

DEVELOPMENT
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Change and continuity in Australian aid: What the aid flows show

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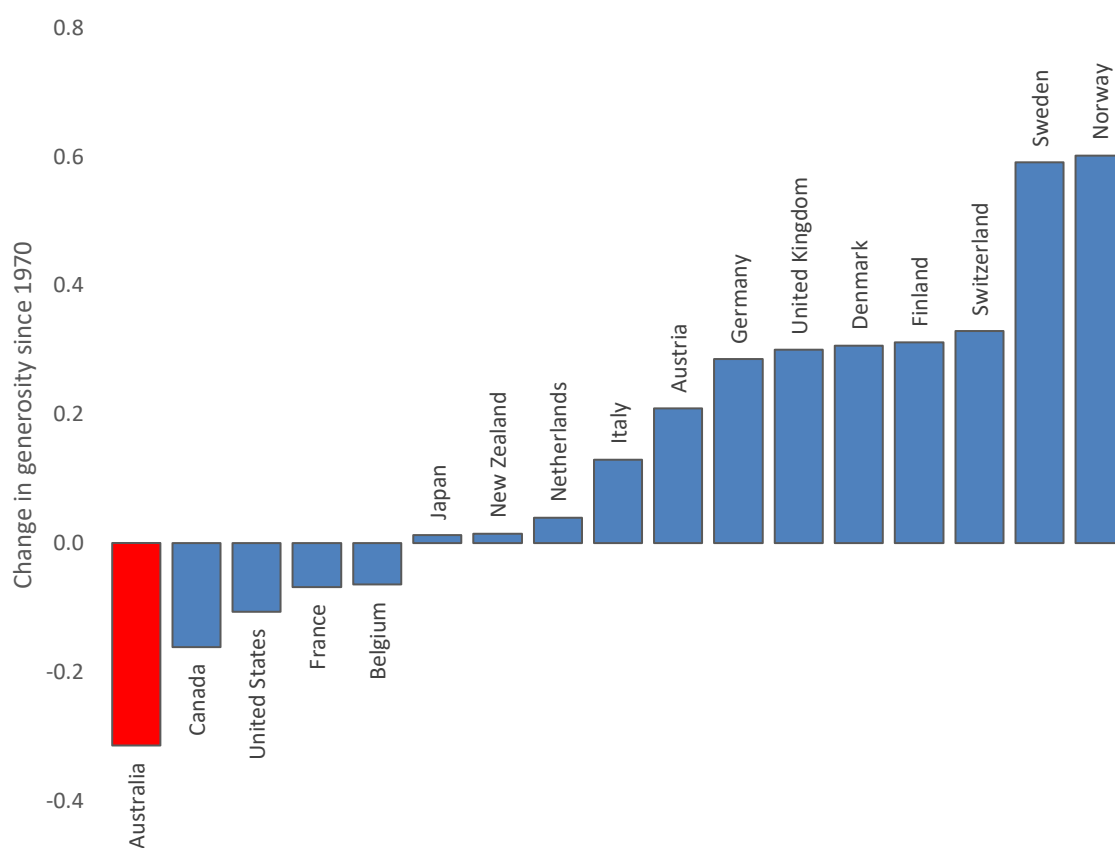
Executive summary

In this report we trace changes in Australian government aid making use of publicly available aid data. We also compare Australia with other similar donors from the OECD.

The most striking and concerning of our findings are to do with aid volume: Australia is less generous than the typical member of the OECD's Development Assistance Committee (DAC). **When Australia's affluence is taken into account, it is one of the least generous donors in the OECD DAC.**

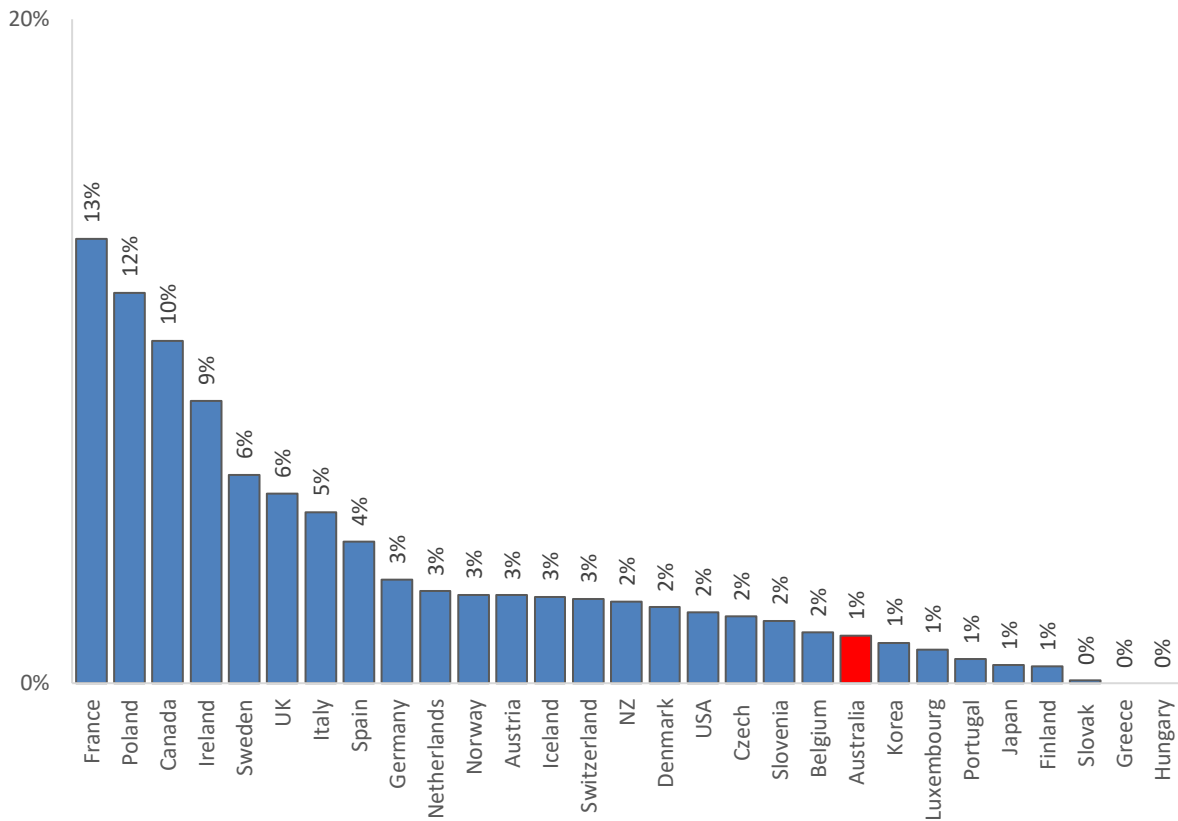
Australian generosity has fallen over a period in which most donors have become more generous.

Change in donor generosity since 1970



Our report also identifies concerns associated with aid quality: **despite giving most of its aid to the Pacific, Australia focuses very little bilateral and earmarked multilateral aid on climate change adaptation. Australia ranks poorly in this area compared to other donors.**

Australian global aid principally focused on climate change adaptation (2016–18)

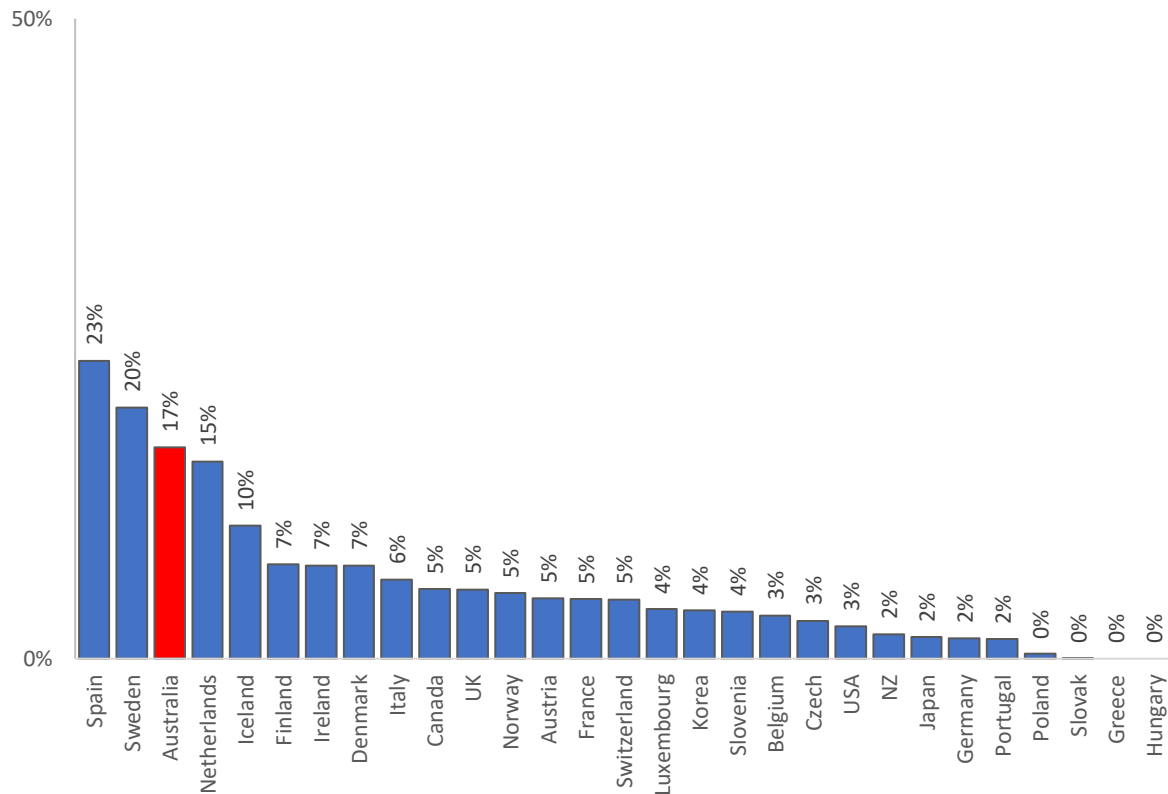


Australia also gives a greater share of its aid as scholarships to study in Australia than the typical donor does. This is concerning, as the development value of scholarships is questionable. **There is clear evidence, however, that Australia’s scholarship focus has fallen over time.**

Most positively, Australia has increased the share of its aid with a primary focus on women’s empowerment. Australia is now one of the DAC’s best donors in this area.

Australia is a fairly typical donor in terms of the types of aid work it funds (its sectoral focus) and generally has a balanced sectoral spread in its aid giving. **Yet, in our view, recent falls in aid to health and education are concerning, although in the case of health this fall appears to be in the process of being reversed.**

Share of aid principally focused on gender and women’s empowerment (2018)

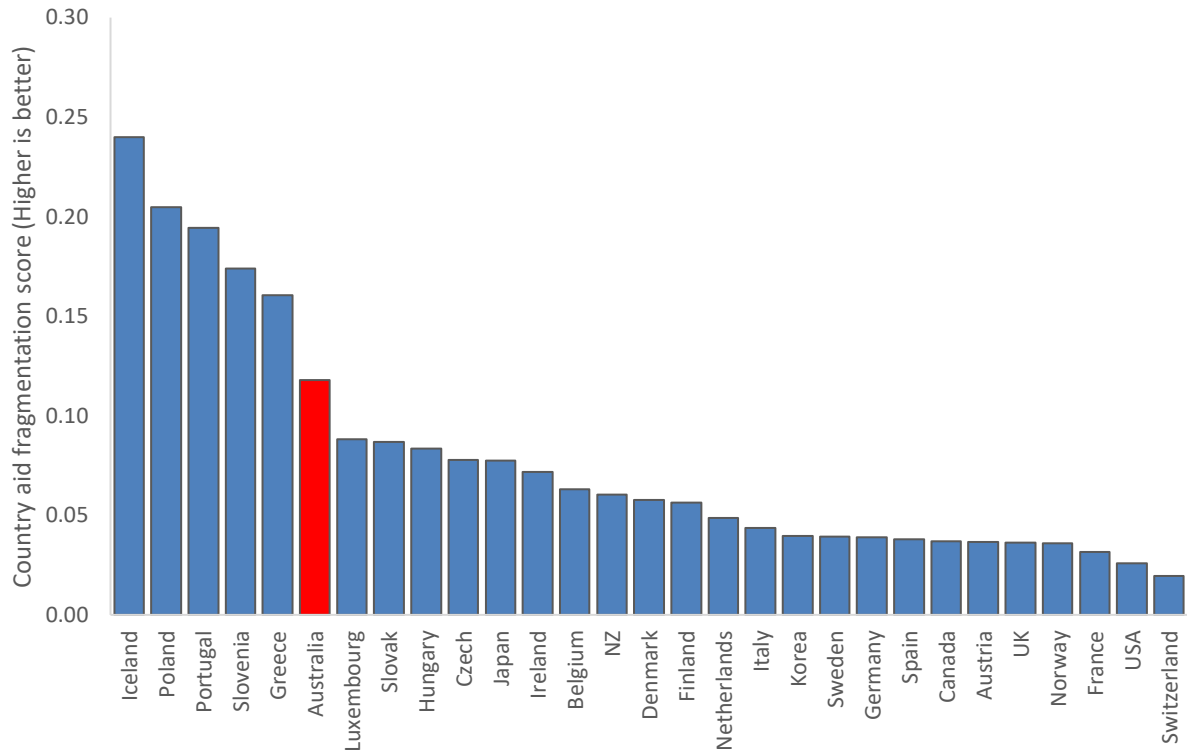


Australia fragments its aid across projects more than the typical donor. This is a worry as project fragmentation likely leads to inefficiency.

Although it fragments its aid across projects, Australia performs better in terms of aid fragmentation across countries. Country fragmentation has improved and, **compared to other donors, Australia tends to focus the bulk of its aid on a small number of recipients. This is good practice**, which should allow Australia the opportunity to develop key country contextual expertise and reduce transaction costs.

Positive practice can also be found in the stability of Australian aid flows to major partner countries. Despite the major changes to aid in recent decades, Australian aid flows to its median large recipient remain less volatile than aid from most donors.

Country aid fragmentation scores (2018)



Although Australian aid has strengths, there is scope for improvement. **In the final section of the report, we detail five key recommendations that emerge from our analysis and which Australia should follow to improve aid performance.**

Change and continuity in Australian aid: What the aid flows show

1. Introduction

Australian foreign aid has changed considerably in the last 20 years. In the first decade of the new millennium, the Make Poverty History Campaign, Millennium Declaration, independence of Timor-Leste, Indian Ocean Tsunami, conflicts in Solomon Islands, Iraq and Afghanistan, and Australia's bid for a seat on the United Nations Security Council all brought an increased focus on aid, as well as an increased commitment to aid giving. By the end of the decade, a bipartisan consensus had arisen around an aid target of 0.5 per cent of Gross National Income (GNI). Yet the second decade of the millennium saw the consensus unravel as the aid budget was cut and cut again (Development Policy Centre 2017). The cuts were accompanied by other radical changes, the most dramatic being the integration of AusAID into the Department of Foreign Affairs and Trade (DFAT). Over the same two decades, the focus of Australian aid has changed as well – sometimes as a result of external circumstances, sometimes as a result of internal policy processes, and sometimes as a result of the differing priorities of different governments.

In this paper we examine the changing nature of Australian government aid through the lens of publicly available data on aid flows. Aid flow data cannot reveal everything about the nature of Australian aid, but the data provide tangible evidence of change. Aid flow data also allow direct comparisons between Australia and other OECD Development Assistance Committee (DAC) donors. These comparisons help highlight where Australian aid conforms with international norms of good giving, where Australia lags behind the global community, and where it is a global leader.¹

Throughout this paper we focus on Australian government foreign aid, hereafter referred to as 'aid' or 'Official Development Assistance' (ODA). While, it would be useful to track

¹ OECD DAC donors are used as comparators because they share other traits with Australia (broad levels of wealth for example) and because they provide equivalent data on their aid giving. While it would be interesting to contrast Australia with new donors such as China and India, this cannot be done at present owing to limited data availability.

the donation-funded work of development Non-Governmental Organisations (NGOs), the subject matter is very different, and our interest is in the aid the Australian government gives. (For Australian NGO analysis see (ACFID 2018).)

While the majority of Australia's ODA is given through the Department of Foreign Affairs and Trade, some aid is given via other government departments. Unless we specifically otherwise, in this report we focus on all Australian ODA (regardless of government department).

This report is structured as follows. First it details the data sources used in the analysis. The report then provides findings, starting with how much Australia gives, changes over time and how generous Australia is as a donor. The report then details where Australia gives its aid, as well as what aid is spent on. Then the mechanisms Australia uses to give aid are analysed. Questions of reliable and efficient giving round out the analytical section of the report. The report concludes with a series of recommendations.

2. Data

2.1 Data sources

All data in this report come from publicly available sources. With one exception (data on funding for NGOs) all data have their origins in the Australian Government. The Australian government makes useful, relevant data available on ODA through a number of mechanisms. We have drawn on the following sources:

- Reporting available through DFAT's website. DFAT places a range of useful statistical data online on its website. Spreadsheets of historical timeseries can be found at: <https://www.dfat.gov.au/about-us/publications/aid/statistical-summary-time-series-data/Pages/australias-official-development-assistance-standard-time-series>. One year of more recent historical data can be found at: <https://www.dfat.gov.au/sites/default/files/2020-01/australias-official-development-assistance-statistical-summary-2018-19.pdf>. When we have drawn upon these data in the report, we have referred to them as "DFAT Greenbook Data". Greenbook data are valuable for aid transparency. However, with two exceptions – total aid volumes and aid to countries or regions – the timeseries

available online on DFAT's website are quite short. Also, international comparisons are most reliable when data are standardised across donors. For these reasons, the bulk of our analysis comes from Australian reporting to the OECD, as detailed below.

- High-level reporting to the OECD, which is made available in an OECD online database that we refer to as "OECD.Stat". An example of such high-level reporting is how much Australia has spent on specific sectors. OECD.Stat data can be found here: <http://www.oecd.org/dac/financing-sustainable-development/development-finance-data/idsonline.htm>. OECD.Stat data are thought to be generally reliable as far back as the 1970s.
- Project reporting to the OECD, which is made available in a database, which we refer to as "OECD CRS" or "CRS". CRS data are broadly reliable (although not for all purposes) as far back as 2006. CRS data can be found online at: <https://stats.oecd.org/Index.aspx?datasetcode=CRS1>.

When we first use a data source, we link to it underneath the relevant chart or table. In subsequent mentions we provide the name of the source. OECD.Stat and DFAT data are structured around a number of different tables. When providing source information under charts, we also name the source table. CRS has some specific topic-focused sub-datasets. When we use these datasets, we provide links.

