



CHARITY ENDS AT HOME

THE DECLINE OF
FOREIGN AID
IN AUSTRALIA

Matt Grudnoff
Dan Gilchrist

Policy Brief | September 2015

The Australia Institute

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Summary

Australia is one of the richest nations in the world, at arguably the richest point in our history. Yet our commitment to foreign aid is declining. The Coalition government plans to cut aid funding by \$1.4 billion per year or 33 per cent by 2017-18.

To put our aid budget in perspective, however, we need to consider it as a portion of our Gross National Income (GNI). This allows us to measure how generous we are and compare our current aid budget with previous years and other countries.

By this measure, our aid budget has hit its lowest level since 1974, when our official overseas development assistance (ODA) program began. In 1974 we allocated 0.45 per cent of our income to aid, now it is just 0.22 per cent. Long gone is the Howard era bipartisan support for the Millennium Development Goals, and a target of 0.7 per cent of ODA/GNI.

Since 1974 there have been ten foreign ministers. The recent cuts give current foreign minister Julie Bishop the dubious honour of being the minister to oversee the largest drop in aid spending to GNI.

Minister Bishop had plenty of competition for this title. Six of her predecessors oversaw a decline in the aid budget relative to GNI, but none came close to her new record, as shown below:

Changes in Foreign Aid by Foreign Minister

Foreign Minister	Change in ODA/GNI
Julie Bishop (Liberal)	-33%
Bill Hayden (Labor)	-17%
Andrew Peacock (Liberal)	-14%
Alexander Downer (Liberal)	-10%
Gareth Evans (Labor)	-8%
Bob Carr (Labor)	-3%
Don Willesee (Labor)	-2%
Kevin Rudd (Labor)	5%
Tony Street (Liberal)	8%
Stephen Smith (Labor)	16%

Worse still, Minister Bishop's cuts were not made strategically. Rather than cutting underperforming programs and focusing on successful ones, an across-the-board cut of 40 per cent has been made to 25 aid programs. These include country specific programs such as Indonesia and Afghanistan as well as regional and multilateral aid programs, such as UNICEF and the World Health Organisation (WHO).

With Minister Bishop's reappointment as foreign minister in the Turnbull cabinet, she has an opportunity to boost our aid budget and avoid being remembered as Australia's stingiest foreign minister.

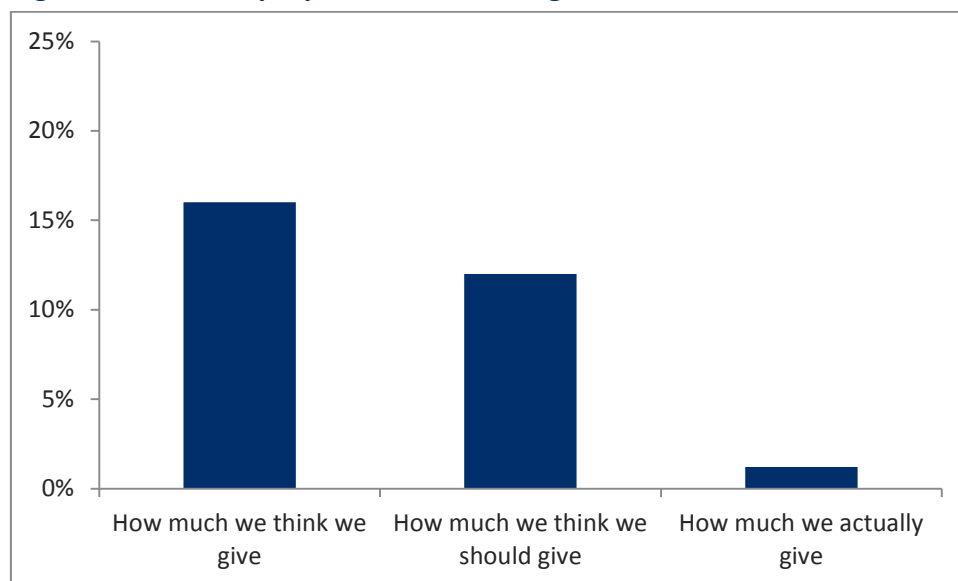
Introduction

Australia's foreign aid program has undergone many makeovers. Founded in 1974 under the Whitlam government as the Australian Development Assistance Agency, it changed names several times before becoming known as AusAID. Despite the changing name, one thing remained perennial – funding cuts.

