

Chapter 5

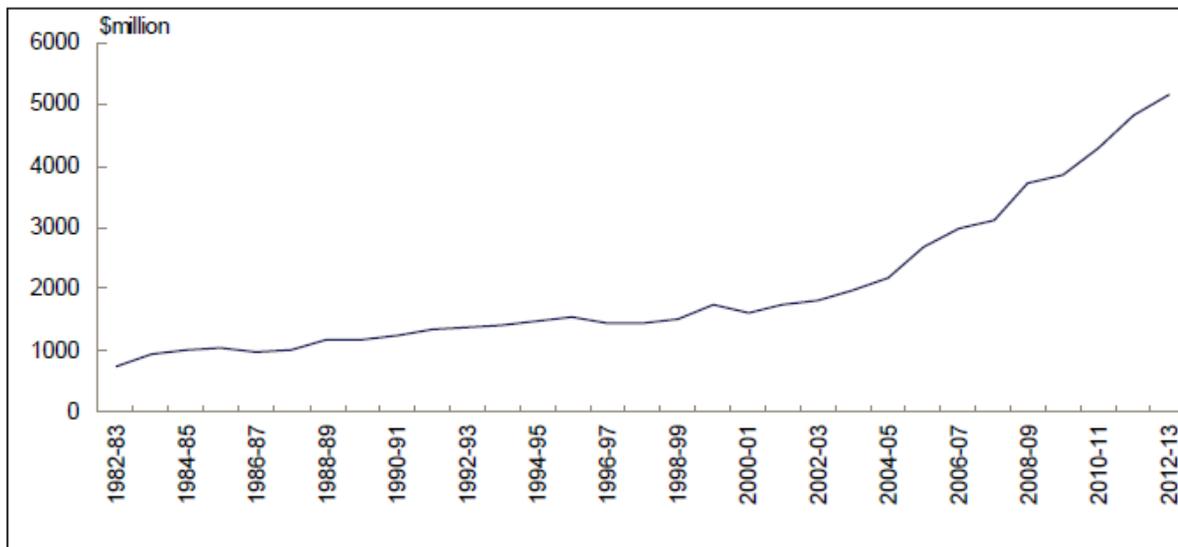
Funding cuts and consequences

5.1 This chapter deals with recent cuts to the funding for Australia's overseas aid program, including those announced on 18 January 2014. It also addresses funding predictability, mid-year reprioritisations to the aid budget and what should be appropriately claimed as official development assistance (ODA).

Aid funding

5.2 As previously noted, Australia's aid budget has grown significantly through a bipartisan commitment to reach 0.5 per cent ODA/GNI. The Treasury submission highlighted that 'the past decade has seen a particularly large increase in aid spending'. It commented that 'there had not been a nominal decrease in the aid budget in 12 years – the longest period of constant nominal increases of the past three decades'.¹

Figure 4 – Australia's ODA budget (nominal)²



5.3 However, while the aid budget has continued to grow, the funding increases necessary for Australia's overseas aid to reach the 0.5 ODA/GNI target have been repeatedly deferred. DFAT noted:

In the former 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.³

1 *Submission 21*, p. 4.

2 Extracted from Treasury, *Submission 21*, p. 4.

3 *Submission 17*, p. 2.

5.4 This trend has continued with the present government. Treasury noted that the policy of setting the 2013-14 ODA budget at \$5.042 billion and growing the ODA budget in line with Consumer Price Index (CPI) 'represents \$4.5 billion in savings from the ODA budget over the four years from 2013-14 to 2016-17'.⁴

Indexation to CPI

5.5 In its submission, DFAT noted that government had committed to the ODA budget increasing in line with CPI over the forward estimates.⁵ It stated:

This commitment recognises both the constrained fiscal situation in which the Government is operating...and that it is in Australia's national interests to continue to deliver a substantial aid program. It also provides budget predictability and reliability of aid funding for the Department and Australia's development partners, which in turn supports better planning and implementation of programs.⁶

5.6 Reactions to the CPI indexation of the aid budget were mixed. For example, ACFID welcomed the Australian Government's commitment to increase aid annually by the CPI over the forward estimates, but also noted the commitment 'to increase aid at a faster rate when the Australian budget is in surplus, with the aim of reaching 0.5 per cent of Australia's GNI towards ODA in the future'.⁷ Others criticised the indexation to CPI as potentially jeopardising progress toward the MDGs and other international development objectives.⁸ The ACTU/APHEDA submission argued that '[t]he promise to raise development spending by CPI each year does not address our imperative as a good global citizen to contribute to poverty reduction'. It considered:

