

## The Australian aid program: towards a greater focus on inequality?

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*This is a guest post by Bill Morton from Oxfam Australia.*

Later this month, the Independent Review of Aid Effectiveness will present its report to the Foreign Minister, Kevin Rudd. It's a safe bet the report will talk about making aid more effective for poverty reduction. But what will it say about inequality?

As the [2010 Human Development Report](#) identifies, since the 1980s income inequality has increased in many more countries than it has fallen. Even in countries where the greatest advances in human development and poverty reduction have occurred, there remain significant populations whose conditions have not improved. In East Asia and the Pacific – where much of Australia's aid program is focused – most countries have higher income inequality than they did a few decades ago.

Inequality is bad for development – and it comes in a number of forms. Income inequality is now most starkly illustrated not in the poorest countries, but in middle-income countries, where, according to Andy Sumner's study [Global poverty and the new bottom billion](#), an estimated 75 per cent of the world's poorest people now live. Gender inequality is a particularly acute and persistent example of inequality, and remains a fundamental obstacle to the eradication of poverty. As argued in [The Spirit Level](#), inequality is also linked with other dimensions of well-being, including physical and mental health, education, social cohesion and conflict.

Most aid institutions have failed to adequately address inequality, despite the evidence of its negative effects on poverty and human development. In his recent article [The MDG Story: Intention Denied](#), Jan Vandemoortele (a co-architect of the Millennium Development Goals, or MDGs) suggests that 'as long as the world continues to turn a blind eye to the growing inequities within countries, the MDGs will be *mission impossible*'.

All this has important implications for the current review of Australian aid. While Australia's aid program has appropriately had a strong policy focus on poverty reduction and on contributing to the MDGs, it is now clear that this is not enough. As Oxfam argues in its [submission](#) to the aid review, if Australia is to make a greater impact in these areas, it will need to adopt a more explicit focus on inequality.

This, of course, is easier said than done. Given Sumner's findings, should Australia move towards greater involvement in middle-income countries, where there are very high numbers of poor? If so, this could mean a new focus on countries such as India, where there are 456 million people living in extreme poverty. It could also mean an increasing engagement with Indonesia (66 million) and Pakistan (35 million). Given the aid program's geographic expansion into Africa, it might mean working in countries like Nigeria (where there are 88 million in extreme poverty).

But if Australia does decide to play a greater role in middle-income countries, it will need to think beyond conventional aid approaches. Aid is relatively insignificant in many of these countries, and represents a small part of the economy (it is a tiny 0.12 per cent of Gross National Income in India, and only 1.27 per cent in Nigeria). Increased aid is not a big priority for governments in middle-income countries, especially given the demands that donor countries often seek to exert when they provide aid. Instead, other factors may be much more important, such as the successful completion of trade deals, improving domestic taxation collection, improving governance, and harnessing a productive, responsible private sector.

More thinking is therefore required on the topic of addressing poverty and inequality in middle-income countries. Sumner suggests that 'growth without social, economic, or political transformation might begin to explain the continuing levels of absolute poverty' in these countries. This means the Australian Government could look at how it might assist such transformation. Possibilities include assisting countries to improve their tax systems, or supporting civil society organisations to hold their governments to account for the provision of essential services, or for ensuring greater employment opportunities for the very poor.

Equally importantly, and in line with a strengthened role as a good international citizen, Australia can think about ways to tackle poverty and inequality in middle-income countries that go beyond the provision of aid. This may mean taking leadership on the issue in international policy forums where middle and high income countries are present, such as at the G20.

Overall, Sumner and Vandemoortele's work on inequality, middle-income countries and the MDGs represents an important wake-up call for aid donors and the aid policy community. Nevertheless, it is important to keep in perspective Sumner's headline message that 'there is a new bottom billion living in the middle-income countries'. As Sumner himself points out, there is another, equally serious side to the story: since 1997, the share of the world's poor in Africa (which is dominated by low-income countries) has doubled, from 13 to 27 per cent.

To address inequality and poverty reduction, aid donors will continue to have a role in low as well as middle-income countries, in particular those where aid constitutes a large percentage of Gross National Income. In principle, Australia's aid program should focus on the world's poorest people, regardless of where they live. In practice, it will need to be strategic about how to do this: although the size of the program will increase substantially over the next five years, it cannot be too thinly spread.

For the poor in middle-income countries, Australia's ability to reduce poverty and inequality will be greatest in countries where it has the strongest trade, economic, political and social connections, which means a continued focus on the Asia Pacific region. This region also represents an appropriate continued focus for its work in low-income countries. As for Africa, Australia needs to ensure its planned expansion is implemented in a transparent and accountable manner, and that it is consistent with internationally agreed aid effectiveness principles.

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