

# Foreign Aid And Its Importance In Relieving Poverty

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## What Is Foreign Aid?

‘Foreign Aid’ is a term often used by people, particularly in Government and the media, but what does it mean? In its broadest sense it means financial or technical help given by one country’s government to another country to assist social and economic development or to respond to a disaster in the receiving country. It can involve providing financial grants or loans, technical advice, training, equipment and commodities such as food, health, infrastructure and transport.

Military assistance was considered a form of foreign aid until the 1950s. Since then, while some countries still provide military assistance and equipment to other countries, it is usually termed foreign military assistance.

## Foreign Aid And International Development Assistance

The most commonly accepted measure of foreign aid for international development purposes is Official Development Assistance (ODA). In 1969, the Organisation for Economic Co-operation and Development (OECD) established ‘Official Development Assistance’ as a common definition to measure and compare how well the efforts of donor governments, who provide the financial or technical assistance, meet international development objectives. Development intent is fundamental to the notion of ODA that has ‘the promotion of the economic development and welfare of developing countries as its main objective’.<sup>1</sup>

The agreed definition and criteria of ODA is used to measure the amount of foreign aid provided by donor governments for international development purposes. ODA also enables us to assess donor performance against aid commitments and allows partner countries and civil society to hold donors to account.

## How Much ODA Is Needed?

In 1970, the United Nations agreed that ‘economically advanced countries’, better understood as ‘developed countries’, should provide 0.7% of their gross national income (GNI) as ODA. This equates to seven cents for every \$100 of national income. The 0.7% target was based on the work of Nobel Prize winning economist, Jan Tinbergen, who estimated the level of financial assistance developing countries needed to achieve desirable growth rates. Since then, governments have continued to affirm their commitment to the ODA target of 0.7% of GNI.<sup>2</sup>

In 2000, world leaders committed to eight Millennium Development Goals (MDGs) and an action plan to reverse the

poverty, hunger and disease affecting billions of people. The MDGs set ambitious yet feasible global time-bound targets and measurable indicators to reduce income poverty, hunger, disease, lack of adequate shelter and exclusion and promote gender equality, health, education and environmental sustainability by the end of 2015. They are founded on basic human rights — the rights of each person to health, education, shelter and security. They have also resulted in unprecedented efforts to meet the needs of the world’s poorest people.<sup>3</sup>

At the same time, the UN assessed that 0.7% of developed country GNI would provide enough resources to meet the Millennium Development Goals. If every developed country followed through with a commitment to reach 0.7% of GNI as ODA by 2015, the world could make dramatic progress in the fight against poverty and end extreme poverty within a generation.<sup>4</sup>

## Does Foreign Aid As ODA Really Reduce Poverty?

In 1985, the OECD reviewed 25 years of ODA. It found that despite setbacks in Sub-Saharan Africa and some countries of Latin America, many developing countries had achieved remarkable economic and social growth over the past quarter-century. It also found that aid, accompanied by growing exports to OECD countries, had significantly contributed to these gains. The OECD identified that ODA is directed to countries coping with the most difficult and intractable development problems, including emergency situations arising from natural disasters, conflict and refugee influxes, and not countries with the highest potential investment returns. Therefore, many receivers of development assistance are not fast-growing countries.<sup>5</sup>

Since the MDGs were launched in 2002, significant achievements have been made against all the eight goals. Millennium Development Goal 1 specifically aimed to halve the number of people who live on less than one dollar per day and halve the number of people who live in hunger by the end of 2015.

By 2014, 74 countries have halved their poverty rates, making this target the most met of all the MDGs. Globally the percentage of people living in extreme poverty (less than \$1.25 a day) reduced from 47% in 1990 to 22% in 2014 and the absolute number of people living in extreme poverty has declined from 1.92 billion in 1990 to 1.01 billion in 2010. Additionally, 173 million fewer people worldwide suffered from chronic hunger in 2011-13 than in 1990-92 and stunting in children under five has decreased globally from 40% to 25% since 1990.

*What’s particularly impressive is that these gains have been made while global population has continued to rise, from 5.28 billion people in 1990 to 7.1 billion people in 2013.<sup>6</sup>*

## But ...

Today, nearly one in five people in developing countries still live in extreme poverty on less than \$1.25 a day and 96% of these people live in countries that are politically fragile, environmentally vulnerable or both. Development needs of people and countries today are more complex and more difficult.