[T]he value of the aid budget should not be subordinated to politics and exigencies. Resorting to cuts to the aid budget rather than making difficult political decisions about other spending cuts misuses people's ignorance of the funding allocated to aid as a proportion of total government spending. The falling aid dollar as a result of exchange rate drops exacerbates the impact of these cuts.⁹

5.7 The IWDA also observed that 'CPI reflects changes in costs in Australia, which have a limited relationship to actual costs in the countries where Australia's development assistance is focussed or to the needs to which our aid program is responding'.¹⁰

5.8 The Development Policy Centre outlined that merely growing the aid budget in line with inflation would cause Australia's ODA/GNI ratio to fall over time from

4 *Submission 21*, p. 7.

5 *Submission 17*, p. 2.

6 *Submission 17*, p. 3.

7 *Submission 35*, p. 5.

8 For example, Childfund, *Submission 7*, p. 1

9 *Submission 38*, p. 5.

10 IWDA, *Submission 9*, p. 5.

'0.35 per cent last year to 0.33 per cent this year, to 0.31 per cent by 2017-18, and to 0.28 per cent by 2022-23'.¹¹ It recommended targeting the ODA/GNI ratio to maintain an appropriate level of Australian aid funding:

Keeping the ratio at the level it is now (0.33 per cent of GNI) would require annual increases of \$300 million over the next four years, rather than the annual increases of \$100 million required to keep pace with inflation. It would mean that as a country we were saying, while we enter a period of fiscal adjustment which prevents us becoming more generous, we will at least become no less generous. It would not move us toward meeting our international commitment, but it would at least keep that commitment alive.¹²

5.9 Some submissions also noted that the 'freeze' in aid funding growth could have other long term impacts, in particular reducing the Australian Government's flexibility to finance new priorities within the aid program. For example, Results International Australia commented that '[b]eyond 2013-14, the freeze on aid in real terms will also restrict Australia's capacity to make new commitments to both bilateral and multilateral programs'.¹³ The Development Policy Centre considered it may be 'up to two years before there is enough headroom in many programs to permit implementation of new priorities on any substantial scale'. It noted that 'any substantial shifts between aid channels—bilateral, multilateral and non-governmental—will now involve absolute rather than relative trade-offs'.¹⁴

5.10 Cuts to Australia's overseas aid program could also put additional pressure on other donors and potentially damage Australia's reputation as a responsible contributor to international development. TEAR Australia emphasised that 'cuts to the aid budget are noted throughout the donor community and reflect poorly on Australia's desired level of international significant'.¹⁵ The Global Poverty Project also commented:

The perception amongst some foreign diplomats is that Australia can no longer be relied upon to show leadership on issues of international development. This should be cause for concern given that having a good international reputation is not merely an end in itself but rather a foundation for building the goodwill necessary to host successful international gatherings such as the G20.¹⁶

Reprioritisation

5.11 In its submission, DFAT outlined that the Australian Government has decided that Australia's ODA in 2013-14 would be \$5.042 billion. It noted that this represented a reduction of \$650 million on 2013-14 budget allocations. While DFAT asserted that

11 *Submission 67*, p. 8.

12 *Submission 67*, p. 10.

13 *Submission 54*, p. 4.

14 *Submission 67*, p. 13.

15 *Submission 57*, p. 3.

16 *Submission 43*, pp 11-12.

delivery of Australia's aid program has continued 'with minimal disruption', it acknowledged that:

Reprioritisation of the aid budget will affect the delivery of a number of programs in a range of ways – including deferral, reduction or termination of funding and programs, and renegotiation of contracts and agreements with partners. DFAT is consulting extensively with partners and stakeholders on implementation of the reprioritisation.¹⁷

5.12 The cuts to aid funding announced in January 2014 were perceived as potentially creating a number of adverse consequences for aid program stakeholders, in particular for recipient communities in developing countries. Submissions from NGOs highlighted the potential impact of the funding cuts on their activities in developing countries where aid was being delivered.¹⁸ Ms Jo Hayter from IWDA asserted:

[W]hat we have seen is \$107 million in real cuts this year. Those cuts represent commitments, partnerships and contractual arrangements that we have in place with partners in developing nations in our region. So something has got to go, that is a real cut...¹⁹

5.13 ACFID noted Australian NGOs that were subject to cuts in the recent announcement 'had their current year funding cut by around 8 per cent'. It observed that this meant 'losing funding already allocated to programs related to water and sanitation, elimination of violence against women, disaster reduction work and small-scale agriculture, among others'.²⁰ Save the Children stated that, while it has worked hard to minimise the impact on aid beneficiaries, 'some program reductions are inevitable'. In particular, it noted it had cut plans to install four out of the ten facilities for improved water, sanitation and hygiene in kindergartens in the Solomon Islands. Further:

In terms of expected outcomes, if we hypothetically applied the 8.3 percent reduction in expenditure uniformly across our ANCP funded programs:

-2,000 less children will be enrolled in early childhood education

-460 less births will be attended by a skilled birth attendant

-250 less children will be vaccinated against diphtheria, tetanus and whooping cough²¹

5.14 The uncertainty caused by the cuts adversely affected the activities of NGOs. Rev Tim Costello noted that World Vision had been successful in applying to the Civil Society Water, Sanitation, and Hygiene Fund, however the fund has been in hiatus since November, while priorities for the aid program are reviewed. He stated

17 *Submission 17*, p. 5.

18 For example, Mr Marc Purcell, ACFID, *Committee Hansard*, 21 February 2014, p. 29.

19 *Committee Hansard*, 21 February 2014, p. 4.

20 *Submission 35*, p. 18.

21 *Submission 36*, p. 6.

'no implementation funding has been received and there has been no confirmation of whether or not this program will proceed'.²² At the public hearing, Mr Andrew Johnson from World Vision also discussed the uncertainty created by the funding cuts, including on activities in Zimbabwe, Sri Lanka and Papua New Guinea:

The fact that [the program's] status is unclear has had impacts for us with the partner government and communities in which we work. We have lost staff, and we have lost buy-in from communities and the local and regional governments that we have been partnering with. And so, while there may not be clear direct impacts on things that were nailed down and signed away, there are impacts both in new, emerging situations and also in situations where the government did have some flexibility but where commitments had been made, where planning had already taken place and where design work had already been done, and the expectation was that the work would roll out.²³

5.15 The timing of the cuts was also criticised. For example, AID/WATCH suggested 'the timing of the cuts is actually more damaging than the cuts themselves':

AID/WATCH also has strong concerns about the timing of these cuts so far into the financial year. This timing compromises the effectiveness of existing programs. Agencies, especially overseas implementing partners, who have planned their financial year's programs, are now having to revise these programs with only two months remaining in the financial year.²⁴

5.16 The Development Policy Centre's overall conclusion was that funding changes will not necessarily have negative long-term consequences, but noted that there will potentially be serious short-term impacts flowing from the decision to impose a large budget reduction in 2013-14.²⁵ It commented:

More generally, there must be some very substantial impacts in the present financial year on activities in the final stages of planning, and in some cases on activities in implementation. The intention to cut over \$650 million from the 2013-14 budget was announced several months into the financial year. The allocation of the cuts was not determined until over six months into the year—too slow by any measure. Much negotiation and backpedalling must still be going on, none of which is currently visible. This would be particularly difficult to manage in sub-Saharan Africa, where aid is being reduced far below last year's level and where at least some ongoing programs must therefore be facing termination or dramatic trimming.²⁶

22 Tim Costello, 'Australia aid charities need clarity over cuts', *The Guardian*, 13 January 2014.

23 *Committee Hansard*, 21 February 2014, p. 19.

24 *Submission 25*, p. 6.

25 *Submission 67*, p. 3.

26 *Submission 67*, p. 13.

