



# Australia's 2013 aid budget: third time disappointed or the third largest increase in aid ever?

by Stephen Howes

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Last year in the budget, the Government disappointed aid supporters by delaying its 0.5% of Gross National Income (GNI) target by a year – now it is to be achieved in 2016-17 rather than 2015-16 (see our analysis of the 2012 aid budget [here](#)). Aid still went up last year, but by a relatively modest amount. The 2012-13 aid budget was set at \$5.2 billion, \$330 million above 2011-12.

Aid supporters were disappointed again, and some were outraged, when AusAID's budget was raided to take \$375 million to help meet costs associated with the presence of asylum seekers in Australia. That \$375 million can still be counted as aid under OECD rules, but those rules are controversial and unclear, and the government hasn't explained what the money is being used for. Even the [OECD itself](#) has criticized the abrupt diversion. Since \$375 million (the asylum-seeker diversion) is greater than \$330 million (the increase in last year's aid budget), some saw aid as being effectively cut – the first reduction since 2000.

And now we come to the 2013 budget. No one really knows after the last two instances whether the Government is still committed to the 0.5% target. And then there is the huge revenue downturn, and the "all bets off" statement of the Prime Minister. So the uncertainty this time round is particularly high, but so are the stakes.

In the last budget, the Government set its aid/GNI target for 2013-14 at 0.37% up from 2012-13's 0.35%. Nominal GDP growth this year has been unusually low due to the drop in our terms of trade, but on the other hand GNI has been revised upwards for 2011-12 meaning that 0.35% is still a likely outcome for this year. Nominal GDP growth for the budget year is likely to be forecast at more conventional rates, for example, 5.5%. (Treasury's forecast from last year – Treasury doesn't actually give separate GNI forecasts, but GDP and GNI normally

move very closely together.) This means aid will have to increase by about 9% this year or about \$500 million to hit the 0.37% target. This is about \$100 million below what I **projected** last year due to weaker economic conditions, but would still be the third largest increase in aid ever.<sup>[1]</sup>

Given all the dire fiscal news, you would have to be an optimist to think that the Government will follow through with such a large increase. On the other hand, it hasn't actually been ruled out, and there is less speculation than there was last year of an aid cut, and certainly less campaigning to prevent it.

So, will we see the third largest aid increase ever, or will we see the aid sector disappointed again, for the third time in a year? It is hard to see aid being cut in absolute terms. But \$0-\$500 million is a large range. There's a lot to play for, with even more uncertainty than usual, in terms of both the Government's intentions, and the GNI projections which will convert an aid/GNI target into an actual aid budget.

The importance of this year's budget will endure well beyond the next 12 months. If Labor does increase aid by \$500 million, or close to it, you would have to conclude that it is still serious about the 0.5% target. This is obviously important if Labor is re-elected. The opinion polls say it won't be. But even then, the numbers in this year's budget, for this and the three subsequent years (the forward estimates period), will be important in setting a baseline for a Coalition government. A re-stated commitment to 0.5% in this budget would mean that the Coalition could announce large cuts (or savings) relative to that baseline and yet still deliver significant aid increases in the coming years.

In any case, the Government will need to decide what to do about the 0.5% target, which, as I **noted** last year, will require massive year-on-year increases, averaging around \$1 billion for the next four years. (The required average increase has come down since last year, but not by much.) Will the Government stick with its 2016-17 target, defer it again, or abandon it altogether?

There's also the question of what any new aid will be spent on if it is made available. Presumably, the first call will go to the \$375 million axed by the asylum-seeker diversion.

It is possible that more will be taken to pay for asylum seekers, but it has been widely rumoured that the amount might be only slightly larger this coming year, and capped, which would be good for aid program budgeting.

If there is more new aid to go around, Afghanistan might have a call on it, given that we have promised to increase our aid to Afghanistan to \$250 million by 2015-16 and this year it was only \$200 million (before the budget cuts). Beyond that though, it's

probably not worth speculating given the uncertainty around the aggregate increase itself. It will be interesting to see what happens to aid to Africa.

As usual, when it comes to the aid budget, it is easy to be fixated on the numbers, and forget about the quality agenda. That would be a mistake. Last year, the Government released its 4-year Comprehensive Aid Policy Framework which told us what we were buying in terms of results with the aid program. That got blown out of the water with the asylum-seeker diversion. (With a budget of \$375 million less for the traditional aid program, you're going to get \$375 million less of results.) It will get blown away again if the increase in the aid program is much smaller than was then expected. But will there be a new CAPF or results framework? It will certainly be worth watching for, and scrutinizing if it appears.

At Devpolicy, we'll be analysing the budget on Tuesday night, and sharing our views at our inaugural [aid budget breakfast](#) on Wednesday morning at 8:30 am at the Crawford School. Hope you can make it.

**UPDATE:** Foreign Minister Carr has [just announced](#) that aid will increase by 9.6%, which would be \$495 million. He's also announced a cap on the amount that will be diverted to fund asylum seeker costs, and that the 0.5% target will be delayed by a year again.

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[1] I expected a bigger drop in the required increase, as nominal GDP growth this year is [as low as 1.6%](#), but revision in GNI numbers means that aid/GNI in 2011-12 was only 0.34% not 0.35% as earlier believed – see AusAID's excellent new [aid statistics](#) for this. This largely offsets the fall in growth in 2012-13.

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