes an opportunity to create a private sector monopoly. The benefits to Coca-cola are clear, in terms of making it harder for governments to take action against soft-drink consumption and the related obesity crisis in the region.[36]

An invisible Aid Program

Winding-up Ausaid was one of the first actions of the incoming conservative Government. It was not foreshadowed in the election campaign, but was announced in the Government’s first day in office. An important impact of this move, as noted, has been the lost development mandate for aid. A related impact has been a significant decline in openness and transparency.

There is now almost no public information on projects being financed by Australian aid. One key means of holding AusAid to account was its ‘blue book’ yearly budget statement, detailing aid expenditures. In contrast, in May 2015 the ODA budget papers ran to less than ten pages. In May 2016 there was a longer document, centred on highlights rather than financial openness, adding nothing to public information about the aid program.

Detailed project-level information is no longer available on the Australian aid website. For example, the Nauru Aid Program Performance Information 2014-15 runs to just four pages with very little useful information about what the program is actually doing or achieving. In its annual ODA performance assessment, DFAT states that information on projects is available through the AusTender website.[37] However, information is minimal: drilling down to actual projects not possible, even if such projects disburse considerable amounts of public funding to private operators.[38]

Transparency about performance is woeful. As noted, the DFAT performance framework substitutes policy objectives for effectiveness criteria. The objectives and associated targets are simply asserted, and not in any way justified in terms of their effectiveness. In this respect, the effectiveness agenda has been radically subverted.

This reduction in transparency is reflected in the first official performance review issued under the new policy targets. It simply reports on whether the ten policy targets were achieved, not whether they were effective. For instance, Target 8 reports on 'Aid Quality Checks', where "investments rated as satisfactory against the efficiency and effectiveness criteria [are] considered to be delivering high standards of value for money."[39] The purpose of projects is not assessed. Instead all of the quality standards relate to process requirements and, whether the planned outcomes have been achieved, not whether or how those outcomes contribute to development goals. The same applies in the country reports where overall success is rated against benchmarks and assessed as to whether it is 'on track'.

In this context, program information is opaque. It is simply impossible to find out how much of the AUS$1.2 billion in spent on offshore refuge detention in Nauru and PNG is being claimed as ODA. The OECD reported that Australia claimed US$343m in 2013 as "in-donor" (ie, "on-shore") refugee costs. As there is no counting of "off-shore" detention figures, are not available for 2014 or 2015: as the OECD reports, "Australia considers that its processing of irregular migrant arrivals does not align with the DAC's rules in-donor refugee cost."[40]

Remarkably, in February 2016, a year after the 2015-16 aid cuts, it was still unclear which projects DFAT had cut. In its budget submission in February 2016, the Australian Council for International Development stated, "We do not yet have detailed information on all the specific programs which have been discontinued as a result of aid cuts."[41]

Freedom of information requests could provide an avenue of last resort. However the Department of Foreign Affairs grants less than one-in-five freedom of information requests in full, and 25% of requests are denied completely.[42] Foreign policy is routinely veiled in secrecy: Australia's aid is now folded into DFATs economic diplomacy, and is by definition off-limits for public scrutiny. In this context official leaks become the only reliable source. This avenue is how, for instance, Australians learnt about DFAT promotion investor-state provisions in the Trans-Pacific Partnership, a trade deal that will have extensive impacts on the region's developing countries.[43]

Re-asserting ODA as development assistance

The impact of the current Government on Australia's aid program has been extensive. In 2015 the ANU's Development Policy Centre surveyed the sector and found that three out of four non-government aid practitioners, both from NGOs and for-profit contractors, believed aid had become less effective since 2013. ‘Transparency’, ‘strategic clarity’ and ‘predictable funding’ had suffered the most. In terms of strategy, the main concern was that “helping poor people in developing countries has become a less important goal for Australian aid,” with close to 70% of respondents rejecting the idea that aid should be directed at trade and infrastructure.[44] Remarkably, given DFATs own glowing assessment of aid ‘performance’, more than a third of respondents (38%) did not believe that Australian aid was effective.[45]

Aid no longer has its institutional advocate in the form of AusAid, allowing ODA to become a ‘diplomatic ATM’, as predicted by a former AusAid deputy in 2013.[46] Most importantly, aid has become a soft target, with little in the way of political pain associated with redirecting or cutting it. The key question is how and whether these problems can be addressed politically. Aid practitioners certainly have a voice in the political debate, but they are often characterised as self-interested, speaking as part of an industrial sector that depends on taxpayer funds, rather than as speaking in the public interest.

There are attempts to rebuild public support for the aid program, notably by the peak agency for aid NGOs, the Australian Council for International Development (ACFID). Its Campaign for Australian Aid asserts the legitimacy of aid in meeting human needs, and seeks pledges of support for a ‘fairer world’ through increased aid spending.[47] This misses the bigger question of what aid should be spent on and the extent to which aid is now directed at private sector growth rather than ending poverty or creating a more just world.

Unfortunately, neither the key NGO members of ACFID, or ACFID itself, are financially independent of DFAT. ACFID membership is a condition of DFAT accreditation, and most ACFID members are recipients of DFAT funding. ACFID itself relies on DFAT grants for half of its AUS$1.4 million income. Whilst financial independence from DFAT would not necessarily guarantee a more critical and public voice on ODA, it should be seen as an important precondition, especially in the context of a Government that in the past has taken a vindictive approach to punishing its critics by discontinuing their funding.

More broadly, the limited objective of restoring public confidence in aid must address the question of what aid is being spent on. Raising this question would force a more productive debate and allow a more broad-based questioning of the ‘new aid paradigm’. Clearly, re-creating an effective political base for ODA requires a radical re-think of the terms of political engagement on aid.

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