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Australia's Overseas Aid Program: An Analysis of the 1994-95 Aid Budget

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Dr Ravi Tomar
Foreign Affairs, Defence and Trade Group
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Australia's Overseas Aid Program:
An Analysis of the 1994-95 Aid Budget

Telephone: 06 277 2459
Facsimile: 06 277 2475
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An Increase in Real Terms

The 1994-95 Budget has allocated $1486.5 million for Overseas Development Assistance (ODA), an increase in nominal terms of $81.9 million. In real terms, this is an increase (at constant 1992-93 prices) of 3.6 per cent or $51 million for 1994-95, and will serve to maintain Australia's foreign aid at 0.34 per cent of the Gross National Product (GNP), the outcome achieved in 1993-94, down from 0.36 per cent in 1991-92 and 1992-93 respectively.

But Targets Difficult to Meet

Despite the real increase in overseas aid expenditure, it does not appear to be possible for the government to meet the commitment in Labor Party policy to increase overseas aid to 0.4 per cent of the GNP by 1995. Last year, the Minister for Development Cooperation and Pacific Island Affairs, Gordon Bilney, said that his objective was to increase Australia's foreign aid to 0.4 per cent of GNP 'as soon as possible.'¹ This year, however, there is no such commitment. As the Minister says: 'given the continued imperative for fiscal restraint to consolidate the recovery, I consider this to be a very good result.'²

Aid spending as a percentage of GNP has been in consistent decline over the last 10 years. In 1984-85, for example, aid represented 0.49 per cent of the GNP. The next year, 1985-86, witnessed a decline in the aid budget of 4.8 per cent in real terms followed by another cut of 12 per cent in 1986-87. The lowest level of funding was in 1989-90, representing 0.33 per cent of the GNP. Expenditure for the next three budgets stayed at 0.35 or 0.36 per cent of the GNP, falling to 0.34 per cent in 1993-94. The expenditure for 1993-94 was expected to be 0.35 per cent but the ratio actually achieved is expected to be 0.34 per cent as a result of higher than expected economic growth. Despite the increase in real terms, the proposed expenditure for 1994-95 maintains the aid/GNP ratio at 0.34 per cent.

² Australia's Development Cooperation Program 1994-95 Budget Related Paper: No. 2: iii. The 1993-94 figures in this brief are anticipated outcomes.
Table 1: Development Assistance 1984-85 to 1994-95

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount ($m)</th>
<th>Real Change over Previous Year (%)</th>
<th>Aid/GNP Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984-85</td>
<td>1,011.4</td>
<td>2.6</td>
<td>0.49</td>
</tr>
<tr>
<td>1985-86</td>
<td>1,031.0</td>
<td>-4.8</td>
<td>0.45</td>
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<tr>
<td>1986-87</td>
<td>975.6</td>
<td>-12.0</td>
<td>0.38</td>
</tr>
<tr>
<td>1987-88</td>
<td>1,019.6</td>
<td>-2.5</td>
<td>0.36</td>
</tr>
<tr>
<td>1988-89</td>
<td>1,194.6</td>
<td>7.6</td>
<td>0.37</td>
</tr>
<tr>
<td>1989-90</td>
<td>1,173.8</td>
<td>-7.5</td>
<td>0.33</td>
</tr>
<tr>
<td>1990-91</td>
<td>1,261.0</td>
<td>3.3</td>
<td>0.35</td>
</tr>
<tr>
<td>1991-92</td>
<td>1,330.3</td>
<td>3.8</td>
<td>0.36</td>
</tr>
<tr>
<td>1992-93</td>
<td>1,384.6</td>
<td>3.4</td>
<td>0.36</td>
</tr>
<tr>
<td>1993-94</td>
<td>1,404.6</td>
<td>-0.4</td>
<td>0.34</td>
</tr>
<tr>
<td>1994-95 (est.)</td>
<td>1,486.5</td>
<td>3.6</td>
<td>0.34</td>
</tr>
</tbody>
</table>


It should also be pointed out that over the last two decades, the aid budget has not kept pace with either growth in GDP or total federal government expenditure. While Australia's GNP per capita, in real terms, has increased from $18 600 in 1982-83 to an expected $23 300 in 1994-95, aid expenditure over the same period has declined from about $83 to $78 per capita.³

Figure 1: Aid, Government Outlays and GDP 1971-72 to 1994-95

![Graph showing the change in Aid, Government Outlays, and GDP from 1973 to 1994. The graph indicates a trend where Aid, Government Outlays, and GDP have increased over time, with Aid and Government Outlays consistently increasing at a faster rate than GDP. The graph also shows that Aid, including student subsidy, has fluctuated over the years.]