Reflecting source data, when we report on Greenbook data we report either in percentages or in Australian dollars. When we report on OECD data, we use percentages or US dollars. When we use Greenbook data we report on financial years. When we use OECD data, we report on calendar years. In almost all instances, absolute amounts are adjusted for inflation. Because aid flows vary from year to year, when we conduct international comparisons, we tend to use averages of the most recent three or five years.

Occasionally, we have drawn on specific sources not detailed above. When we use other data-sources we provide details on them in the relevant results section or chart notes.

There are two key limitations to the data we have drawn on. First, most data are released with a lag of one or two years. This limits our ability to report on contemporary change, although we have been able to overcome this issue when discussing Australian aid volumes because colleagues at the Development Policy Centre have used budget

documents to build a timeseries that runs until the present financial year (see: <http://devpolicy.org/aidtracker/trends/>).

Second, the data are only as reliable as donor reporting. At times donors make errors in reporting, or data structures make analysis difficult. When known issues exist, we have tried to account for this, and have highlighted any problems.

Source data, as well as specific issues or approaches, are detailed under each individual chart. When we have used detailed processes in our analysis, we have outlined the processes in the text or in methodological appendices.

Unless we state otherwise, the data used in this report pertain to all Australian ODA, not just the ODA given through DFAT. This is appropriate – we are interested in Australia’s entire ODA footprint. However, at times it may lead to differences between our findings and those available in DFAT’s Performance of Australian Aid reports, which typically focus on the ODA DFAT manages. Readers familiar with DFAT reporting should bear in mind this potential source of differences.

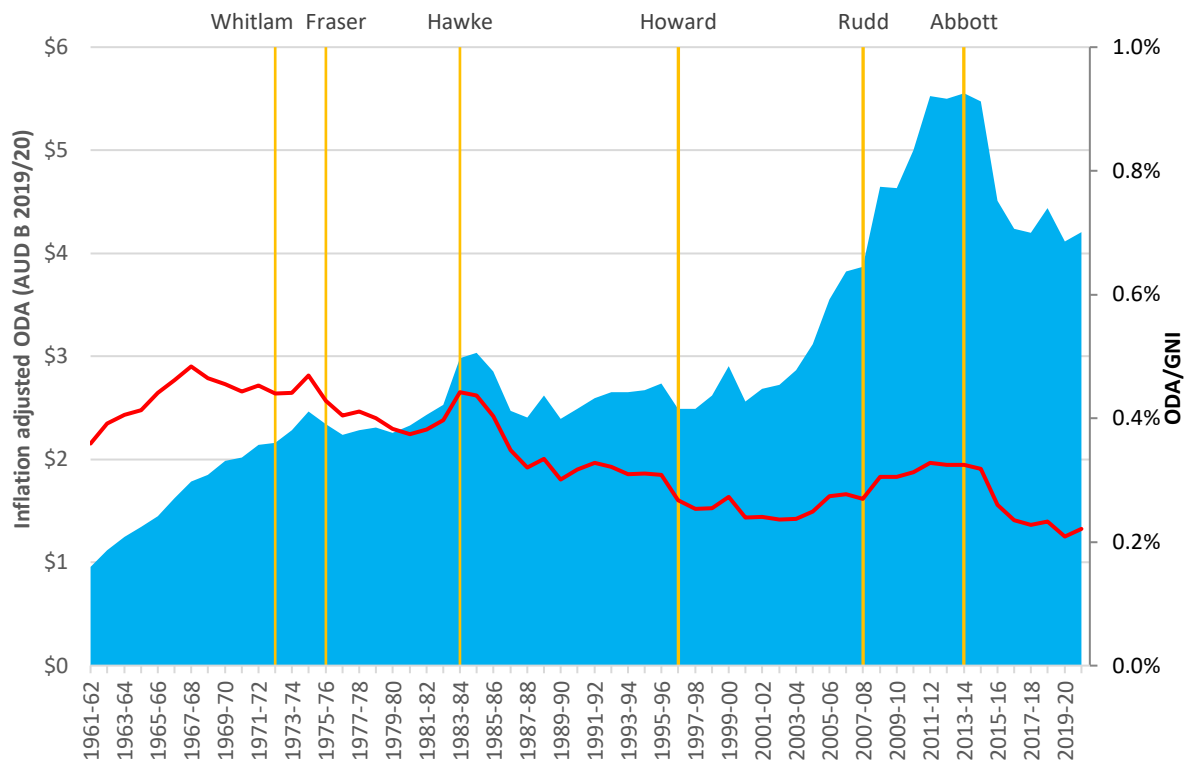
The data included in the charts in this paper, are available online at: <https://devpolicy.org/wp-content/uploads/2020/12/Dataset-2021-Australian-aid-flows-report.zip>

3. How much aid?

3.1 Aid volume and generosity

Figure 1 uses a blue area chart to show how much aid the Australian government has given in each year since 1961–62, accounting for inflation, with amounts on the left axis. The red line shows aid generosity measured using the standard international metric: ODA/GNI. The right axis provides the ODA/GNI scale. To provide a sense of political change, changes of government – when they have come at election time and seen one party replaced with another – have also been highlighted on the graph, with the name of the incoming prime minister given in a label.

Figure 1: Australian aid over time



Note: Aid volume data are in Australian dollars. Both aid volume and Aid/GNI data come from the Development Policy Centre timeseries available at <http://devpolicy.org/aidtracker/trends/>.²

Aid volumes peaked in 2013–14, then fell. ODA as a percentage of GNI fell from the late 1960s to about 2005, when the fall was reversed, although only until 2011–12.

Importantly, the chart shows that the size of the aid budget has not always been a partisan issue. Aid grew quite rapidly in the 1960s and early 1970s under both Coalition and Labor governments. Then, from the mid-1970s to the turn of the millennium, the aid budget only crept upwards, regardless of the party in power. Spending subsequently increased more rapidly and in a sustained manner under both Coalition and Labor governments, before falling sharply under a Coalition government.

The uptick in ODA/GNI in the final year of the chart stems both from a fall in expected GNI owing to COVID-19, and a small increase in spending – a response to the pandemic’s impact on Timor-Leste and the Pacific. At the time of writing, this increase has not yet

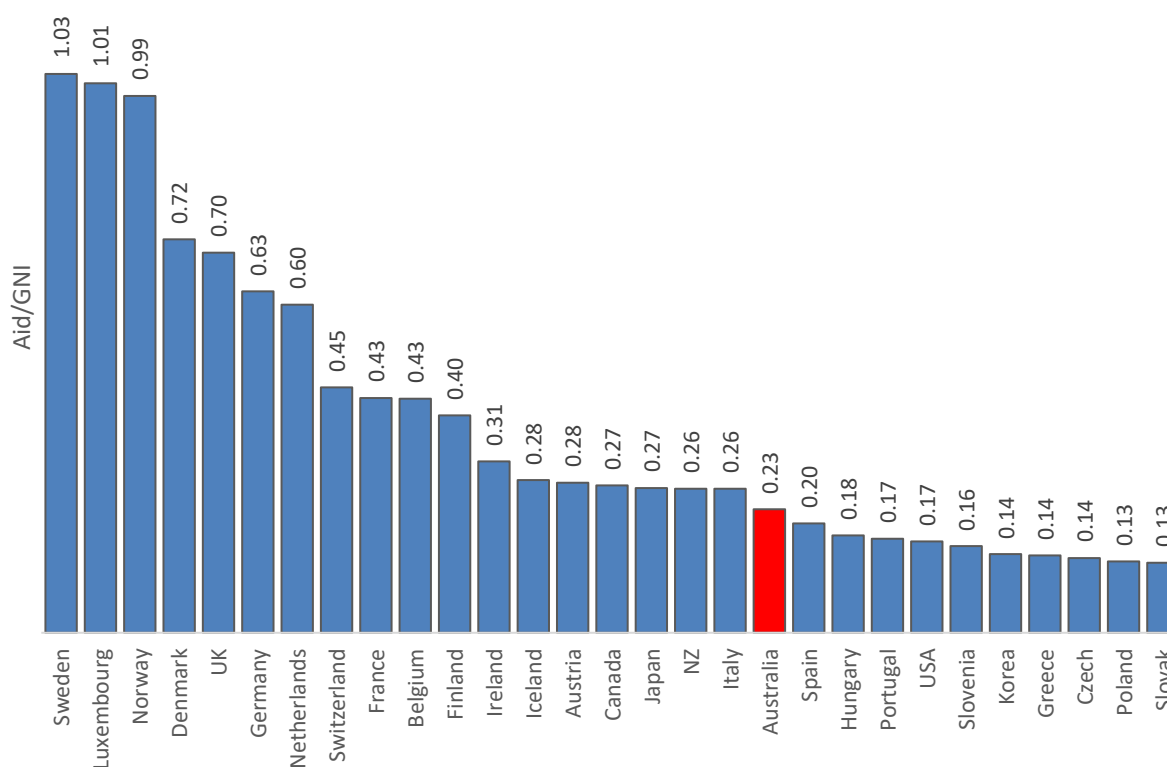
² DFAT Greenbook aid volume data contain unexpected values prior to 1985. To overcome this specific issue, the Development Policy Centre has used data from other Australian government sources in earlier years. The most recent years’ data, which are not yet in the Greenbook dataset, come from DFAT budget documents.

been included in the aid budget, though it is regarded by the government as ODA (Howes 2020b). Further increases have also been foreshadowed.

While the uptick is real, its magnitude is modest. This is important to bear in mind over the rest of this section, which draws on slightly older OECD data – data that do not incorporate the recent increase. Even if the recent increase were incorporated into the following analysis, key findings would not change in any meaningful way.

Figure 2 compares Australian aid generosity (measured as ODA/GNI) with that of other OECD DAC donors. Australia falls well short of the most generous donors such as Sweden. Australia is also clearly below the median (0.27) and below its neighbour New Zealand.

Figure 2: Australian aid generosity compared to other donors (2017–19 averages)



Note: Data from OECD.Stat Table 1 (<https://stats.oecd.org/Index.aspx?datasetcode=TABLE1>). Data are means for the years 2017–19. Although these data are from the OECD and pre-date the small increase in aid shown above, the 2017–19 average is still slightly higher than current ODA/GNI estimates.

3.2 Generosity and Australia’s ability to give

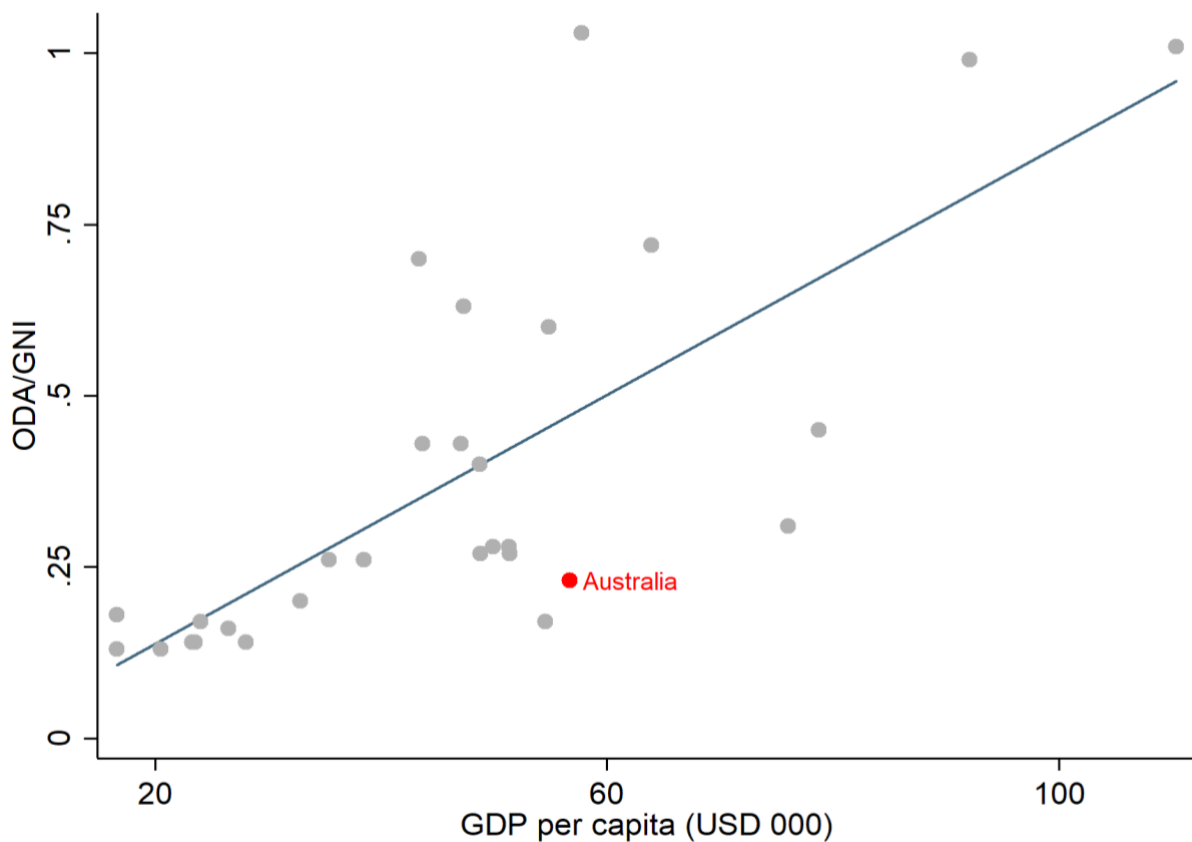
Australia is not a generous giver. The picture becomes worse still if Australia’s comparative affluence is taken into account.

It seems reasonable to anticipate that more affluent donors will be more generous. Everything else being equal, increased affluence will make it easier for a country to meet domestic spending demands such as the need to spend on its own health and education systems. This frees up space for more affluent donors to be more generous when giving aid.

This anticipated relationship is borne out empirically. Figure 3 is a scatterplot that compares affluence (measured by GDP per capita) with aid generosity (ODA/GNI). The scatterplot is a cross section of all OECD DAC donor countries. Australia is highlighted. There is a clear positive correlation ($\rho=0.73$): more affluent countries are more generous on average.

The diagonal line on the chart plots the average relationship between affluence and aid generosity. Australia's location below the line indicates Australia is less generous than would be expected based on the average relationship between affluence and generosity.

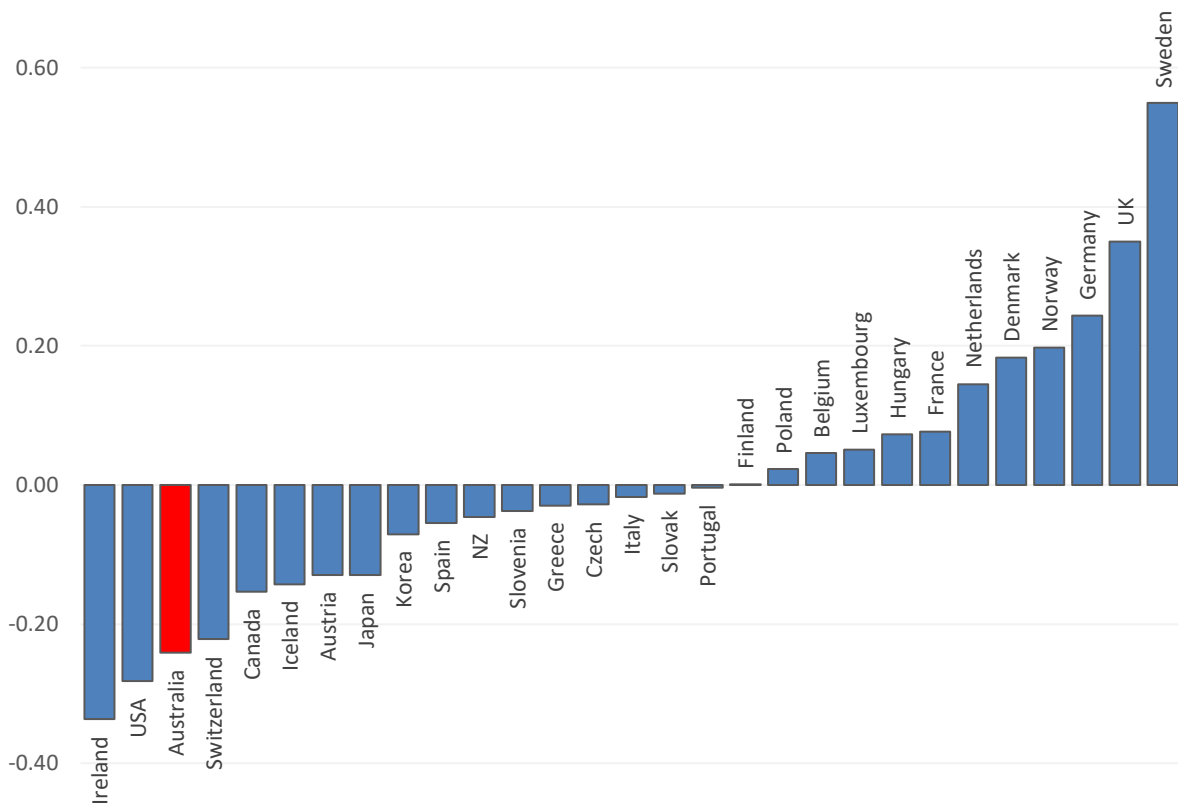
Figure 3: GDP per capita versus ODA/GNI (2017–19 averages)



Note: GDP per capita data from the World Bank World Development Indicators. ODA/GNI data from OECD.Stat Table 1. Data for both variables are means from 2017 to 2019.

Figure 4 is a residuals plot based on the same OLS regression that produced the line of best fit in Figure 3. The plot shows how much more or less generous each individual donor is than expected based on the average relationship between affluence and aid generosity. Countries with scores that are positive are more generous than average given their level of affluence. Countries with scores that are negative are less generous. Not only is Australia's score negative but it is one of the lowest in the chart: only the United States and Ireland perform worse.

Figure 4: Under- and over-performers in aid generosity relative to GDP per capita



Note: The chart plots the residuals from an OLS regression of GDP per capita and ODA over GNI. GDP per capita data are from the World Development Indicators. ODA/GNI data are from OECD.Stat. Data are means from 2017 to 2019.

