Labor reduces but does not eliminate Coalition aid cuts

This year’s aid budget (2022-23) has been increased from $4.55 billion under the Coalition to $4.65 billion under Labor. There are bigger increases in the forward estimate years (2023-24, 2024-25 and 2025-26), averaging $0.44 billion each. As per last night’s budget, aid under Labor is in total $1.43 billion higher than under the Coalition for this year and the next three.

That said, the outlook for aid is still pretty grim. Adjusting for inflation, aid is set to fall every year from 2022-23 to 2025-26. The total reduction by 2025-26 is 5%, which is a lot less than the 14% cut under the Coalition’s March budget (using the latest inflation numbers), but nevertheless a real cut.
The other key indicator is ODA/GNI, or aid as a proportion of the national economy (Gross National Income), the so-called generosity indicator. There the story is the same. Under the Coalition this ratio would have fallen from 0.2% in 2021-22 to 0.17% in 2024-25. Under Labor it is projected to fall to 0.19%. That still leaves us in the deplorable “0.2% club” of miserly donors, still heading in the wrong direction, just not as quickly.
Not surprisingly, the major beneficiary of the extra $1.43 billion is the Pacific ($900 million), which is already the most aid-dependent region in the world, but which, bipartisan wisdom dictates, just can’t be given enough aid. Despite the fact that DFAT has yet to complete its development finance review and there is little in the way of public reporting on its performance, an additional $500 million in grants over 10 years has been allocated to the Australian Infrastructure Financing Facility for the Pacific. The rest of Labor’s additional aid goes to Southeast Asia ($470 million), apart from a small amount for Australia’s development NGOs ($30 million) and to cover DFAT departmental costs ($26 million).

Despite the multiple global crises currently playing out, there is no increase in the humanitarian budget. The aid budget summary boasts about the $5 million Australia gave in
response to the Pakistan floods, and $15 million for the African food crisis – peanuts. One would surely have expected a more international, global-oriented aid budget from a new Labor government.

On transparency, there is some additional information in this year’s budget summary, including sectoral estimates. This is welcome given the deterioration in transparency under the Coalition. But there is a lot more to do on this front and hopefully the new development policy will lay out some clear commitments that will be resourced.

Labor is actually increasing aid by more than the $1 billion it promised during the election. But $1.4 billion over four years is not enough to protect the aid program from inflation. Nor is it enough to meet the Labor party platform commitment to increase aid relative to GNI. What actual Labor policy is on aid volumes is impossible to say.

If you are an optimist, you will be grateful that Labor has boosted aid relative to the Coalition, and think that our new government will build on this budget in subsequent ones. In that best-case scenario, we would see an end to the aid cuts that have been underway since 2013. If you are a pessimist, you might think that without any aid targets, and given other spending pressures, the future of Australian aid is bleak. If that is the case, aid will continue to fall. What the odds are for these two scenarios we leave for the reader to venture.

Devpol’s Australian Aid Tracker has been updated with the new budget numbers.

Notes for graphs: Actuals from 2020-21 and earlier. 2021-22 is last year’s budget estimate. 2022-23 and onwards are from this year’s April (Coalition) and October (Labor) budgets respectively.
Additional COVID funding postpones aid cuts

Faced with the prospect of another cut to aid while the COVID-19 pandemic continues – and in some ways intensifies in our region – the government has again reached for the “temporary and targeted” lever to avoid such an outcome. Temporary measures were set to decline to $179 million in 2022-23, but were increased through the budget process to $460 million.

In addition, for the first time in a decade, the government will do what it promised to do in the 2013 election and index aid, though unfortunately the 2.5% increase applied to “base” aid, that is excluding the temporary measures, will not keep up with resurgent inflation. Together, however, these two measures – partial indexation and an increase in temporary aid – will result in a small nominal increase and a stabilisation of aid in real terms in 2022-23.

Expectations set by forward estimates

If the budget had followed the 2021-22 forward estimates, there would have been a total aid decline in real terms by 5.5% in 2022-23. Given this, a stabilisation in real terms, while modest, is a significant improvement. Revised estimates for the current year also show slightly higher than budgeted expenditure, with increases to meet urgent needs, such as aid to Ukraine. However, the longer-term projection of cuts to come is a feature of both the last and this budget. While the 2.5% increase in the base will remain a feature of aid budgets in the coming years, this is not enough to offset the (postponed) unwinding of the temporary COVID-19 measures.

