

Chapter 1

Introduction

Referral of inquiry and terms of reference

1.1 On 9 December 2013, the Senate referred matters relating to Australia's overseas aid and development assistance program to the Foreign Affairs, Defence and Trade References Committee for inquiry and report by 20 March 2014.¹ The reporting date for the inquiry was subsequently extended by the Senate to 27 March 2014.²

1.2 The terms of reference for the inquiry are as follows:

Australia's overseas aid and development assistance program in light of the Government's \$4.5 billion cut to international development assistance, with particular reference to:

- (a) Australia's ability to deliver aid against stated policy objectives and international commitments;
- (b) Australia's ability to maintain its international development priorities, including sectoral, regional, bilateral and multilateral international relationships;
- (c) the integration of AusAID into the Department of Foreign Affairs and Trade and the freeze in international development assistance funding;
- (d) any unintended consequences of these changes; and
- (e) any other related matters.

Conduct of inquiry

1.3 The committee advertised its inquiry on its website, and in *The Australian*, calling for submissions to be lodged by 7 February 2014. The committee also wrote directly to a range of people and organisations likely to have an interest in matters covered by the terms of reference, drawing their attention to the inquiry and inviting them to make written submissions.

1.4 The committee received 73 submissions to the inquiry, one of which was accepted as a confidential submission. Submissions are listed at [Appendix 1](#) and public submissions are available on the committee's website at: www.aph.gov.au/senate_fadt.

1.5 On 21 February 2014, the committee held a public hearing for the inquiry at the State Library of New South Wales in Sydney. A list of the witnesses who appeared

1 *Journals of the Senate*, 9 December 2013, p. 287.

2 *Journals of the Senate*, 18 March 2014, p. 635.

at the hearing is at Appendix 2, and the *Hansard* transcript is also available through the committee's website. Additional information and answers to questions on notice received during the inquiry are listed in Appendix 3.

Structure of the report

1.6 The committee's report is structured as follows:

- Chapter 1 provides a background to the inquiry and summarises key features of Australia's overseas aid and development assistance program and recent events;
- Chapter 2 deals with the policy objectives of Australia's overseas aid program and international commitments in relation to aid;
- Chapter 3 addresses the issue of the development priorities and delivery of Australia's overseas aid program;
- Chapter 4 deals with the integration of the Australian Agency for International Development (AusAID) into the Department of Foreign Affairs and Trade (DFAT) as well as the effectiveness of aid and benchmarking;
- Chapter 5 includes consideration of the cuts to funding for overseas aid and the consequences of recently announced cuts; and
- Chapter 6 summarises the committee's views and recommendations.

Background

1.7 The origins of Australia's aid program can be traced to Australia's membership of the Organisation for Economic Co-operation and Development's (OECD's) Development Assistance Committee (DAC) in 1966.³ The predecessor to AusAID, the Office of the Australian Development Assistance Agency, was originally established within DFAT by the Whitlam government in 1974. In 2010, the agency, now known as the AusAID, was an administratively autonomous executive agency within the foreign affairs and trade portfolio. While the agency has usually reported to the Minister for Foreign Affairs, a Minister for International Development was appointed.

1.8 AusAID previously managed about 84 per cent of Australia's aid program with the remainder delivered through other Australian Government departments and agencies.⁴ In 2012-13 the Australian Government provided an estimated \$5,149 million in total overseas development assistance (ODA) of which \$4,314 million was managed by AusAID, including an estimated \$195 million delivered by other

3 Treasury, *Submission 21*, p. 3.

4 *Report of the Independent Review of Aid Effectiveness*, April 2011, p. 5 (Independent Review).

government agencies on behalf of AusAID. This ODA was estimated to be equal to around 0.35 per cent of gross national income (GNI).⁵

1.9 Australia's overseas aid program supports progress in developing countries multilaterally, regionally, bilaterally and in a range of specific sectors, with a geographic focus on the Asia Pacific. More than 80 per cent of Australia's ODA is directed to its nearest neighbours in the Asia Pacific region. In particular, as the two largest beneficiaries of Australian support, Indonesia received \$448.5 million and Papua New Guinea (PNG) received \$484.7 million in bilateral aid from Australia in 2012-13.⁶

