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Allocation priorities for Australia’s 2017 aid budget

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SUMMARY

With reference to two 2017 aid budget scenarios and our analysis of recent trends in the allocation of aid to purposes, we highlight areas in which there are emerging or longstanding gaps in Australia’s aid effort. We show that action in five such areas is possible in a constrained budget scenario: outward investment promotion, demining, public policy support, regional labour mobility, and medical research. We argue that in a scenario of aid growth, if only toward 0.3% of national income over four years, a larger share of Australia’s aid should flow to food and water security; the health, welfare and rights of women and girls; humanitarian aid; climate change and the environment; and multilateral development financing.

KEY POINTS

- In proportional terms, Australia’s aid program is now doing less than it was in governance, health, agricultural development and environmental protection. There are longstanding gaps in relation to outward investment promotion, medical research and regional labour mobility.
- The balance of Australia’s aid effort has shifted in favour of tertiary scholarships, basic social and economic infrastructure, emergency response, and several more specific priorities of the government. Voluntary contributions to multilateral organisations have been squeezed.
- A beneficial rebalancing of Australia’s effort is feasible even in a constrained budget scenario. A larger rebalancing, which is warranted, would require aggressive savings measures and the growth of aid toward at least 0.3% of national income over four years.

The Development Policy Centre is part of Crawford School of Public Policy at The Australian National University. We undertake analysis and promote discussion on Australian aid, Papua New Guinea and the Pacific and global development policy.

Allocation priorities for Australia's 2017 aid budget

INTRODUCTION

Whether Australia's overseas aid budget grows to any real extent in 2017-18, or remains at about its current low level, it is timely as budget night approaches to reflect on the allocation of funds to priorities within the aid program. Having observed the government's allocation choices over the past several years, and their effect on the overall shape of Australia's aid program, it seems to us that, whatever budget bottom line is announced in 2017, there is a strong case for rebalancing priorities in the course of 2017-18 and beyond. Applying additional money to underfunded priorities is one way of doing this: shifting money away from overfunded priorities is the only other.

AID BUDGET SCENARIOS

To frame what follows, we briefly present in Figure 1 two aid budget scenarios for 2017-18 and the three years to follow, (the 'forward estimates' years). In the first scenario, Official Development Assistance (ODA) is held constant in real terms. In the second, which is a slightly relaxed variant of a recommendation one of us has made elsewhere, ODA grows toward 0.3% of Gross National Income (GNI) by the final year of the forward estimates period, 2021-22.[1] It should be noted that we have made reasonably conservative assumptions about inflation, economic growth and, in the case of the second scenario, the shape of the trajectory to 0.3%.[2]

In the first, steady-state scenario, the aid budget would be $3.9 billion in 2017-18, rising to $4.2 billion in 2021-22 (which, by assumption, would be no increase at all in today's prices).[3] Australia's ODA/GNI ratio would fall, courtesy of economic growth, to 0.2% over the same period. In the second, growth-to-0.3% scenario, the aid budget would be $4.2 billion in 2017-18, rising to $6.2 billion in 2021-22 (about $5.7 billion in today's prices). Roughly speaking, the growth-to-0.3% scenario would require increases in each of the next four budgets of $350 million, $500 million, $700 million and $850 million, respectively—an average annual increase of $600 million.[4]

We are fairly sure, as there has been no indication to the contrary, that the government's 2017–18 aid budget will resemble the steady-state scenario. Nevertheless, we believe that Australia's aid effort—measured in ODA/GNI terms—should be restored over several years in order to at least equal the average effort of the OECD donor collective, which until recently had been quite stable for a number of years at 0.3% before rising, in 2016, to 0.32%.[5] We have therefore distinguished in what follows between allocation measures requiring only feasible shifts within roughly the existing aid envelope, and those depending on a significant expansion of the envelope in line with something like our second budget scenario.

SHIFTING ALLOCATION PRIORITIES

Enough time has now passed since the change of government in late 2013, and the consequent implementation of large aid cuts, that one can begin to perceive shifts in the overall sectoral composition of Australia's aid program. Figure 2 shows shows how funding was spread over the six largest elements of the aid program in 2012, when aid was its dollar peak, and in 2015.[6]

Aid for health accounted for a smaller share of total aid in 2015 (down from 8% to 6%) and

1 Robin Davies recommended, in his contribution to the Development Policy Centre's submission to the government's foreign policy White Paper process, that aid be increased to 0.3% of GNI by 2020. See Stephen Howes, Terence Wood, Robin Davies, Matthew Dornan, and Henry Sherrell, *Submission to the Foreign Policy White Paper*, February 2017.

2 Specifically, we have assumed average annual real GDP growth of 2.75%, average annual inflation of 2.25%, and a trajectory that increases toward 0.3% of GNI in a somewhat but not excessively 'backloaded' fashion, with step heights of 0.5, 0.75, 1.25 and 1.5.

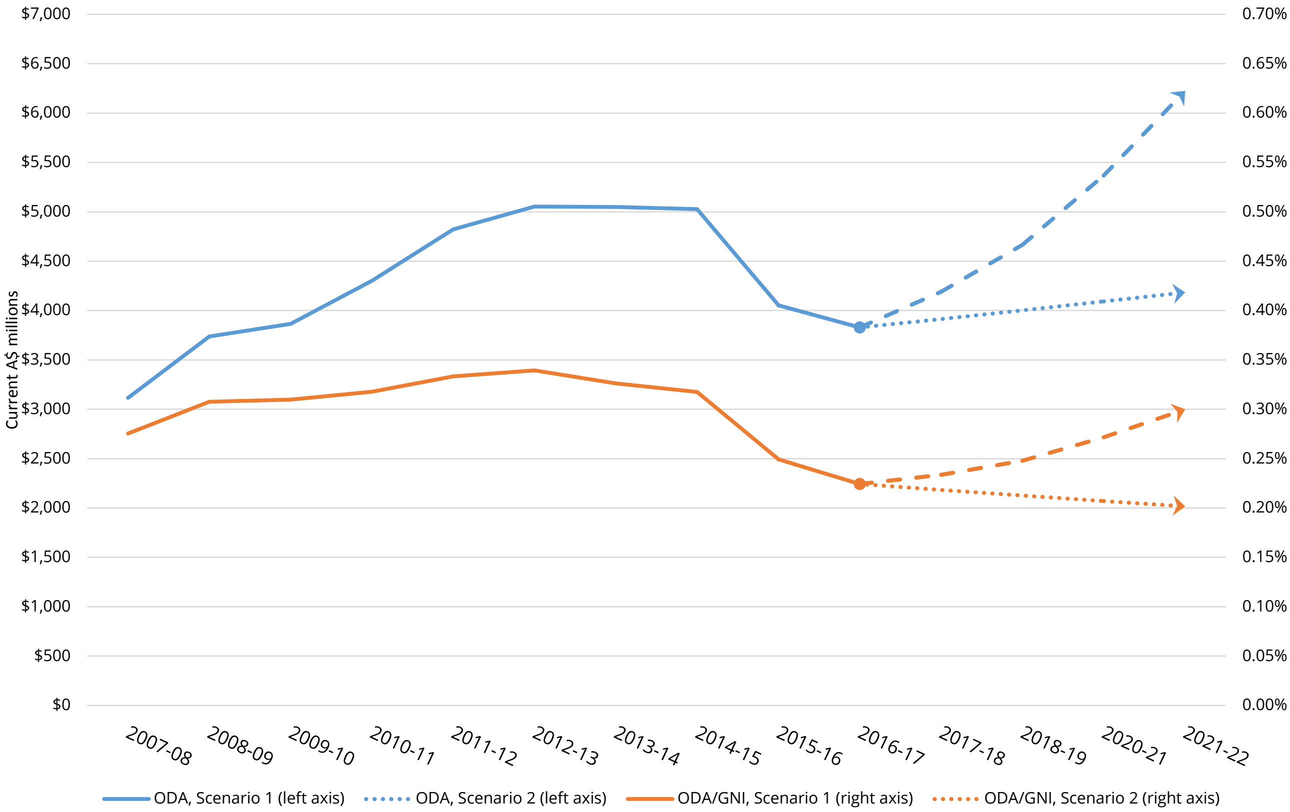
3 All expenditure and commitment figures in this brief are denominated in Australian dollars.