In some ways this is easy to understand. The people who lose out from cuts to our aid program are poor; they live in other countries and do not vote in Australia. They have little ability to influence Australian governments, politicians or the public.

Cuts to the aid budget have been popular with a majority of Australians. In 2015, 53 per cent of respondents to a Lowy Institute poll supported aid cuts while only 35 per cent were opposed.¹ However, a 2011 poll also by the Lowy Institute showed a surprising result: Australians think we give ten times more in aid than we actually give, as shown in Figure 1 below:²

Figure 1 – Aid as a proportion of the budget



Source: Hanson, F (2011) *Australia and the World: Public Opinion and Foreign Policy*

When respondents were asked what proportion of the Federal Budget is spent on aid, the average response was 16 per cent. When respondents were asked what we should

¹ Oliver (2015) *2015 Lowy Institute Polling: Attitudes to Australia's Aid Program*

² Hanson, F (2011) *Australia and the World: Public Opinion and Foreign Policy*

be spending, the average answer was 12 per cent. We actually spent 1.22 per cent in 2013-14, and are projected to spend 1.13 per cent in 2017-18.³

Given that in the 2011 Lowy Institute Poll more than 70 per cent of Australians believe that we spend 5 per cent or more of the Federal Budget on aid, it is hardly surprising that cuts to aid are popular. But if the government were to give as much aid as people think we should, we would need to increase our aid budget almost tenfold.

Despite the apparent popularity of cuts to foreign aid, current foreign minister Julie Bishop made a pledge to the development community in January 2014:

*... what I have done is stabilised the budget at \$5 billion per annum. It will increase in line with inflation, so it will go up by CPI. This will provide certainty, predictability of funding for our partners, for the recipients and will put the aid budget on sustainable financial footing.*⁴

As late as October 2014, Julie Bishop said, “We will abide by the commitments we made in relation to foreign aid.”⁵ In December of the same year, just two months later, the government announced the biggest cuts to aid in Australia’s history.^{6 7} The aid budget is now expected to drop to a low of \$3.3 billion in 2015-16, far below the promised \$5 billion stabilisation point.

As the Australian Council for International Development’s Federal Budget Analysis stated:

*For much of the past year, sustained upheaval in the aid program has hampered aid programming decisions. ... Uncertainty around funding to aid delivery partners, particularly Australian NGOs, has curtailed their ability to make decisions about their own programs. ... This has had a real impact on vulnerable people, communities and partner organisations in developing countries who are assisted by Australia’s aid program. The deep cuts to aid confirmed in this Budget will further exacerbate this hardship.*⁸

While the current government’s cuts to the aid budget are considerable in nominal terms, it is more useful to consider them in terms of the percentage of GNI we are giving to foreign aid. This allows for comparison with earlier Australian governments and the aid budgets of other countries.

³ Australian Government (2014b) *Statement 6: Expenses and Net Capital Investment*

⁴ Bishop (2014) *Opening address - 2014 Australasian Aid and International Development Policy workshop*

⁵ Hurst (2014) *Julie Bishop pushes back on reported cuts to foreign aid to fund Iraq action*