1.10 In 2005, then Foreign Minister, the Hon Alexander Downer MP, commissioned a white paper on Australian aid to provide a strategic framework to guide the direction and delivery of Australia's overseas aid program over the next decade.⁷ Following from the white paper, an Office of Development Effectiveness (ODE) was established in 2006. The ODE is an operationally independent unit that evaluates the quality and effectiveness of the Australian aid program and contributes to international evidence and debate about aid and development effectiveness.⁸

1.11 The key feature of Australia's aid program in recent years has been its rapid growth. In September 2005, the former Howard Government announced plans to double the aid program by 2010 to \$4 billion. By 2010-11, the Australian aid budget was approximately \$4.3 billion, or 0.33 per cent of GNI. Before the 2007 election, the Australian Labor Party committed to increase Australia's overseas aid to 0.5 per cent of GNI by 2015. The commitment gained bipartisan support.⁹

1.12 The Rudd Government commissioned the first independent review of Australia's aid program since 1996 in 2010. In April 2011, the Independent Review of Aid Effectiveness (Independent Review) delivered its report to the Australian Government. The Independent Review described Australia's aid program as 'improvable but good' and noted that the rapid growth of Australia's aid program in the previous five years had created 'administrative stress'.¹⁰ It also made a number of findings regarding areas where there could be improved practice. These included that Australia's aid program was fragmented, lacked a clear and comprehensive overall strategy and that development ineffectiveness was a key risk.¹¹ The Independent

5 AusAID, *Annual report 2012-13*, p. 217.

6 DFAT, *Submission 17*, p. 14.

7 AusAID, *Australian Aid: Promoting Growth and Stability*, 2006.

8 AusAID, *Annual report 2012-13*, p. 219.

9 Independent Review, p. 56.

10 Independent Review, p. 5.

11 Independent Review, pp 5-6.

Review made 39 recommendations to further improve the program, almost all of which were agreed or agreed in principle by the Australian Government.¹²

1.13 Key recommendations of the Independent Review included:

Recommendation 2 - Decisions about country allocations should be based on poverty, national interest, capacity to make a difference and current scale and effectiveness. Decisions about country programs should also reflect the need to consolidate the aid program.

Recommendation 5 - Australia should join the African Development Bank.

Recommendation 11 - Promoting gender equality should be a critical cross-cutting objective for the aid program. Australia should be a firm and persistent advocate and practical supporter of gender equality, especially in the Pacific.

Recommendation 12 - Humanitarian and emergency assistance should be increased as a share of the program.

Recommendation 15 - Core funding to multilateral organisations and NGOs should be significantly increased as a share of total spending. Core funding increases should be made on a case-by-case basis, linked to effectiveness, capacity and relevance.

Recommendation 16 - AusAID should devote greater senior management resources to developing and managing relationships with key partners. Predictable, multi-year funding of partners should be provided and micromanagement avoided.

Recommendation 23 - There should be more aid funding for research by Australian and international institutions, particularly in agriculture and medicine.

Recommendation 24 - The government should develop and implement a Cabinet-endorsed Four-Year Strategy for the entire aid program for policy and funding clarity.

Recommendation 26 - The budget process should be reformed to provide greater funding certainty, including allocating funds on the basis of the Four-Year Strategy and its annual updates, not through [new policy proposals], as at present.

Recommendation 37 - A Transparency Charter should be developed, committing the aid program to publishing documents and data in a way that is comprehensive, accessible and timely.

Recommendation 39 - The scale-up of the aid program to 0.5 per cent of GNI should be subject to the progressive achievement of predetermined hurdles.¹³

12 AusAID, *An Effective Aid Program for Australia, Making a real difference – Delivering real results*, 2012, pp 59-65.

13 AusAID, *An Effective Aid Program for Australia, Making a real difference – Delivering real results*, 2012, pp 59-65.

1.14 In particular, the Australian Government agreed in principle that in scaling up the aid program, 'country allocations and programs should be adjusted in line with the Review Panel's specific recommendations':

Geographic allocations will be based on an assessment of poverty, national interest, capacity to make a difference, and current scale and effectiveness.