Decision process

5.17 DFAT noted that it had provided advice of the aid budget reprioritisation outcomes to all Australia's development partners and other stakeholders.²⁷ However, a number of witness and submitters were highly critical of the lack of detail available regarding how the funding cuts announced in January were decided and how they would impact specific programs. For example, Results International Australia noted that the January cuts present changes in aid spending classified by country and institution, but not by sector. It noted that it was therefore 'difficult to ascertain how the changes affect key sectors'.²⁸ Micah Challenge also stated:

[T]he details of how to apply these cuts are still to be revealed and the process to inform partner countries and implementers (both international and Australian NGOs) of the cuts was extremely disruptive and lacked transparency. The rationale for targeting particular international program and certain Australian NGOs for cuts has not been made clear and the likely impact of these cuts has not, to our knowledge, been fully assessed. It has certainly not been made public.²⁹

5.18 The Nossal Institute for Global Health also commented:

This shift in aid expenditure – in particular, the haste with which it has been made, and the lack of clarity surrounding it – is of concern. The speed of these changes runs the risk of damaging longstanding international relations and partnerships, and raises questions about the extent to which policy decisions are being made in a transparent and accountable manner.³⁰

5.19 Save the Children also highlighted the 'lack of detail over budget figures, particularly in the latest round of revisions'. It noted the 'absence of such data limits our ability to plan and deliver programs' and that better information would facilitate a more efficient allocation of resources which was 'an important precursor to a more effective aid program'.³¹

5.20 The committee attempted to obtain additional information from DFAT during the inquiry concerning how the funding decisions were arrived at. Mr Peter Varghese, Secretary of DFAT stated:

The process is not dissimilar to the processes for any significant decisions made by the government. We sat down with the minister to work through how those cuts were to be handled, what the framework and principles should be, analysing what the implications one way or the other might be. That then went through a decision-making process involving the minister and a cabinet process.³²

27 *Submission 17*, p. 2.

28 *Submission 54*, p. 5.

29 *Submission 37*, p. 4.

30 *Submission 34*, p. 5.

31 *Submission 36*, p. 12.

32 *Committee Hansard*, 21 February 2014, pp 64-65.

5.21 In an answer to a question on notice DFAT stated:

Reductions to country and other programs were guided by several principles: refocusing the aid program on the Indo-Pacific region; engaging with effective multilateral organisations; and reducing geographic and sectoral fragmentation. Options to reduce funding of programs were limited by how much had already been expensed. Decisions on whether specific program funding will be deferred, reduced or discontinued is under consultation with partners.³³

5.22 Mr Varghese further articulated the principles governing the decisions regarding the funding cuts at Additional Estimates:

The first principles that we brought to this exercise were: firstly, we wanted to refocus the geographic footprint of the aid program so that the Indo-Pacific was the primary focus and that subsequently led to reductions in the budget for Latin America and Africa. Secondly, we had in mind the effectiveness of multilateral organisations. So, in making decisions on where to make cuts in the multilateral pot, we took into account our judgement about the effectiveness of multilateral organisations...Thirdly, we wanted to reduce both geographic and sectoral fragmentation, so we wanted a program that was not overly fragmented.

They are the core principles that framed the budget decisions that were taken. As a result of that, if you look at the revised figures for 2013-14, we have a larger percentage of the budget going to East Asia than we did before the cuts.³⁴

5.23 The committee also tried to obtain further details from DFAT regarding how the January funding cuts would impact Australia's aid program. At the public hearing, Mr Varghese confirmed that the 'details of how [the funding cuts] will be implemented and what programs they will affect is currently the subject of consultations with the host governments and the international organisations that have been affected'.³⁵ He expanded:

The calculation of the envelope is not based on a master plan on our part which delineates every dollar against a program. We have a headline figure for Indonesia; we have a headline figure for Vietnam. That reflects a cut from budgeted amounts, but the detail of how you translate that reduction into different programs is something we need to decide by sitting down with the host country.³⁶

5.24 In an answer to a question on notice DFAT added:

Following the Government's decision on the revised allocations for country and other programs, we are consulting with partner governments and

33 DFAT, answer to question on notice from public hearing, 21 February 2014, p. [1].

34 Senate Foreign Affairs, Defence and Trade Legislation Committee, *Committee Hansard*, Additional Estimates, 27 February 2014, p. 71.

35 *Committee Hansard*, 21 February 2014, p. 70.