Temporary funding extended

The budget introduces a new, two-year $318 million assistance
package for the Pacific and Timor-Leste. This will replace the existing Pacific Response Package, announced in the 2021 Budget, which will expire in June 2022. The bulk of this measure ($285 million) will be expended in 2022.

While the increases in regional poverty, inequality and instability resulting from COVID-19 will be both prolonged and widespread, the government’s response in both the Pacific and Southeast Asia remains “temporary and targeted”. This piecemeal approach seems counter-intuitive for a government that talks frequently about Australia’s need to shape a more contested strategic environment over a time horizon that spans decades.

More aid to partner governments

As Australia’s aid response to COVID-19 enters its third year, one of the most interesting features has been the increase in the share of aid, particularly Pacific aid, delivered as either direct or earmarked budget support. As recently as 2019, the share of Australian aid delivered through partner governments was in decline. However, given the need to provide practical and rapid support in the face of the COVID-19 shocks, the government has increased the share of total aid provided through partner governments to 9%. This is its highest level since the Coalition assumed government in 2013 and almost triple the share provided in 2018-19.

Whether this will become a more permanent feature of Australia’s Pacific aid remains to be seen. But, using the leverage that comes with China’s growing presence in the region, Pacific governments are likely to push for further increases in direct budget support from Australia.

Other aid increases: Ukraine, COVAX, CEPI

Aside from the Pacific, the Government has also provided additional funding ($50 million in 2021-22) to support its $65 million commitment to the international humanitarian response
in Ukraine and surrounding countries. Budget night has also confirmed an extra $77 million in additional ODA in 2021-22 to support a new Australian pledge of $85 million to the COVAX Advanced Market Commitment mechanism to address global vaccine access. There is also $100 million over five years (of which half qualifies as aid) for the Coalition for Epidemic Preparedness Innovations, a massive step-up of our previous commitment of only $12 million.

Cheap loans

While there have been some modest increases in aid in this budget, the government has been more active on the loans front. The budget announced an increase in the cap of non-concessional finance provided through the Australia Infrastructure Financing Facility for the Pacific, from $1.5 billion to $3 billion.

Loan budget support also dwarves the grant budget support discussed above, with a total of $2.7 billion of cheap but non-concessional loans disbursed to the Indonesian and PNG governments since late 2019. No government has ever provided as much debt financing for our neighbours – and, with interest rates so low in Australia, this is a valuable contribution.

Transparency and aid/GNI

On the transparency front, it is positive that the Government is now providing estimates for total aid (“base” plus temporary and targeted measures). The absence of such basic information, missing for the last two years, led to all sorts of bizarre contortions and confusions. Good that the government is now talking about total aid again, and good that a cut was avoided at a time of global and regional crisis.

Those are low bars though. One notable, negative milestone the government hit this year was to preside over an aid budget of just 0.2% of gross national income, a new all-time low in relation to the metric by which countries’ aid programs are
traditionally compared. Under current budget settings, this ratio is set to decline further. Postponing aid cuts will not be sufficient to challenge Australia’s new-found status as a confirmed aid laggard.

More details on the new aid budget can be found at the Development Policy Centre’s Australian Aid Tracker.

The authors’ analysis was presented at the 2022 aid budget breakfast on Wednesday 30 March. View the presentation and watch the livestream replay.

An agenda for aid and development in the 2022 federal election

With the postwar global order facing its most profound set of challenges in almost 80 years, Prime Minister Scott Morrison has highlighted the importance of “using all the elements of statecraft to shape the world we want to see”. Labor’s Foreign Affairs spokesperson, Penny Wong, appears to agree, saying “we need to deploy all aspects of state power – strategic, diplomatic, social, economic”.