In line with the Government's commitment to deliver 0.5 of GNI on overseas aid by 2015–16, agree in principle that:

- aid to Pacific island countries, South East Asia, Afghanistan and Pakistan, and Africa and the Middle East be increased
- bilateral aid to China and India be phased out with future assistance to be delivered through regional and global programs
- any future increase in aid to Latin America and the Caribbean be modest, with any increases to be delivered through regional and global programs.¹⁴

1.15 In May 2012, a new policy framework was established: *Helping the World's Poor through Effective Aid: Australia's Comprehensive Aid Policy Framework 2015-2016* (CAPF). This provided a four year pathway to establishing where and how Australia's aid would be spent, the expected results and the measures being taken to ensure effective delivery. It included a commitment to review results annually and address areas needing improvement. The ODE was charged with responsibility for developing benchmarks for measuring the effectiveness of Australian efforts. The first *Annual Report on Aid Effectiveness 2011-12* found that Australian aid was enhancing regional prosperity, reducing poverty rates and delivering cost-effective services for those in need.¹⁵ It also outlined processes to detect and prevent fraud to ensure that aid funds were not misused.

1.16 The CAPF also established the Independent Evaluation Committee (IEC) as an advisory body to strengthen the independence and credibility of the work of the ODE. The terms of reference for the IEC state that it 'will oversee the work program of ODE in planning, commissioning, managing and disseminating a high quality independent evaluation program which produces technically sound and policy relevant evaluations that contribute to improved aid effectiveness'.¹⁶

Recent events

1.17 The global financial crisis (as well as the euro zone crisis) has had an ongoing impact on the levels of overseas aid provided by developed countries, including

14 AusAID, *An Effective Aid Program for Australia, Making a real difference – Delivering real results*, 2012, p. 60.

15 AusAID, *2011-12 Annual Review of Aid Effectiveness*, 2012, p. 2.

16 AusAID, *Independent Evaluation Committee-Terms of Reference*, 2012, p. 1, available at <http://www.ode.ausaid.gov.au/publications/pdf/iec-tor.pdf> (accessed 16 September 2013).

Australia.¹⁷ In the previous government's 2008-09 budget, ODA was to increase to 0.5 per cent of GNI by 2015-16. This was deferred in the 2012-13 budget to 2016-17 and deferred again in the 2013-14 budget to 2017-18. The savings from the deferrals of the 0.5 per cent target and slower growth of the aid program under the former government totalled \$5.7 billion.¹⁸

1.18 Prior to the 2013 federal election, the Coalition announced that it supported the increase of Australia's aid program to 0.5 per cent of GNI, but could not 'commit to a date given the current state of the federal budget'.¹⁹ The Coalition stated it would reduce aid by \$4.5 billion in relation to Labor's 2013-14 budget and Labor's forward estimates for the next three years. This reduction was to begin with a within-year budget cut of \$656 million in 2013-14. Further, it would index future increases to the Consumer Price Index (CPI) and would 're-prioritise foreign aid allocations towards Non-Government Organisations that deliver on-the-ground support for those most in need'.²⁰

1.19 Following the federal election, the new Prime Minister, the Hon Tony Abbott MP, announced that AusAID would be integrated into DFAT 'enabling the aid and diplomatic arms of Australia's international policy agenda to be more closely aligned'.²¹ This machinery of government change had not been flagged prior to the election and created confusion about the short- and long-term direction of Australia ODA program.²²

1.20 On 18 January 2014, the Foreign Minister, the Hon Julie Bishop MP, announced that the 'Australian Government's annual aid budget for 2013/14 will be \$5.042 billion, refocused on reducing poverty in the Indo-Pacific region and tied to rigorous benchmarks'.²³ This represents a reduction of \$650 million on 2013-14 budget allocations.²⁴ Minister Bishop acknowledged that this was \$107 million less than last year's budget, but stated that 'the rapid growth in Australia's aid budget was

17 United Nations, *The Millennium Development Goals Report 2013*, p. 52.

18 DFAT, *Submission 17*, p. 2.

19 The Hon Joe Hockey MP and the Hon Andrew Robb MP, *Final Update on Federal Coalition Election Policy Commitments*, 5 September 2013, p. 4.