4 In today's prices the increases would be around $250 million, $350 million, $550 million and $700 million—an average annual increase of $450 million.

5 See the OECD press release, 'Development aid rises again in 2016 but flows to poorest countries dip', 11 April 2017.

6 2015 is the latest year for which detailed sectoral data are available.

Figure 1: Australian aid budgets and ODA/GNI ratios



Source: Australian government aid budget summaries and author calculations.

was about one-third lower in real dollar terms.[7] Education, other than scholarships, accounted for about the same share of aid in 2015 as it did in 2012, at around 12%, though it was about one-fifth lower in real dollar terms. Aid for government and civil society, which had already been declining under Labor, fell from 21% of total aid in 2012 to 19% in 2015, and was about one-third lower in real dollar terms. Unallocated aid fell from 11% to 7%, owing mainly to the fact that no onshore asylum-seeker costs were charged to the aid program in 2015.

By contrast, humanitarian aid accounted for a larger share of total aid (up from 7% to 9%) in 2015 and was not markedly lower in real dollar terms. And 'other multisector' aid, of which tertiary scholarships are the main element, increased most as a share of the total—from 16% to 23%. From the government's own data on scholarships, as depicted in Figure 3, we can see how.[8] And, since those data extend to 2016-17, we can see that the trend has continued.[9] It is notable that, in contrast to the previous six years, short-term awards will outnumber long-term awards in 2016-17.

On undertaking a more fine-grained examination of shifts in the allocation of aid over time, it is possible to see a clear and understandable move toward the priorities articulated by the government in its 2014 aid policy framework.[10] Given that overall aid volume has been greatly reduced—by around one-quarter in real terms from 2013-14 to 2016-17—and that many specific priorities account for a relatively small share of the aid program, the best way to show changes is to look at how a sector's program share in a given year, that is, its share in total aid, compares with a long-term average.

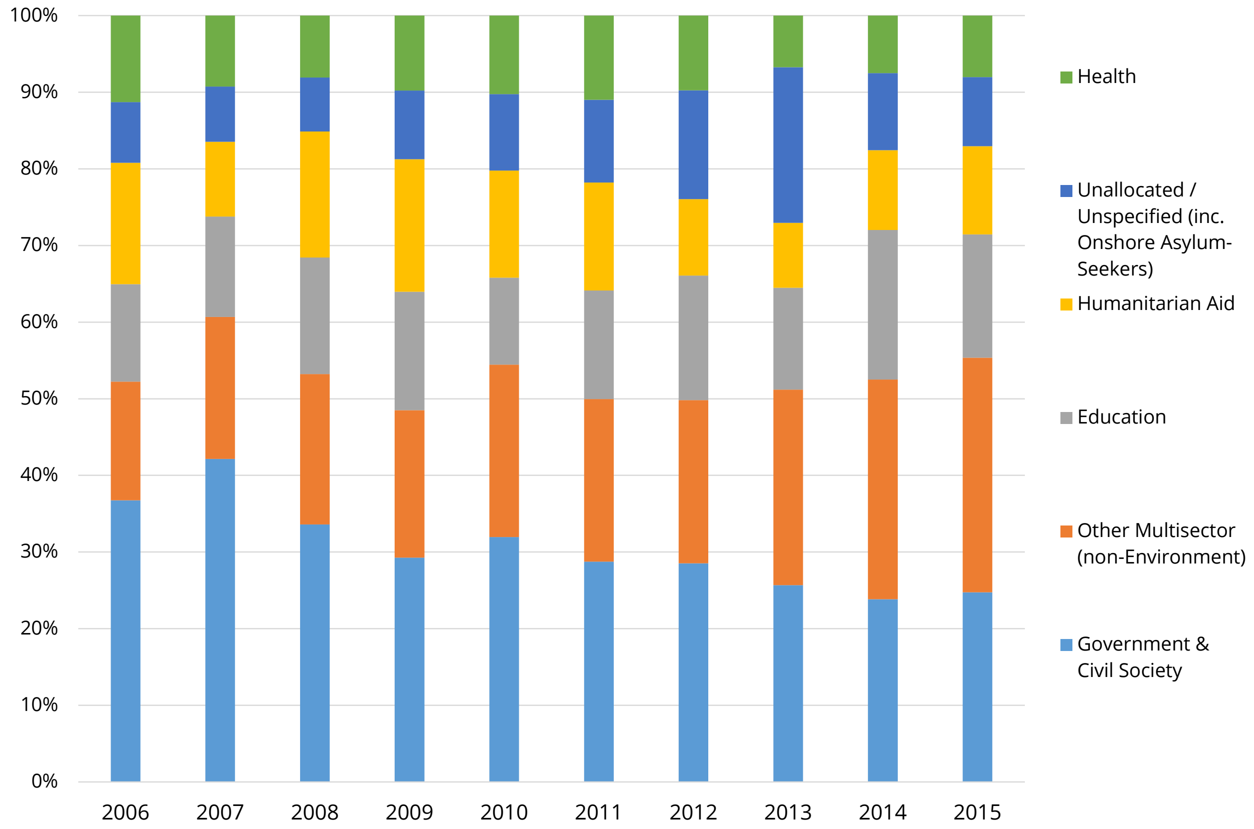
7 It should be noted that the percentages quoted here are calculating using total aid as the denominator, whereas Figure 2 shows the distribution of aid cross the six largest program elements.