⁶ Hockey, J (2014) *Release of 2014-15 Mid-Year Economic and Fiscal Outlook*

⁷ Australian Government (2014a) *Mid-Year Economic and Fiscal Outlook 2014-15*

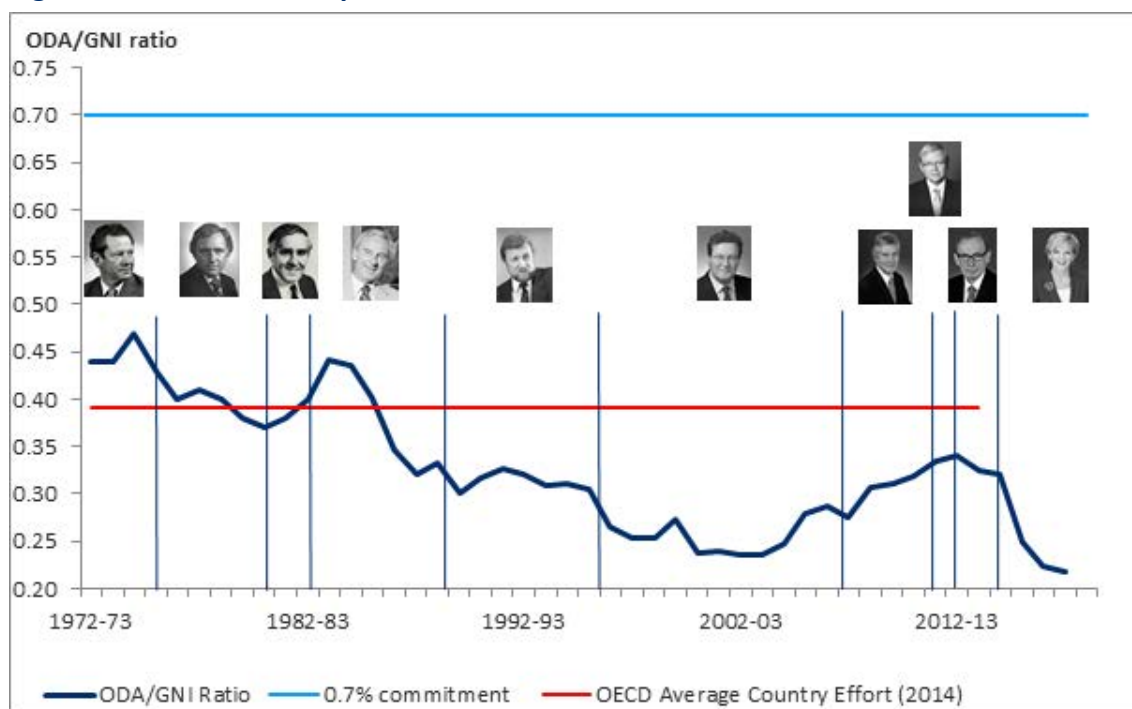
⁸ ACFID (2015) *Federal Budget Analysis 2015-2016*

THE DECLINE AND FALL OF AUSTRALIAN AID

Of the ten foreign ministers who have presided over the aid program, only three increased Australia's Official Development Assistance (ODA) as a proportion of GNI.

Figure 2 shows Australia's ODA as a proportion of GNI for the last 42 years as well as the ten foreign ministers that had responsibility for foreign aid.

Figure 2 – Official Development Assistance to Gross National Income



Source: Stephen Howes 2015, Australian National University; using: ABS Australian National Accounts Table 1; Budget documents Table 2 and 3; past Budgets

As shown in Figure 2, Australian aid has been in decline almost since it was formalised in the early 1970s. Foreign aid fell but then picked up under foreign minister Tony Street in the Fraser Coalition government. It then fell steadily until the announcement of the Millennium Development Goals in 2000.

The Howard government announced a commitment to the United Nations Millennium Development Goals, and reiterated Australia's longstanding commitment for developed countries to give 0.7 per cent of GNI to ODA. Australian aid experienced a revival, with bipartisan support for the aid budget seeing it pull back 25 years of decline.

The bipartisan commitment to these goals passed from the Howard government to the Rudd Labor government. Under the Gillard Labor government, Foreign Minister Stephen Smith and his successor, Kevin Rudd, continued to increase foreign aid in GNI

terms. Foreign aid fell slightly under the next minister covering the portfolio in that government, Bob Carr.

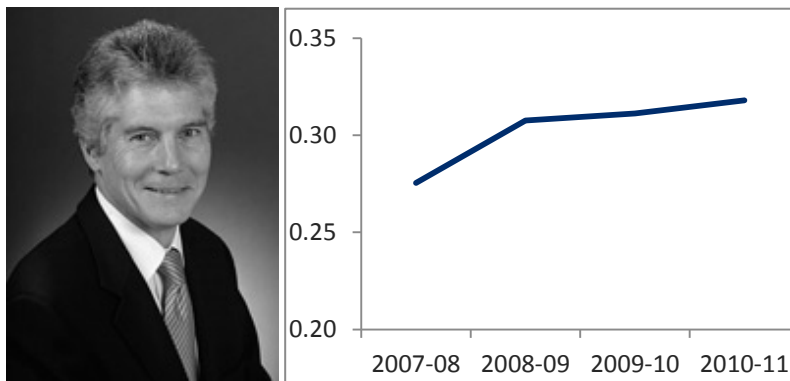
This brief revival ended, along with bipartisan support, in 2013, and all the gains have since been given up. Australia now lags well behind the OECD country average (the red line in Figure 2 above, set to the 2014 level).