3.3 Falling generosity over time compared to other donors

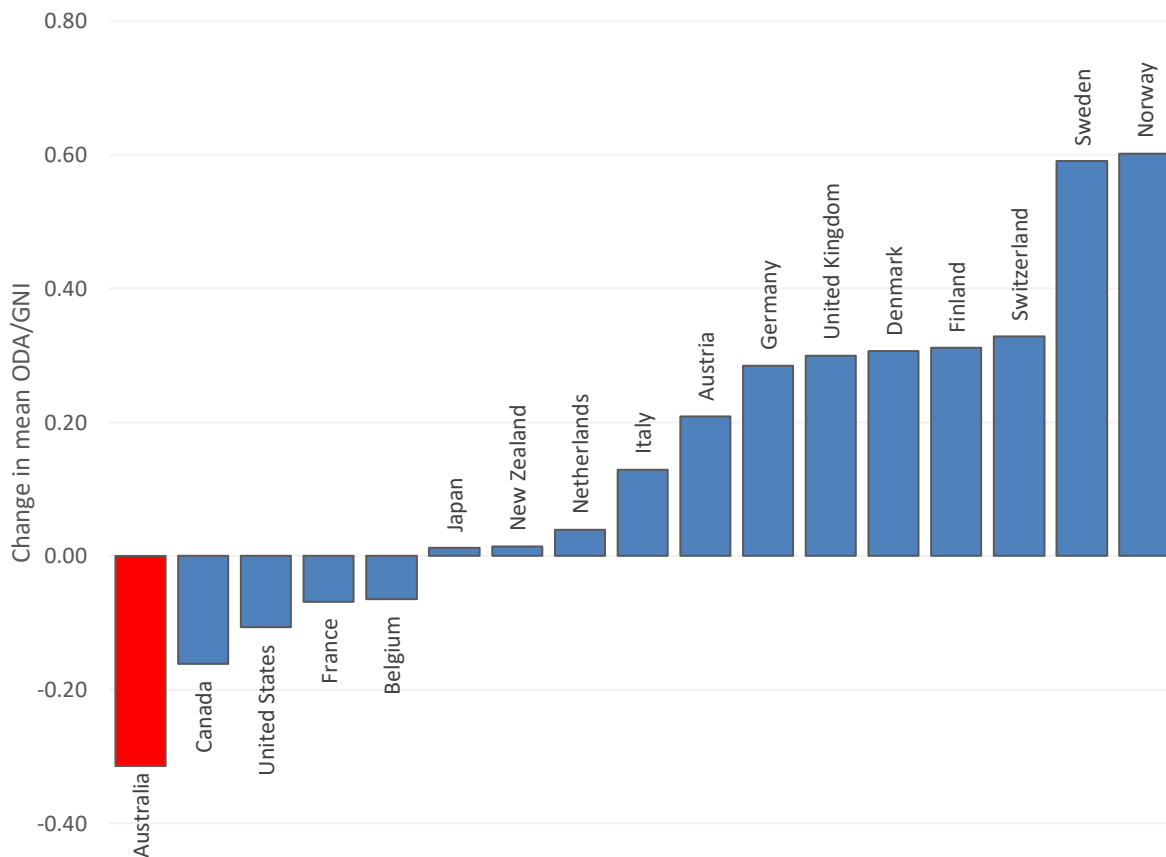
A further general relationship emerges from OECD DAC donor generosity data: in the medium term, most aid donors become more generous over time (that is, most tend to give a higher share of GNI as ODA now than they did in preceding decades). This stands to reason: all of the countries that were OECD DAC members in the 1970s are more affluent in GDP per capita terms than they were in the 1970s. And, as we have just seen,

in a cross section more affluent countries tend to be more generous donors. Presumably then, as countries become more affluent, they will also tend to become more generous.

Figure 5 provides a sense of the extent to which different OECD DAC donors have become more or less generous (in terms of ODA/GNI) since the early 1970s. The chart shows fewer donors than the previous chart as there were fewer members of the OECD DAC in the 1970s. The chart compares two five-year averages: each country's mean ODA/GNI from 1970 to 1974 and its mean ODA/GNI from 2015 to 2019. The older average has been subtracted from the more recent to provide the measure of change. Five-year averages were chosen to reduce the risk that countries' scores were heavily influenced by idiosyncratic years.

In line with expectations, most donors have become more generous. Australia, however, is among a small group that have not. Worse than that, no other DAC donor has seen its aid generosity fall as much as Australia since the early 1970s.

Figure 5: Change in ODA/GNI, 1970–74 mean compared to 2015–19 mean



Note: Data from OECD.Stat, Table 1.

Producing this chart required a number of methodological judgement calls. However, our analytical findings regarding Australia remained similar when different approaches were tried. In the analysis presented here, we used OECD DAC data because it provided comparable information for all DAC donors. The Development Policy Centre's timeseries of Australian ODA/GNI differs from the OECD's in years pre-1985. So, as a robustness test, we used Development Policy Centre data for Australia. When we did this, Australia still performed the worst of the studied donors. Australia also performed worst if three-year averages were used instead of five-year averages. Australia performed worst again when a simple comparison between earliest and most recent years was made. As a further robustness test, we ran an alternate comparison using linear estimates of trends from OLS regression models in which time was the independent variable to capture changes in generosity. Using this approach, Australia remained the worst performing donor. In the analysis presented here, we used 1970 as the start year for our analysis as data pre-1970 tend to be less reliable. When we extended the timeseries back to 1960, Australia was no longer the worst performing donor; however, it remained in a group of only four donors that had seen their Aid/GNI ratio fall since 1960.

4. What is Australian aid spent on?

4.1 Where is Australian aid spent?

Figure 6 shows the amount of Australian “country and region-allocable” aid provided since 1990, broken down by region. Not all aid is country or region allocable: some is provided to multilateral organisations without a stipulation that it be spent in a particular place. Other aid, such as general administration costs, is also not allocated to specific places. These types of aid are excluded from the chart. For this reason, the totals in Figure 6 differ from those in Figure 1. Nevertheless, a familiar overall pattern of rise and fall can be observed in the chart. Note that DFAT has not provided planned regional allocations for the new but not budgeted ODA increase for 2020–21 described above. We have estimated regional allocations for this new spending based on past allocations.

Four points stand out from the chart.

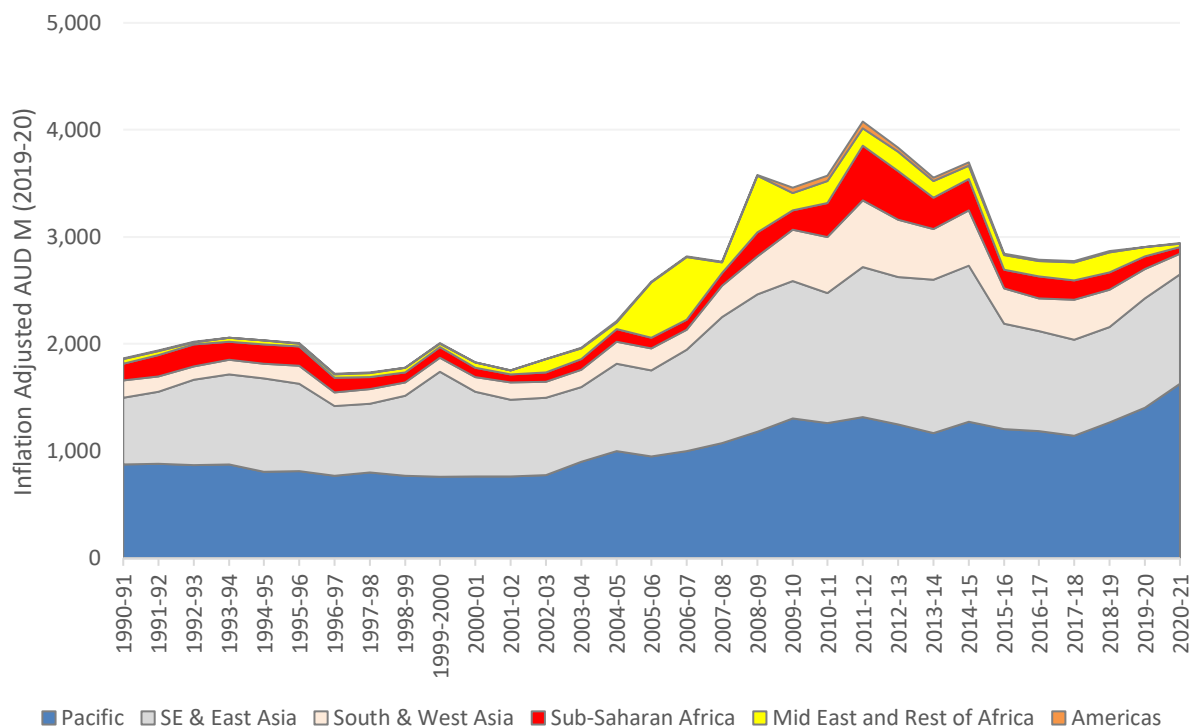
First, although aid to the Pacific rose somewhat in the years of rapid aid growth starting around the turn of the millennium, and also fell somewhat in the era of aid cuts ushered in in 2013, the proportionate changes were modest. In particular, the Pacific was insulated from the 2013 cuts.

Second, South East and East Asia (a DFAT grouping that predominantly includes countries more typically referred to as ‘South East Asia’) did well from the aid increases, but – unlike the Pacific – saw aid fall rapidly in the period of cuts.

Third, Sub-Saharan Africa, and South and West Asia, did particularly well (in a relative sense) during the years of the Rudd and Gillard governments up until 2011–12, but then saw their fortunes fall.

Fourth, since 2017–18, aid to the Pacific has increased again. Aid to East and South East Asia has also increased, although the increase is smaller.

Figure 6: Regional focus of Australian aid over time



Note: Values are in million AUD. Data up to and including 2017–18 come from the DFAT Greenbook. More recent years come from DFAT budget night releases. New ODA in 2020–21 has not been regionally allocated in budget documents. As a result, we have estimated its split between Timor-Leste (in SE Asia) and the Pacific based on the relevant split in allocations in recent years.

A major driver of changes in the absolute amount of aid various regions receive has obviously been change in the overall aid spend. However, this alone does not explain the relative waxing and waning of regional fortunes.

Some of this relative change stems from oddities: the large increase in spending in the Middle East in 2008–09, for example, is associated with Iraq, and may stem from debt write-offs.

Other changes reflect the ideals and views of influential politicians: the relative rise in aid to Sub-Saharan Africa in the years from 2007 onwards likely reflects the concern that Kevin Rudd and some other Labor MPs felt for the region. The fall in aid to Sub-Saharan Africa after 2011–12 is harder to square with this concern though. A possible explanation is that some of the rise in aid to Sub-Saharan Africa was driven by Australia's desire to win a seat on the UN Security Council, and once this was achieved the region became less important. It seems likely that some of the rise and fall in funding to South and West Asia may have also been driven by Security Council-related concerns. Although, in the case of this region, the rise started earlier, under the Howard government, and was driven to a considerable extent by aid to Pakistan and Afghanistan. Both of these facts point to the War on Terror as a likely contributing factor in spending growth.

One other important factor contributing to changes in regional aid distributions during the years of aid growth in the first decade of the new millennium was the belief that the Pacific was receiving as much aid as could effectively be absorbed. As a result, a number of influential aid analysts and decision makers were of the view that further aid increases would most effectively be channelled elsewhere (Hollway et al. 2011).

The prevailing view on whether more aid should be focused on the Pacific has, however, clearly changed. Since 2017–18 the Pacific's share of Australian aid has risen considerably. While an increased focus on the Pacific is not necessarily bad – a real need for aid exists in the region – the likely drivers of the increase are worrying. Recent increases do not appear to be primarily motivated by development concerns. Rather, a desire to offset China's influence in the region seems the most likely source of the increase. Such geostrategic giving on Australia's behalf is unlikely to help a region so dependent on development-oriented Australian engagement (Dornan 2018). Setting

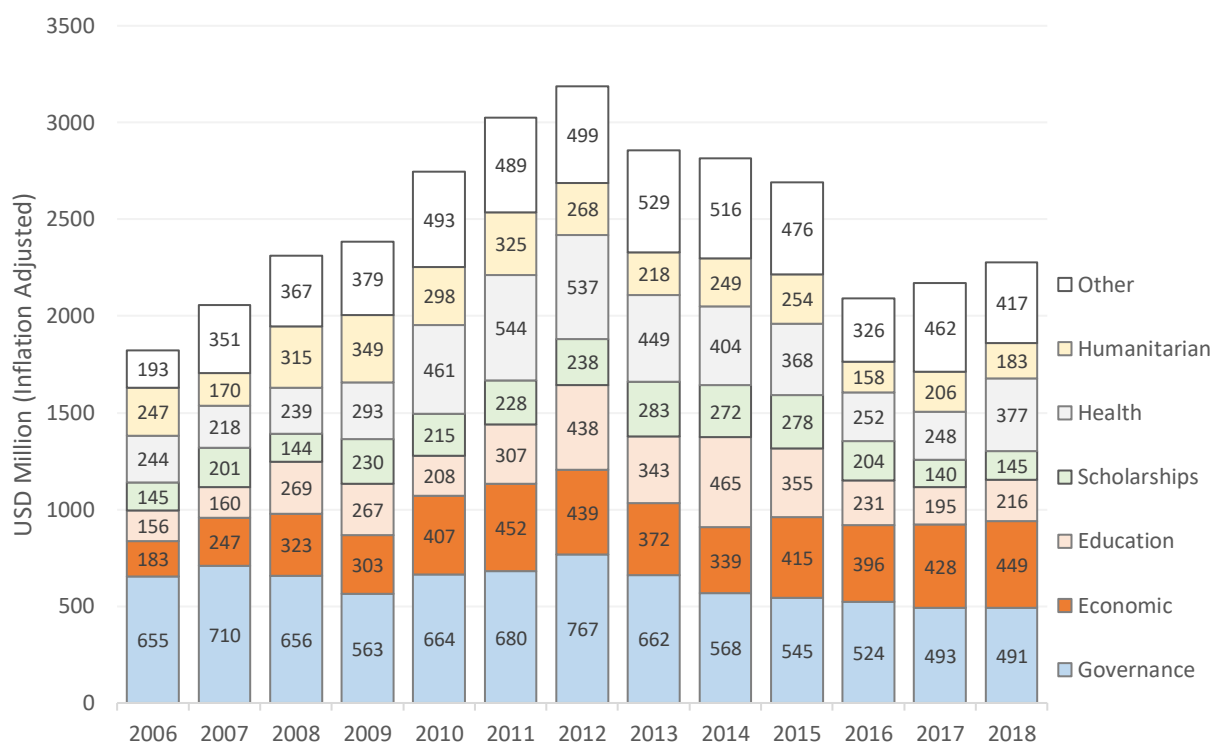
aside motives, it is noteworthy that the extent of Australia’s Pacific focus is now higher than at any point since the late 1980s.

4.2 What sectors does Australia focus on?

Figures 7 and 8 show Australia’s spending by sector. Readers should note that, unlike the two previous aid volume charts, volumes in Figure 8 are in US dollars, not Australian dollars. Because the data are in US dollars, relative exchange rates have an influence on trends over time. For this reason, trends in the totals across sectors do not map exactly to the trends shown in previous aid volume charts.

The two figures are based on a large project-level database that we built using underlying project data from OECD CRS. The sectors used here are aggregated from more detailed sectors in the source data. (In the [online data](#) we show how we have mapped sectors.)

Figure 7: Australian ODA by sector in inflation-adjusted USD (millions)

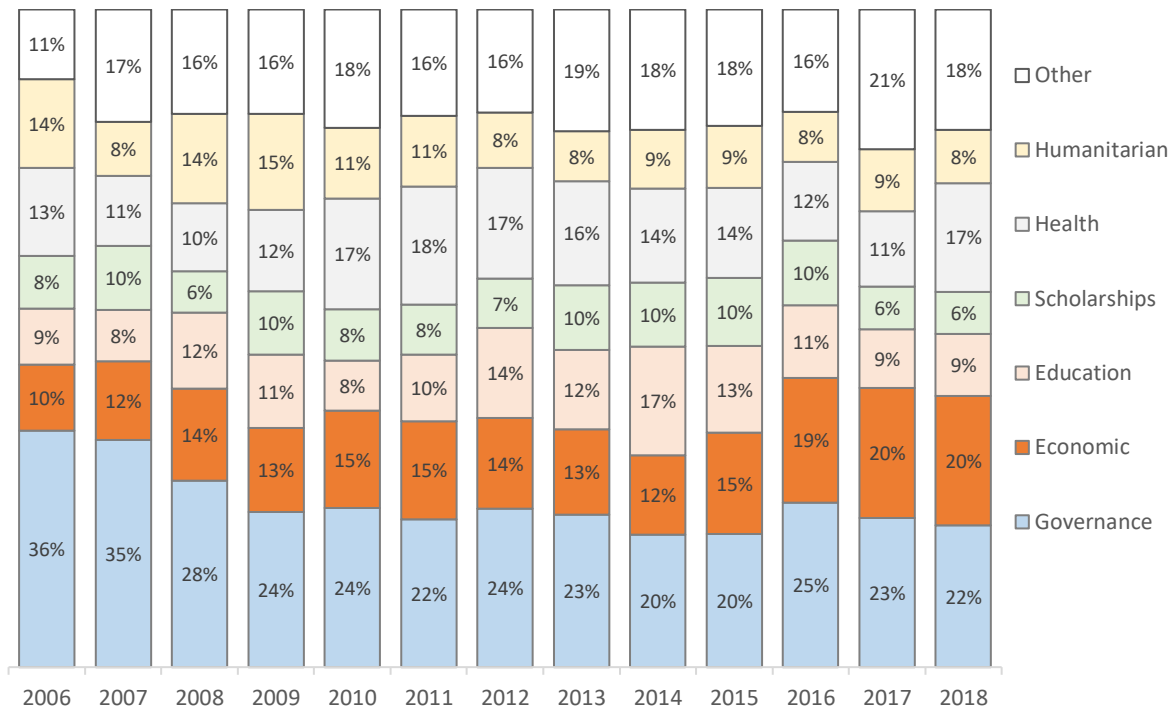


Note: Values are in USD. Data are from OECD CRS. <https://stats.oecd.org/Index.aspx?datasetcode=CRS1>

Because the data are based on CRS, the dataset only extends as far back as 2006. The key benefit of using CRS data is that it allowed us to attempt to identify aid spent on scholarships (which are typically, but not always, for tertiary study). As can be seen, at

least as per reported data, at times scholarship spending has been as large all other Australian aid spent on education. Unfortunately, as we discuss in the section on scholarships, it is difficult to perfectly identify aid devoted to scholarships. Nevertheless, the approximate estimates we have here are sufficient to afford a good sense of the role of scholarships amongst Australia’s portfolio of sectoral spending.

Figure 8: Australian ODA by sector (%)



Source: OECD CRS.

Three points of note emerge from the charts.

First, Australia had a heavy governance focus at the start of the period. This has slowly waned, due first – during the years of the last Labor government – to an increased focus on education and health, and now – under the Coalition – as a result of an increased focus on economic development.

Second, funding to education has fallen considerably under the Coalition. This is true whether scholarships are included in education spending or not. Unlike in neighbouring New Zealand (Wood 2020), there is no evidence that aid to scholarships has crowded out other forms of education aid. However, aid to primary and secondary education has fallen nonetheless, dropping eight percentage points from 2014 to 2018. While good arguments

can be made for focusing more aid on economic development, in our view, such a marked fall in education spending is not ideal, particularly given Australia's core aid focus on the Pacific, a region where basic education outcomes are concerningly low (Jarvie 2020).