8 The data on which Figure 3 is based are drawn from the document, '[Information brief : Australia Awards]', Department of Foreign Affairs and Trade, 20 February 2017.

9 Note that while scholarship (and fellowship) intakes were drastically cut in 2015-16, this did not have a large impact on the cost of scholarships and fellowships as a proportion of total aid. This is because many students, particularly scholarship-holders, remain in Australia for two or three years. The number of aid-funded scholars studying in Australia at any given point in time is several times higher than the annual intake.

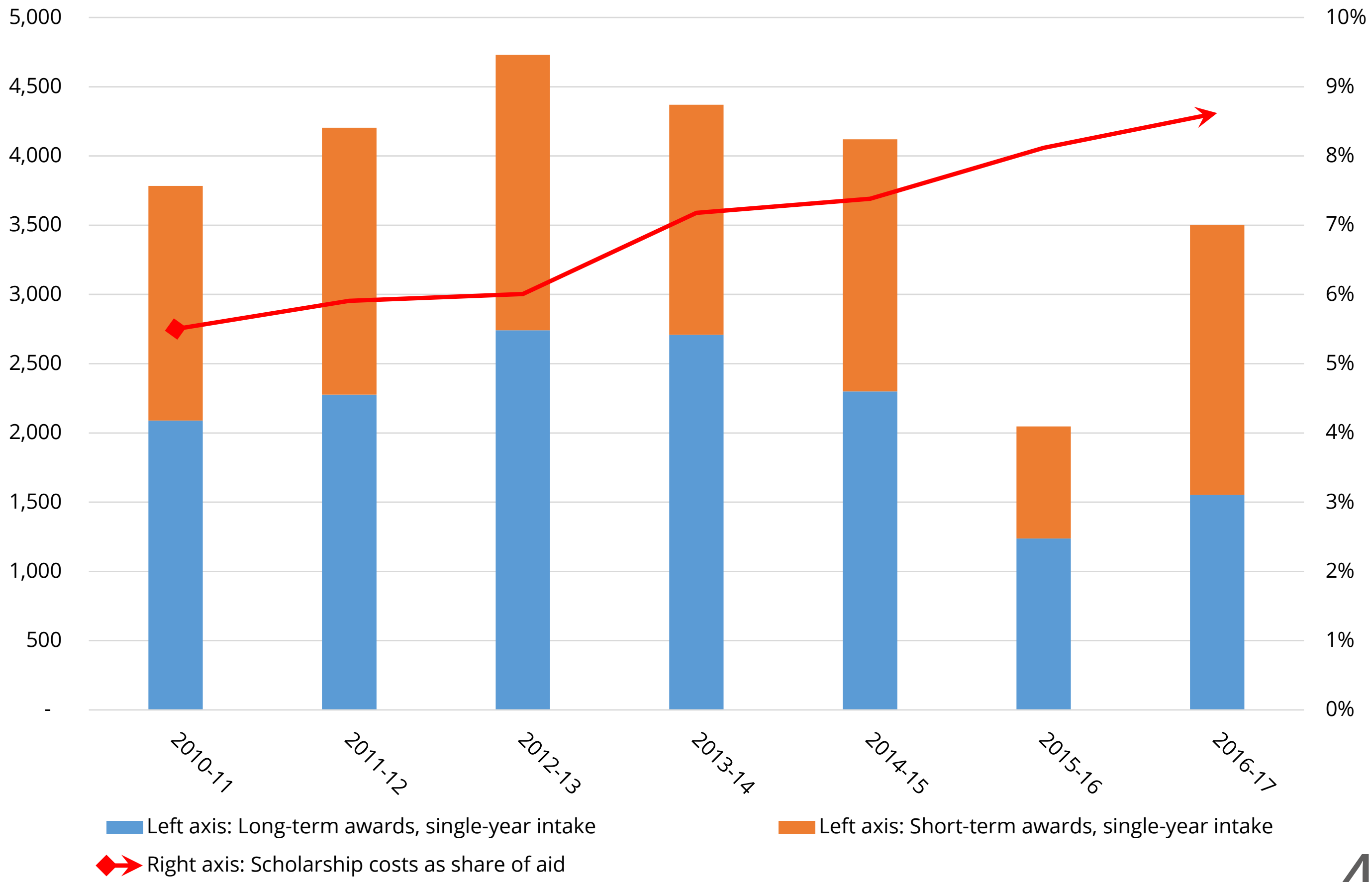
10 This requires an analysis of data from the OECD's [Creditor Reporting System] (CRS), which collects data at the level of individual aid activities.

Figure 2: Distribution of Australian aid over major sectors



Source (also for figures 4-6): OECD aid statistics.

Figure 3: Australian aid scholarships and awards



This we do in Figures 4 and 5. We consider all sectors accounting for more than 0.5% of the aid program over the ten years to 2015 and order them according to their variance in 2015 from the 10 year average (2006-15) program share.[11] For example, aid for women's equality organisations and institutions accounted for 0.6% of all Australian aid from 2006 to 2015 (about $25 million in 2014 prices) but accounted for 2.3% of aid in 2015 (about $85 million in the same prices), so the 2015 variance from the long-term average program share is 2.3/0.6 = 383%. We show also, for comparison, the variances in 2012 relative to the same average program share.

Figure 4 shows sectors for which the variance from the long-term average was positive in 2015.

We have already emphasised, in the example above, the very high positive variance in aid for women's equality organisations and institutions. Beyond that, it is notable that aid related to transport policy and administrative management, business support services and institutions, and relief co-ordination, protection and support services was around 200% of the long-term average program share in 2015 (the dollar amounts in 2014 prices were $93 million, $47 million and $52 million, respectively).

Other priorities that saw significant growth in their program share were primary education, material relief assistance and services, infectious disease control and road transport. In the case of disaster prevention and preparedness, the 2015 program share remained slightly above the long-term average but was much smaller than the 2012 share. Similarly, the share of aid allocated to rural development fell substantially from 2012 to 2015 while remaining above the long-term average.

Figure 5 shows sectors for which the variance from the long-term average was negative in 2015.

The highest negative variances from the long-term average program share relate to refugees in donor countries, for which Australia reported no expenditure in 2015, and to budget support, which has declined from not much to nil.[12] High

11 The number of detailed CRS sector categories excluded by the application of the 0.5% threshold is 126. Only 10% of Australia's aid fell into the excluded sectors over the ten years to 2015.

