It will be this big.

From expansion to crisis in Australian aid: reflections on the Coalition's aid cuts

By Robin Davies
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Shadow Treasurer Joe Hockey's announcement yesterday that the Coalition will cut $4.5 billion in planned aid spending from now to 2016-17 generated a great deal of media attention, probably rather more than the Coalition had expected. It attracted forceful condemnation from Australian non-government organisations and, acrobatically, from Labor. Criticisms of the policy highlighted its impacts on vulnerable groups and Australia's national interest, and also its implications for aid effectiveness, already a casualty of Labor's own cuts to planned spending.

It's understandable that the size of the cuts should get most of the attention. Given that Labor's cuts to the aid program's forward estimates totalled more than $6 billion in the current and previous financial years, we have now witnessed a total reduction of more than $10 billion in the level of aid that was to have been provided between last year and 2016. The Coalition's cuts are of a similar magnitude to those made in the 1996-97 budget under the newly-elected Howard government.

However, this post goes beyond the headline numbers to look at some of the nuances and impacts of the Coalition's policy. It doesn't attempt to predict country-level impacts. As Hockey has said, the Coalition has yet to consider where the cuts will fall. I make seven broad observations.

1. **The Coalition has cut the aid program, not merely reduced its growth**. Tony Abbott was careful to say that the policy of the Coalition was 'reducing the growth in foreign aid', with future growth to be tied to the rate of inflation. That policy was in fact advocated by former finance minister Nick Minchin last year. While it would involve major cuts to the forward estimates it would at no point see the real value of the aid program fall, and would entail nominal annual growth. In that rather minimalist sense, the policy would maintain a commitment to aid growth. However, it's important to realise that the Coalition's policy takes not the current financial

year but last year, 2012-13, as the 'peak' year. It cuts $656 million from the aid program in the current financial year which began two months ago. That's 11.6 per cent of this year's aid budget (the Howard government cut aid by 9.3 per cent in 1996-97, but at the start of the year, not part-way through). Aid in 2013-14 will fall from $5,666 million to $5,010 million which is $140 million below its 2012-13 level and represents a five per cent cut in real terms.* This cut is then transmitted to subsequent years courtesy of the policy of inflation-indexing.

2. **The numbers are baffling and unlikely to stand**. The Coalition has released bottom-line figures [pdf, p. 4] for the aid program and, in its detailed costings table, annual savings figures. The bottom-line figures looked very wrong, implying larger cuts than were reflected in the annual savings figures and showing a figure of $3.9 billion for aid in 2012-13, when in fact $5.1 billion was spent. Stephen Howes figured out that the bottom line figures were arrived at by applying the savings to a subset of the aid program, as represented by the forward estimates for AusAID, after accounting for cuts already made by Labor in their August economic statement. Stephen published his analysis yesterday, applying the Coalition's advertised cuts to the aid program as a whole rather than just to AusAID's forward estimates, which is really the only way of doing it. The result is a lumpy spending profile that would actually see an increase in aid spending by some $460 million in the Coalition's first budget. Clearly there will be no increase of this magnitude, which would be inconsistent with inflation-indexing. The actual year-by-year savings figures are likely to be quite different from those advertised—though still not less than $4.5 billion in total.
3. **The current-year cuts are unprecedented and could throw the aid program into crisis**. A cut of $656 million from the aid program in the current financial year is a very big deal, and very bad news for the agency that does most of the work of aid planning and management (though other agencies that spend ODA will no doubt also make their contributions). AusAID does not start any given financial year with a bucket of unallocated money and proceed to give it away in twelve equal monthly dollops. It plans. Much of its budget is already committed, via contracts, agreements, pledges and other understandings of various degrees of firmness. In addition, a sizeable proportion of its budget, approaching $1 billion all up, has quite recently been reallocated to the immigration portfolio, in December 2012 and May and August 2013. That's a billion dollars that only nine months ago would have been slated for other uses. Much of AusAID's budget flexibility at any given point in time resides in its emergency and humanitarian allocation—not

something a government would normally be keen to zero. It is impossible to imagine that a Coalition government could implement 2013-14 cuts of the magnitude indicated without all sorts of diplomatic and legal pain. And then there are the costs to aid effectiveness: all the delays, reworkings, postponements and engagements with interest groups which the budget cuts will necessitate, and which will undermine predictability and strategic clarity, the twin bedrocks of effective aid.