36 *Committee Hansard*, 21 February 2014, p. 71.

organisations on how the reductions will be implemented. These consultations across the aid program are ongoing. Once the consultation process is complete and final decisions have been made across the program, information on the reductions will be published.³⁷

Funding predictability

5.25 In its submission DFAT stated the indexation of aid funding to CPI would provide 'budget predictability and reliability of aid funding...which in turn supports better planning and implementation of programs'. At the public hearing, Mr Varghese, commented that '[t]he prospect of a \$5 billion program indexed to CPI, for program managers, provides a very welcome degree of certainty'.³⁸

5.26 Despite this change, the importance of funding predictability in the effective delivery of aid was repeatedly and consistently emphasised by witnesses and submitters. For example, Micah Challenge noted research that indicated that low aid predictability has 'inherent destabilizing characteristics' and 'may also lead to more procyclical aid and reinforce rather than soften economic cycles, exacerbating problems of aid management'.³⁹ ChildFund also observed:

[T]he sustainability of any overseas development assistance (ODA) program relies on predictable funding. It is extremely difficult to plan and deliver programs that will make significant inroads to poverty where budgets are cut or revised during the implementation phase, and where agreements with aid organisations delivering services in-country are vulnerable to unexpected change and revision. If the Government wishes to ensure that its aid program delivers benefits that are sustainable and provide long-term benefits, then the funding streams must also be secure.⁴⁰

5.27 Mr Ben Thurley from Micah Challenge observed that until 2012, the May budget was the 'primary focus for decision making and allocations around international development' and this had given 'certain predictability for both our partners overseas and the Australian public in how to understand our political priorities'.⁴¹ However, he noted recent cuts to the aid program, including mid-financial-year changes, had a detrimental effect on the aid program:

This created a huge amount of uncertainty for our aid partners and aid implementers and for the public as well. I think one of the risks that we see is that it sends a signal to the Australian community, whether wittingly or unwittingly, that our government does not value highly the aid outcomes that we have set ourselves to contribute to. When it is seen as a political football or source of funding, it risks undermining support for the Australian aid program. I just note that the aid program represents less than

37 DFAT, answer to question on notice from public hearing, 21 February 2014, p. [3].

38 *Committee Hansard*, 21 February 2014, p. 68.

39 *Submission 37*, p. 3.

40 Childfund, *Submission 7*, p. 1.

41 *Committee Hansard*, 21 February 2014, p. 18.

1½ per cent of the federal budget but, over the last two years, has been targeted for more than 10 per cent of savings identified by both sides of politics.⁴²

5.28 ACFID also argued that the aid program had been disproportionately targeted for savings by governments. It pointed out that the '[c]uts of \$4.5 billion over four years represents over 10 per cent of the current \$42 billion in budget savings announced by the Government to date, despite Australia's ODA comprising only around 1.4 per cent of total Government spending'.⁴³ Mr Marc Purcell from ACFID highlighted the finding by the OECD Review that 'significant in-year budget re-allocations put at risk Australia's commitments to its partners as well as achieving the expected results of its development cooperation programmes'. He noted that, according to the OECD, the value and effectiveness of Australian aid is reduced by 15 to 20 per cent when it is volatile and unpredictable.⁴⁴

Appropriate ODA

5.29 Determinations regarding which type of expenditure should be treated as ODA are governed by OECD DAC advice. In general, these are flows provided by official agencies to developing countries where the transaction is 'administered with the promotion of the economic development and welfare of developing countries as its main objective'.⁴⁵ Specific OECD DAC rules apply for determining whether some types of assistance can be treated as ODA. For example:

The supply of military equipment and services, and the forgiveness of debts incurred for military purposes, are not reportable as ODA. On the other hand, additional costs incurred for the use of the donor's military forces to deliver humanitarian aid or perform development services are ODA-eligible...

Assistance to refugees in developing countries is reportable as ODA. Temporary assistance to refugees from developing countries arriving in donor countries is reportable as ODA during the first 12 months of stay, and all costs associated with eventual repatriation to the developing country of origin are also reportable.⁴⁶

5.30 During the inquiry, which types of Australian overseas aid and development should be counted as ODA was discussed. For example, Dr Karl Claxton from ASPI noted that Australia had not counted 'a lot of our military humanitarian aid going to

42 *Committee Hansard*, 21 February 2014, p. 18.

43 *Submission 35*, p. 4.

44 *Committee Hansard*, 21 February 2014, pp 22-23.

45 OECD, 'Official development assistance – definition and coverage', available at <http://www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm> (accessed 21 March 2014).

