Who receives Australian aid, and why?

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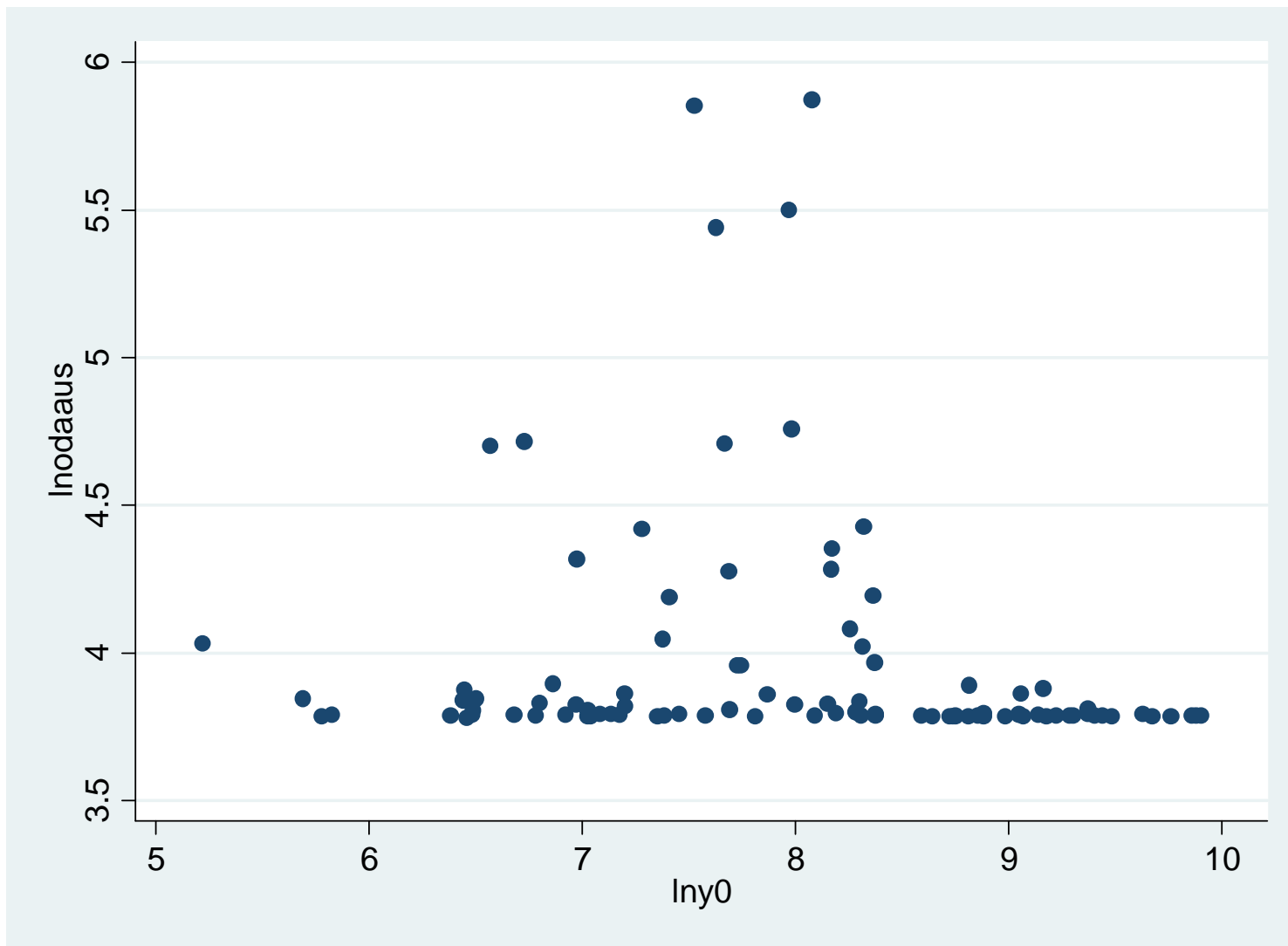**Table 1**: Recipients of Australian aid (ODA), average values for 2005 to 09.