Third, aid to health fell considerably from 2013 to 2017, a trend which in our view now looks particularly unfortunate given the COVID-19 pandemic. However, the fall in health spending was offset to a considerable degree by increases in 2018.

Because 2018 is only a single year, there is always the chance that this increase is a one off. Yet, when we made use of individual project-level data on health in 2018 to examine the source of the growth, we found no spending of the sort that would be indicative of a one-off change. Australia made some significant multilateral contributions in health in 2018. However, the bulk of the growth came from smaller projects, and included both increases in existing projects and new projects. Moreover, analysis of Australian aid budget documents, which provide information on more recent years than is available in the OECD data, point to an additional year with increased health spending (Department of Foreign Affairs and Trade 2019a). This would seem to speak of a change in funding priorities, although more time will be needed before we know how enduring the change will be. (Presumably the odds of it enduring will now also be higher owing to COVID-19).

Table 1 draws on OECD.Stat data and ranks the share of Australian aid devoted to health, economic development, and governance amongst the 29 DAC donors. Ranks come from percentages devoted to each sector averaged over the years 2016–18. Owing to difficulties associated with the different ways donors report scholarships, Australia's education rank is not included. Lower scores denote a higher relative focus compared to other donors.

Australia has a comparatively high focus on governance relative to its OECD DAC peers, although it is not an outlier. Australia is tied with a group of donors whose relative focus on economic development is at the same level as the median donor. Only in health does Australia fall below the typical donor, although once again it is not an outlier.

Table 1: Australia’s rank in relative sectoral focus

Sector	Rank out of 29, descending
Economic	16
Health	18
Governance	6

Notes: From OECD.Stat. <https://stats.oecd.org/Index.aspx?datasetcode=TABLE5>

Because Australia is not an outlier in its focus on these sectors, and given no single sector has completely dominated aid spending in recent years, it seems fair to conclude that Australia’s sectoral spread is reasonably well-balanced, although in our view, falls in health and education are concerning.

4.3 Gender and women’s empowerment

A focus on gender and women’s empowerment was given particular prominence by former Foreign Minister Julie Bishop. The best available data on aid for women’s empowerment comes from Australia’s reporting the OECD.³ Although, women’s empowerment may seem like a sector, the issue is treated as cross-cutting by OECD DAC donors, reflecting the fact that projects designed to empower women can be implemented in different sectors.

There are two limitations to OECD data on aid for women’s empowerment. First, changes in reporting mean that data can only be used from years since 2011. Australia also adopted a different (improved) approach to reporting in 2018, meaning comparisons between 2018 and earlier years should be treated with caution. Second, the data are based on donor self-reporting, which introduces an element of subjectivity.

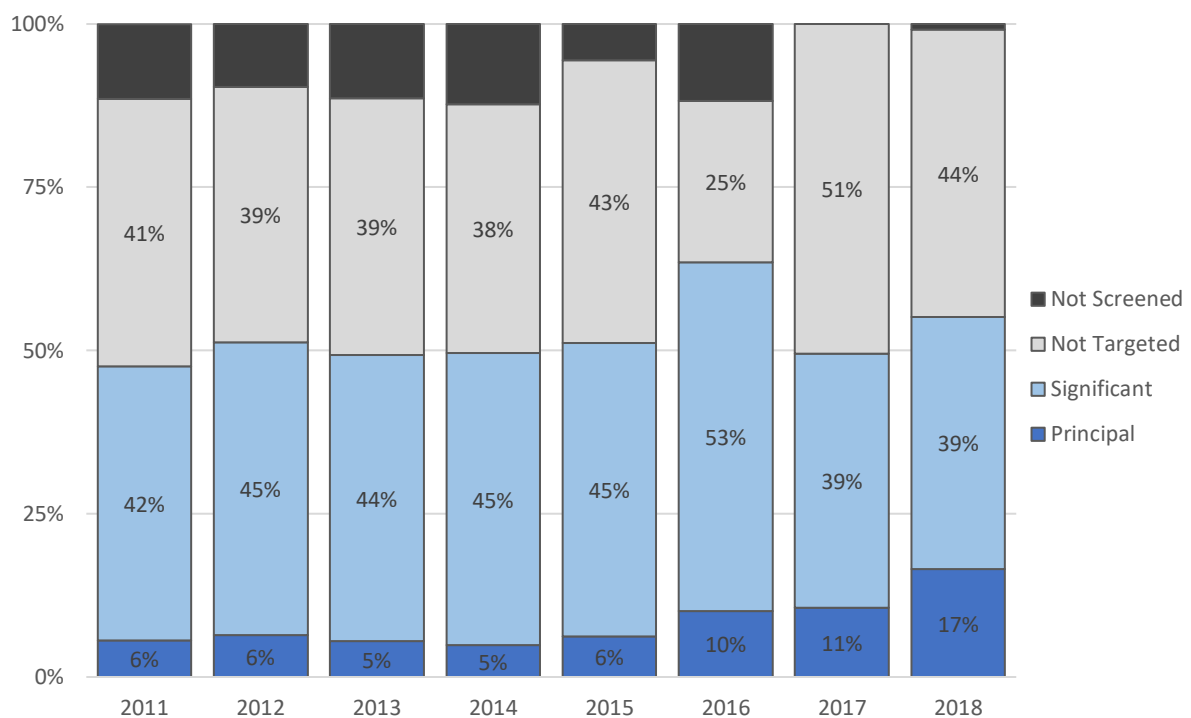
Figure 9 shows change over time in Australian aid focused on gender equality. It shows the proportion of aid that falls into four different categories: ‘principal’, in which promoting gender equality was a central objective of the work; ‘significant’, where gender equality was an important objective, but not the principal reason for undertaking the project; ‘screened, not targeted’, in which promoting gender equality was not an objective; and ‘not screened’, which pertains to activities that were not assessed for their

³ Data on spending gender equality are also available on the DFAT website. However, OECD data allow exact comparisons between donors. For this reason, OECD data have been chosen.

gender focus. Aid that cannot be tied to specific undertakings such as administrative spending and core contributions to multilateral organisations is excluded from the assessment. Owing to the aforementioned subjectivity in reporting, and the more stringent criteria associated with the principal marker, the principal marker is generally considered the most reliable indicator of gender focus.

As Figure 9 shows, the share of Australian aid with a principal focus on gender has increased. As noted above, in 2018 DFAT changed its approach to reporting on gender. This means that 2018 is not strictly comparable to 2017 and earlier years. However, the gender focus of Australian aid shows a trend of increase even with 2018 excluded.

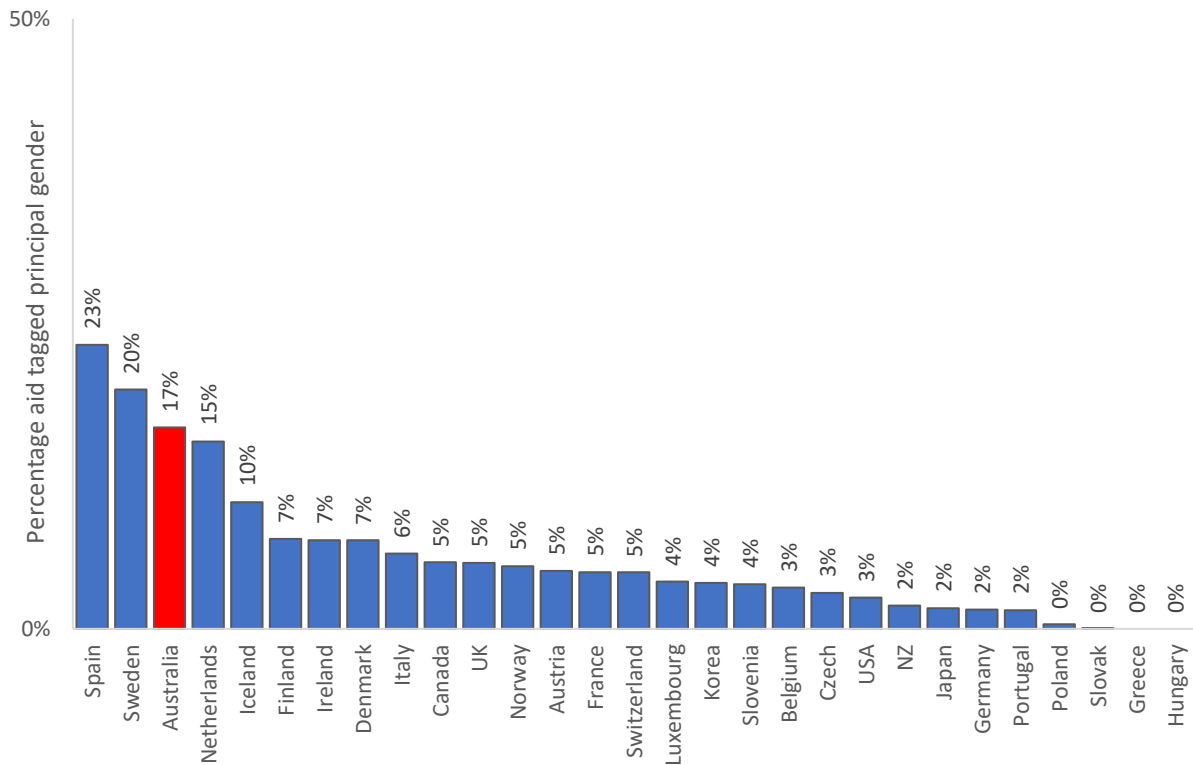
Figure 9: Australia self-reported gender focus over time



Source: OECD CRS. https://stats.oecd.org/Index.aspx?DataSetCode=DV_DCD_GENDER#. Note that, as per the text, there are some comparability issues between 2018 and 2017.

A consequence of the increase can be seen in Figure 10: by 2018, Australia was one of the OECD DAC donors with the highest share of spending devoted to activities that have a gender as a principal focus.

Figure 10: Principal gender focus, DAC donors in 2018



Source: OECD CRS.

4.4 Climate change adaptation

Climate change is a major development issue globally. Adapting to the effects of climate change is a particularly pressing development challenge for the countries of the Pacific – the region that receives the bulk of Australian aid. OECD aid data provide a gauge of the extent to which Australia focuses its aid on climate change mitigation (helping countries reduce greenhouse gas emissions) and adaptation (helping countries adapt to the effects of climate change). Although OECD countries such as Australia need to engage in mitigation – reducing their own greenhouse gas emissions – as a matter of urgency, many of Australia’s aid recipients are not large emitters themselves. For these countries, adaptation is a more pressing issue, at least in terms of aid spending (Betzold 2016). Accordingly, in this section we focus on climate change adaptation.⁴ For reasons of data availability, we also limit our focus to Australia’s bilateral ODA alongside aid given to

⁴ Australia scores poorly on climate change mitigation spending. From 2016 to 2018 an average of 1.5% of Australian aid was targeted as principal for climate change mitigation. In 2018, Australia’s focus was well below the best donors and below the median donor too.

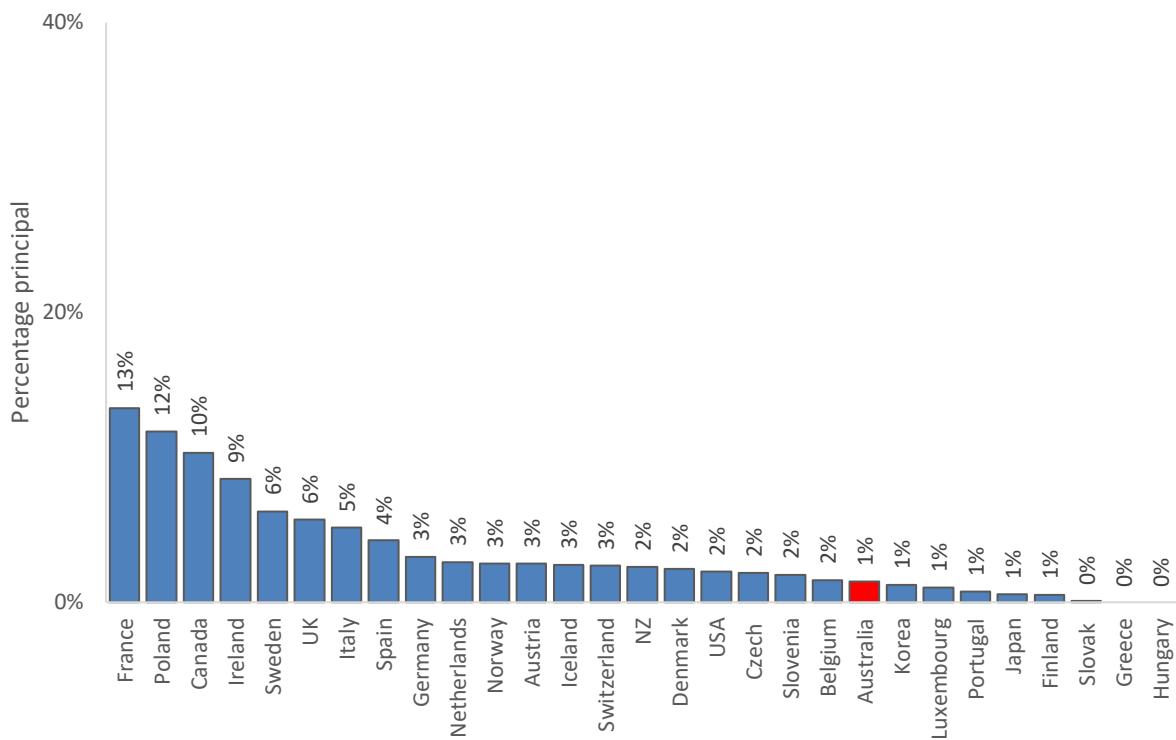
multilateral partners for specific projects. This means we exclude Australia's core contributions to multilateral organisations ('core' meaning contributions not earmarked to specific work). Readers with an interest in Australian Government's imputed estimates of the extent to which its core multilateral contributions have a climate change focus are directed to Australia's UNFCCC reporting. Readers with an interest in Australia's non-ODA work on climate change should also refer to these reports. (For the most recent report see: Department of Environment and Energy 2019).

As with gender and women's empowerment, climate change is not a sector in OECD data. It is a crosscutting issue for which projects can be targeted as principally focused, significantly focused, not focused or not assessed. To be considered principally focused on climate change adaptation, adaptation must be, "fundamental in the design of, or the motivation for, the activity". To be significantly focused, climate change adaptation must be, "explicitly stated but...not [be] the fundamental driver or motivation for undertaking and designing the activity." (OECD DAC 2016, p. 2). As with gender, there is some subjectivity in reporting, particularly regarding the significant marker (Weiler et al. 2018).

Figure 11 compares Australia with OECD DAC donors based on ODA focused on climate change adaptation. The figure focuses on the principal marker because the principal marker more accurately captures a specific project focus on adaptation (Weiler et al. 2018). Australia is well below the best performing OECD DAC countries, below the median, and towards the tail.

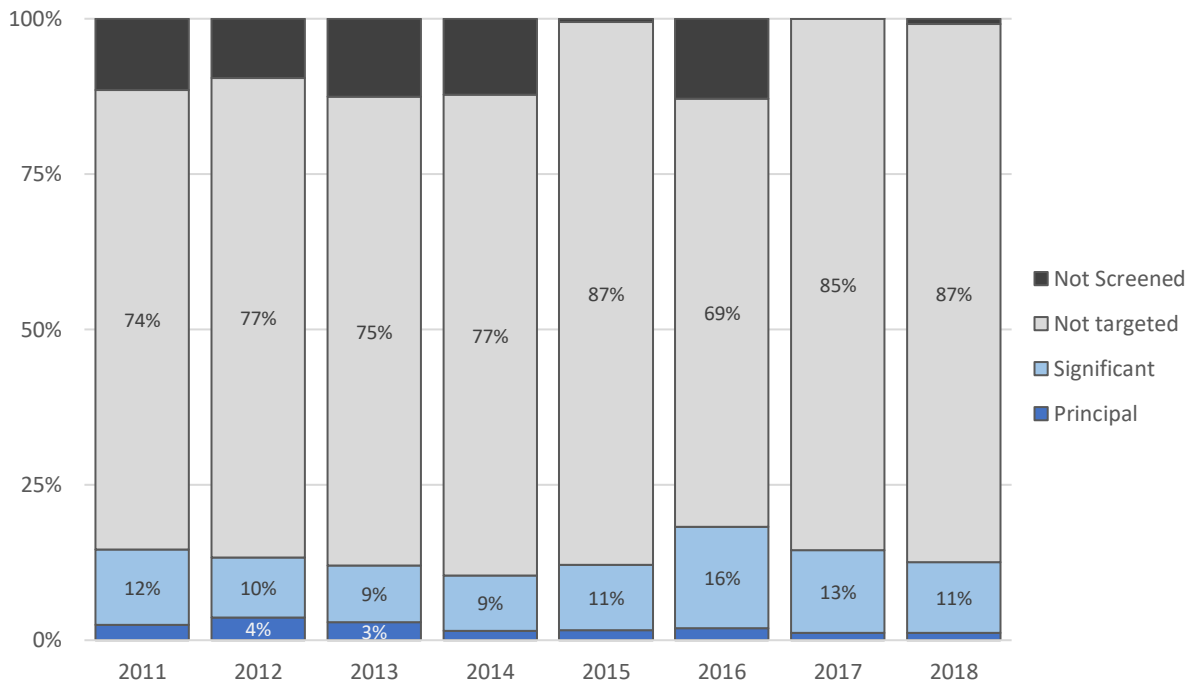
Figure 12 shows the reported climate change adaptation focus of Australian aid in OECD data from 2011 to 2018. Figure 12 includes both principally and significantly focused bilateral ODA. A larger share of Australian bilateral ODA goes towards projects that have climate change as a significant focus. If projects with a significant focus are included in international comparisons, Australia is close to the median donor. However, as can be seen in Figure 12, there is no trend in increase in either the principal or significant focus.