12 Australia reported costs of $151 million in 2012 associated with onshore asylum-seekers, and $357 million the following year, but nothing since then. Australia reported $11 million in general budget support in 2012. The highest level of budget support reported during the decade to 2015 was $98 million in 2010. (All costs in this note are expressed in 2014 prices.)

Figure 4: Australian aid by sector – positive variance from long-term average in 2015

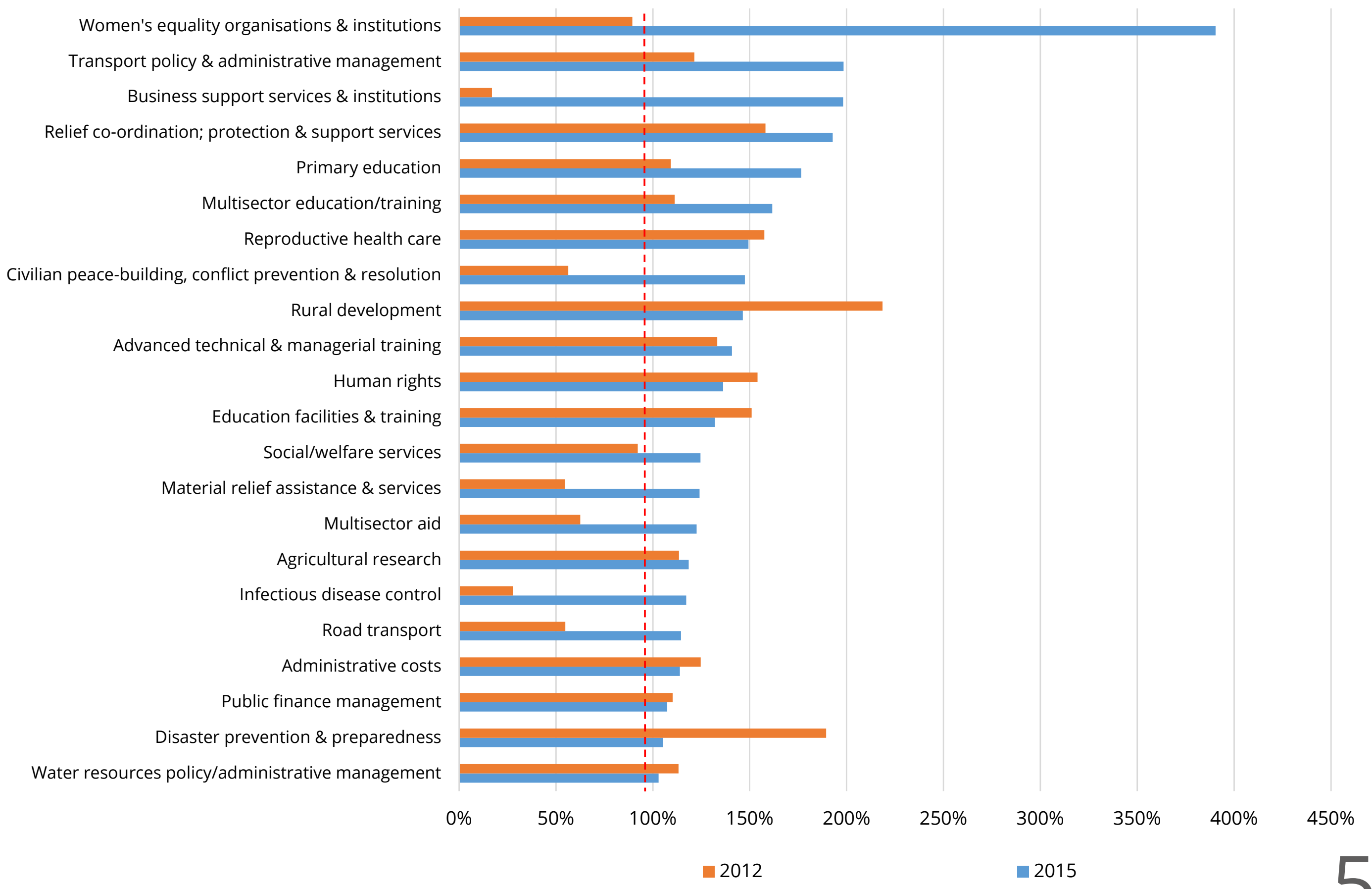


Figure 5: Australian aid by sector – negative variance from long-term average in 2015

negative variances from the long-term average were also recorded for around a dozen other sectors in 2015, ranging from emergency food aid to election-related assistance.

In addition, significant and in some cases very large variances from the 2012 program share were seen in connection with various sectors bearing on governance, agricultural development, the environment, health care, education policy, elections and demining. The share of the program devoted to basic drinking water supply and basic sanitation fell less against the long-term average but, as we have pointed out elsewhere, has fallen substantially relative to the peak level achieved in 2011.[13]

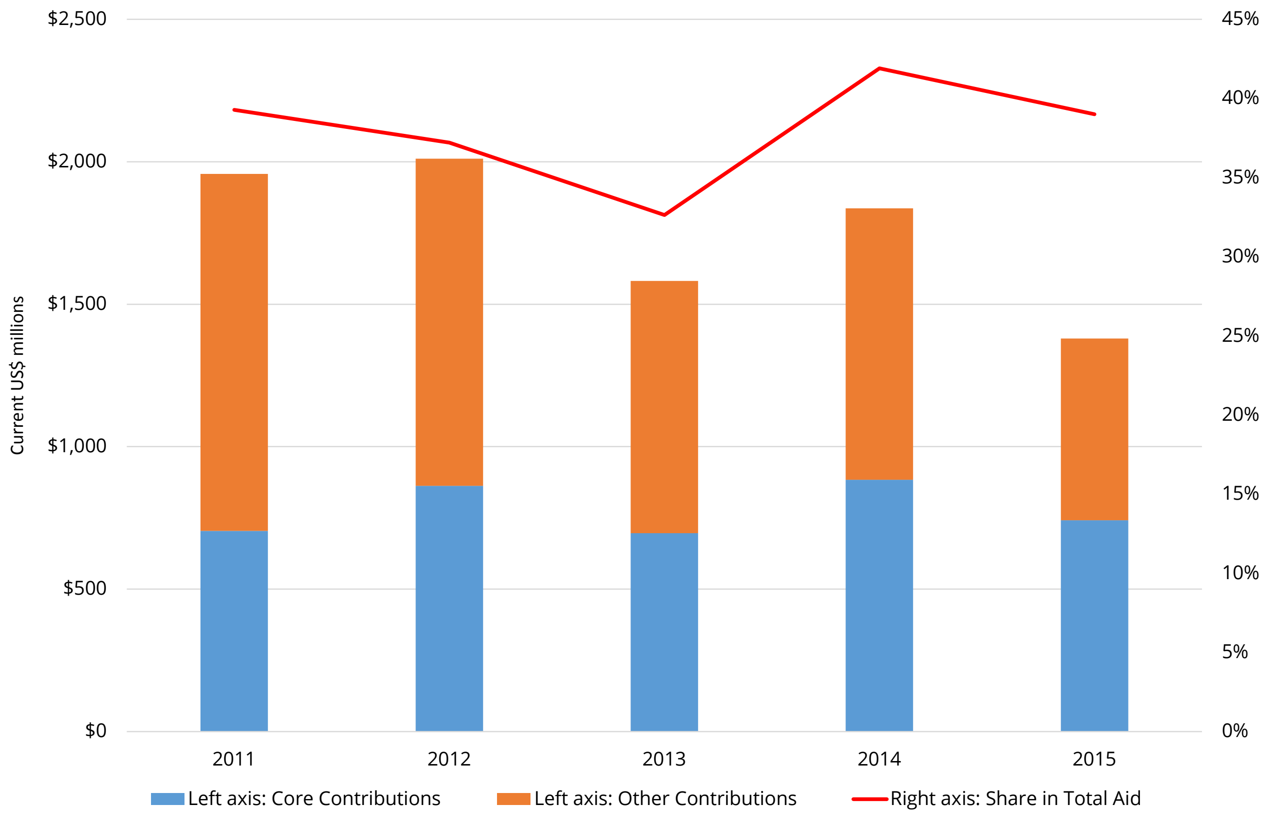
Finally, if we look at the multilateral side of the ledger, we find that Australia has reduced its total use of the multilateral system by around one-quarter in dollar terms between 2012 and 2015. However, this has not greatly reduced the system's share in Australian aid, which was in the 35-40% range in both years. Core contributions, which in some cases are based on firm, multi-year commitments, have fallen less than earmarked contributions.