Country name	Amount (US$ mil, 2008 prices)	Percent of Australian total ODA	Australian ODA as percent of total receipts
Indonesia	312	14	34
Papua New Guinea	304	13	100
Iraq	201	9	2
Solomon Islands	186	8	84
Philippines	72	3	18
Afghanistan	68	3	2
Viet Nam	67	3	4
Timor-Leste	66	3	31
China	40	2	3
Cambodia	39	2	9
…	…	…	…
Grenada	0.01	0.004	0.11
Dominica	0.01	0.004	0.30
Cote d'Ivore	0.01	0.004	0.002
Albania	0.01	0.004	0.004
Eriteria	-0.28	-0.01	-0.02

Why?

The rhetoric:

"The objective of Australia's aid program is to assist developing countries <u>reduce poverty</u> and <u>achieve sustainable development</u>, in line with <u>Australia's national interest</u>."

Figure 1: Australian ODA plotted against Income

Aid allocation model

$$U = \prod_{i=1}^{n} a_i^{\alpha} \qquad (1)$$

$$\sum_{i=1}^{n} p_i a_i = m \qquad (2)$$

$$a_i m = p_i a_i \qquad (3)$$

$$z^r = \sum_{i=1}^{n} p_i^r a_i^r \qquad (4)$$

$$\begin{bmatrix} z_1 \\ . \\ . \\ . \\ z_R \end{bmatrix} = \begin{bmatrix} a_{11} & \cdots & a_{1n} \\ \vdots & \ddots & \vdots \\ a_{R1} & \cdots & a_{Rn} \end{bmatrix} \begin{bmatrix} p_1 \\ . \\ . \\ . \\ p_n \end{bmatrix} \qquad (5)$$
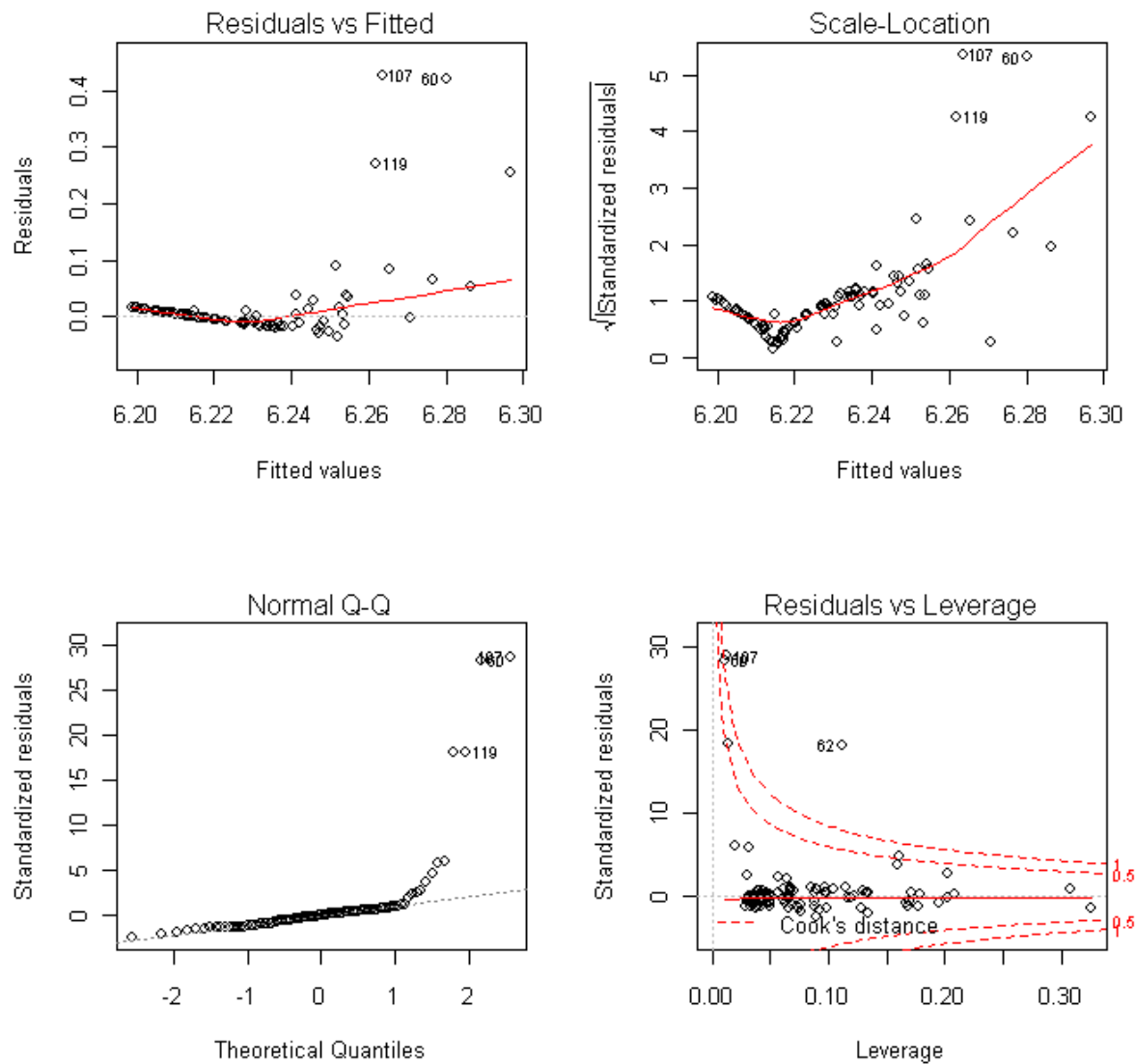
Table 4. Explaining Australian bilateral aid, dependent variable: log of bilateral aid (average of 2003 to 2009)

