



Pacific Institute
of Public Policy

AID, TRADE, CHARADE?

Aid : vt help, assist, promote. 2. n help, helper, helpful thing, (what is this in aid of?) colloq., what is the point of this?

- Oxford Pocket Dictionary

Key discussion points:

- » In our post-post colonial era in the Pacific, what is the role of aid in redressing the great imbalance in trade and power that exists between neighbours?
- » Fundamentally, what is aid for?
- » Since aid has become an industry, spanning so many disciplines, can we really expect to be able to determine its effectiveness by measuring its aggregate success or failure?
- » Has the foreign affairs agenda meant that the aid agenda has been unable to deliver on the social benefits it is supposed to target? Or has it been the opposite where the aid folk simply don't understand the political reality in which they work?
- » Why is it that the Australian aid programme in the Pacific comes under so much scrutiny and tends to generate more bad press than good?
- » The world has changed dramatically since many Pacific island countries first gained independence 30 to 40 years ago. Has the aid relationship adapted to the new realities?
- » Is it time to become less risk averse and more creative in the search for development programmes that transform lives?
- » How do we bring about a meeting of minds, based on the resolution of long-standing disagreements, the recognition of shared interests across a wide range of issues, and the forging of common expectations for development?

Discussion
paper:

14

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The scene is a third class train cabin in India where an elderly gentleman sits quietly stroking his white beard and drinking chai as the hot plains flash by his window. He engages a young foreigner opposite him in thoughtful conversation. After spinning through various topics over many hours, the colonial period under Britain is weighed up. The young foreigner says 'yes, the British could be harsh and prejudiced rulers, but hey, look at the infrastructure they built, the railways we are on even today!' To which the elder gentleman leans forward and says, quietly but forcefully: 'My friend, if someone punches you in the face and then gives you a lollipop, you don't thank him for the lollipop'.

The discourse on foreign aid is still haunted by issues of guilt, greed, and good intentions. Little wonder that the topic has been steeped in controversy and misunderstanding, which often overshadows the importance that aid can play in improving the lives of many poor people around the world. In their 2005 paper, Radelet, Clemens, and Bhavnani lay out the basic for-and-against arguments:

Controversies about aid effectiveness go back decades. Critics such as Milton Friedman, Peter Bauer, and William Easterly have leveled stinging critiques, charging that aid has enlarged government bureaucracies, perpetuated bad governments, enriched the elite in poor countries, or just been wasted. They cite widespread poverty in Africa and South Asia despite three decades of aid, and point to countries that have received substantial aid yet have had disastrous records—such as the Democratic Republic of the Congo, Haiti, Papua New Guinea, and Somalia. In their eyes, aid programs should be dramatically reformed, substantially curtailed, or eliminated altogether.

Supporters counter that these arguments, while partially correct, are overstated. Jeffrey Sachs, Joseph Stiglitz, Nicholas Stern, and others have argued that, although aid has sometimes failed, it has supported poverty reduction and growth in some countries and prevented worse performance in others. They believe that many of the weaknesses of aid have more to do with donors than recipients, especially since much aid is given to political allies rather than to support development. They point to a range of successful countries that have received significant aid such as Botswana, Indonesia, Korea, and, more recently, Tanzania and Mozambique, along with successful initiatives such as the Green Revolution, the campaign against river blindness, and the introduction of oral rehydration therapy. In the 40 years since aid became widespread, they say, poverty indicators have fallen in many countries worldwide, and health and education indicators have risen faster than during any other 40-year period in human history.

In our post-post colonial era in the Pacific, what is the role of aid in redressing the great imbalance in trade and power that exists between neighbours? A recent review of the Australian aid program in Papua New Guinea¹ has thrown open a raft of new questions. In the search for answers, it may be time to rethink some of the language and underlying assumptions of the aid-centric approach to development in the Pacific islands.

1. *Review of the PNG-Australia Development Cooperation Treaty* by Associate Professor Eric Kwa, Professor Stephen Howes and Dr Soe Lin - available online at <http://www.ausaid.gov.au/publications/pdf/PNGAustralianAidReview.pdf>

Re-thinking aid

Fundamentally, what is aid for? Is it simply genuine gift giving between friends? Is it compensation for past and current crimes? Is it a foreign policy conduit to spread influence by powerful nations? A boomerang fiscal windfall for contractors? Or is it a function of the national psyche to accept a national tithe in developed nations, for the poor in other countries, that citizens are only too happy to give and expect their leaders to do so, and effectively? If we delve further into the aid packet that (metaphorically and sometimes literally) falls from the sky onto the islands, how are we to view it from a Pacific perspective? What is the nature of this cargo? Does it help us in meaningful ways? Is it a proper sharing of the feast? Or diversionary bribes used in the great game between powerful nations?