Overall, a clear enough picture emerges. In absolute terms, the aid program is spending much less in most sectors and through most channels. In proportional terms, Australia is doing less than it was in governance, health, agricultural development and environmental protection. The balance has shifted in favour of scholarships, basic social and economic infrastructure, emergency response, and several more specific priorities of the government including trade facilitation and women's empowerment. Voluntary contributions to multilateral organisations have been squeezed; core contributions not so much.

It is noteworthy that in 2012 just over one-quarter (27%) of the aid program was accounted for by core multilateral contributions, scholarships and humanitarian aid combined, whereas these three program elements accounted for 40% of the program in 2015 (21%, 10% and 8%, respectively).

13 See Bob McMullan and Robin Davies, 'Water and sanitation in Australia's aid program : building it back better', Devpolicy Blog, 15 February 2017.

Figure 6: Australia's use of the multilateral system



REBALANCING WITHOUT REAL GROWTH: FIVE EASY PIECES

In light of the allocation trends discussed in the previous section, we now proceed to nominate five areas in which there are emerging or longstanding gaps in the Australian aid program, which could be addressed at no great cost within a fairly static overall aid budget envelope consistent with our steady-state budget scenario.

As will be seen, we believe that part of the answer in several cases is to differentiate and sharpen Australia's aid planning and delivery architecture so that dedicated public-sector bodies—under the overall strategic direction of the Minister for Foreign Affairs and the Department of Foreign Affairs and Trade (DFAT)—are given clear mandates to address certain problems, along with the necessary resources.

1. Outward investment promotion

A bilateral development financing institution, whose role would be to encourage Australian and regional firms to invest in developing countries by providing guarantees, loan financing and/or equity, would fill a longstanding gap, particularly in relation to the Pacific island countries, Papua New Guinea and Timor-Leste. The same institution could be given a role in brokering impact investments in the region.

If the government is serious about wishing to encourage private investment in the Pacific it should at least look at a special investment guarantee scheme for approved private investment proposals in Pacific island countries. This would not be costless in the medium-term because contingent liabilities like guarantees will occasionally be called. Nevertheless, for a very modest initial cost it could generate some interesting investment options with the potential to make the island economies more viable and therefore less aid dependent. It might need to operate also in Southeast Asia for the health of its balance sheet.

There need not be substantial budgetary outlays involved in establishing a development financing institution. As noted, the government would need to back its guarantees to some extent but this involves no up-front cost. Where loans and equity are concerned, the government would need to guarantee the institution's borrowings in capital markets (assuming it were to permit the institution to raise funds in that manner). However, no very large injection of actual capital would be required, and the institution would over time be expected to generate a profit, like its counterparts in other donor countries, such as the UK's Commonwealth Development Corporation.

We believe this is an idea whose time has come, and we have said so before.[14] We recommend no more than a thorough investigation of its feasibility and of options for its implementation which might include, for example, expanding the remit of the existing Export Finance and Insurance Corporation. The government has previously implied that an Australian development financing institution would duplicate the role of the International Finance Corporation (IFC) in the region.[15] That is certainly not the case. The IFC mostly deals in larger-scale investments and rarely works with Australian firms.[16]

Even if the government were to hold to its existing position on an Australian development financing institution, the use of aid funds to promote impact investments in developing countries is worth exploring. Impact Investing Australia has proposed, in the context of the 2017-18 Budget, that the government contribute $150 million in 'cornerstone' capital to a public-private partnership, focused on both domestic and international investments, to develop options and assist in their implementation.[17] Perhaps some $15-20 million might be drawn from the aid budget over several years for this purpose. Indeed, even if this were the only government contribution in the first instance, it would constitute a useful pilot engagement in this area, which might later be expanded into the domestic arena.

2. Demining and related objectives

Even within the modest increase in funding generated by an inflation adjustment, room should be able to be found for so significant a humanitarian priority as restoring Australia's support for demining and related activities. We have previously detailed the extent of the decline in funding for the removal of land mines and explosive remnants of war. Since then, there has been extensive reporting on the impact of land mines placed in urban areas of Syria and Iraq by retreating Islamic State forces.[18] We have noted also that this decline contrasts with the government's own positive assessment of the effectiveness of Australia's 2010-14 Mine Action Strategy.[19]

It would cost roughly an additional $12-16 million per annum, on top of the $6 million or so that is now being spent each year, to restore funding to the more respectable levels seen in the fairly recent past.[20] This increased expenditure could and should be guided by a new mine action strategy, appropriately linked to the government's strategy for disability-inclusive development.

3. Public policies and institutions

Many of Australia's aid recipient countries are experiencing quite rapid economic development, which engenders greater complexity in their policies and institutional arrangements. Their governments, parliaments, judiciaries, statutory institutions and civil society organisations will need increasingly targeted and sophisticated support in many areas of public policy.