New Initiatives and Major Elements in the Aid Program

There are a number of new initiatives in this year's budget which are aimed at poverty alleviation programs. Other measures are worthy of note as they are part of Australia's long term aid strategy.

The Health Initiative

Contribution to international health programs will increase by $5m in 1994-95 to $10.6m as part of a $110m four year health initiative. This will focus on countries in the Asia-Pacific region and target diseases such as polio, neo-natal tetanus, malaria and HIV/AIDS. It is also expected that participation in this initiative will serve as a means for Australian companies to explore long-term commercial opportunities in the region.

Indochina

Until 1991, Australia gave no official bilateral assistance to Cambodia or Vietnam although money was channelled through non-government organisations and multilateral agencies. In 1991, following the Paris Agreement and political changes in the region, the government announced a $49m pledge to Vietnam.

In April 1994, the Prime Minister, Paul Keating inaugurated the Friendship Bridge over the Mekong River between Thailand and Laos. Australian funded and built at a cost of $42m, this is the first bridge to be constructed over the Mekong River, which runs 4200 km from southern China to southern Vietnam and acts as a border between Thailand and Laos. Subsequently, in this year's aid budget, new initiatives for the region have been announced.

Beginning in 1994-95, Australia will introduce a new four-year $350m development cooperation commitment to Cambodia, Vietnam and Laos. This includes $92m for Cambodia, $200m for Vietnam and $47.5 for Laos.

The new initiatives will focus on health, education, human rights, agriculture and infrastructure development including the construction of a second bridge across the Mekong river in Vietnam. In Cambodia and Laos, damaged bridges will be replaced and the road network reconstructed. In Cambodia, there are estimated to be up to 10 million anti-personnel landmines, a legacy of war, which deny access to about 30 per cent of agricultural land. The Cambodian Mine Action Centre (CMAC), a Cambodian Government Statutory Authority is responsible for mine clearance tasks. The CMAC which received some $2m in assistance from Australia in 1993-94, is expected to get further help.
While Australia does not have a bilateral aid program with Burma, the scholarship program for displaced Burmese students in Thailand initiated last year, will continue as well as an HIV/AIDS program run by Non Government Organisations (NGOs). In addition, a new program of maternal and child health projects (delivered through NGOs) will commence. Funding is expected to increase from $600 000 to $1m.

South Africa

The Special Assistance Program for South Africans (SAPSA) was established in 1986. Since then Australia has contributed about $41m under the program, primarily in the form of education, training and media assistance. On 10 May, a new $30m aid pledge to South Africa was outlined. The new component is expected to help the South African government provide basic infrastructure needs and essential community services. This represents a 35 per cent increase in aid over previous years.

Papua New Guinea

In 1994-95, the total aid flow to PNG is expected to be over $325 million, which represents just over 20 per cent of Australia's aid program. Most of this assistance is in the form of budget support, but, following the PNG-Australia Treaty on Development Cooperation (1989), the two countries have agreed that budget support will be phased out by the year 2000-01.

The level of budget subsidy for 1994-95 will be $213.4m, down from $244m in 1993-94. The outlay on programmed activities has increased by $21.3m to $77.3m in 1994-95. Commencing in 1994-95, there is to be a seven year straight line reduction of budget subsidy to zero in 2000-01 and a corresponding increase in sector program aid.

Of the six mutually agreed sectors: education and training, health, infrastructure, law and order, renewable resources (agriculture, forestry, fisheries and the environment) and the private sector, studies for the first five of these have been completed and the study on the private sector is likely to be undertaken this year. In all, the PNG program will continue to be the largest and most administratively complex component of Australia's aid program.

International Environment Programs

Australia's contribution has been increased from $7m in 1993-94 to $12.7 in 1994-95. This comprises funds for the Global Environment Facility (GEF), the Multilateral Fund of the Montreal Protocol to protect the Ozone Layer and for the International Tropical Timber
Organisation. The government has also decided to pledge $42.8 million for the replenishment of the GEF and to increase support for the Montreal Protocol thus bringing Australia's commitment to $11.1m over three years.