Figure 11: Principal climate change adaptation focus (2016–18 averages)



Data source: OECD CRS <https://stats.oecd.org/Index.aspx?DataSetCode=RIOMARKERS#>

Figure 12: Climate change adaptation focus, time series

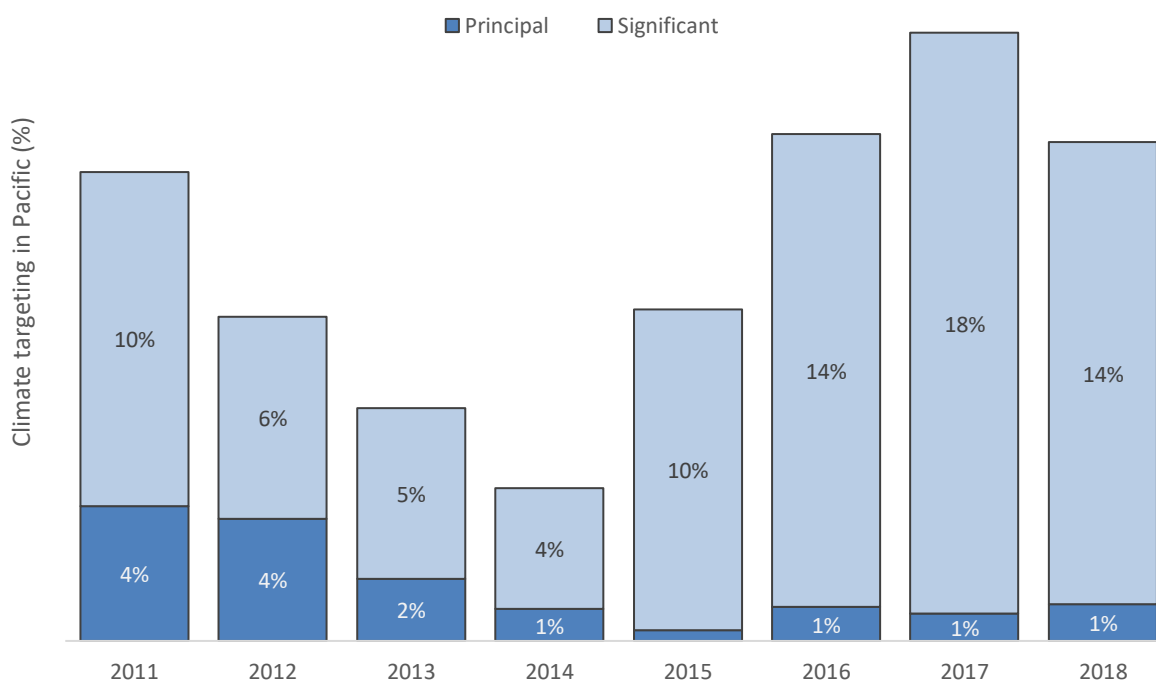


Data source: OECD CRS <https://stats.oecd.org/Index.aspx?DataSetCode=RIOMARKERS#>

Figure 13 shows the share of Australian ODA to the Pacific that is either principally or significantly focused on climate change adaption. Core contributions to multilateral organisations are excluded. The share of projects with climate change as a significant focus increased from 2014 to 2017. The importance of this trend is difficult to gauge, however, owing to issues associated with the significant marker.

We audited Pacific projects tagged as having a significant climate change focus in 2018. The largest projects were three to do with governance in Papua New Guinea (including one on macroeconomic policy). From the information available on CRS, none of the projects were clearly related to climate change, nor were they projects where the importance of accommodating climate change adaptation was obvious. DFAT’s Climate Change Action Strategy (Department of Foreign Affairs and Trade 2019b) states an intent to mainstream climate change into ODA work, and we found other projects where it was obvious how climate change adaptation could be integrated into the work. Yet, the results of our audit suggest that the significant marker cannot always be taken as reflecting a meaningful engagement with climate change adaptation in the Pacific.

Figure 13: Australia’s Pacific climate change adaptation focus over time



Data source: OECD CRS <https://stats.oecd.org/Index.aspx?DataSetCode=RIOMARKERS#>

Setting aside a significant focus on climate change, the share of Australian aid that is principally focused on climate change adaptation in the Pacific – aid directly focused on helping countries adapt – is low, and has fallen over time.

5. Aid pathways

Choosing the mechanisms or organisations that aid is given through is an important aspect of donor practice. Although no type of organisation is obviously best, the extent to which different approaches are favoured or neglected provides useful information on aid priorities.

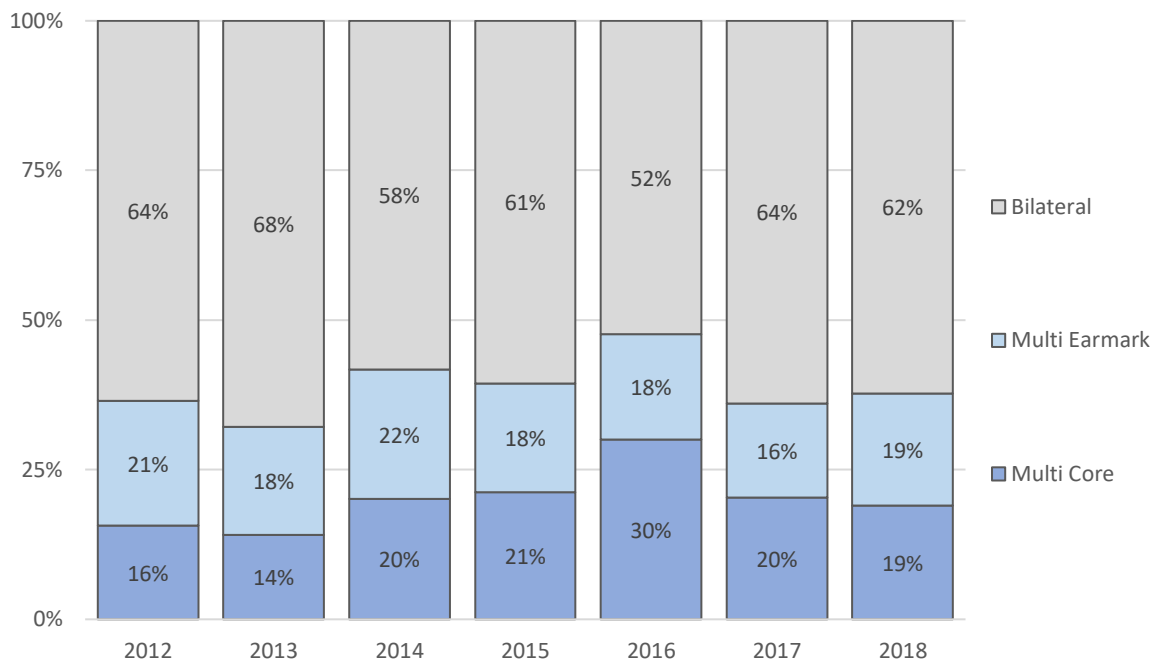
5.1 Use of the multilateral system

One important path that ODA flows along between donors and recipients is multilateral organisations. These are organisations such as the World Bank, the World Health Organization, the United Nations Development Programme, and the Global Alliance for Vaccines and Immunization. Although multilateral organisations have their critics, they are a key part of the development assistance system. Over the years from 2016 to 2018, the median OECD DAC donor gave just over half their aid via the multilateral system.

Figure 14 shows the share of Australian aid given via multilateral organisations (alongside bilateral aid, which is not given via the multilateral system). The figure comes from Australia's reporting to the OECD. Readers should note that DFAT Greenbook data differ from OECD data somewhat. (For analysis of DFAT data see: Howes 2020a.) The Multilateral aid shown in Figure 14 is broken down into aid that is earmarked (given to organisations for specific projects or work in specific countries) and core funds given to organisations to spend as they choose. The chart only spans as far back as 2012 as comparable data are not available for earlier years.

There is no clear trend in the chart. There appears to be a 'bump' in use of the multilateral system around 2016. This was a period of major cuts to Australian aid. It is likely the share of aid to multilateral organisations increased during this time of falling overall aid because of pre-existing commitments to some multilateral organisations, as well as a desire to protect important multilateral partners.

Figure 14: Share of Australian aid given bilaterally or via the multilateral system



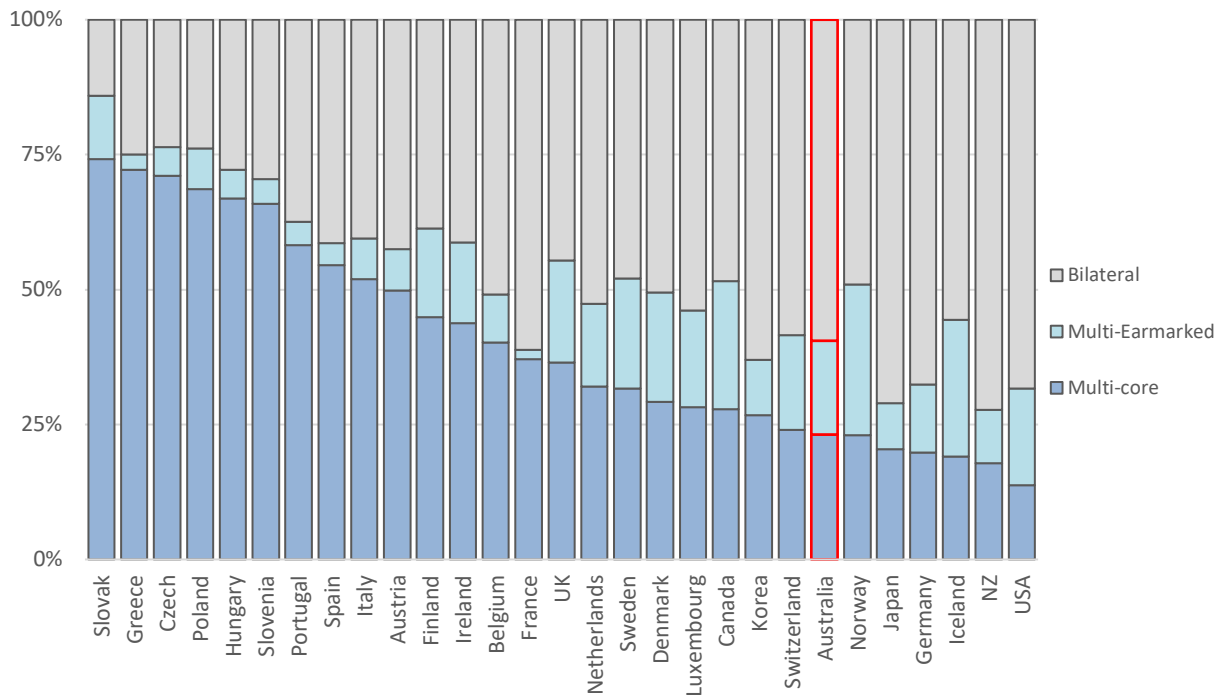
Data source: OECD CRS <https://stats.oecd.org/index.aspx?datasetcode=MultiSystem#> and calculations based on additional data in OECD.Stat Table 1

Figure 15 is based on average use of the multilateral system from 2016 to 2018 and shows Australia compared to other DAC donors. Overall, compared to its DAC counterparts, Australia makes limited use of the multilateral system. When earmarked and core contributions are compared separately Australia is ranked 10th highest (out of 29) in terms of earmarked contributions, but only 23rd out of 29 in core contributions.

Table 2 shows the 15 largest multilateral recipients of total Australian contributions over the years 2016–2018. The World Bank was by far the largest recipient, although Australian contributions to the organisation are now set to fall (Howes & Surandiran 2020).

The World Health Organization, Global Alliance for Vaccines and Immunization, and the Global Fund to Fight AIDS, Tuberculosis and Malaria together received nearly US\$300M. This is a substantial investment, although still a long way behind the funding given to the three largest recipients.

Figure 15: Bilateral and multilateral aid, donors compared (2016–18 averages)



Data source: OECD CRS and calculations based on additional data in OECD.Stat Table 1

Table 2: The top 15 multilateral recipients of Australian ODA 2016–18 (USD)

Organisation	Contributed 2016–18 (USD M)	% of all Australian multilateral funding
World Bank Group (WB)	\$1,049	26.5%
Asian Development Bank	\$550	13.9%
Asian Infrastructure Investment Bank	\$526	13.3%
United Nations Development Programme	\$206	5.2%
World Food Programme	\$185	4.7%
World Health Organisation	\$112	2.8%
Global Alliance for Vaccines and Immunization	\$106	2.7%
Green Climate Fund (sometimes via UNFCCC)	\$100	2.5%
United Nations Children’s Fund	\$95	2.4%
UN Women	\$90	2.3%
Global Fund to Fight AIDS, Tuberculosis and Malaria	\$72	1.8%
Secretariat of the Pacific Community	\$62	1.6%
UNHCR	\$58	1.5%
UNRWA	\$49	1.2%
UNOCHA	\$45	1.1%

Note: Values are in million USD. Data are from CRS. Percentages do not total to 100 as this list includes only the top 15 organisations.

5.2 Funding through NGOs

Non-Governmental Organisations (NGOs) are an integral part of the global aid system. NGOs possess a range of strengths including the ability to work in areas or environments where larger organisations cannot, and their potential to link citizens in donor countries into the broader aid and development process.

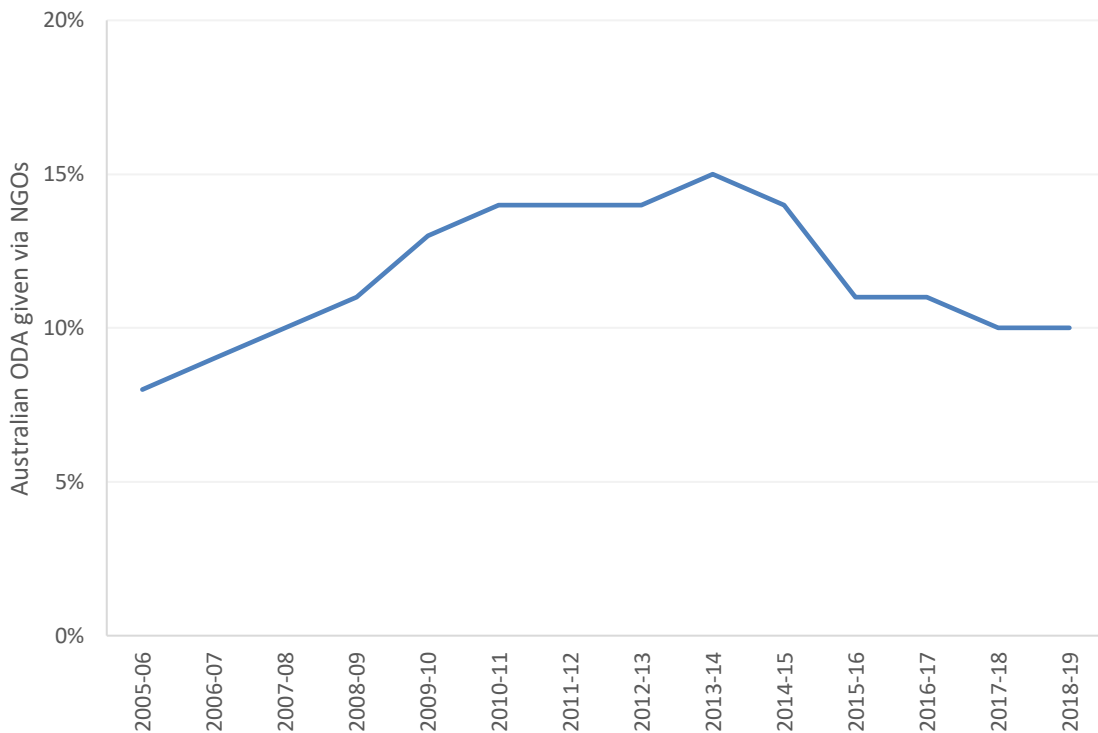
NGOs include both large international federations, organisations that focus on a single country, organisations that raise all of their funds from Australia, and organisations based in developing countries. While many NGOs raise the bulk of their funding from private donations, a non-trivial portion of Australian government aid is given via NGOs.

Information on Australian government aid given via NGOs can be found in the OECD system. However, there were odd patterns in Australian data both in OECD.Stat and CRS. For this reason, we chose to work from two other sources.

The first source was information provided to us by the Australian Aid Program, which shows the share of Australian government aid that has been given via NGOs (including international organisations, organisations based in Australia and organisations based in aid-recipient countries). This information is plotted in Figure 16. The information should be read as approximate only (see the note under the chart), nevertheless it is clear that NGOs as a group have suffered a relative reversal of funding fortunes.

The share of Australian aid given via NGOs increased first under the Howard government and then under the subsequent Labor government, but has subsequently fallen considerably post 2013.

Figure 16: Share of Australian ODA given via NGOs

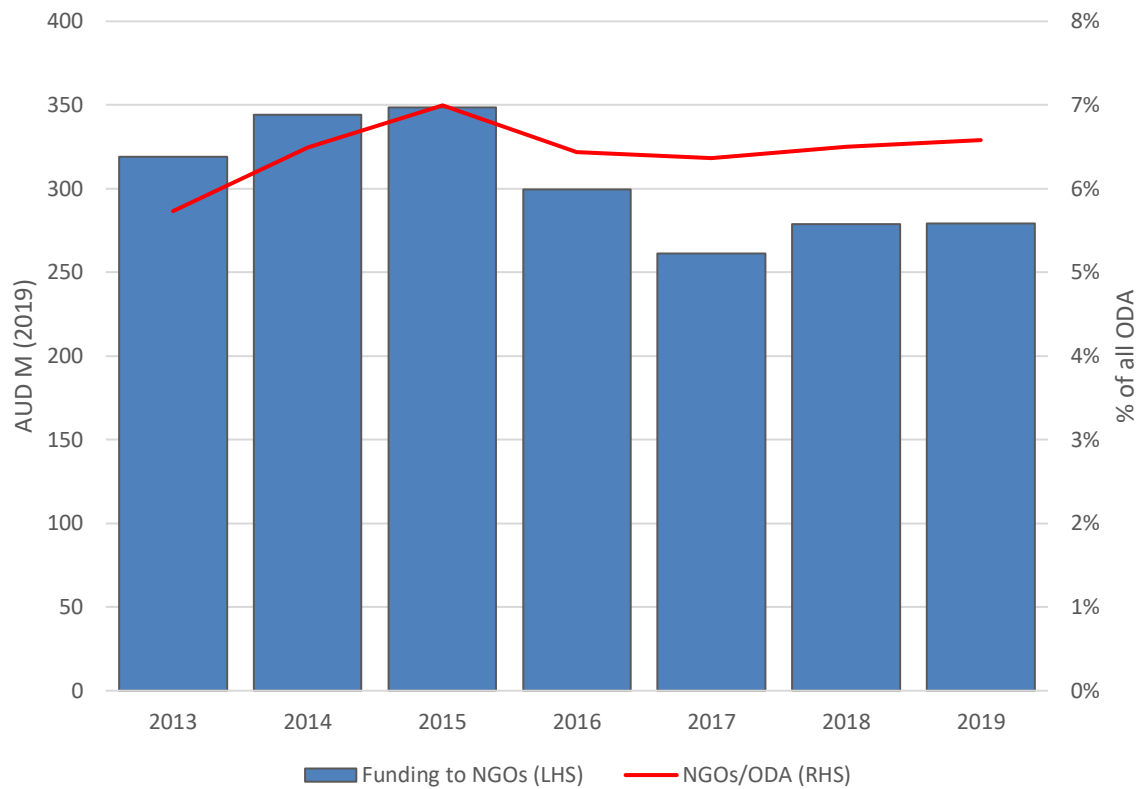


Data source: Data provided by DFAT. Estimates based on DFAT funding agreements with NGOs. Funding may be greater if additional sub-contracts were included.

