Opinion by Centre Deputy Director, Adam McBeth

Creative accounting directs Australia's aid budget from developing countries

Following this year's budget, much has been made of the government's deferral (yet again) of the commitment to increase spending on official development assistance (or overseas aid) to 0.5% of gross national income until 2017-18. This amounts to a cut of $1.9 billion from previously forecast aid levels over the period to June 2017.

When Kevin Rudd was opposition leader, he pledged to increase Australia's aid spending to 0.5% of gross national income by 2015. This was intended as a step on the path to the longstanding target of 0.7% of gross national income set by the OECD in 1970 and re-endorsed in 2000 as one of the Millennium Development Goals to be achieved by 2015, while acknowledging it would take a long time to ratchet up Australia's commitment from a paltry 0.32% when Labor took office. In last year's budget, 2015 became 2016-17. Last night, it became 2017-18. As Richard Nixon observed, "There ain't no votes in aid."

Advocates of overseas aid have decried the shift on the basis that aid saves lives. When overseas aid is well targeted to programs in the world's poorest countries, that is certainly the case. Indeed, not only can intervention in areas like sanitation and maternal health literally make the difference between life and death, but well designed aid programs can also set people up for an ongoing livelihood and a better quality of life for generations to come.

However, the real tragedy in aid spending is not the cuts; it is creative accounting.

In last night's budget, $238.6 million of the aid budget was officially labelled as to be "transferred to other departments". In other words, these amounts will count as part of the aid budget when Australia reports its aid expenditure to the OECD for benchmarking against other countries, and for the purposes of edging towards the 0.5% GNI target, but will actually be spent on programs administered by the Defence Force, the Federal Police, Customs and Border Protection, the Treasury and the Immigration Department. The programs included in that figure are Australia's deployment of soldiers and federal police as part of the Regional Assistance Mission to the Solomon Islands (RAMSI) (though similar deployments to places such as South Sudan are not counted under the aid budget); the initial cost of joining the African Development Bank, overseen by Treasury (but not counting the actual funds paid into the bank for use in development grants paid out by the Bank, which are counted separately as aid); and "combating people smuggling". That is in addition to up to $375 million per year on the "sustenance" of asylum seekers in the community on bridging visas, as well as $2.2 million over 2 years for a business case for an information management system for AusAID.

None of that is the sort of thing that people have in mind when they think of aid spending as a worthwhile investment, or saving lives.

While some of these instances of creating accounting in the aid portion of the federal budget are particularly brazen, the phenomenon is not new. A very substantial portion of Australia's aid budget is spent on Australian-based consultants, projects that will use Australian companies as contractors, or infrastructure projects that will advantage Australian companies.

To tackle this kind of creative accounting, the OECD sets a series of reporting rules for official development assistance. Those rules permit assistance to refugees in developing countries to be counted as aid, as well as temporary assistance in the first 12 months to people arriving in donor countries such as Australia. These are the rules Foreign Minister Bob Carr was invoking when he said "Money spent on refugees is legitimate aid." The rules also permit civil police work and training to be counted, hence the RAMSI inclusion, but not the enforcement aspects of peacekeeping operations nor any form of military aid. However, the OECD rules are all subject to the overriding proviso that each item that is counted must be "administered with the promotion of economic development and welfare of developing countries *as its main objective.*" In explaining that proviso, the OECD has said, "In the final analysis, it is a matter of intention." If that is indeed the main objective of Australia's expenditure on refugees and border protection, someone had better tell the Immigration Minister.

The aid program that Bob Carr described as "one of the biggest and most generous aid budgets in the world" (actually 13th of the OECD's 24 reporting countries in 2012 as a percentage of GNI, so in the bottom half) does indeed produce a great deal of good and likely saves many lives, so the government's deferral of the 0.5% target should be mourned. However, the bottom line of the aid budget, whatever its size, is not always directed to the sort of good works that people assume.