Population

In the 1993-94 budget, the government had announced a four year, $130m initiative to fund population related activities, nearly trebling the expenditure on population programs. Expenditure on population programs has been politically contentious in Australia. In late 1993, the Government announced a temporary freeze of some spending on family planning activities pending a new inquiry between population growth and economic development. Although pre-existing commitments were not affected, spending on new activities ($3.25m in 1993-94) was suspended pending consideration of the findings of the inquiry. 'This was reportedly aimed at addressing strong concerns of Senator Harradine on population programs.'

The inquiry report was released in April 1994. According to the Minister for Development Cooperation Gordon Bilney:

"The Government will consider the report of the independent inquiry and its implications for proceeding with new population programs in the near future; in time to spend, this financial year, all of the funds announced in last year's budget if the Government so decides."^4

On 30 May 1994, the Minister announced that after giving 'careful consideration' to the findings of the independent inquiry, the Government had lifted the freeze on new population and family planning projects with immediate effect.^6 Fifteen new family planning and women's and children's health projects in Southeast Asia were also announced. They are to commence this financial year (1993-94) and will take total expenditure to the originally budgeted $30 million. The Government has also decided 'to adopt even more stringent guidelines


^5 Australia's Development Cooperation Program 1994-95. Budget Related Paper: No.2:V.

to ensure that human rights are protected, and enhanced, by Australian projects.  

Development Import Finance Facility (DIFF)

The allocation to DIFF for 1994-95 has been increased by $10m to $130m. The scheme has been criticised by organisations such as Community Aid Abroad (CAA) which argue that the focus of the aid program has become commercial at the expense of humanitarian concerns and that the scheme diverts aid from low income to middle income countries. The increasing emphasis on the commercial aspect of the aid program is reflected in the annual increase in DIFF funding which in 1990-91 amounted to only $83.8m. About half the bilateral aid programs to Indonesia, India and China now comprise projects financed under the DIFF scheme. Between 1983-84 and 1993-94, Indonesia (47 per cent), China (26 per cent) and India (11 per cent) received 74 per cent of total DIFF disbursements.

Despite criticism by the NGOs, all DIFF proposals are evaluated against strict developmental criteria. DIFF-supported projects produce socio-economic benefits for recipient countries as well as commercial returns for Australia. For example, during the period 1980-1993, DIFF funded 79 projects in 15 countries involving grants of $524m which supported export contracts for Australia of over $1.5 billion. Also, under new rules of tied aid credit financing introduced by the Organisation for Economic Cooperation and Development (OECD) in February 1992, DIFF is no longer available for projects which are considered commercially viable. Projects now eligible under DIFF include infrastructure projects such as education, water supply and treatment, waste disposal, transport, and rural telecommunications and power.

Of the total allocation of $130m, a minimum of $20 million has been set aside for the 'Green DIFF initiative.' Projects undertaken under this scheme will focus on environmentally friendly technology and the provision of environmental infrastructure such as sustainable land, water and waste management and pollution control. It is expected that Green DIFF will generate up to $100m per annum in export revenue for Australia.

Private Sector Linkages Program (PSLP)

The aim of this program is to subsidise activities which promote Australian business in selected developing countries. This program

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provides up to $250 000 on a cost sharing basis to assist Australian companies in funding feasibility studies, short-term training and work attachments. Announced as an initiative in the 1992-93 aid budget with an outlay of $5m, PSLP funding has received a substantial boost. This year's funding is $11m compared to $6m in 1993-94.

Multilateral Development Banks (MDBs)

The allocation to the Asian Development Fund (ADF), the concessional lending arm of the Asian Development Bank (ADB) has been increased from $1.3m in 1993-94 to $39.3m in 1994-95. This is not because of increased Australian funding for the bank but because commitments are made over a period of years and disbursed in varying amounts each year. This increase has been partly offset by the reduction in funding for the International Development Association/World Bank from $139.2m in 1993-94 to $113.9m in 1994-95.

Funding for the International Fund for Agricultural Development (IFAD) has been increased to $2.2m from $0.7m last year, bring the allocation closer to levels of 5 years ago. IFAD provides funding for agricultural development with emphasis on poverty alleviation of the most disadvantaged rural populations.