The next chart, Figure 17, shows the absolute amount (in inflation adjusted terms) as well as the share of total aid given via an important subset of NGOs – those based in Australia. In particular, the group is comprised of NGOs that are members of the Australian Council for International Development (ACFID): the peak body for Australian Development NGOs.

Although not all of Australia’s development NGOs are members of ACFID, almost all Australian development NGOs that are eligible to receive government aid money are ACFID members. As such, the chart provides a useful estimate of trends in Australian government aid flows given via NGOs that are based (or which have federation members based) in Australia. Once again, the numbers are only approximate. While ACFID performs an important service in aid transparency by gathering data from its members, reporting to ACFID is not guaranteed to be entirely complete. Nevertheless, the data are sufficient to give a good sense of trends. Australian ODA given via Australian NGOS has fallen in both an absolute and relative sense since 2015, an unfortunate outcome. Interestingly, the falls experienced by Australian NGOs appear to have been less dramatic than those experienced by NGOs more generally, possibly because of the proactive engagement from the Australian NGO community.

Figure 17: ODA funding going to Australian NGOs (ACFID members)



Data source: Values are in million AUD. Data come from ACFID for funding to member NGOs, OECD.Stat for ODA levels and the Australian Bureau of Statistics for inflation.

5.3 Scholarships

Most aid donors give at least some of their aid for the purpose of funding education scholarships. These scholarships are typically for tertiary study in the donor country. Scholarships often provide meaningful benefits to individual recipients, who may subsequently make important contributions, but scholarships do not generally target the poor and only directly affect a relatively small number of people. Donors' own discussions of scholarship programmes indicate that scholarships are often given at least in part for the geostrategic benefits that may accrue to donors from bringing young elites to study in the donor country (Department of Foreign Affairs and Trade 2020a; Negin 2014; Spratt & Wood 2018; Wood 2020).

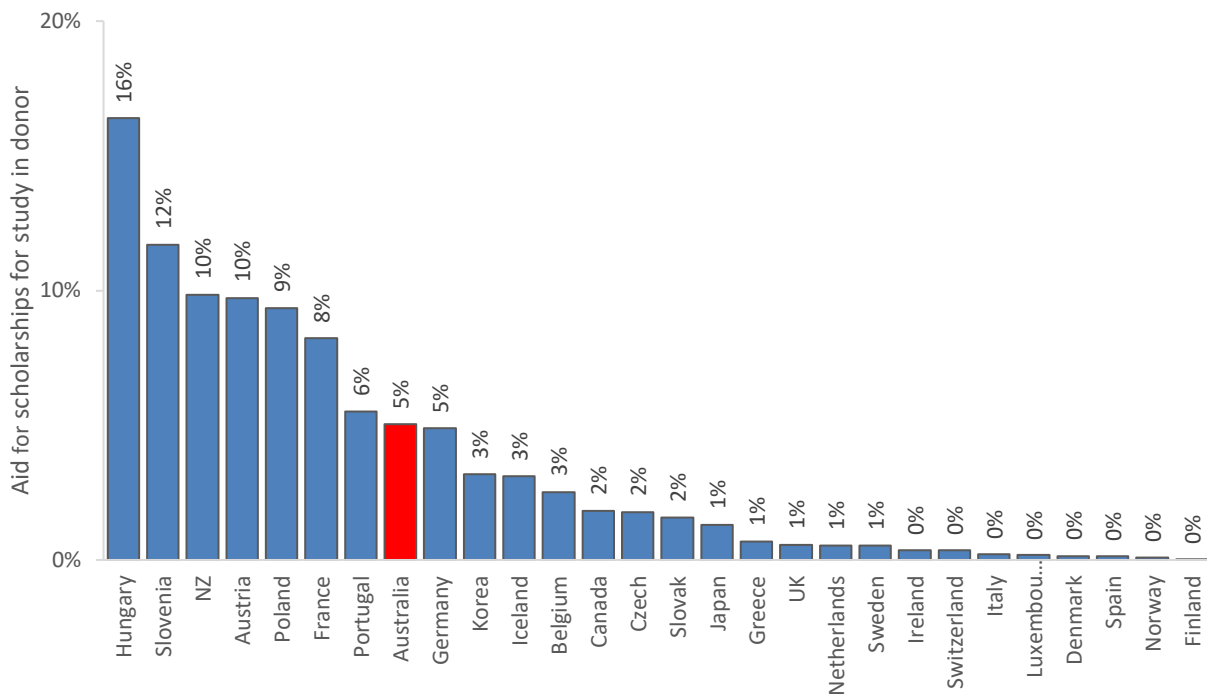
In Australia's case, a number of factors complicate analysis of scholarships.

First, not all Australian aid scholarships are given for study in Australia. Some, probably slightly over 10 per cent of spending, are given to fund Pacific students' tertiary study in the Pacific. (The 10 per cent figure is based on our calculations using numbers reported in, Department of Foreign Affairs and Trade 2020a.) Also, Australia provides a significant number of so-called "Australia Awards Short Term Courses" scholarships, which may be for study in Australia, but need not always be, although they must be provided by "an approved Australian higher education provider or an Australian Registered Training Organisation" (Department of Foreign Affairs and Trade 2020a, p. 5). Using some scholarships to help students from the Pacific study in Pacific institutions appears to be sound development practice. Such study is likely less costly than study in Australia, and the aid involved is not tied to spending in Australia. However, when donors report to the OECD they are only asked to identify scholarships for study in their (the donor's) country. This means that any analysis we undertake of OECD data on scholarship spending, while capturing the most problematic form of scholarship spending, will not capture all spending on scholarships.

Second, our auditing of 2018 CRS aid project data found a number of expenses that were clearly related to scholarships in Australia, which had not been coded as scholarships. To some extent, Australia is under-reporting spending on scholarships for study in Australia to the OECD. Unfortunately, owing to the complicating factors detailed above, it is not possible to gauge the extent of under reporting exactly.

Nevertheless, OECD data still provide some useful insights into Australia's use of scholarships as a form of aid, and in particular, in Australia's use of scholarships for study in Australia – the most problematic use. Figure 18 situates Australia within the context of other donors and is based on averages from 2016 to 2018. Even taking into account potential under-reporting on Australia's behalf, Australia is considerably more heavily scholarship focused than the median donor (which devotes 1.7 per cent of its aid to scholarships).

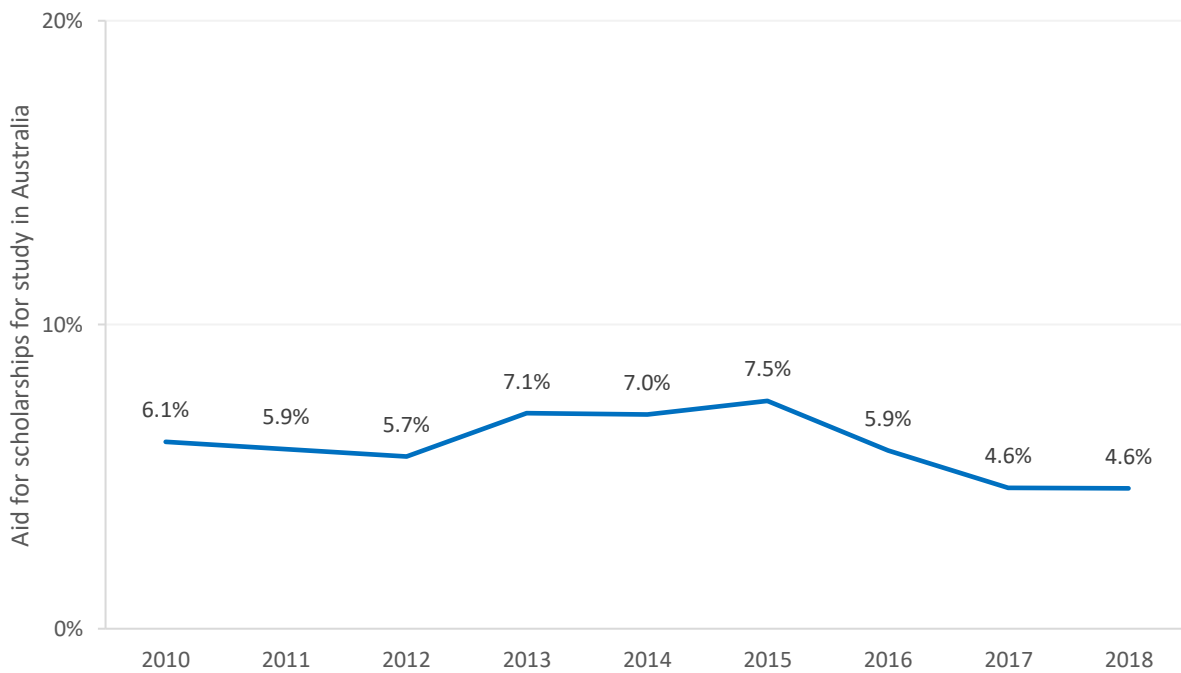
Figure 18: Scholarship spending as a percentage of total ODA (2016–18 averages)



Note: Data from OECD.Stat Table 1.

Figure 19 shows the percentage of Australian aid devoted to scholarships over time since 2010 (this year is chosen because it is the first year that reliable scholarship data started reported in the OECD.Stat dataset).

Figure 19: Scholarship spending as a percentage of total ODA, Australia



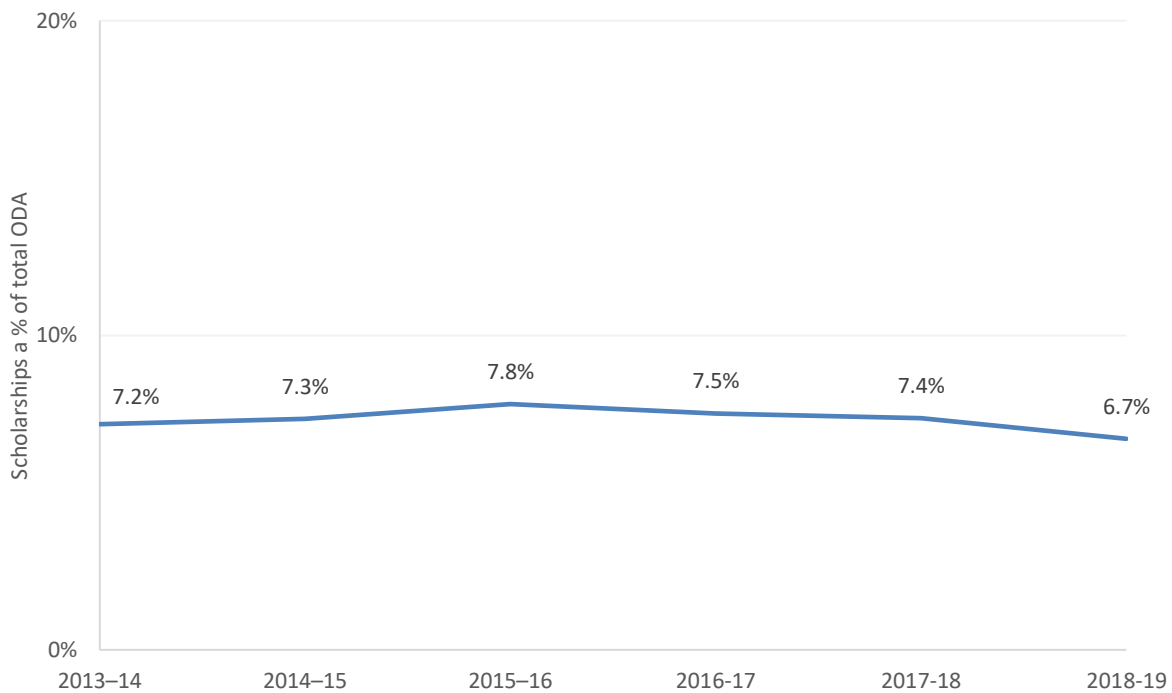
Note: Data from OECD.Stat Table 1.

Two clear trends emerge from Figure 19. First the share of aid focused on scholarships increased from 2012 to 2015. Second, there was a subsequent and notable decrease in scholarship focus, such that by 2018 the focus was clearly less than it was in 2010. However, caution is required in the chart's interpretation. The apparent rise in focus on scholarships from 2012 to 2015 likely stems from the fact that aid was cut heavily in this period, while, at the same time, it would not have been possible to cut scholarships as rapidly, owing to commitments made to students studying in multiyear programs. Also, the subsequent fall may stem from more Pacific students being funded to study in the Pacific rather than in Australia (a practice that would see them legitimately excluded from this chart). Plausibly, trends may also be driven by general under-reporting owing to the issue of some scholarship spending mistakenly being coded as non-scholarship-related when Australia reported to the OECD. (Although we did not have time to conduct a line by line audit across all years, a simple comparison of projects with the word "scholarship" in their description and projects coded as scholarships suggested the issue of miscoding may have become worse over time.)

In addition to using OECD data, we also drew upon DFAT data to investigate trends in total Australian scholarship spending (Department of Foreign Affairs and Trade 2020a, p. 3). Using DFAT data brought issues of its own. However, the data enabled us to get a better sense of scholarship spending across all scholarships (not just those associated with study in Australia). In theory, assuming coding problems in OECD data are not present in DFAT data, DFAT data ought to also afford a sense of actual trends in scholarship spending. Figure 20 shows trends in scholarship spending based on DFAT data.

Total spending on scholarships (as a share of overall aid) is slightly higher in the DFAT data, presumably as a result of the approximately 10 per cent of scholarship students studying in the Pacific. Trends in the DFAT data broadly match the trends in the OECD data, although the fall in scholarship spending is not as steep.

Figure 20: Share of Australian aid spent on scholarships, 2010–18

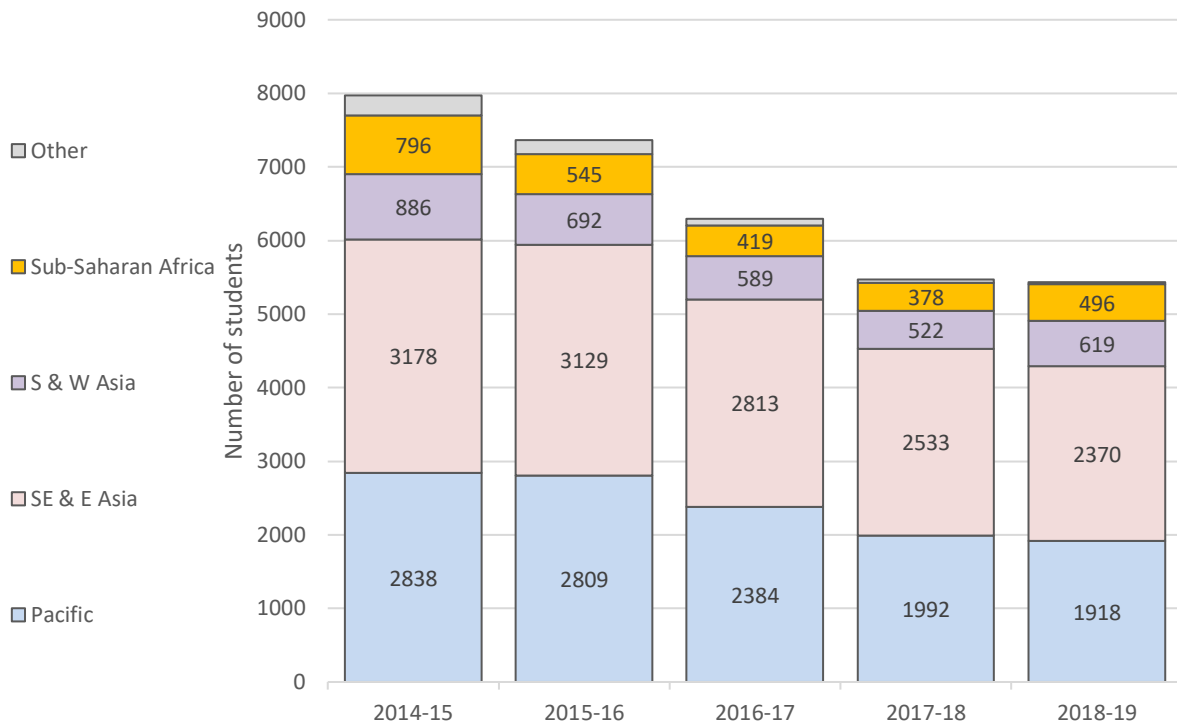


Data source: DFAT Australia Awards Statistical Profile <https://www.dfat.gov.au/sites/default/files/australia-awards-statistical-profile.pdf>

Finally, we drew on a different set of DFAT data to study trends. These data come from the DFAT Greenbook and show the number of scholarship students engaged in long-term study funded by Australian aid. This number appears to include both students studying in Australia and in the Pacific, but is limited only to students on long-term study programs. The timeseries starts at 2014–15, because notes in the original DFAT data suggest previous years’ data do not include scholars in the Pacific. The data are charted in Figure 21.

Throughout the period covered in the chart, there is a fall in student numbers broadly commensurate with the fall in the spending charts above. Note that the fall seems particularly pronounced in this chart as it is a chart of absolute student numbers, rather than percentage of spending, and so is not affected by the change in denominator associated with falling aid. Although we expressed concerns that reporting errors may have been driving the decreased focus on scholarships revealed in the OECD data, the presence of similar falls in DFAT’s data on spending and student numbers points to a genuine fall in Australian aid going to scholarships over time.

Figure 21: Australian scholarship students by region (total number of students)



Notes: Years prior to 2018–19 from DFAT Greenbook data (Table 16). 2018–19 data from Australia’s Development Assistance Statistical Summary 2018–19: <https://www.dfat.gov.au/sites/default/files/2020-01/australias-official-development-assistance-statistical-summary-2018-19.pdf>. In the Pacific, scholarship students include scholarships to study in Australia as well as AAPS students (who receive scholarships to study at universities in the Pacific).

6. Efficient and reliable giving

While numerous aspects of aid giving have an impact on whether aid is effective or not, many cannot be studied through analysis of aid flow data. However, aid flow data can afford insights into some important aspects of good aid practice. In this section we look at two of these: aid fragmentation and aid volatility.

6.1 Aid fragmentation

Aid fragmentation is the extent to which a country breaks its aid budget into separate portions. Everything else being equal, fragmentation will likely be detrimental to aid quality, necessitating increased overheads and transaction costs for both donors and recipients. For this reason, donors and recipients have committed to reducing aid fragmentation, through the Paris Declaration, the Accra Agenda for Action and the Busan Declaration (Gehring et al. 2017).