Variable	Model 1	Model 2	Model 3[a]	Model 4[a]
Constant	10.36*** (2.59)	9.85*** (2.73)	9.60*** (2.33)	12.47*** (2.86)
LN(initial income)	-0.67 (0.44)	-0.58 (0.47)	0.16 (0.25)	0.15 (0.25)
LN(distance)	-0.82*** (0.18)	-0.82*** (0.18)	-0.67*** (0.16)	-0.89*** (0.21)
CPIA	-0.043 (0.057)	-0.10 (0.10)		
Voice & Accountability		0.016 (0.17)		
Civil Rights		-0.026 (0.073)	-0.035 (0.030)	-0.042 (0.028)
Govt. Effectiveness		-0.015 (0.10)	-0.21* (0.10)	-0.23** (0.021)
LN(population)	0.33 (0.28)	0.39 (0.32)	0.0056 (0.18)	-0.22 (0.19)
$[LN(population)]^2$	-0.0076 (0.0091)	-0.0091 (0.010)	0.0056 (0.0058)	0.00073 (0.0058)
$[LN(initial\ income)]^2$	0.055 (0.033)	0.049 (0.035)	-0.0044 (0.016)	0.0044 (0.017)
LN(ODA, UK)			0.044 (0.036)	
LN(ODA,USA)			0.11* (0.058)	0.12* (0.067)
Pacific Island				-0.52 (0.35)
No. of obs.	57	57	93	96
R^2	0.64	0.64	0.54	0.53

Conclusions

- Who receives Australia ODA

- Why

- Implications for Pacific islands

Figure 1a: Diagnostic plots for Model 4

Unskilled Hourly Wage Rates (AU$)

Country	Rate
Vanautu	1.94
Solomon Island	0.39
Samoa	0.89
PNG	1.05
New Zealand	10.26
RMI (Marshall Island)	2.46
Kiribati	1.65
Fiji	1.84
Australia	14.31