While significant reductions in poverty have been made, the people still living in poverty are the hardest to reach and live in most vulnerable of situations.<sup>7</sup>

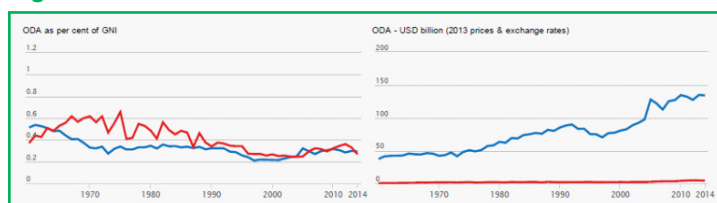
Ending poverty continues to need dedicated resources that can make and support economic, environmental and social investments that benefit the poorest people. The ODA target of 0.7% is still important.

## How Much ODA Is Really Given?

In 2014, total ODA given by all OECD member countries was 0.29% of GNI (USD 134.38 billion). Only five countries currently meet the ODA target of 0.7%: Denmark, Luxembourg, Norway, Sweden and the United Kingdom. The highest total level of ODA as a percent of GNI was reached in 1961 with 0.51% (USD 41.65 billion).

Since 1960, 19 OECD member countries, including Australia, have never reached the 0.7% target.

Figure 1: ODA trends 1960 - 2014<sup>8</sup>



All OECD countries — Australia —

## What About Australia?

The highest level of ODA as a percent of GNI ever reached by Australia was 0.66% in 1975. This means that in 1975 for every \$100 of income, 66 cents was contributed to development-focussed foreign aid. Since then the ODA generosity of Australia has fallen and in 2016/17 it is predicted to reach the lowest level ever – to just 0.22% or 22cents out of every \$100 of income.

To put this in perspective, in 2015 every Australian contributed on average four dollars a week to ODA or the equivalent of a soft drink or two chocolates. In 2016/17 this will go down to three dollars per person per week.

Figure 2: Australia's ODA contributions

Year	Population (million)	Total ODA (USD billion)*	Total ODA (AUD billion)	% of GNI*	Giving per Australian (USD/yr)	Giving per Australian (AUD/yr)
1975	13.9	2.5		.66	180	
1995	18	2.65		.34	146	
2000	19	2.54		.27	133	
2005	20.2	2.76		.25	136	
2010	22	4.23		.32	192	
2011	22.3	4.7		.34	210	
2012	22.7	5.09		.36	224	
2013	23.1	4.87		.33	211	
2014	23.6	4.2	5.0	.27	177	212
2015/16	23.8		4.0	.24		168
2016/17	24		3.8	.22		

\*OECD statistics Shaded cells are estimates

## Should Australia continue to give ODA, and if so, how much?

In 2014/15, the Australian Government provided five billion dollars as ODA. This is close to 1.2% of the total Federal Government budget and 0.22% of GNI, less than a third of the 0.7% target.

This contribution:

- Provided access to agriculture technologies for more than 417,000 poor women and men;
- Helped to build more than 9,000 additional classrooms, train over 100,000 teachers and enabled over 1.3 million more children to access schooling across Asia and the Pacific;
- Supported the international humanitarian response to the Syria crisis, which reached over 10 million people in Syria and 836,000 people in the region with safe drinking water;
- Provided immediate and life-saving support to over three million people affected by Typhoon Haiyan in The Philippines;
- Ensured that nearly 900,000 additional births were attended by a skilled birth attendant;
- Vaccinated over 2.3 million children;
- Increased access to safe water for over 2.9 million people;
- Increased access to hygiene for over two million people and basic sanitation for over one million people; and
- Helped over 66,000 women survivors of violence access critical services such as emergency shelters, counselling and legal advice in Bangladesh, Sri Lanka, Cambodia, Timor-Leste, Papua New Guinea, Fiji, Solomon Islands, Vanuatu and Sub-Saharan Africa.<sup>9</sup>

Figure 3: Raida Animose Xitlango, from Nhongue Village, Gaza Province in Mozambique, speaks with an Oxfam staff member about her vegetable garden. Raida is supported by Oxfam partner Malhalhe to grow vegetables to feed her family.