Once upon a time the idea behind aid, viewed by developing nations, was that it could be used to create a higher level of national economic 'self-sufficiency' to match the then newly-won political independence. That objective has largely fallen aside with the reality of the basic interconnectedness of all nations and economies. For many, 'fair trade, not aid' is the modern mantra. Without getting too deep into semantics, the terminology of 'aid' has become a complex web cast across a range of very different scenarios, including:

- Immediate, humanitarian assistance (e.g. food, shelter, medicine) following a national disaster.
- The provision of physical infrastructure (e.g. building roads, bridges, airfields, ports, utilities etc.) that promote economic growth and improve government service delivery.
- 'Technical assistance' to governments and 'capacity building' in government and corporate sectors.
- Supporting long term human development by investing in schools, hospitals and technical colleges.
- Programs that seek to strengthen democratic processes and judicial systems.
- Some governments go so far as to classify military support or intervention as 'aid'.

In recent years there has been much re-thinking on what 'aid' is and how it should be delivered. The *Paris Declaration on Aid Effectiveness* (2005) and the *Accra Agenda for Action* (2008)² have sought to define the joint (donor and recipient) responsibilities to increase efforts in regards to ownership, harmonisation, alignment and management of aid. In this region, the leaders of the Pacific Islands Forum, at their meeting in August 2009, agreed on the *Cairns Compact* as a means of driving 'more effective coordination of available development resources from both Forum Island countries and all development partners'. But have these really advanced our understanding of what aid is and how it should best be delivered? And since aid has become an industry, spanning so many disciplines, can we really expect to be able to determine its effectiveness by measuring its aggregate success or failure?

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2. The Paris Declaration is an international agreement to increase efforts in harmonisation, alignment and managing aid and the Accra Agenda for Action builds on the commitments agreed in the Paris Declaration to cover issues of predictability, use of recipient rather than donor country systems, conditionality and untying aid.

The political reality

In a 2007 editorial in the *British Medical Journal*, Professor Dan Ncaylyana suggests:

International aid genuinely earmarked for eradicating poverty must be taken out of the hands of the politicians and bureaucracies of both donor countries and recipient countries. Such funds should be controlled by independent and accountable agencies, which have knowledge of the existing needs and have direct access to those in need. Aid must be contingent upon the accountability of those who administer it, feedback from those who benefit from it, and measurable or otherwise verifiable outcomes.

It is not a lone call to remove politics and government bureaucracy from aid. But is it realistic? To this end we may need to consider the link between 'aid' and foreign policy. In theory it should be at arms length but the reality is not that - hence aid agencies tend to be junior members of the Ministry of Foreign Affairs. If that is the case then has this worked? Has the foreign affairs agenda meant that the aid agenda has been unable to deliver on the social benefits it is supposed to target? Or has it been the opposite where the aid folk simply don't understand the political reality in which they work?

China does not even attempt to say the two are separate and pursues an aid policy that reflects its largely opaque foreign policy. China mixes large, visible 'high impact' projects like sports stadiums and parliament buildings, with cash grants to governments that are hard to quantify and are claimed to come with no strings attached, apart from the proviso that the host nation follows a one-China policy. This allows China to say its approach is not paternal, that host nations are free to do as they wish with the aid, reinforcing China's policy of 'non-interference' in the affairs of other nations. Recipient governments often like this approach because it knows there will be little scrutiny of the assistance and its ultimate effectiveness.

The European Union's claims its aid delivery is separate from foreign policy agendas, but is surrounded by excessive bureaucracy and, in the Pacific context, the use of aid in pursuit of fishing rights sometimes gives lie to the stated idea that is politically neutral and philanthropic. France, as the main EU power in the Pacific is known to be generous in its own territories and its support for art and kastom in the region give it a 'soft power' edge that contrasts with Australian and New Zealand aid, which focuses on security and governance, giving them a sometimes unwanted 'hard power' image that invites criticism of 'bullying' and 'big brother' style paternalism. France however, at least provides the option to its Polynesian and Melanesian subjects full access to live and work in France and thus the EU. Similarly the United States, although a 'hard power' player in the Pacific, allows all Micronesians in territories that have a Compact of Free Association with the US, full access to live and work within its borders.

New Zealand's aid policy, while focussing often on the intangibles of governance and finance advice, also allows generous entry to Polynesians – and increasingly Melanesians through its robust Seasonal Worker Scheme - to live and work in NZ. Since the population bulk of many small Polynesian nations now reside in New Zealand and Auckland is known as the 'Polynesian capital of the world',

gives the NZ government strong leverage as a 'partner' in its development support to the region, particularly as New Zealand identifies itself strongly as a Polynesian nation.