20 The Hon Joe Hockey MP and the Hon Andrew Robb MP, *Final Update on Federal Coalition Election Policy Commitments*, 5 September 2013, p. 4.

21 The Hon Tony Abbott MP, Prime Minister, 'The Coalition will restore strong, stable and accountable government', *Media release*, 18 September 2013.

22 Coalition, *The Coalition's Policy for Foreign Affairs*, September 2013, p. 2; Carlos Santamaria, 'After CIDA, AusAID: Australia integrate aid into foreign affairs', *DevEx*, 18 September 2013, available at: <https://www.devex.com/news/after-cida-ausaid-australia-integrates-aid-into-foreign-affairs-81826> (accessed 21 March 2014).

23 The Hon Julie Bishop MP, Minister for Foreign Affairs, 'Five billion dollar aid budget to focus on the region', *Media Release*, 18 January 2014.

24 DFAT, *Submission 17*, p. 2.

neither targeted nor sustainable'. She also noted that from 2014-15 Australia's aid budget would grow each year in line with the CPI. Minister Bishop stated this change would provide 'stability and future certainty to partner governments, international organisations and non-government organisations'.²⁵

1.21 The revised 2013-14 aid budget, released with the announcement, indicated that these funding changes affected a range of countries, regions and global programs. For example in the Pacific, while funding to PNG was the same as 2012-13, aid funding to most other Pacific countries was cut. The total for the Pacific region was reduced from \$920.8 million in 2012-13 to \$882 million in 2013-14. In particular, the total for Africa and the Middle East was cut from \$329.2 million in 2012-13 to \$199.8 million in 2013-14, with Bangladesh receiving the most significant cut – from \$84.8 million in 2012-13 to \$61.6 million in 2013-14.²⁶

1.22 While the total for cross regional programs grew from \$292.9 million in 2012-13 to \$309.1 million in the 2013-14 revised budget, specific programs received reductions in funding. The Infrastructure & Rural Development cross regional program was cut from \$55.2 million in 2012-13 to \$46.1 million. Governance was cut from \$27.2 million to \$16.7 million. Climate Change & Environmental Sustainability was cut from \$17 million to \$0.5 million. Disability & Gender was cut from \$29.0 million to \$25.0 million.²⁷

1.23 Some global programs also received substantial cuts in the revised 2013-14 aid budget compared to 2012-13. In particular, the Humanitarian and Emergency Response program was cut from \$163.3 million to \$137.4 million. The contribution to global environment programs was reduced from \$74.6 million to zero. Funding for Development Effectiveness and Research was also reduced from \$11.5 million to \$10.3 million.²⁸

1.24 However, the cuts announced by Minister Bishop were only placed in the context of funding provided in 2012-13. Compared to the funding allocated for 2013-14 as at Budget most of these cuts were significantly larger and affected almost every program in the aid budget. A more detailed comparison is extracted at Appendix 4.

1.25 Following the announcement of the revised aid budget for 2013-14, a number of Australian non-government organisations expressed their concerns regarding the

25 The Hon Julie Bishop MP, Minister for Foreign Affairs, 'Five billion dollar aid budget to focus on the region', *Media Release*, 18 January 2014.