4. **Australia won't make the finals**. Australia was the eighth-largest OECD donor in 2012, rising toward sixth-largest within a year or two. With an aid budget of around $5 billion this year and into the future, we estimate that Australia would fall to tenth place in 2013 and probably eleventh within a year or two. Australia's ODA/GNI ranking, thirteenth in 2012, is probably more secure if not particularly impressive. While the Coalition's cuts would reduce the ratio from 0.36 per cent last year to 0.33 per cent in 2013-14, and then keep it there over the forward estimates period, the country immediately below us, Canada, is likely to cut aid by more than six per cent in real terms this year. The Coalition maintains its commitment to reaching a ratio of 0.5 per cent at some point but it might as well commit to 0.7 per cent. That would be no less realistic.
5. **NGOs, multilaterals and bilateral aid aren't competitors**. In his public appearances yesterday, Joe Hockey said more than once that, in addition to cutting aid, the Coalition would direct more aid to Australian non-government organisations and less to international organisations, including United Nations organisations. The latter thought was not in his written statement and neither thought was in the Coalition's foreign policy, released later the same day. Some antipathy toward multilateral organisations was to be expected as it was always present during the Howard years. However, Australia is actually a miserly donor of core funding to the multilateral system, providing less than 15 per cent of its aid for this purpose. Half of its payments to multilaterals are actually run through country programs, for country- and sector-specific purposes. Cut these, and you cut country programs. As for NGOs, there is no doubt many of them could effectively use more funding but they are unlikely to be supportive of a reduction in multilateral aid. Many multilateral organisations are in the same line of business as NGOs, providing essential health, education and emergency relief services. Moreover, most multilateral organisations use non-government organisations, including Australian organisations, their international federation partners and their local affiliates, to deliver goods and services on the ground.

6. **AusAID needs its $375 million back.** The Coalition was highly critical of Labor's decision to use aid funds, $375 million in each of 2012-13 and 2013-14, to meet costs associated with asylum seekers living in the Australian community and awaiting processing. This, they said, made Australia the third-largest recipient of its own aid. Logically, therefore, they would not count the $375 million allocated to the immigration portfolio as aid. This would give AusAID $375 million in additional flexibility, thus reducing the abovementioned adjustment pain from $656 million to $281 million in 2013-14. In practice, this is most unlikely to happen since it would create an expense on the immigration portfolio's account that was not incorporated into the Coalition's overall costings.
7. **Stressed aid programs can't accommodate shiny new things.** The Coalition has, over time, either said or implied that it wants to spend aid money on various new things. Yesterday they added aid for NGOs but previously they have talked about using aid in support of their northern Australia policy, increasing 'aid for trade' and, most recently, taking global leadership on a dusted-off forest management initiative that would reduce greenhouse gas emissions from deforestation or sequester emissions through reforestation. It is also possible that their 'reverse Colombo Plan' will incur costs for the aid program. Certainly some new things can be funded even within a contracting or flat aid budget, and even if asylum seeker costs, onshore and/or offshore, continue to be charged to that budget. But global leadership on savings the lungs of the earth, or pretty much anything else, might be just a bit of a stretch.

All in all, the Coalition's planned aid cuts will have a severe impact at many levels. Australia's international standing, bilateral diplomatic relations and aid effectiveness will suffer. The Coalition's own capacity to do anything new with the aid program will also be highly constrained, which could have the unfortunate effect of creating a negative feedback loop: a program perceived as not serving the national interest in creative and flexible ways is a program ripe for further cuts.

Shifting the aid program to a stance of no real growth with due lead time and in a considered way is one thing. Plunging it into crisis by making deep and immediate cuts without warning is another. Whatever else it does, the Coalition should reconsider its $656 million cut to the aid program in the current year.

Robin Davies is Associate Director of the Development Policy Centre. He recently published this comparative analysis of the major parties' policies on aid and development.

Read more of our analysis on the new government and aid here.

**In the original version of this post, the size of the real cut in aid in 2013-14, relative to the 2012-13 outcome, was incorrectly given as 3.6 per cent. It is actually five per cent.*

About the author/s

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Robin Davies was appointed Head of the Indo-Pacific Centre for Health Security at the Australian Department of Foreign Affairs and Trade in September 2017. Previously, from 2013, he was the Associate Director of the Development Policy Centre and from mid-2014, concurrently an Honorary Professor at the Crawford School at ANU.