Australia's approach to aid in the Pacific has again come under the spotlight of late. As the largest single spender in Melanesia and Polynesia, its aid program is often the most visible - for example the high profile RAMSI³ presence in the Solomon Islands and the army of 'technical advisors' working across many government departments in most of the islands. Although decreasing, until recently almost half (48%) of the Australian aid budget was spent on 'technical assistance', sparking a wave of criticism from NGOs and the OECD⁴. Media scrutiny has revealed excessive pay packets for Australian advisors in the Pacific. Little wonder questions of 'boomerang aid' abound, and that Australian aid is viewed more cynically than other donors. This is unfortunate because Australian aid has been effective in many instances and generous when the need for urgent humanitarian assistance is required.

Big brother

The focus on the Australian aid program is not surprising given its scale and history. The reference to Australia as the 'big brother' in the region is also not unreasonable given the vast size of the continent in relation to its Pacific neighbours. Nor does it need to conjure up negative Orwellian images⁵ - after all Pacific cultures cherish the bond of family, so fostering a strong relationship between siblings should be something to be celebrated. Like any family there will be squabbles and disagreements, but why is it that the Australian aid program tends to generate more bad press than good? The 2008 *Port Moresby Declaration*⁶ was intended to symbolise Australia's new partnership approach to development in the Pacific region. The authors of the 2010 review of Australian aid to PNG noted 'while we welcome the *Australia- PNG Partnership for Development*, agreed in August 2008, as a positive initiative, we see it as marking the beginning of a process of reform, not the end'. The importance of Australia continuing to use its aid program in concert with other initiatives in its relations with the Pacific is underlined by a recent poll by the Lowy Institute. It highlighted the fact that 'improving Australia's relationships with its immediate neighbours in the Pacific' is seen as the highest polling foreign policy goal after the goals relating to protecting Australia's economy, security and borders. It even ranks above 'helping countries reduce poverty' and 'climate change' demonstrating that Australian relations with, and assistance to, the Pacific islands should be understood as one of the defining goals

3. Regional Assistance Mission to Solomon Islands - see www.ramsi.org.

4. Radio Australia (25/52010) *More Pressure on Australia's Aid Program* - www.radioaustralia.net.au/connectasia/stories/201005/s2908635.htm

5. Big Brother is a fictional character in George Orwell's novel *Nineteen Eighty-Four* - an 'enigmatic dictator of Oceania, a totalitarian state taken to its utmost logical consequence - where the ruling elite wield total power for its own sake over the inhabitants' - [http://en.wikipedia.org/wiki/Big_Brother_\(Nineteen_Eighty-Four\)](http://en.wikipedia.org/wiki/Big_Brother_(Nineteen_Eighty-Four))

6. The Port Moresby Declaration was co-signed by the Prime Ministers of Australia and Papua New Guinea in Port Moresby, in March 2008 and included a commitment to develop 'Partnerships for Development to improve governance, increase investment in economic infrastructure, and achieve better outcomes in health and education with Pacific island nations' - see <http://www.ausaid.gov.au/country/PortMorDec.cfm>

of Australian foreign policy. However generous and noble Australian aid is, it will continue to be viewed in the Pacific as a substitute for the deeper engagement that can only come with a more mature relationship as 'development partners'. That includes addressing immigration policy. Making it so hard for Melanesians to live, work - even just visit - in Australia, gives the perception that Australia wishes to keep its Pacific island neighbours at arms' length. Alone of the metropolitan powers in the Pacific, it does not allow open access to its Pacific neighbours. The one attempt - a tiny 'pilot' seasonal worker program similar to New Zealand's, has fizzled out. There seems to be no political will for a 'grand gesture' to embrace Pacific islanders as part of the broader Australia community. There are no hordes of islanders clambering onto boats to find their way to Australia, which is precisely why the climate is ripe to foster an orderly, mutually beneficial migration policy. Moreover, a deeper engagement in supporting *kastom* and the arts would be another way of showing Australian sensitivity to island culture. Otherwise it will be forever perceived as only seeing the islands through the prism of governance and economic issues, which means nothing for the 80 per cent of islanders living away from towns.

Untangling the web to move forward

First and foremost, let's address what we mean by aid. Most people equate aid with charity. In reality it is far more complex than that. As we have seen many aid programs are more about political and economic self interest. Some countries may wish to influence solidarity or security; a rational foreign policy objective. But it is not aid. Let's call it for what it is. Some prefer the terms 'development support' or 'development assistance', without implying the provider is the expert. Others say payment should be forthrightly seen and delivered as compensation for colonial era exploitation and current carbon-polluting industrial policies. Not a gift to be thankful for, but the rightful due owed to poorer nations. Some argue that the term aid should from now on be used only in relation to direct, immediate humanitarian relief, in the aftermath of a national disaster. In this way the humanitarian aspect can be better distinguished from support in the form of policy, institutional capacity building or long term educational training. Changing the language of aid may help shift the relationship between 'donors' and 'recipients' to something more befitting a true partnership. It may also help with more transparent delivery and better ways of measuring the effectiveness of development support.