Photo credit: AbbieTraylor-Smith/OxfamAUS

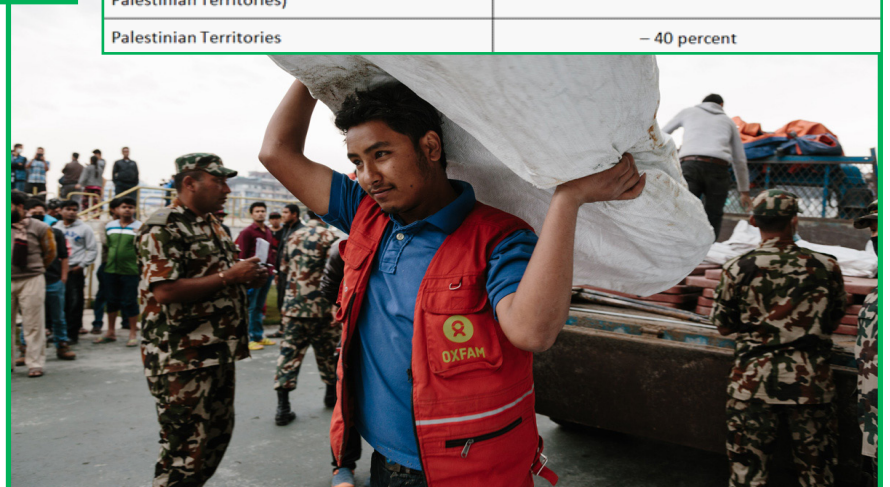
## What About Australia? (cont'd)

**Figure 4: Oxfam Australia Humanitarian Emergency responders fly to Vanuatu on an Australian Government plane with aid supplies, following Cyclone Pam in March 2015** Photo credit: Angus Hohenboken/OxfamAUS



**Figure 5: (above) Paulo Malatu, 35, Oxfam Vanuatu's Humanitarian Team Coordinator helps with the distribution of clean drinking water to Etas Island residents like Casabella Lakon, 21, after Cyclone Pam. Oxfam trucked clean drinking water, often via fire truck, to help prevent the outbreak of disease.** Photo credit: Angus Hohenboken/OxfamAUS

**Figure 6: (right) Oxfam volunteer Shekhou Khadka, 23, offloads latrines delivered to the Tundikhel IDP camp in Kathmandu, Nepal, after the Nepal Earthquakes in April 2015. He is one of 500 volunteers trained to react in the event of an earthquake, as part of Oxfam's urban risk management program.** Photo credit: Aubrey Wade/Oxfam



## Cuts To Australian Aid

In 2015/16, Australia's aid program is being reduced to four billion dollars and then further reduced to around to \$3.8 billion by 2016/17. These cuts push Australian aid to its lowest level in 60 years as a percentage of our national economy by 2016/17 – just 22 cents in every \$100.<sup>10</sup>

The cuts also come at a time when the United Nations has called on countries such as ours to assist with the largest global humanitarian appeal in its history (AU\$23.5bn).

In 2015/16, the regions that will be worst hit by the cuts are those considered by the current government as outside Australia's traditional areas of interest. For example, Sub-Saharan Africa saw its budget cut by 70% and aid to the Middle East, including the Palestinian Territories, declined by 43%.

Pacific and PNG	
PNG	- 5 percent
Solomon Islands, Vanuatu, Samoa, Fiji, Tonga, Nauru, Kiribati, Tuvalu, Cook Islands, Niue, Tokelau, North Pacific	Steady (in nominal terms)
Pacific regional	- 10 percent
East Asia	
Indonesia, Vietnam, Philippines, Burma, Laos, Mongolia, East Asia regional	- 40 percent
Timor <u>Leste</u>	- 5 percent
Cambodia	Steady (in nominal terms)
South and West Asia	
Afghanistan, Pakistan, Bangladesh, Sri Lanka, Bhutan, Maldives, Regional South Asia	- 40 percent
Nepal	Steady (in nominal terms)
Africa and the Middle East	
Sub-Saharan Africa	- 70 percent
North Africa and the Middle East (excl. Palestinian Territories)	- 82 percent
Palestinian Territories	- 40 percent

## Conclusion

This year the Millennium Development Goals expire. Substantial progress has been made and the world has already realised the first MDG of halving the extreme poverty rate by 2015. However, achievements have been uneven – too many people in too many countries remain in need of assistance.

The focus is now on building a sustainable world where environmental sustainability, social inclusion, and economic development are equally valued. Members of the UN are finalising the Sustainable Development Goals (SDGs) that will replace the MDGs. Goal 1 aims to eradicate extreme poverty (less than \$1.25 a day) for all people everywhere by 2030.

At a time when nations around the world are striving to achieve the MDGs and discussing a new global set of development goals, Australia is lowering its overall effort and impact. Clearly, a four billion dollar program in 2015/16, and a \$3.8 billion program in 2016/17, is unlikely to achieve as much as we have in the past.