In 2013 AusAID ceased to be an executive agency. It was the current foreign minister that axed the agency, and although AusAID was gone as an independent agency, the aid program was still defined by one certainty: cuts.

FOREIGN AID BY FOREIGN MINISTER

We have ranked Australia's ministers for foreign affairs by the change in Australia's ODA/GNI from the financial year they took office to the financial year they departed (or, in the case of the incumbent, going into the forward estimates).⁹

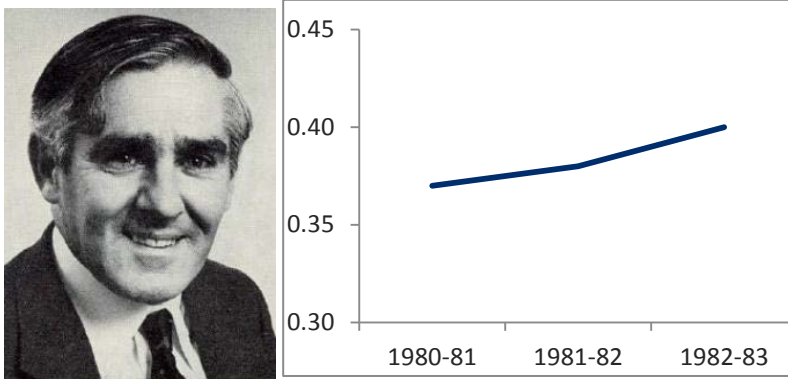
1. Stephen Smith (Labor)



Score: +16% (0.043 ODA/GNI)

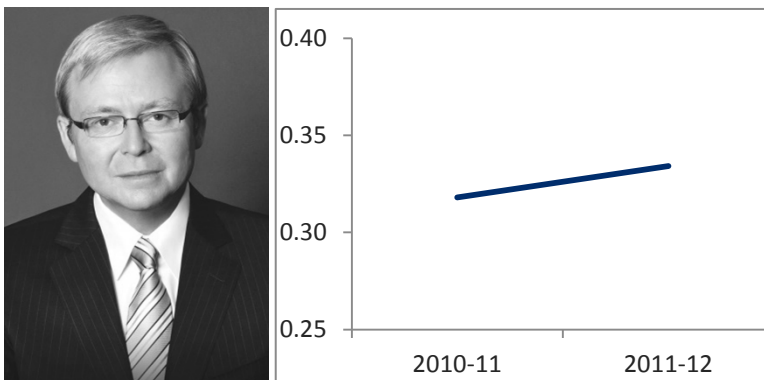
⁹ Howes 2015, Australian National University; using: ABS Australian National Accounts Table 1; Budget documents Table 2 and 3; past Budgets

2. Tony Street (Liberal)



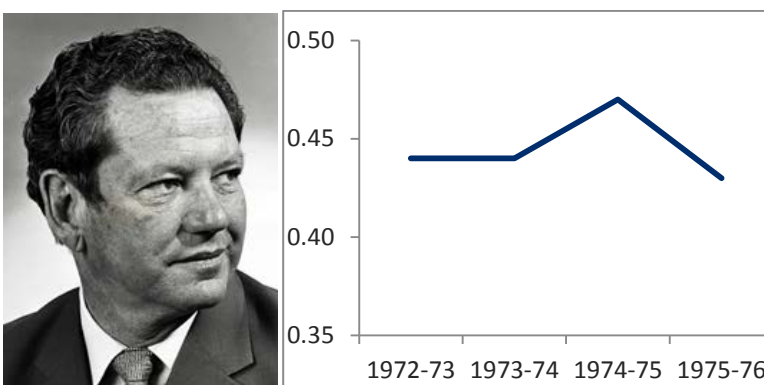
Score: **+8%** (0.030 ODA/GNI)

3. Kevin Rudd (Labor)



Score: **+5%** (0.016 ODA/GNI)

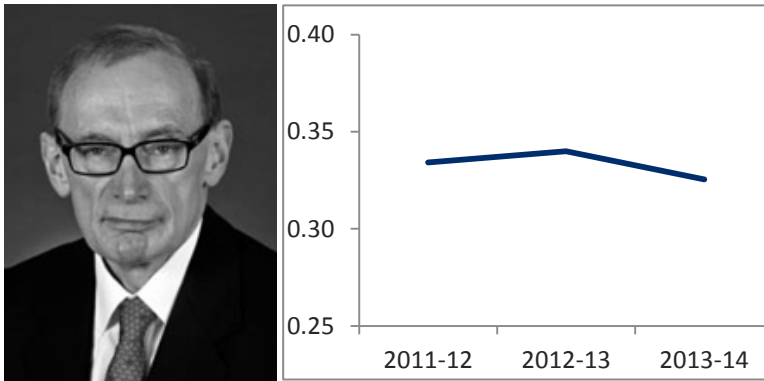
4. Don Willesee (Labor)