6.1.1 Fragmentation across recipients

Typically, aid fragmentation is discussed in terms of the extent to which donors fragment their aid across recipient countries. There are a number of ways to measure aid fragmentation of this sort. We draw on two methods here. The first is a simple count of the number of countries Australia gives aid to. This is an intuitive and easily understood measure. However, it has a major limitation, which is that it treats all recipients as equal contributors to fragmentation regardless of how much or how little aid they receive. For this reason, country counts are unlikely to wholly capture fragmentation (a few thousand dollars of Australian aid flowing to a country is unlikely to be as burdensome on either donor or recipient aid management as a few hundred million dollars). The second method that we use, the Herfindahl Hirschman (HH) fragmentation index, is a standard fragmentation measure and corrects for the limitations associated with a simple country count by weighting recipient countries based on how much Australian aid they receive (Gehring et al. 2017).

Figure 22 is based on OECD CRS data and runs from 2006 to 2018. The blue line shows the number of recipient countries. The red line tracks HH fragmentation. All measures are calculated with aid provided to humanitarian emergency responses excluded (such responses will be dictated in part by factors beyond Australia's control, in particular the number of disasters in given years). Aid to regions, rather than countries, is also excluded, as is aid that is not earmarked for specific recipient countries.

The period from 2008 to 2011 saw a particularly rapid increase in the number of countries receiving Australian aid. There is a commensurate, albeit less visibly striking increase in fragmentation as measured by the HH index over a similar period.⁵ In part, this increase appears to have stemmed from an increased focus on aid to Africa. The timing would also suggest that the Australian bid for the United Nations Security Council may have played a role as Australia used aid to enhance its international image.

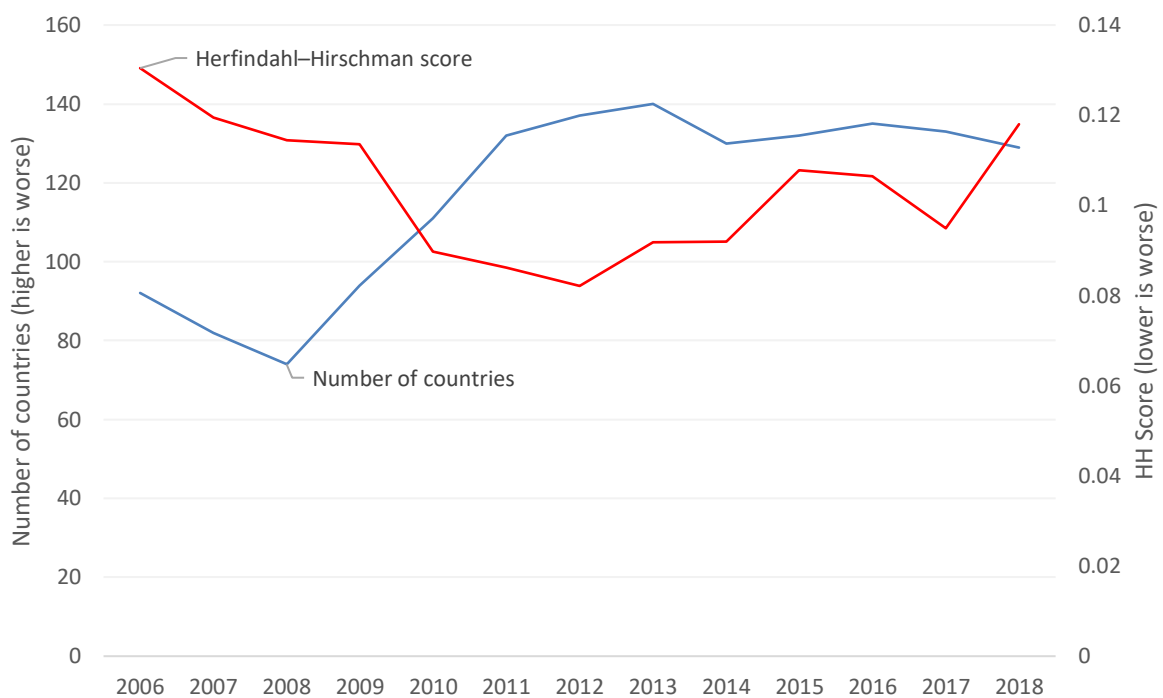
The changes post 2013 are interesting. Under the new Coalition government aid was cut. This period of cuts seems to have also been a period of consolidation in the sense that the

⁵ One limitation of the HH Index is that it compresses fragmentation at high levels of fragmentation. Were it not for this limitation, the increase on this measure would be more notable.

HH measure of aid fragmentation rose (indicating less fragmentation). At the same time, however, fragmentation in terms of the number of countries receiving Australian aid did not fall by much (the fall was from 140 to 129).

These contrasting trends are a product of Australia reducing the amount of aid it gave to more-peripheral recipients, while at the same time being reluctant to fully cease aid altogether to many countries. The desire to maintain some form of aid influence and the associated diplomatic leverage it brings may explain this.

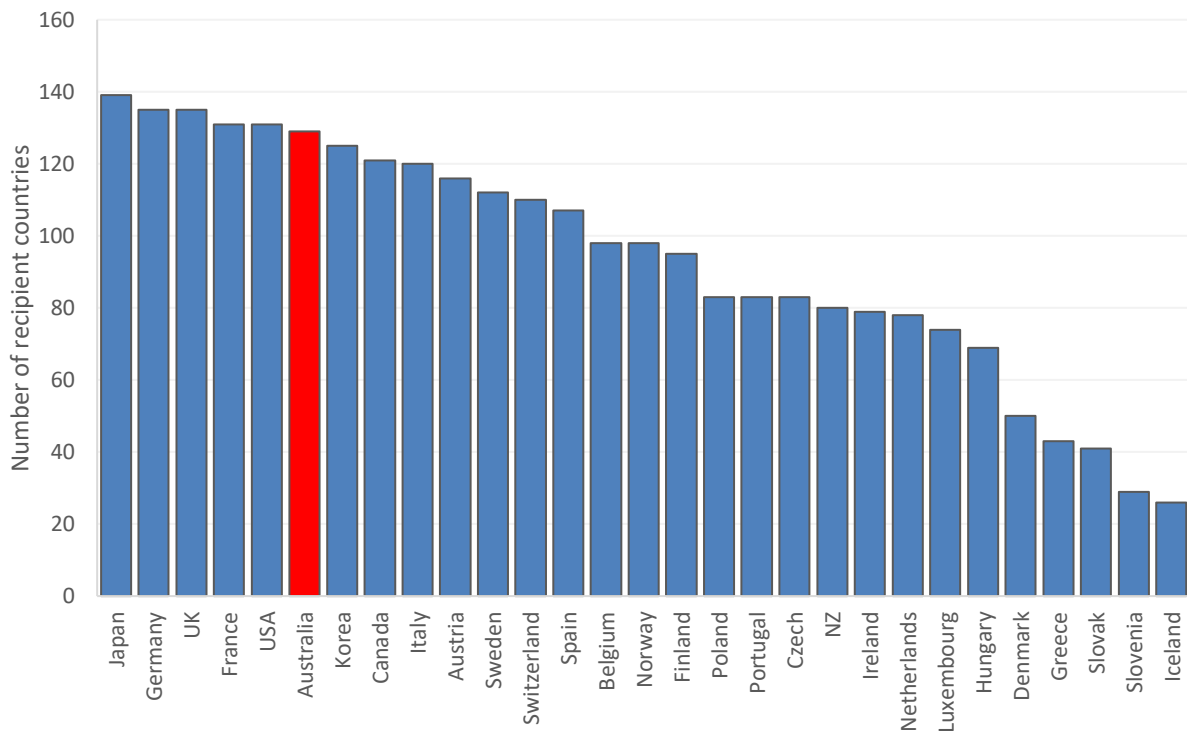
Figure 22: Australian aid fragmentation over time



Source: OECD CRS. Excludes regional programs. Excludes humanitarian emergency response. Includes scholarships.

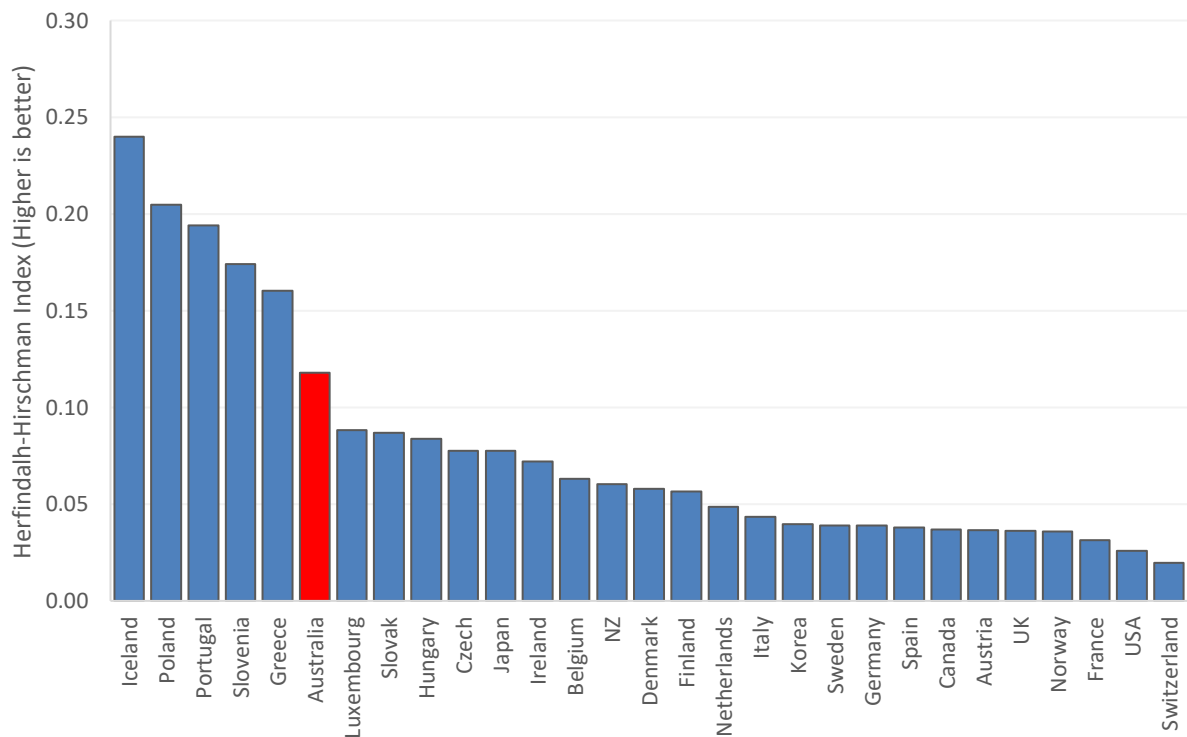
Figures 23 and 24 show how Australia compares to other donors with respect to aid fragmentation. For this we drew upon OECD.Stat data for the 2018 calendar year. Figure 23 focuses on the number of recipient countries: on this measure Australia is one of the world’s worst performing donors. However, if we look at the same data using the HH Index (Figure 24), Australia is one of the world’s least fragmented donors (note that a higher score in this chart means more concentrated and less fragmented).

Figure 23: Australian aid fragmentation, simple count of countries 2018



Source: OECD CDS. Excludes regional programs. Excludes humanitarian emergency responses. Excludes unspecified countries. Includes scholarships.

Figure 24: Australian aid fragmentation, Herfindahl-Hirschman index 2018



Source: OECD CDS. Excludes regional programs. Excludes humanitarian emergency responses. Excludes unspecified countries. Includes scholarships.

The difference in Australia's performance on the two fragmentation measures is unusual: typically, countries with worse country count fragmentation also have worse HH fragmentation. Australia's anomalous state occurs because Australia gives aid to many countries, but most of this comes in the form of very small amounts of aid. At the same time, it gives much of its aid to just two countries: Papua New Guinea and Indonesia.

6.1.2 Fragmentation across projects

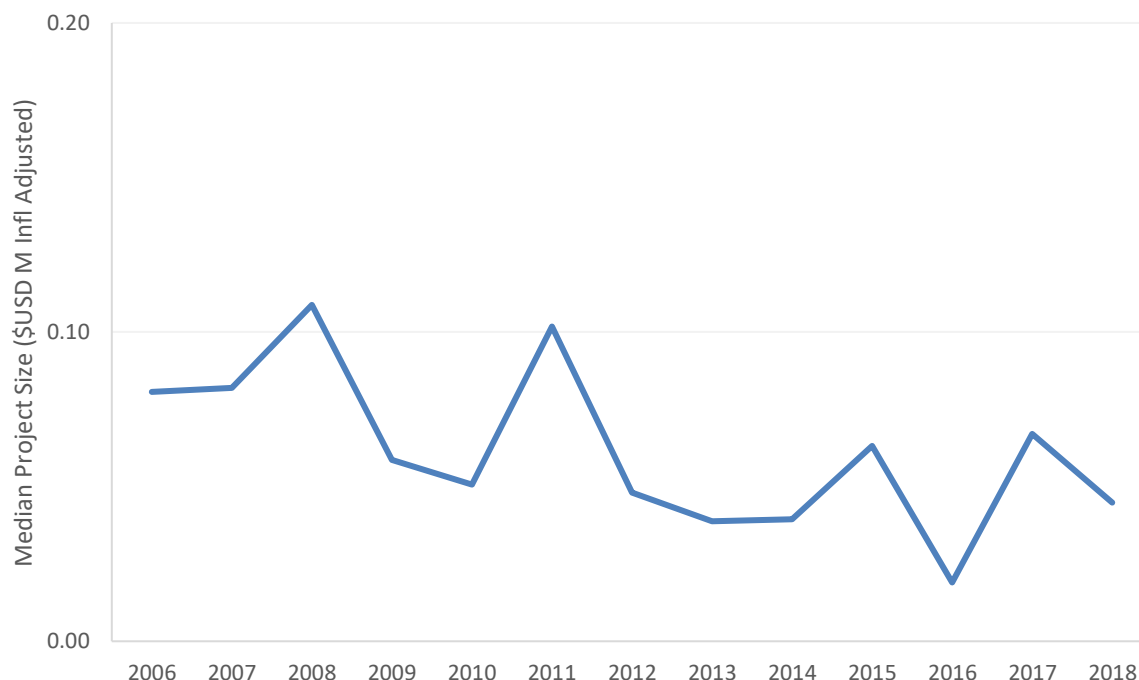
Another form of fragmentation that has the potential to adversely impact aid effectiveness is the fragmenting of aid into too many projects. Individual projects require management, both at the donor and recipient end. At least up to a point, less fragmentation across projects should be more efficient.

Quantifying aid project fragmentation is not a straightforward task, not least because projects are administrative constructs which can in cases be merged or separated with little change in practice. Nevertheless, as a comparative exercise, studying project fragmentation can afford insights into aid practice. To come up with a measure of aid project fragmentation we used OECD CRS data. Our measure captures the annual spend on the median project in any given year. Readers are encouraged to read the methodological appendix in which we detail our choices, assumptions and approach to calculating this in detail. Our measure, it should be noted, differs from the official target that the Australian Government Aid Program has set itself (Department of Foreign Affairs and Trade 2020b). The Aid Program's target pertains to project numbers. As discussed in the appendices, we have focused on project size because, among other reasons, it is a measure that lends itself well to comparison across aid donors.

The resulting trend in median project size for Australia can be seen in Figure 25. In all years except 2008, the annual project spend on the median project was less than US\$100,000. Notwithstanding annual fluctuations, project size appears to be falling

steadily over time.⁶ (The data are inflation adjusted, meaning the trend is not a product of inflation.)⁷

Figure 25: Australian project fragmentation over time (median project size)



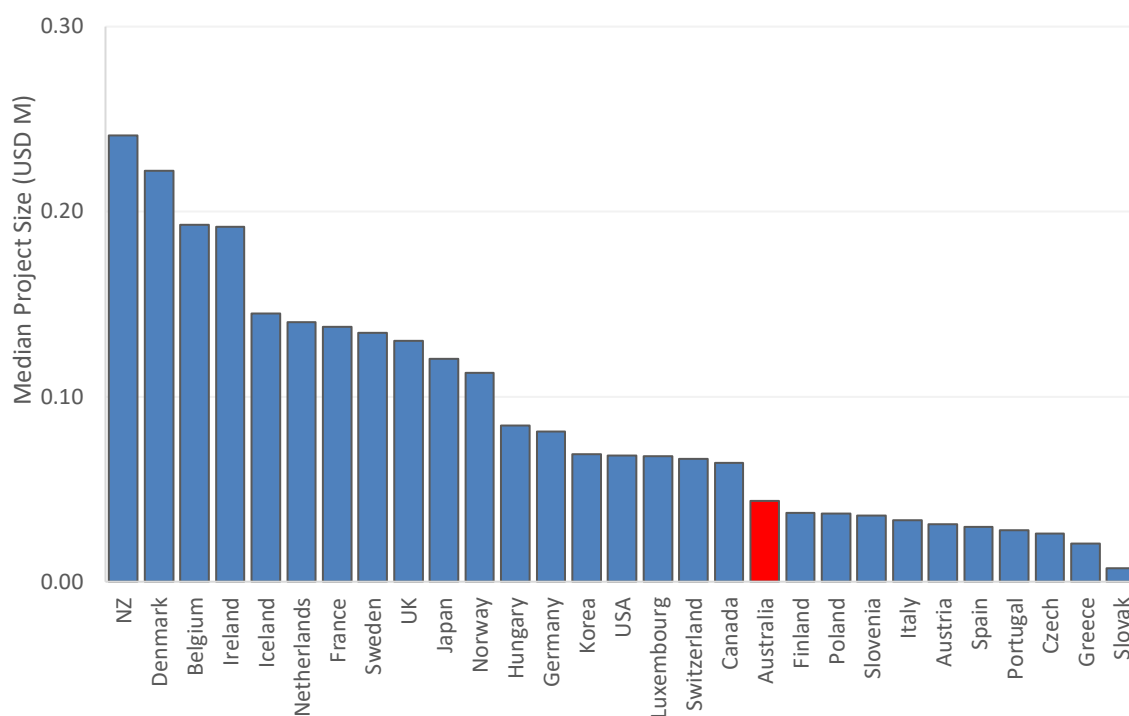
Source: OECD CDS. Excludes aid projects of \$0 or less. Excludes humanitarian emergency response. Excludes unspecified countries. Excludes scholarships. Assumes that each DFAT project code within each recipient country in each year is a unique project. Data are inflation adjusted.

Figure 26 is a comparison across donors, based on median project size averaged across the three most recent years with data. Australia performs quite poorly in comparison to other donors – Australia is not an outlier, but most donors’ median projects are larger than Australia’s.

⁶ The annual fluctuations in the data are puzzling, although their absolute magnitude is smaller than appears in the chart (the fluctuations are only of the magnitude of tens of thousands of dollars).