46 OECD, 'Is it ODA?', *Factsheet*, November 2008, p. 2.

other countries after disasters, whereas some of our peer competitors and friends and allies do'.⁴⁷ He commented:

The military is just one arm of the Australian state that can help out....But it is a particularly powerful tool right after an emergency, where the ADF can go in as first-responders. A lot of other countries count those responses as ODA under the DAC guidelines, and we would not see a problem in Australia doing the same.⁴⁸

5.31 The classification of aid expenditure on matters perceived as not directly relevant to international development was commented on critically – in particular, classifying domestic asylum seeker support as ODA. On 3 February 2013, the former Labor Government announced it would reprioritise up to \$375.1 million in ODA in the 2012-13 financial year to support asylum seekers waiting to have their claims heard in Australia consistent with OECD DAC reporting directives.⁴⁹

5.32 The analysis by the Development Policy Centre of the announced aid funding cuts identified that the Australian Government has continued to treat the \$375 million appropriated to the Department of Immigration and Border Protection for domestic asylum seeker costs in 2013-14 as ODA-eligible expenditure by an agency other than DFAT.⁵⁰ It recommended:

Appropriations in future years should continue to be capped, and made on the basis of eligible costs. Given that an offshore processing regime is in place, and that aid funding can only be used for onshore costs within the first year of an asylum-seeker's arrival, future appropriations should be expected to fall rapidly. Aid funding should not be used to finance community detention in either Nauru, PNG or elsewhere.⁵¹

5.33 Other submissions were more critical. YWCA Australia stated:

[T]he use of ODA funds to meet the cost of Australia's asylum seeker management regime does not qualify as effective overseas aid and undermines Australia's standing in the international community. Indeed, the OECD peer review report expressed concern that such diversions could jeopardise development outcomes. We recommend that a separate budget allocation be made for the cost of Australia's asylum seeker management regime.⁵²

47 *Committee Hansard*, 21 March 2014, p. 52.

48 *Committee Hansard*, 21 March 2014, p. 53.

49 AusAID, 'Reprioritisation in the Aid Budget', *Media release*, 3 February 2013, available at <http://www.ausaid.gov.au/HotTopics/Pages/Display.aspx?QID=1029> (accessed 5 September 2013).

50 Development Policy Centre, 'A technical note on the revised allocation of Australian aid as at 18 January 2014', available at www.devpolicy.org/pdf/2014-aid-cuts-technical-note.pdf (accessed 4 March 2014).

51 *Submission 67*, p. 18.

52 *Submission 68*, p. 3.

5.34 AID/WATCH characterised the use of aid funding for processing of asylum seekers as 'boomerang aid' whereby overseas aid money 'ends up funding Australian companies and consultants rather than those most in need'. In this context, it pointed out that Australia was currently the largest direct recipient of its own aid funding.⁵³

Committee view

Further cuts to Australia's aid program

5.35 A reduction of around \$650 million in the revised budget update from aid funding in the 2013-14 budget will clearly have a significant impact on aid outcomes in developing countries. While the committee acknowledges that the fiscal pressures may affect the funding available for Australia's aid program, it should not be forgotten that these changes have, and will continue to have, real consequences for overseas communities in need.⁵⁴

5.36 The evidence from DFAT articulated some of the broad principles taken into account in making decisions about the cuts to funding announced on 18 January 2014. However, the committee was concerned by the lack of detail available from DFAT regarding the rationale for the funding cuts, or any assessment of the impact of the cuts in developing countries.

5.37 DFAT has indicated that it is in consultation with developing countries and other partners regarding how these funding cuts will be implemented. In the view of the committee this process should be expedited to provide all stakeholders with certainty as soon as possible.

5.38 In particular, the committee is concerned that the uncertainty created by these mid-year cuts to aid funding will have broader implications for international development outcomes beyond the immediate impact on the programs affected. More broadly, it is clear to the committee that Australia's reputation as a reliable donor and partner in international development has been adversely affected.

5.39 In the view of the committee, the Australian Government should seek to minimise the uncertainty imposed on other development partners in aid funding reprioritisations. Mid-year budget changes, unless they are increases, should be avoided in the future.

Recommendation 23

5.40 The committee recommends the Department of Foreign Affairs and Trade expedite the provision of detailed information to stakeholders regarding which programs and areas will be impacted by the aid budget funding changes announced on 18 January 2014.

53 *Submission 25*, p. 2.

54 For example, Mr James Chisholm, Treasury, *Committee Hansard*, 21 February 2014, p. 67.

Recommendation 24

5.41 The committee recommends that the Australian Government should refrain from mid-year changes to aid funding allocations in the future unless they increase available funding.