(Note that for part of 1972-73 Prime Minister Gough Whitlam also held the Foreign Affairs portfolio. During this time Willesee was Minister assisting the Minister for Foreign Affairs)

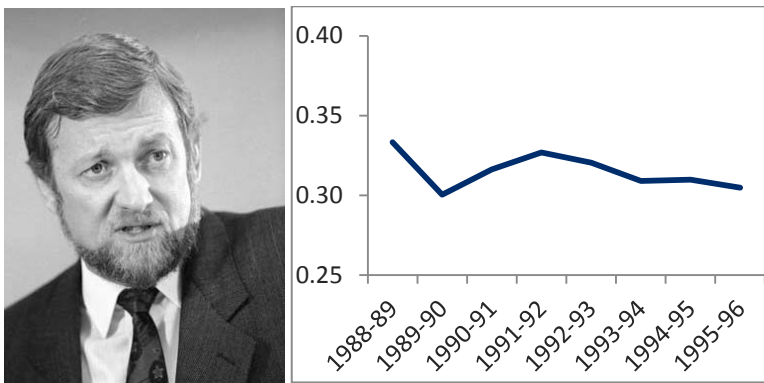
Score: **-2%** (0.010 ODA/GNI)

5. Bob Carr (Labor)



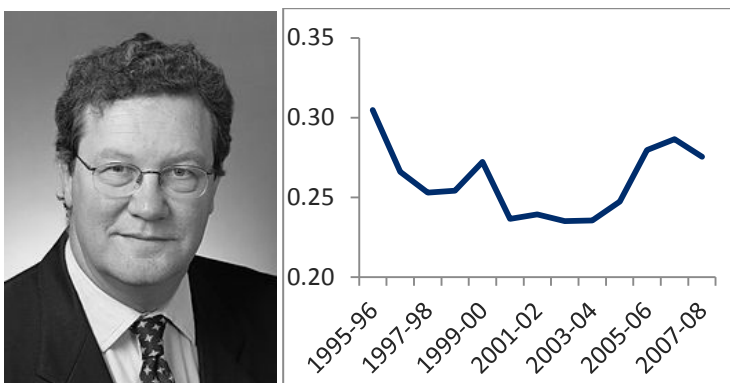
Score: **-3%** (0.009 ODA/GNI)

6. Gareth Evans (Labor)



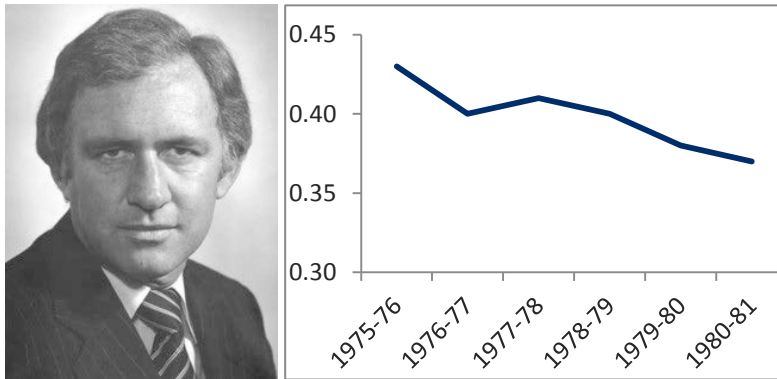
Score: **-8%** (0.028 ODA/GNI)