⁷ The trend of smaller projects that we observe would appear to be at odds with the Aid Program’s own reported trend of falling project numbers (Department of Foreign Affairs and Trade 2020b, p. 5). The two findings may, however, be compatible in a time of falling aid budgets. Differences may also stem from differing operationalisations of the concept of aid project. Also, the Aid Program’s reporting focuses on the aid that it delivers. Not all Australian aid is given via DFAT. Some aid is given via other government departments. Our reporting focuses on all Australian government aid. It is possible differences may stem from the practices of other government departments involved in aid work.

Figure 26: Project fragmentation intercountry comparison (2016–18)



Source: OECD CDS. Excludes aid projects of \$0 or less. Excludes humanitarian emergency response. Excludes unspecified countries. Excludes scholarships. Assumes that each donor project code within each recipient country in each year is a unique project.

6.2 Aid volatility

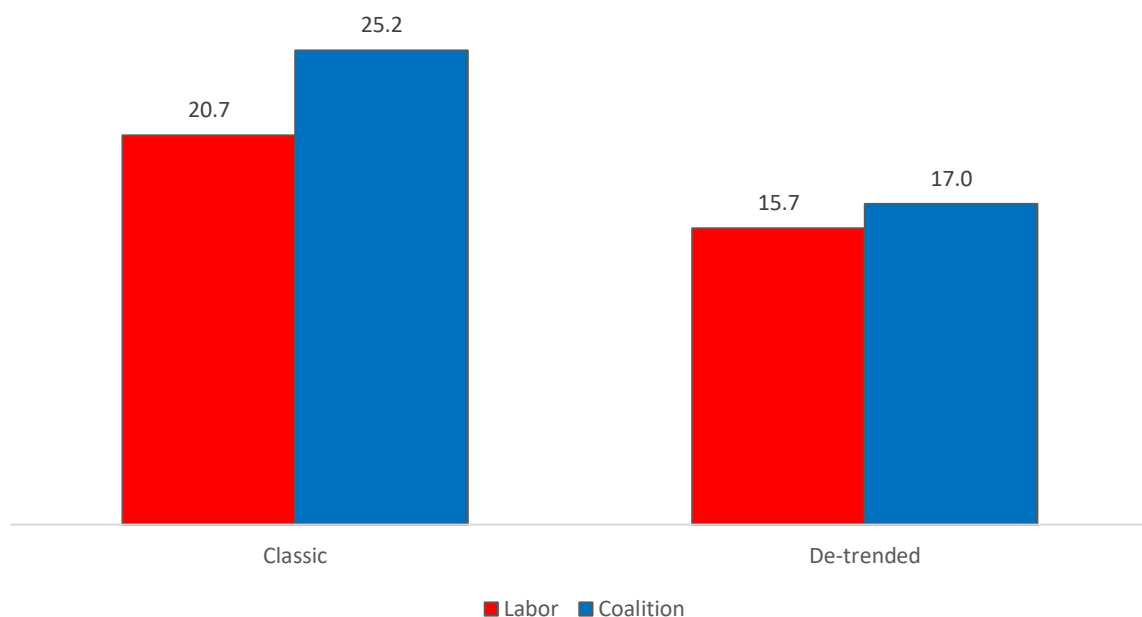
Aid volatility is the extent to which donors’ aid spending rises and falls rapidly. While volatility can be measured in terms of total aid or aid to regions, we have focused on the volatility of Australian aid to individual aid recipients. We have done this because it is at the recipient level that highly volatile aid flows bring the greatest costs. When confronted with highly volatile aid flows from individual donors, recipients are often left with the challenging task of managing macroeconomic effects and smoothing government spending. Volatility also increases the aid management and planning burden felt by recipients (Bulíř & Hamann 2008; Iulai 2014).

We used post-2006 CRS data to calculate volatility for donors. Details of how we measured volatility are provided in the methodological appendices. Readers are encouraged to read these. The main distinction that needs to be made here is between the two measures of volatility that we used. In the first – which we have called “classic” – no account is made of any underlying trend in aid volumes from a donor to a recipient. As

we explain in the appendix, this approach is easy to calculate, but will overstate the level of volatility in circumstances where aid from a donor to a recipient is trending up or down over time in a fairly predictable manner. In the second measure – which we call “detrended” – we have accounted for underlying trends and calculated volatility as short-term fluctuations around broader trends. These types of fluctuation are likely the hardest type of change to manage at the recipient end. In all of our analysis we only focused on major recipients of aid (defined as the largest 20 recipients of aid from a specific donor). The figures we provide are scores of volatility to the median major recipient (in terms of volatility). Higher scores are worse.

In Figure 27 we show Australian aid volatility in two periods: the Rudd-Gillard Labor government, and the Abbott-Turnbull-Morrison Coalition government. Both periods are short. As a result, measured volatility should be taken as indicative only.

Figure 27: Volatility the median major aid recipient – Labor and Coalition



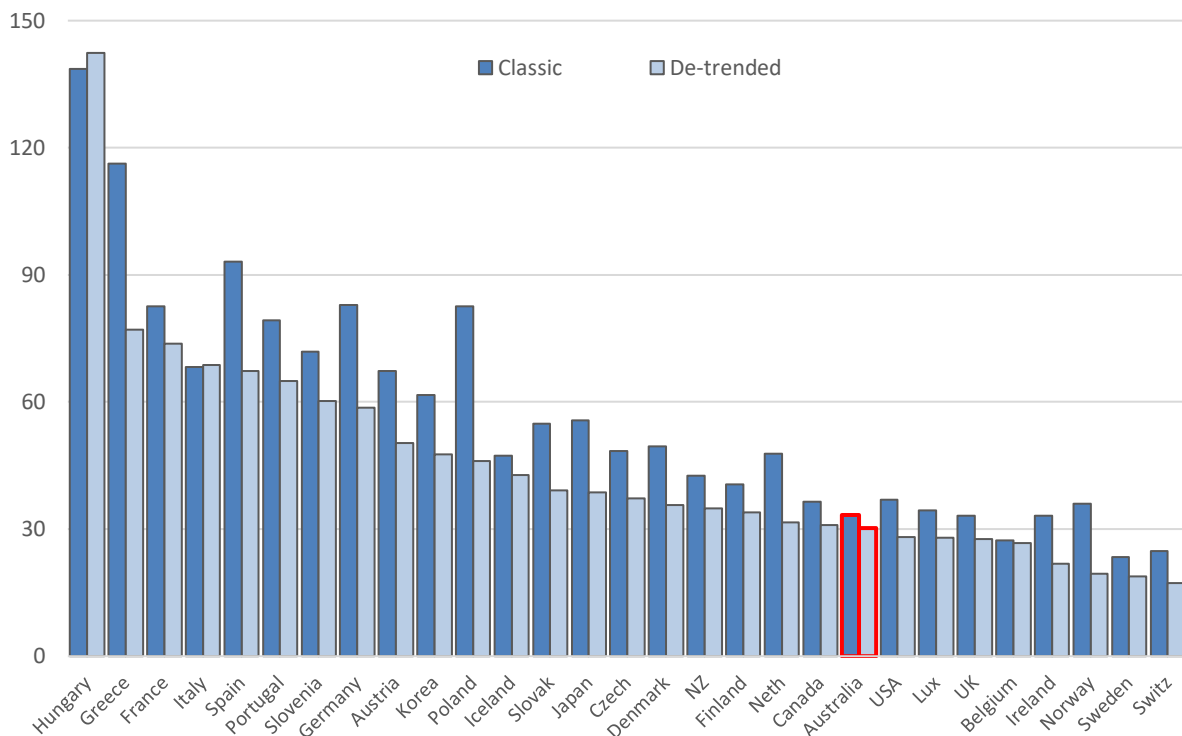
Data from OECD CRS. Scholarships and humanitarian emergency responses excluded, as is non-country-specific regional aid. Volatility is shown for two five-year periods: the Labor period from 2008 to 2012 and the Coalition period from 2013 to 2018. Volatility is shown using two different measures. Both measures focus on the median recipient (in terms of volatility) amongst the 20 largest recipients of Australian aid in the periods covered.

Figure 27 illustrates two points. The first is clear: in both periods the de-trended measure of volatility is lower than the classic measure. This likely stems from the rapid increase in aid under Labor and the rapid fall in aid under the Coalition. These changes meant aid

to the typical major recipient grew rapidly in the Labor period and fell in the Coalition period: once this rise and fall is taken into account in the de-trended measure, volatility is less. The second point is that volatility, by both measures, was lower under Labor than the Coalition, although the difference was not dramatic.

Figure 28 is based on the entire period 2006 to 2018 and compares Australian aid volatility with other donors. (The data are still based on the median large recipient.) As can be seen, Australian aid has been less volatile than most donors over the same timeframe. This is a considerable achievement given the turbulence Australian aid has been through.

Figure 28: Volatility of aid to median major aid recipient – DAC Donors 2006–18



Data from OECD CRS. Scholarships and humanitarian emergency responses are excluded, as is non-country-specific regional aid. Volatility is calculated across the period from 2006 to 2018. Volatility is shown using two different measures. Both measures focus on the median recipient (in terms of volatility) amongst the 20 largest recipients of Australian aid in the periods covered.

7. Discussion and recommendations

There are many different ways to study government aid. In Australia, surveying aid stakeholders has provided important information on trends in aid quality (Wood et al. 2017). Analysis of interviews – the approach adopted by Moore (2019) – has highlighted

crucial issues such as insufficient expertise. Analysis of aid performance data has detailed practical issues of concern (Wood et al. 2020). Studying aid flows, as we have done in this paper, usefully complements existing approaches, providing tangible information on changes in practice, and affording the ability to compare Australia to its donor peers.

From an academic perspective, two central findings emerge from our study of aid flows: the first is that politics clearly matters in terms of high-level decisions about Australian aid. Changes in government have often brought changes in aid policy. This is most visible in aid volumes, but can also be seen in areas such as sectoral focus: the governance focus of the Howard years was replaced to an extent by a focus on health and education under the Rudd and Gillard governments, and the most recent Coalition government has emphasised economic development. Similarly, there was an expansion of Australian aid to regions that had not traditionally been major recipients in the Rudd years. This expansion was reversed to an extent under Gillard, and then more dramatically under the most recent Coalition government. Politics matters for aid. At the same time, however, changes have not always mapped onto a neat left-right divide. Aid volume is one example of this. The growth in the gender focus of Australian Aid under the most recent Coalition government is another. Constructive change can occur regardless of the ideological tilt of the party in power.

The second key finding is that evidence of foreign policy objectives influencing aid decisions can be readily found in aid flow data. The influence can be seen in the expansion of aid into new countries as Australia sought a seat on the UN Security Council. It can also be seen in the recent focus on giving aid to the Pacific as Australia has sought to stave off China's perceived influence in the region. Broader foreign policy objectives are not the only factor shaping Australian aid policy – yet such objectives clearly have an influence.

From a practical perspective, we have the following recommendations for the Australian government based on our findings:

First, unless Australia wants to become a global outlier, known internationally for how unwilling it is to contribute to the important public good of development, the Australian aid budget needs to increase. This is a matter of urgency. Aid is a very small share of federal spending. Modest increases would have no material impact on the deficit. Increases, particularly in the present moment, would aid Australia's international

reputation, and if spent well would do much good in a time of particular need. The increase in the 2020–21 budget represents a small step in the right direction. Much more needs to be done, however.

Australia generally has a good spread in the sectors it focuses its aid on. However, it is our view that spending on social sectors – health and education – should fall no further. In health’s case, given the current pandemic, recent increases in health aid should be continued, including to multilateral health organisations. As the current pandemic is showing, a multilateral approach to global health challenges will be integral to a safer global future. There is also, we believe, a case for raising the amount of aid focused on primary and secondary education. Basic education outcomes are integral to development, and the poor performance of most Pacific countries in some core areas points to a real need for more aid-funded assistance.

Australia has done well to reduce its use of aid scholarships. Scholarships can be useful, but their merits are questionable enough that no donor should focus unduly on their use.

Australia has also shown a commendable willingness to make gender and women’s empowerment a central part of its aid giving. In our view, a similar change now needs to occur with funding to help aid partner countries tackle climate change. Australia’s lack of emphasis on climate change adaptation is a glaring weakness, particularly given the Pacific region is the largest recipient of Australian aid.

Generally, Australia performs well in limiting the volatility of its aid giving and limiting fragmentation across countries. However, Australia has an issue with the extent to which it fragments aid across individual projects. At least on the basis of our measure, this type of fragmentation is becoming worse, and Australia is a poor performer by global standards. The Australian government should, in the first instance, carefully study the drivers of project fragmentation internally. Unnecessary sources of fragmentation should be reduced through changes in aid practice.

Australian aid has seen radical changes in the last decade. Given these changes it is reassuring that in many ways Australia is not an outlier amongst its OECD DAC peers. Indeed, there are aspects of Australian aid giving that are very good by global standards. The challenge for Australia now is to improve those aspects of its aid giving where

positive change is needed. The challenge for the government more generally is to re-prioritise aid: funding urgently needs to rise.

The time to start with improvements is now: giving high quality aid is going to be essential for Australia's global engagement in the years to come.

Methods appendices

Appendix 1: Median project size

We chose to calculate project fragmentation using median project size or, to be specific, the annual project spend on the median project in any given year for any individual donor.

Quantifying aid project fragmentation was not a straightforward task. A number of decisions and judgement calls were required. First, there is the issue of the most appropriate measure. A simple count of projects does not provide an adequate gauge of fragmentation: obviously larger donors, or individual donors that have become larger over time, will suffer fragmentation less than smaller comparators with the same number of projects. Herfindahl-Hirschman measures of project fragmentation are also inadequate, in this case because the HH score is a bounded measure that can only range between 0 and 1. This is not a particular issue when dealing with country fragmentation where the number of countries involved is comparatively low. However, when dealing with projects, which range in the thousands for most donors, the bounded nature of the HH measure means that significant changes in project fragmentation will generate barely perceptible changes in HH scores.

For these reasons, we chose median project size as the best possible measure of fragmentation. Measures of average project size such as the mean and median take into account donor size as well as numbers of projects. The resulting measure is not bound in the same way the HH measure is and is also reflective of a real project trait: size. We chose the median as our measure of average, rather than the mean, as some donors have a small number of very large projects which skew means. Medians, on the other hand, capture the size of something analogous to the typical aid project.

The process of calculating project fragmentation involved compiling a dataset of all projects for all donors from OECD CRS data for all years post 2006. (Project coverage prior to 2006 is lower, hence the use of 2006 as a start date.)

CRS data do not provide any information on total amounts of money spent on a project. Rather, they provide annualised spends. Using annual spends in this way is not the same as measuring the size of a project over its lifecycle. However, it was the only reliable figure

we could calculate based on CRS data. Working with annual spends also allowed trend analysis. While annual spends may understate total project size, there is no reason to think this measure will bias trends or comparisons between donors.

In recent years, some donors have taken to reporting individual transactions in CRS data rather than entire annual project spends. As a result, our first task involved ensuring we were measuring annual project spends rather than the size of individual transactions. Measuring annual spends involved aggregating transactions to provide annual totals for individual projects. This itself was challenging. It required a common identifier for every project in each year to allow transactions to be aggregated to projects. Seemingly obvious tools of project identification such as project names were vulnerable to spelling errors and slight changes in names, which brought the risk of undermining the aggregation process. To overcome this problem, we chose donor project codes as an apparently unique identifier in CRS.⁸ In each year we deemed anything a discrete project if it had the same project code and occurred in the same recipient country. We then summed all transactions for all projects so defined in every year. The resulting sum was the annual project spend for each project in a given year or what we have called here “project size”.

Our practice of categorising projects as separate projects in instances where the same project code was found in multiple recipient countries in the same year has an important substantive ramification for multi-country projects: following our method these projects are counted as separate projects for each of the recipients they occurred in. We view this as reasonable: while some donor efficiencies may be associated with genuinely multi-country projects, projects that span many countries will have greater management and transaction costs than projects that are run in a single country. Furthermore, at the recipient end, a project is a project, regardless of whether it is part of a multi-national donor endeavour or not.

In practice, whether a project is counted as multiple projects or a single project when it occurs in multiple recipient countries does not change project fragmentation scores significantly for almost all OECD DAC donors. Australia, however, is an exception. If multi-

⁸ In Australia’s case, in the three most recent years with data, project codes and project names matched perfectly (i.e., every project with a different name had a different code). This was not always true with other donors.

country projects are treated as single projects, the size of the median project is considerably higher for Australia. However, using this approach produces a wildly fluctuating time-series for Australia, which suggests problems either stemming from Australia's reporting practices, or the introduction of new modalities such as facilities. Facilities may count as a single project for reporting purposes, but, with respect to the practicalities of aid work, they are, in effect, baskets of separate projects.

We excluded scholarships from our project size analysis as scholarships appear to be treated differently by different donors and in different periods: some donors lump scholarships together, others split them. We also excluded projects where the spend in any given year was zero or negative.⁹ We similarly excluded projects that were not associated with any specific recipient (these were usually core grants to multilateral organisations or donor overheads). As in earlier fragmentation analysis, we excluded humanitarian emergency responses too.

⁹ In OECD data, negative spends are associated with repayments from recipient to donor.

Appendix 2: Calculating volatility

Aid volatility is the extent to which donors' aid spending rises and falls in the short to medium term. While volatility can be measured in terms of total aid or aid to regions, we focused on the volatility of Australian aid to individual aid recipient countries.

We used post-2006 CRS data to calculate volatility for donors. When working with these data we excluded scholarships (which require less recipient management) and humanitarian emergency responses (which are beyond donors' control). We also excluded non-country-specific and regional aid.

To calculate volatility, we summed all non-excluded aid from each donor to each recipient in each year (a donor-recipient dyad). We then used two approaches to calculate volatility: in the first approach we simply measured volatility as the coefficient of variation (the standard deviation over the mean, with the resulting score multiplied by 100). We refer to this first approach as the "classic" approach. In the second approach we removed the influence of broad trends in the volume of aid being given by a particular donor to a particular recipient over time and quantified the extent to which aid bounced around in the short-term, fluctuating in a manner that was effectively random. We refer to the second approach as the "de-trended" approach. In the detrended approach, volatility was calculated as the root mean square error from an OLS regression of time verses aid volume divided by the mean volume of aid in the dyad over the period, with the result multiplied by 100. (For a discussion of the approach see, Statistical Consulting Group 2014.)

In our analysis in the report we only focused on the dyads involving each donor's 20 largest recipients (in terms of aid from donor to recipient). We did this because volatile aid given to a large partner is a more harmful practice than volatile aid given to a country that only receives a few thousand dollars of a donor's aid. The figures in the report are the volatility of each donor's aid to the median recipient (in terms of volatility) from amongst its 20 largest recipients.

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