As far as governments are concerned, priority areas for support include macroeconomic policy, revenue collection, expenditure management, the financing and provision of economic infrastructure, social security, the regulation of financial markets, the development and policing of standards and regulations to ensure

14 See Bob McMullan, 'Development Finance Company for Australia (and New Zealand)', Devpolicy Blog, 17 January 2014, and Robin Davies, 'Canada creates a bilateral Development Finance Institution: will Australia follow suit?', Devpolicy Blog, 23 April 2015. The idea was earlier advocated in Jim Adams's 2013 Harold Mitchell Development Policy Annual Lecture, 'The Challenges of Aid Dependency and Economic Reform – Africa and the Pacific', Development Policy Centre Discussion Paper No. 32, November 2013.

15 See 'Australian Government response to the Joint Standing Committee on Foreign Affairs, Defence and Trade report: "Partnering for the greater good: The role of the private sector in promoting economic growth and reducing poverty in the Indo-Pacific"', response to recommendation 21, p. 18.

16 According to the its Project Information Portal, the IFC has only six active investment projects in the Pacific region: five in Papua New Guinea and one in Vanuatu. None involves an Australian firm.

17 See *Impact Investment: Pre-Budget Submission 2017-18*, Impact Investing Australia, January 2017.

18 See for example, 'UN: 40-50 years needed to clear weapons in Iraq and Syria', *The New York Times*, 4 April 2017.

19 See Bob McMullan and Robin Davies, 'Demining Disaster?', Devpolicy Blog, 19 August 2016.

20 It would cost roughly an additional $12 million in 2014 prices per annum to restore funding to the long-term average level seen over the period 2006-15. It would cost roughly an additional $16 million in the same prices per annum to restore funding to the average levels seen under the Rudd and Gillard governments over the period 2008-13.

the protection of consumers, workers and the environment, the development of welfare policies and mechanisms, and the establishment of institutions of public accountability. Governments will also be interested in assistance with the technical and procedural aspects of service delivery, which a country like Australia is particularly well placed to offer.

Australian aid has in various ways funded Australian federal government agencies, state government agencies, public universities and even parliamentarians and political parties to provide targeted technical assistance to counterpart developing-country institutions in a range of areas, including those specified above. Until recently, such funding was mainly provided through two competitive grants programs, the Government Partnerships for Development Program and the Public Sector Linkages Program. However, DFAT states that 'no new rounds of these programs are currently planned'.[21] Perhaps grants schemes of this nature are an easy target when looking for savings to achieve harsh savings targets, but their discontinuation, no less than that of the Human Rights Grants Scheme, is particularly incongruous in light of the demand-side changes we are seeing, and will see much more of, in the region.[22]

There is a strong case for re-establishing a mechanism to support Australian public sector assistance to public institutions, and perhaps also to certain institutions of public accountability established by civil society organisations, in the developing countries of our region. Preferably this would be a single mechanism with broad scope rather than a series of region- or theme-specific mechanisms or centres.[23] It would have an ability to enter into multi-year commitments, a discernible identity and high-profile leadership, a mandate to share or recover costs wherever possible, and relatively modest funding of perhaps $15–20 million per annum.

21 The quoted statement is from DFAT's 'Whole of Government' web page, viewed 7 April 2017.

22 On the demise of the Human Rights Grants Scheme, see Robin Davies, 'Human rights day isn't what it used to be', Devpolicy Blog, 10 December 2014.

23 It is questionable whether it makes sense to create stand-alone institutions for relatively narrow fields of technical assistance. The now-defunct Centre for Democratic Institutions is a case in point, no matter that the concept underlying it was good.

4. Regional labour mobility

The Development Policy Centre, over several years, has made or been party to a number of proposals that, if adopted, would provide expanded opportunities for temporary labour migration from the Pacific island countries, Papua New Guinea and Timor-Leste.[24] As one example, Henry Sherrell has recommended extending the Temporary Graduate visa to graduates of the Australia-Pacific Technical College, a proposal that we would support. Some of these proposals have been aimed at enhancing the take-up and development impact of Australia's Seasonal Worker Program, which has so far been rather less successful than its New Zealand counterpart owing to limited employer demand.[25]

Complementing the latter proposals, which largely relate to matters of policy and regulation, we suggest that a modest injection of additional public resources could be beneficial. Several of the key problems identified to date might be addressed if sufficient resources were made available. One such problem is a lack of awareness of the program among employers. A second is that many employers would prefer to be able to select workers directly (currently, labour-hire firms generally identify and supply workers). A third is the up-front cost to employers, who do not face such costs in connection with their alternative labour pool, namely backpackers on working holiday visas.

Aid funds could be allocated to establish a small, time-limited public sector office with responsibility for marketing the program in Australia and offshore, managing a central labour exchange to facilitate direct selection of workers by employers (akin to the former Commonwealth Employment Service, though of course very limited in scope), managing a revolving fund to finance low-interest loans to meet some proportion of workers' international and domestic travel and establishment costs, and perhaps also relieving employers of some of the pastoral care responsibilities that they are currently expected to bear.

24 See particularly Richard Curtain, Matthew Dornan, Jesse Doyle and Stephen Howes, *Pacific Possible: Labour Mobility*, Australian National University and the World Bank, July 2016.

25 Proposals related to the Seasonal Worker Program include a crackdown on illegal labour in the horticultural sector, the removal of the option for backpackers to extend their working holiday visas for a second year, engagement of a specialised marketing agency, and establishment of a revolving fund to assist with travel costs. We have borrowed and slightly elaborated on this last idea.

This approach, which would be unlikely to consume much more than $10 million per annum and probably rather less, would to some extent resemble that taken in the early decades of Australia's aid scholarship program, or that taken by the Canadian government in the early years of its Seasonal Agricultural Workers Program.[26] The Canadian experience, incidentally, suggests that over time it should be possible for the government to pass responsibility to a self-financing private sector body for many of the functions mentioned above.

5. Medical research and infectious diseases

Given Australia's range of climates, its proximity to PNG and other tropical developing countries and its scientific expertise, there is a natural expectation that Australia's aid program should be particularly active in supporting research into the neglected communicable diseases of the tropics.

The situation is already better than it was a decade ago. The Rudd/Gillard governments had increased funding for international medical research to around $10 million per annum, used mostly to support a small number of Product Development Partnerships (PDPs). The present government has made an early commitment to maintain more or less that level of expenditure, and expenditure in 2015 as reported to the OECD was about $10 million in 2014 prices.[27] This has again been allocated mainly to a few PDPs, to whom a three-year commitment was made in early 2015.[28] More recently, in the context of the 2016 election, the government announced its intention to establish a $100 million 'regional health security partnership fund' which would 'harness Australia's world leading research institutions, scientific expertise, innovators and entrepreneurs to improve health outcomes in our part of the world.[29]

However, funding allocations have been quite arbitrary to date and, even allowing for differences in national income, funding for medical research has been relatively low by comparison with that from several other OECD countries, including the US, the UK, France and Switzerland.[30] The regional health security mechanism foreshadowed in 2016 has not yet seen the light of day. Presumably it will move forward in 2017-18 but it is unclear to what extent it will fund research as distinct from surveillance, containment, the provision of existing drugs and diagnostics and the general strengthening of health systems.