The main messages from the review of the Australian aid program in PNG offers food for thought for other Pacific island nations and other donor country development programs, viz:

'The status quo is not an option'

There is increasing dissatisfaction with aid programs in both donor and recipient countries, and a growing body of evidence suggests the need for substantial change. As the aid industry is further exposed to external examination, something it has largely been protected from in the past, it is clear that action will be needed to effect and deepen the reforms already in place. But more than that, as the authors

of the PNG report found, there is 'an appetite for change and a hunger for fresh ideas and approaches'. Managers of aid programs have, for too long, been too risk averse, with little room for failure allowed in an industry that should seek and celebrate innovation. In a presentation in the defence of aid to the Development Research Institute 2010 annual conference⁷, Lant Pritchett, Professor at Harvard's Kennedy School for Government, likened the aid industry to a piano recital, reflecting:

It's kind of boring and it's tedious and most of the people are wasting their time. But every now and again by God we make a difference and when we do make a difference it really transforms economies and lives for a very long time.

Perhaps we need to allow a more creative space to spark more moments of brilliance. But that means taking more and bigger risks.

'Bring the aid program into line with new realities'

The world has changed dramatically since many Pacific island countries first gained independence 30 to 40 years ago. Despite the Paris, Accra, Moresby and Cairns pronouncements there is little to suggest that the aid relationship has truly adapted to the shifting economic, political and technology landscapes. As the authors of the PNG report note:

When Australian aid to PNG began 35 years ago, it exceeded PNG's own revenue, and equalled PNG-Australia trade. Today it is one-tenth of government revenue, and one-tenth of bilateral trade. The aid program is yet to adjust to and reflect these new realities.

It is timely to have a frank Pacific discussion on the issues raised in this latest review and the more general concerns relating to aid effectiveness. As the aid industry comes under closer scrutiny, Pacific islands have an opportunity to be more involved in the decision making process. Aid is just another dynamic that needs to be understood by Pacific governments and people so that they can use it to their best advantage when trying to get the development – and long term human resources - that they want for their countries.

Noteworthy is the assertion of the authors of the PNG review, that:

The development cooperation program is a joint responsibility of the PNG and Australian Governments. In this context, while the Review commonly refers to 'Australian aid to PNG,' this should not be taken to mean that we are making recommendations to the Australian Government for what it should do with its aid. Unless specified to the contrary, our recommendations are to both Governments.

'Build on success'

As one interlocutor advised the authors of the PNG review: 'Get back to focusing on success. Where things are functioning, provide resources'.

With an emphasis on the 'intangibles' of good governance programs, financial advice and technical training, critics argue aid programs have done little to change the political culture of the Pacific, which allows large budgets to be swallowed by urban elites in capital cities. Decades on, there is little to see of substantial aid projects in rural and remote communities, abandoned by their own central government and donor nations. This provides ammunition to the critics who argue

7. See Freschi (2010)

that aid is not only ineffective, but even counter-productive and should be totally scrapped. A recent paper by the Institute of Development Studies, drawing on a five year research program, concludes:

There is mounting evidence that many reforms to improve governance by strengthening formal, rules-based institutions have had limited impact. Donors have responded by recognising the need for more politically intelligent, context-specific approaches, and more local 'ownership'. But overall there is still a big gap between donor rhetoric and actual behaviour, and for the most part development practice remains donor-driven and aid-centric.

Building on success stories does not simply mean rolling out a public relations offensive, or adopting a cookie cutter approach to project delivery. Its about understanding the social and political landscape and recognising what works in that local context.

'Common purpose is key'

In summing up, the authors of the PNG review note that 'while increased reporting and better dialogue will help, ultimately there has to be a meeting of minds, based on the resolution of long-standing disagreements, the recognition of shared interests across a wide range of issues, and the forging of common expectations for the aid program'.

Linked to the ongoing debate on aid effectiveness is the question of increasing spending on development. This in turn raises issues of 'absorptive capacity' - a subject beyond the scope of this paper, but one that is well covered by Radelet et al in their 2005 article, which concludes 'the evidence suggests that absorptive capacity constraints are real, but should not be seen as an immutable barrier to growth'. Then again, aid, or development support, should always be seen in human terms, and not merely economic data.

Finally, we need to avoid easy notions that suggest either all aid is good or all aid is bad. It is clearly a multifaceted bundle of tools that is more often than not positive, especially if it is targeted at grassroots lives as much as a nations' elite. Well-directed aid, development support and foreign policy has the ability to transform lives – and relations between nations - for the better.

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