Alongside defence and diplomacy, the upcoming federal election provides an opportunity to articulate the important role of aid and development in advancing Australia’s foreign policy goals. Recent polling shows that public support for foreign aid has increased significantly during the COVID-19 pandemic. But if the parties are to have a fulsome public debate on priorities for aid and development in the upcoming campaign, core issues of strategy, budget and capability need to be at
One of the first tasks of the next government will be to establish a process for long-term development policy that articulates Australia’s goals and priorities, how the program will work with its various partners, and accompanying performance measures. Just as defence and diplomatic responses to Australia’s changed strategic circumstances will require decades-long investments, so too will its development engagement.

It has been more than 10 years since there has been an independent review of the effectiveness of Australia’s development cooperation program, and more than four years since the publication the 2017 Foreign Policy White Paper. In December 2019, the Morrison Government committed to a new development policy and initiated an expert-led process to support this. COVID-19 put this on hold and an interim two-year strategy, ‘Partnerships for Recovery’, was announced in mid-2020 and is due to expire in mid-2022.

A future development policy should encompass all forms of finance – grants, loans, as well as blended finance – to ensure strategic coherence, reduce fragmentation and drive human development impact. The humanitarian funding commitment of $500 million – set out in the 2017 White Paper – will need to be revisited in light of contemporary assessments of Australia’s ‘fair share’ of global efforts to tackle increased fragility and conflict, climate-related disasters, displacement and food insecurity. A new development policy should also address the role of civil society as a key pillar of effective, inclusive institutions and centre gender equality, disability inclusion and inter-generational voice.

A new development policy will also need to address questions of future geographic focus and priorities, including the implications of the bipartisan ‘Indo-Pacific’ frame. For example, under any reasonable definition South and West Asia
are clearly part of the Indo-Pacific. But Australia’s bilateral development assistance to countries such as Bangladesh, Pakistan and Sri Lanka has been in free fall for a decade. It should also provide a vision for strengthened Australian engagement in Southeast Asia, along the lines recently set out by experts through the Asia Pacific Development, Diplomacy and Defence Dialogue.

The Pacific ‘Step Up’ should also be refreshed in a manner that puts development aspirations and ambitions of Australia’s neighbours at the forefront. For example, Australia’s development cooperation program represents the most practical tool for addressing both the causes and consequences of climate change with its neighbours, including ensuring the integrity of regional carbon markets.

Second, the political parties should set out their respective plans for the development budget. Several of the government’s temporary and targeted measures to address the humanitarian, health and economic consequences of the pandemic will lapse in 2022 and 2023. This raises the prospect of decreased aid just as regional poverty is rising and as some of the worst health and economic impacts of ‘long COVID’ in the Pacific and Southeast Asia become apparent.

While its national platform commits Labor to reaching a funding target of 0.5 per cent Official Development Assistance (ODA) as a proportion of Gross National Income (GNI), Labor has neither set a date for reaching this target, nor defined a process for getting there within the next decade. With ODA/GNI currently estimated at just 0.21 per cent, more than doubling the aid budget would presumably require a staged, stepped process linked to the objectives of a new long-term development policy.

Finally, an election debate needs to address how an incoming government would restore the Department of Foreign Affairs and Trade’s development and aid management capability. The
abolition of DFAT’s Office of Development Effectiveness in 2020, the fragmentation of development strategy across multiple geographic and sectoral policy areas and the ongoing reduction in specialist development positions has reduced coherence and effectiveness and undermined clear accountabilities. This is despite the development program constituting the largest single component of DFAT’s expenditure. Transparency has also been patchy.

Development may not feature heavily in the 2022 election campaign. But the importance and urgency of an election debate that includes development has never been clearer. The issues of strategy, budget and capability raised will be critical to Australia’s ability to pursue its interests and work with its neighbours, partners and allies in a more uncertain and competitive world.

Cameron Hill, the author of this blog first published by the Lowy Institute in The Interpreter, was formerly Policy and Advocacy Advisor with the Australian Council for International Development (ACFID). He has recently joined the Development Policy Centre as a senior research officer. The pre-election policy briefs on which this blog is based can be found [here](#).

This post was amended on 23 March 2022 to reflect the fact that based on the Australia’s Official Development Assistance: Statistical Summary 2020-21, Australia has met the $500 million humanitarian commitment set out in the 2017 Foreign Policy White Paper for the last two years (2019-20 and 2020-21).