

Saturday, February 22 2014



## Foreign aid and growth

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Last week's visit to Fiji by Australia's foreign minister, Ms. Bishop has raised hopes of return to normalcy in bilateral relations between the two countries.

The visit has been fruitful in many ways: Fiji has been added to the list of Pacific island countries (PICs), which are eligible for Australia's Pacific Seasonal Workers Program. This program confers the benefit of guest worker visas for fruit picking jobs in Australian farms

Other results include the resumption of programs including (i) exchange of civil servants in finance and foreign policy departments; (ii) joint military exercises and training; and (iii) participation in sea patrol boat program.

The discussions might have included resumption of overseas development assistance (ODA) or foreign aid.

Just a day prior to Fiji visit, Ms Bishop inaugurated the 2014 Australasian Aid and International Development Policy Workshop in Canberra. The Workshop assembled researchers from across Australia, the Pacific and Asia for discussing the future directions of Australia's foreign aid.

### **Role of aid**

Foreign aid is not mercy.

It is not the unselfish, manna from heaven.

In Shakespeare's *Merchant of Venice*, Portia describes mercy thus:

“The quality of mercy is not strain'd,  
It droppeth as the gentle rain from heaven  
Upon the place beneath. It is twice blest:  
It blesseth him that gives and him that takes”.

Aid is not altruistic.

In her inaugural speech on Feb 12, Ms. Bishop was clear: “Aid is a powerful tool in our statecraft. It is ultimately designed to protect and project Australia's broader interests”.

It is understandable. Aid is tax payers' money.

It should promote the country's external objectives.

Before the fall of the Berlin Wall in 1989, foreign aid from the West had a single objective: “contain the spread and reduce the influence of the Soviet Union”.

Since the 1990s, the focus has changed.

In the case of PICs, the donors shifted from providing budgetary support to PICs. It is now for funding projects and programs, which add to income generating activities for poverty reduction and for institution building capacities.

In more recent years, emphasis is on good governance and efficiency in delivery of services.

Foreign aid adds to domestic savings. Being in foreign exchange, it adds to real resources of PICs. Aid also helps to bridge deficit in PICs' external accounts and stabilize the exchange rate.

### **Fiji and foreign aid**

Amongst PICs, Fiji receives the least foreign aid from donors, including Australia. In recent years, on an average, Fiji received annual foreign aid to the extent of 2 percent of the country's gross domestic product (GDP) as compared to the corresponding ratios of Samoa (35 percent), Solomon Islands (60 percent), Tonga (34 percent) and Vanuatu (25 percent).

On a per capita basis, Fiji received US\$87, Samoa US\$527, Solomon Island US\$612, Tonga US\$ 909 and Vanuatu US\$506.

The degree of aid dependency is much less in case of Fiji.

In recent years, annual remittances from overseas residents because of globalization and increased migration of workers and professionals, have dwarfed the importance of foreign aid to Fiji.

## **Aid effectiveness**

In a severe indictment, Professor Helen Hughes noted poor economic growth in the midst of plentiful supply of aid by the West and observed that foreign aid had failed PICs. She exposed weaknesses in aid administration : poor project selection; ineffective implementation; slackness in monitoring progress; and inadequate evaluation. She was also critical how government leaders in PICs played one donor against another and tried to grab more aid for personal benefit.

Australia had to review aid policies. In the meanwhile, war against terrorism began soon after the 9/11 event of 2001, which brought on special responsibilities for Australia, as the “Deputy Sheriff” for the Pacific.

Roger Riddle in his keynote address to the Workshop said the question three decades ago was whether projects funded met their objectives in terms of schools built and roads paved; and more recently whether aid projects made any dent on poverty.

Today, the question before us is whether poor countries would have been better off without the aid they received.

Free money has perpetuated poverty. It deepened the dependency syndrome. Growing evidence shows aid money has killed exports of traditional crops. Domestically processed goods are now less competitive overseas. By encouraging consumption of traded and non-traded goods and services, aid has contributed to the appreciation of PICs’ currencies and made exports less attractive, known as Dutch disease.

Aid is no longer twice-blessed.

PICs now say: : “No aid! Let us trade and earn foreign exchange in honourable way; encourage migration and workers will boost remittances back home.”

The Bard of Avon would have added another verse in his *Hamlet*:

“Neither a donor nor a receiver be,  
For aid loses both itself and friend,  
And free money dulls the edge of husbandry.”