There is a strong case for at least doubling the level of Australian funding for medical research to around $20 million per annum. At the same time, this funding might be deployed more strategically were it run through a dedicated body with responsibility for international medical research, with a particular focus on neglected tropical and infectious diseases. This might be located within the government's regional health security mechanism, if that proceeds, or it might be constructed broadly on the model of the Australian Centre for International Agricultural Research (ACIAR), which channels funds to both Australian and international institutions, but on a smaller scale and therefore with more modest overheads. Some efficiencies might be achieved by situating such a body, as a distinct centre, within the National Health and Medical Research Council.

FINDING THE MONEY

In order to calculate the costs associated with the various priorities above with any kind of precision, it would be necessary to make a series of assumptions about how the government might choose to pursue them, were it minded to do so. For example, the more a development financing institution were required to carry country-related risks on its own balance sheet, the higher would be the cost of setting up the institution.

For the sake of argument, we assume the government would be willing to carry the bulk of any development financing institution's country-related risks on the National Interest Account, and that the institution might consume aid funds amounting to around $20 million per annum in its early years before becoming self-financing.

26 See Chapter 4 of *At Home and Away : Expanding Job Opportunities for Pacific Islanders Through Labour Mobility*, World Bank, 2006.

27 See Robin Davies, 'Reflections on the new aid paradigm, part 3: research for development', Devpolicy Blog, 28 July 2014.

28 See Robin Davies, 'Funding for TB and malaria product development partnerships: Australia's back', Devpolicy Blog, 26 March 2015.

29 See *The Coalition's Policy for a Safe and Prosperous Australia*, June 2016.

30 See Policy Cures, G-FINDER 2016, 'Neglected disease research and development: A pivotal moment for global health', Figure 23, p. 70.

We assume the other priorities we have discussed would be pursued with the indicative quantities of funding nominated above, and would be implemented with a lean administrative infrastructure.

Priorities 2-5 above would call for funding of not more than $70 million per annum. To that, we add $20 million for the core business of priority 1, the development financing institution. The impact investment component of priority 1, which could require separate grant funding of up to another $20 million per annum, would take the likely maximum cost of these five priorities to somewhere in the vicinity of $110 million per annum.

Such an amount could almost, in principle, be financed from the extra $85 million or so allocated to the aid program in order to maintain it in real terms under our first budget scenario, provided of course that the net allocation to other things was held constant in nominal terms. The latter proviso, however, is questionable. DFAT was forced to suppress funding to multilateral organisations, without reducing overall commitments, in order to deliver the savings required by the government in the 2016-17 budget while protecting already-diminished country programs. Any associated shortfalls will have to be made up from 2017-18. These will be financed in the first instance from nominal aid growth.

So, the total funding requirement associated with the five priorities above is likely to be well beyond the level that could be accommodated within the $85 million nominal aid increase assumed under our first aid budget scenario. Nevertheless, the additional funding required is not at all substantial in the context of an aid budget of approximately $4 billion. We suggest that it could be realised in one or more of several ways, as follows.

- The share of the aid program allocated to tertiary scholarships at Australian institutions could be reduced somewhat. Even if not reduced to the level that prevailed around 2010, which was 5-6%, a cut of about one percentage point to about 7.5% could yield savings of some $50 million per annum. Any such cut would preferably target short-term awards which, despite offering dubious development benefits, have come to dominate over long-term awards.
- The government could lock up rather less money in country programs by shifting toward a thematically-based approach to aid allocation for all but the most aid-dependent countries.[31] Enacted aggressively enough, this shift could free up more, perhaps much more, than $100 million per annum. Even enacted conservatively, it should be able to free up at least one-half of that amount.
- While this is a more speculative point, the allocation of more funds to public-sector implementation bodies, and less funds to country programs, would be likely to reduce exposure to high contractor management fees and other overheads. The related savings are not easy to quantify but could well be in the tens of millions.

It is not possible to predict how much funding might be freed up as a result of these several factors. We are confident, though, that the amount would exceed $100 million per annum and would therefore, in combination with a nominal budget increase to keep pace with inflation and meet multilateral obligations, be enough to allow meaningful action on all the priorities above.

THE HARD PART: REBALANCING WITH REAL GROWTH

Below we indicate, more briefly, a further five areas in which Australia could and should do much more under a scenario of significant aid growth, possibly combined with aggressive implementation of the first two savings strategies outlined in the previous section.

We take it for granted that assistance for health and education, and related sub-sectors like disability, would rise under any such scenario. Our emphasis below is on important areas at risk of remaining underfunded.[32]

31 As proposed by Robin Davies in his contribution to the Development Policy Centre's submission to the government's foreign policy white paper process (see footnote 1).

32 We do not here discuss options likely to be viewed as inconsistent with the wider policy framework of the current government. For example, we do not include the option of expanding support for activities relating to the rights and conditions of workers in the Asia-Pacific, though we do believe more should be done in that area. It is a political reality that no such expansion is likely at present.

1. *Food and water security*

We have previously called attention to the magnitude of the decline in funding for water and sanitation, a core use of aid, and have also noted its loss of profile in policy.[33] We have noted above the recent decline in support for rural and agricultural development, in both absolute and proportional terms. Within the existing budget envelope, it would be difficult to find the extra $180 million or per annum that would be required to restore funding for food and water security to about the average level achieved over the 2010-13 period (comprising around $65 million for water and sanitation and around $115 million for agricultural development).

One concrete option for doing more in this area would be to extend the remit of ACIAR to explicitly cover water security, as well as biosecurity and nutrition. With a significant though not outlandish increase in its current $103 million budget—probably something like a 50% increase—it could expand its present way of working into these closely allied fields and relieve DFAT of the responsibility of overseeing such specialised work.

2. *The health, welfare and rights of women and girls*

We have noted the growth under the present government of funding for women's equality organisations and institutions, which in 2015 reportedly stood at around $85 million. A range of concrete measures implemented by Foreign Minister Julie Bishop have given partial effect to her stated commitment to improving the circumstances of women and girls in our region and beyond.[34]

However, the budget constraints under which the minister has been operating, particularly after the $1 billion cut imposed in 2015-16, have limited her scope to deliver more than a collection of relatively small and fragmented grants in this field.[35] Funding for reproductive health is down at a time when the relevant delivery partners face a looming 'Trump gap', and funding for basic health care, which includes maternal and child health, is well down. The alarmingly high levels of domestic violence in some of our neighbouring countries, while not ignored, have not yet been met with a commensurate funding response from the Australian aid program.