There are commercial benefits from Australia's involvement in MDBs as well. This enables Australian firms to bid for bank contracts on a competitive basis. In 1992-93, for example, contracts awarded to Australian companies for work on World Bank projects totalled US$104m and those for work on ADB projects amounted to US$77m.

Australian Centre for International Agricultural Research (ACIAR)

ACIAR promotes research, project related training and pilot development studies to improve sustainable agricultural production in developing countries. This year's appropriation is $36.6m, an increase of $2m on 1993-94.

Emergency and Refugee Assistance

Due to increasing demand for humanitarian assistance, the 1994-95 funding has been increased by $3m, up from $67.9m to $70.9m.

Non-Government Organisations (NGOs)

Over the last decade, the NGO share of total aid funding has increased from 2 per cent to 7 per cent. Allocations for NGOs have increased from $15.6m in 1990-91 to $25.3m in 1993-94 and $28.1m in 1994-95. This increase in funding of $2.8m has been primarily directed towards volunteer organisations which organise voluntary placements abroad.
The Overseas Service Bureau (OSB) which conducts the Australian Volunteers Abroad (AVA) program has been given an additional $2.1m and the Australian Executive Service Overseas Program (AESOP) an additional $0.5m. The total funding for volunteer organisations in 1994-95 will be $11m.

Another small but significant item of increased expenditure is the national development education program which is designed to increase community awareness about developing countries and the role of development assistance. Funding for this activity has been increased from $1.6m to $1.8m in 1994-95. In cooperation with the State education authorities, most of the money will be spent on curriculum development.

Reaction to the Aid Budget

Two community organisations, the Australian Council for Overseas Aid (ACFOA)\(^8\) and Community Aid Abroad (CAA)\(^9\) have responded to the aid budget.

ACFOA regards the aid increase as 'well targeted at poverty alleviation programs in spite of the continuing emphasis on commercialism' but is critical of the overall outlay in that it falls short of the government's interim target of 0.4 per cent of GNP by 1994-95.' It is ironic that as Australia's economy recovers and grows at between 4-5 per cent, the gap between our per capita income and our aid giving has continued to widen.' While acknowledging the fact that the funding for health programs has been nearly doubled to $110 m over four years, ACFOA maintains that this would see Australian health aid reach only half the target level set by last year's Parliamentary Inquiry into International Health which endorsed the World Bank target of 7 per cent of aid funds for health.'

Finally, it cautions that the proportion of the contribution to Multilateral Development Banks (MDBs) from the total aid budget will increase from about 10 per cent to 18 per cent in the coming years. However, it says that the Minister for Development Cooperation, Gordon Bilney 'has indicated that a strategy is in place for smoothing out increases so as not to restrict the bilateral program, should the aid program be cut in the future.' (Emphasis added).

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8  An Analysis of the 1994/95 Overseas Aid Budget. n.d.

9  The 1994-95 Aid Budget: How did we fare? n.d.
While welcoming certain elements of the budget, including initiatives in health, the environment and increases in aid to Indochina, Community Aid Abroad is far more critical. Overall, CAA:

- Finds it hard to reconcile the 'neglect of Africa and South Asia in the aid program with the Foreign Minister's commitment to a greater role for Australia in the Indian Ocean region.'

- Is concerned at the emphasis placed on large infrastructure projects such as the Friendship Bridge in Laos and the proposed My Thuan bridge across the Mekong in Vietnam. 'These seem to be more as monuments to Australian construction capacity than part of a poverty focussed program.'

- Is critical of the growing prominence of the commercial emphasis of the aid program at the expense of the humanitarian. Apart from expressing concern about DIFF, it maintains that the Private Sector Linkages Program is 'the most blatant of the trade promotion activities...In this year alone it is expected that this program will rise by 83 per, representing the biggest single increase in the budget.'

- Expresses concern at the increase in commitments to the MDBs and 'sees it as important that in future years increases to the Banks must be offset by increases in other parts of the program.'

Critical comments by the NGOs are understandable, given their opposition to the Government's focus on specific regions and sectors to complement its foreign affairs and trade interests and to reflect its comparative advantage. Overall, the 1994-95 aid budget is a positive outcome, especially the new initiatives in the fields of health, rural development and the environment.