



## Policy costing—outside the caretaker period

Name of proposal:	Foreign Aid
Summary of proposal:	<p>The proposal would abolish all foreign aid payments except for short term humanitarian relief following natural disasters.</p> <p>The proposal would also withdraw Australia’s membership and cease capital contributions and funding to the:</p> <ul style="list-style-type: none"> <li>• Asian Development Bank (ADB)</li> <li>• Asian Infrastructure Investment Bank (AIIB)</li> <li>• European Bank for Reconstruction and Development (EBRD)</li> <li>• World Bank Group (WBG)</li> <li>• International Monetary Fund (IMF).</li> </ul> <p>This proposal would have effect from 1 July 2017.</p> <p>The request sought medium term estimates to 2026-27.</p>
Person/party requesting the costing:	Senator David Leyonhjelm, Liberal Democratic Party
Did the applicant request the costing be confidential:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Date costing request received:	9 August 2016
Date costing completed:	19 April 2017
Expiry date of the costing:	Release of the next economic and fiscal outlook report.

### Costing overview

This proposal would be expected to increase the fiscal balance by \$11,620 million, increase the underlying cash balance by \$11,220 million and increase the headline cash balance by \$12,420 million over the 2016-17 Budget forward estimates period.

The fiscal, underlying cash and headline cash balances differ for the following reasons:

- Funding commitments to multilateral organisations have an impact on the fiscal balance when a commitment to make future payments is entered into and impacts on the underlying cash and headline cash balance basis when the payments are made.
- Paid-in capital would not impact on either the fiscal or underlying cash balances as it is treated as a financial asset. Paid-in capital would impact on the headline cash balance only when payments are made.

As requested, medium term estimates for this proposal to 2026-27 are at Attachment A.

Withdrawing contributions and membership from each multilateral organisation would be subject to complex negotiations with variable timing and outcomes. The financial implications of this proposal would be sensitive to these factors.

**Table 1: Financial implications (outturn prices)<sup>(a)(b)</sup>**

Impact on (\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Fiscal balance	-	3,350	3,460	4,810	11,620
Underlying cash balance	-	3,350	3,860	4,010	11,220
Headline cash balance	-	3,350	4,060	5,010	12,420

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

## Key assumptions

The financial implications of this proposal were estimated based on the following assumptions:

- The Australian Government would notify organisations of its intention to cease membership (without entering into any new commitments) on 1 July 2017.
- All current commitments to multilateral organisations would not be paid.
- Australia's paid-in share capital would be returned over a period of 10 years from 1 July 2019 (it is assumed that it would take two years for the multilateral organisations to commence the refund of paid-in shares).
- The costing does not consider potential flow-on financial and economic impacts on Australia's international relationships resulting from the proposal.

## Methodology

The impact of this proposal was derived by estimating the financial impact of ceasing all future Overseas Development Assistance (ODA) funding (excluding the *Emergency Humanitarian and Refugee Programme*) from 1 July 2017 and the return of paid-in capital over the 2016-17 Budget forward estimates period and the medium term.

Administered expenses have been rounded to the nearest \$100 million. Departmental expenses have been rounded to the nearest \$10 million.

## Data sources

The Department of Foreign Affairs and Trade provided 2016-17 Mid-Year Economic and Fiscal Outlook (MYEFO) total ODA estimates over the medium term.

The Department of the Treasury provided estimates of the paid-in and unpaid capital shares for the multilateral organisations listed in the proposal as at January 2017.

## Attachment A – Foreign Aid—financial implications

**Table A1: Fiscal balance—Financial implications (outturn prices)<sup>(a)(b)</sup>**

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Administered expenses	-	3,100	3,200	4,550	<b>10,850</b>	3,350	3,500	4,850	3,700	3,800	5,150	4,000	<b>39,200</b>
Departmental expenses	-	250	260	260	<b>770</b>	270	270	280	290	290	300	310	<b>2,780</b>
<b>Total</b>	-	<b>3,350</b>	<b>3,460</b>	<b>4,810</b>	<b>11,620</b>	<b>3,620</b>	<b>3,770</b>	<b>5,130</b>	<b>3,990</b>	<b>4,090</b>	<b>5,450</b>	<b>4,310</b>	<b>41,980</b>

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

**Table A2: Underlying cash balance—Financial implications (outturn prices)<sup>(a)(b)</sup>**

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Administered outlays	-	3,100	3,600	3,750	<b>10,450</b>	3,850	3,950	4,050	4,150	4,250	4,400	4,500	<b>39,600</b>
Departmental outlays	-	250	260	260	<b>770</b>	250	270	280	290	290	300	310	<b>2,760</b>
<b>Total</b>	-	<b>3,350</b>	<b>3,860</b>	<b>4,010</b>	<b>11,220</b>	<b>4,100</b>	<b>4,220</b>	<b>4,330</b>	<b>4,440</b>	<b>4,540</b>	<b>4,700</b>	<b>4,810</b>	<b>42,360</b>

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in outlays or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in outlays or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

## Sensitive

**Table A3: Headline cash balance—Financial implications (outturn prices)<sup>(a)(b)</sup>**

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Return of paid-in capital	-	-	200	1,000	<b>1,200</b>	800	800	800	800	800	800	800	<b>6,800</b>
Administered outlays	-	3,100	3,600	3,750	<b>10,450</b>	3,850	3,950	4,050	4,150	4,250	4,400	4,500	<b>39,600</b>
Departmental outlays	-	250	260	260	<b>770</b>	270	270	280	290	290	300	310	<b>2,780</b>
<b>Total</b>	-	<b>3,350</b>	<b>4,060</b>	<b>5,010</b>	<b>12,420</b>	<b>4,920</b>	<b>5,020</b>	<b>5,130</b>	<b>5,240</b>	<b>5,340</b>	<b>5,500</b>	<b>5,610</b>	<b>49,180</b>

(a) A positive number for the headline cash balance indicates an increase in cash flows. A negative number for the headline cash balance indicates a decrease in cash flows.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.