In short, what is needed is a larger, multi-year commitment to activities that have a lasting and systemic impact on maternal and child health and welfare and the rights of women and girls. Viewing investments in all sectors through a gender lens is certainly important, but so is ensuring that enough funding is available to support substantial programs that directly address the needs and risks of women and girls, working not only with civil society organisations but also with government policymakers, service providers and legal and judicial institutions. One option would be to establish a dedicated funding envelope, probably not less than $100 million per annum, for action across the region on three main fronts: policy and legislation, violence against women, and sexual and reproductive health.

3. *Humanitarian aid*

The humanitarian aid system is under extreme pressure and public support for expanded humanitarian action is at very high levels. Australia has more or less maintained its funding for emergency response but is doing proportionally less in support for protracted crises and disaster preparedness. In a scenario of significant aid growth, we would hope to see Australia become a much larger contributor to the UN's Central Emergency Response Fund (CERF), which finances both rapid emergency responses and underfunded emergencies. The UN, it should be noted, is seeking to double the CERF's resources to $1 billion per annum within several years.

33 See footnote 13.

34 For example, the government decided in 2016 that a large new program to replace the Civil Society Water and Sanitation Fund will be constructed to address the specific needs of women and girls. Most recently, in February 2017, it announced funding of an additional $9.5 million over several years to promote sexual and reproductive health in emergency settings, through the UN Population Fund. It announced an equal amount, at the same time, to support the International Women's Development Agency and the Australian National University to develop an 'individual deprivation measure' that will give a clearer picture of the economic circumstances of women and girls within households.

35 Australia's aid in the category 'women's equality organisations and institutions' was spread across 103 separate activities in 2015, of which only a dozen received funding greater than $1 million and only three received funding greater than $3 million. Average funding per activity was $620,000.

At the same time, we would hope to see Australia pursuing a larger and also more distinctive role in crisis situations through the use of earmarked resources. For example, Australia could seek to specialise and focus resources in several defined areas in protracted crisis situations. Obvious possibilities include women's economic empowerment, support for people with disabilities, and early childhood and primary education.

4. Climate change and the environment

It seems unlikely that Australia will get away indefinitely with the 'business as usual' financing commitment announced by the Prime Minister at the 2015 climate change conference in Paris—which effectively guaranteed climate-relevant aid spending of about $200 million per annum over five years.[36] There will be pressure to do more, particularly but not only if Australia's aid budget begins to grow above inflation.

An understanding was established around the time of Australia's 'fast-start' climate change financing commitment in 2009, which related to the 2010-12 period, that approximately 5% of Australia's aid would be provided as climate change financing, even as the program grew toward what was then a target of some $8 billion by 2015. Were the aid program to grow to around $6 billion by 2020-21, in line with our second budget scenario, a notional 5% target would entail an annual commitment of about $300 million. That's relatively modest, but 50% above the level currently intended.

For efficiency reasons, the majority of any additional funding in this area should be channelled through the Green Climate Fund or the multilateral development banks, but some might also be provided through an Australian development financing institution, were one to be established.

5. Multilateral development financing

As shown above, while Australia's core funding for multilateral organisations has so far shown no marked decline, its overall use of the multilateral system has fallen roughly in proportion to the overall reduction in aid since 2013, by about one-quarter.

36 See Robin Davies, 'Climate finance : the Paris opera, and Australia's (un)supporting role', Devpolicy Blog, 2 December 2015.

A return to previous levels of total funding to and through multilateral organisations would require additional funding of some $370 million dollars per annum (in 2014 prices) relative to the 2015 level of expenditure. Some part of this increase might well be required to meet Australia's paid-in capital obligations to the Asian Infrastructure Investment Bank.[37] The balance, as well as any dividend associated with reduced calls on donors for contributions to the soft financing arms of the World Bank and the Asian Development Bank, should be allocated, not according to a historical pattern, but on the basis of a rigorous assessment of organisations' efficiency and effectiveness. The basis on which funds are currently allocated to multilateral organisations is particularly opaque.

Admittedly, making all the moves suggested here and earlier in this brief would be difficult. But we believe each individual move deserves at least serious consideration, and that some might very easily be made even if the 2017-18 budget envelope turns out to be in line with our more constrained budget scenario.

RECOMMENDATIONS

1. We recommend that under a scenario of continuing budget constraints the government look to undertake a limited rebalancing of the aid program so as to accommodate the following five priorities.

   1.1. **Outward investment promotion**, through the establishment of a bilateral development financing institution.
   1.2. **Demining and related objectives**, through an approximate trebling of the small amount of funding that is currently allocated to relevant activities and the adoption of a new mine action strategy.
   1.3. **Public policies and institutions**, through the re-establishment of a mechanism to support Australian public sector assistance to public institutions in the developing countries of our region.
   1.4. **Regional labour mobility**, through the establishment of a public sector office geared toward addressing the main factors

37 See Robin Davies, 'Under pressure : calls on Australia's 2016 aid budget', Devpolicy Blog, 3 March 2016.

that currently limit employer demand for seasonal workers from neighbouring countries.

1.5. **Medical research and infectious diseases**, through a doubling of funding for relevant activities and the establishment of a dedicated body with responsibility for international medical research, with a particular focus on neglected tropical and infectious diseases.

2. We further recommend freeing up funding for some or all the above priorities by means of two principal measures.

   2.1. Reducing tertiary scholarships' share of the aid program to around 7.5%.
   2.2. Ceasing to define bilateral aid envelopes for any but the most aid-dependent partner countries.

   We have noted also that the allocation of more funds to public sector implementation bodies, and less to country programs, might somewhat reduce exposure to contractor overheads.

3. We recommend that under the admittedly unlikely scenario of significant aid growth, the government direct additional resources particularly to the following five priorities.

   3.1. **Food and water security**, through the allocation of an additional $180 million or so per annum and an expansion of ACIAR's remit to take in water security, as well as biosecurity and nutrition.
   3.2. **The health, welfare and rights of women and girls**, through the allocation of an additional $100 million or so per annum and the establishment of a dedicated funding envelope for action across the region on policy and legislation, violence against women, and sexual and reproductive health.
   3.3. **Humanitarian aid**, through a large increase in support for the CERF, a restoration of funding for disaster preparedness and protracted crises, and the pursuit of a larger and more distinctive role in crisis situations through the use of earmarked resources.
   3.4. **Climate change and the environment**, through the provision of not less than 5% of the aid budget for action on climate change mitigation and adaptation.
   3.5. **Multilateral development financing**, through an increase in real dollar terms of around 25% in Australia's contributions to the multilateral system.

ABOUT THE AUTHORS

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