26 DFAT, *Submission 17*, p. 14.

27 DFAT, *Submission 17*, p. 14.

28 DFAT, *Submission 17*, p. 15.

impact of the cuts on Australia's aid program and the lack of detail regarding which programs will be affected.²⁹

1.26 The cuts applied almost entirely to the part of the aid program that had formerly been managed by AusAID, which in 2012-13 totalled approximately \$3.9 billion and at the time of the 2013-14 budget were set to increase to \$4.6 billion.³⁰ By allocating the cuts almost entirely to DFAT's appropriation the government increased the required percentage reduction in 2013-14 from 12 per cent to 15 per cent. The refusal to apply cuts of about 12 percent to the balance of other government departments' expenditure forced additional savings of around \$40 million onto the core aid program.³¹

1.27 Significant shortcomings with the current budget process, which lacks a whole-of-ODA approach, have led to fragmentation, inadequate overall scrutiny and an imbalance between the crucial spine of predictability that is needed for multi-year aid projects, on the one hand, and the need for flexibility to respond to unpredictable events on the other. Although the Coalition in opposition had criticized the use of aid for onshore asylum seeker costs, the Government removed the \$375 million for these costs from the baseline, adding to confusion about the new aid priorities. On 25 March 2014, the Prime Minister Tony Abbott created additional funding uncertainty when he described overseas aid funding from 2017-18 detailed in the Mid-Year Economic and Fiscal Outlook as an 'aspiration of this government'.³²

1.28 The Foreign Affairs and Trade portfolio overview for 2013-14 notes that 'the purpose of the Government's aid program is to promote Australia's national interests by contributing to international economic growth and poverty reduction'.³³ This emphasis on economic growth in the new government's approach to overseas aid and development assistance was further outlined by Minister Bishop at the Australasian Aid and International Development Policy workshop in February 2014. She stated:

We are going to be promoting economic growth. Aid is not a panacea to poverty. Millions of people have been lifted out of poverty by economic growth which creates jobs and which improves standards of living...

29 For example, Lean Alfred Santos, 'Disappointed NGO's slam Australia's aid cut details', *DevEx*, 20 January 2014, available at: <https://www.devex.com/news/disappointed-ngos-slam-australias-aid-cut-details-82684> (accessed 21 March 2014).

30 *Budget Paper No. 1 2013-14*, p. 6-14.

31 Development Policy Centre, 'A technical note on the revised allocation of Australian aid at 18 January 2014', available at: www.devpolicy.org/pdf/2014-aid-cuts-technical-note.pdf (accessed 2 February 2014).

32 The Hon Tony Abbott MP, Prime Minister, *House of Representatives Hansard*, 25 March 2014, p. 30.

33 Portfolio Additional Estimates Statement 2013-14 – Foreign Affairs and Trade Portfolio, p. 3.

Aid for Trade will be fundamental to our policy approach. For every single dollar invested in Aid for Trade, an estimated \$8 in additional exports will be created in developing countries...

Prioritising economic growth doesn't mean a lesser focus on human development or poverty reduction – they are two sides of the same coin.³⁴

1.29 Recommendation 39 of the Independent Review proposed that the scale-up of the aid program should be subject to 'the progressive achievement of predetermined hurdles'. A new phase in the implementation of this recommendation was evident when, on 21 January 2014, DFAT released a consultation paper on the development of 'Performance Benchmarks for Australian Aid' as part of a process of engaging with key aid sector stakeholders. The paper stated that 'introduction of performance benchmarks is intended to improve the accountability of the aid program, link performance with funding, and integrate the aid program with Australia's broader foreign and trade policies'. It proposed that performance benchmarks for the aid program will be introduced as part of the 2014-15 budget.³⁵

Acknowledgements

1.30 The committee thanks all those who contributed to the inquiry by making submissions, providing additional information or appearing at the public hearing to give evidence.

Note on references

1.31 References to the committee *Hansard* are to the proof *Hansard*. Page numbers may vary between the proof and the official *Hansard* transcript.

34 The Hon Julie Bishop MP, Minister for Foreign Affairs, 'Opening Address – 2014 Australasian Aid and International Development Policy workshop', 14 February 2014, available at http://www.foreignminister.gov.au/speeches/2014/jb_sp_140213.html (accessed 17 February 2014).

35 DFAT, 'Performance Benchmarks for Australian Aid', *Consultation Paper*, January 2014, pp 1-3, available at: <http://aid.dfat.gov.au/Publications/Documents/external-consultation-paper.pdf> (accessed 4 February 2014).