Australia can and should do more. Our economy continues to be comparatively strong and we are a member of the Group of 20 (G20), the OECD and the UN. At the same time the majority of the world's poor people live in Australia's neighbourhood of Asia and the Pacific. It is important that Australia invest appropriately, along with our peers, in global efforts toward poverty alleviation and tackling inequality.

## Endnotes

- 1 <http://www.oecd.org/dac/stats/documentupload/IsitODA.pdf>
- 2 <http://www.oecd.org/dac/stats/officialdevelopmentassistance/definitionandcoverage.htm>
- 3 <http://www.un.org/millenniumgoals/bkgd.shtml>
- 4 <http://www.unmillenniumproject.org/press/07.htm>
- 5 <http://www.cgdev.org/publication/1385-billion-question-when-does-foreign-aid-work-and-when-doesnt-it>
- 6 <http://www.theguardian.com/global-development/2015/feb/19/mdg1-millennium-development-goal-poverty-hunger-achievements>
- 7 [http://www.un.org/en/ecosoc/newfunc/pdf15/un\\_improving\\_oda\\_allocation\\_for\\_post-2015\\_world\\_policy\\_briefing.pdf](http://www.un.org/en/ecosoc/newfunc/pdf15/un_improving_oda_allocation_for_post-2015_world_policy_briefing.pdf)
- 8 <http://www.compareyourcountry.org/oda?cr=20001&cr1=oecd&lg=en&page=1>
- 9 Australian Government, Department of Foreign Affairs & Trade, Annual Report 2013-14, available at: <http://www.dfat.gov.au/about-us/publications/corporate/annual-reports/Pages/department-of-foreign-affairs-and-trade-annual-report-2013-2014.aspx>
- 10 OECD data tables, available at <http://www.compareyourcountry.org/oda?cr=20001&cr1=oecd&lg=en&page=1>
- 11 <http://devpolicy.org/the-same-the-bad-and-the-ugly-country-allocations-in-the-2015-16-budget/>

## STUDENT ACTIVITIES

1. Ensure that you understand the acronyms OECD, ODA AND GNI.
2. In your own words explain Foreign Aid and what projects it is used for.
3. What is the role of the OECD?
4. How successful has ODA been? Use statistics to support your viewpoint.
5. What is 'tied aid'? Identify the three ways aid can be tied. The following site is useful but find two other sources in your search engine. ([www.aidwatch.org.au/campaigns/whereisyouraidmoneygoing/tiedaid](http://www.aidwatch.org.au/campaigns/whereisyouraidmoneygoing/tiedaid))
6. What are the motivations for tying aid? You may like to read the summary of the report by the OECD on 'The Tying of Aid'. Use a search engine.
7. Revise your understanding of the Millennium Development Goals (MDGs). What are they and to what extent have they been achieved in the last 15 years? ([www.unmillenniumproject.org/goals](http://www.unmillenniumproject.org/goals))
8. What success has the UN had in encouraging its member 'developed' nations to contribute .7% of their GNI?
9. Describe the trends shown by the graphs in Figure 1. Remember to quantify.
10. Using Figure 2, describe Australia's past and projected ODA contributions in actual dollars(\$) and as a percentage(%) of GNI.
11. The MDGs are being replaced by Sustainable Development Goals (SDGs). The first draft has just been published. What criticisms are being voiced.
12. Watch 'The Weekly' Foreign Aid clip (<https://youtube/1ViVkuQyZxI>). Evaluate the arguments that Charlie uses in the debate on whether or not we should cut foreign aid.

## Additional Resources

- Global Education: Teacher resources to encourage a global perspective across the curriculum: <http://www.globaleducation.edu.au/global-issues/gi-australias-aid.html>
- TheOpenBudget: A cutting edge government transparency project, allowing you to easily explore where the Australian government spends your money: <http://theopenbudget.org/>
- The Weekly: Foreign Aid  
Charlie unpacks the debate on whether or not we should cut foreign aid (video) <https://youtu.be/1ViVkuQyZxI>



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The banner features a green background with a white zipper graphic on the left. The zipper is open, revealing a globe on the left and a landscape with a body of water on the right. Below the zipper, there are three smaller images: a crowd of people, a large group of people, and a waterfall. The text 'Geodate' is written in large, bold, white letters with a black outline. Below it, 'Classroom support for teachers since 1993' is written in a green, cursive font. At the bottom, contact information is provided in a white font.