7. Alexander Downer (Liberal)



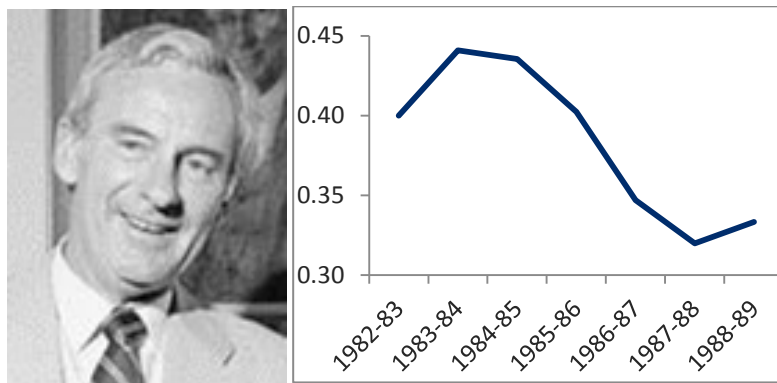
Score: **-10%** (0.030 ODA/GNI)

8. Andrew Peacock (Liberal)



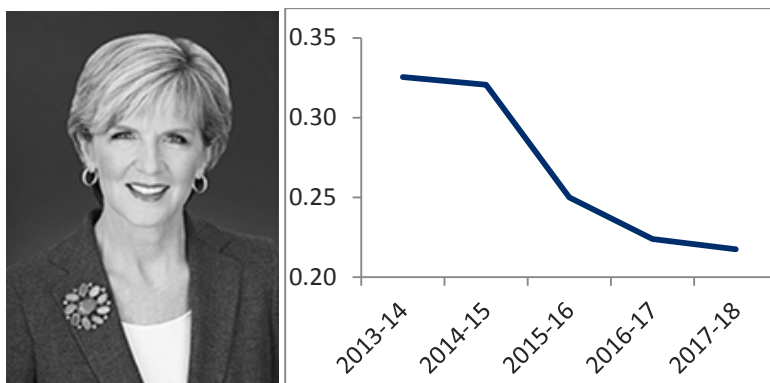
Score: **-14%** (0.060 ODA/GNI)

9. Bill Hayden (Labor)



Score: **-17%** (0.67 ODA/GNI)

10. Julie Bishop (Liberal)



Score: **-33%** (0.108 ODA/GNI)

Only three foreign ministers have increased foreign aid as a portion of national income – Stephen Smith, who served as foreign minister in the Rudd Labor government, Tony

Street, who served as foreign minister in the Fraser Coalition government, and Kevin Rudd, who served briefly as foreign minister under Prime Minister Julia Gillard.

Seven foreign ministers have overseen decreases in aid as a portion of GNI. The biggest decrease has occurred under the current foreign minister, Julie Bishop. If aid funding in the next four years follows the forecasts in the federal budget papers, Ms Bishop will oversee a cut in foreign aid of 33 per cent, about twice as much as any other foreign minister in ODA/GNI terms.

Julie Bishop's term as Minister for Foreign Affairs will see:

- The **largest ever multi-year aid cuts**: the 33 per cent cut is twice the previous record of 17 per cent.
- The **largest aid cuts in a single year**: 20 per cent and \$1 billion in 2015-16, larger than the previous record, held by Labor, of 12 per cent and \$323 million in 1986-87.
- The **least generous levels of aid ever**: 0.22 per cent of GNI in 2016-17.
- Australia, the **eighth largest economy** in the OECD, will drop to **nineteenth most generous OECD donor**.¹⁰

THE STRATEGY BEHIND THE CUTS

From an economic perspective, if aid cuts are to be made, they should be directed at poorly performing programs, programs that have either nearly finished or just begun. The effect of each cut should be considered on the outputs of the program. As Ms Bishop herself stated “analyse very closely where our aid is directed” and “reprioritise and refocus our aid”.¹¹ The result would be a reduction that would vary considerably by country taking into account the needs of each, and the best opportunities for cutting the worst performing programs.

This is not the approach that Ms Bishop and the Abbott government took. To paraphrase the ANU's Development Policy Centre, they paid the bills that had to be paid, and reduced everything else by 40 per cent.¹² If we look at the recent aid cuts we see that more than 80 per cent of country-specific cuts were exactly 40 per cent.

Although other line items were maintained or changed by a different amount, Table 2 looks at those budget items that saw a 40 per cent drop in DFAT funding.

¹⁰ Howes et al (2014) *Biggest aid cuts ever produce our least generous aid budget ever*

¹¹ Karvelas (2015) *Julie Bishop defends aid cuts on RN Drive, Radio National Drive*

¹² Davies (2015) *Flaws in the glass: allocation quirks in the 2015-16 Australian aid budget*

Table 2 – Selected elements of DFAT aid budget, from 2014-15 to 2015-16

Program	Reduction (%)	Reduction (AU\$ million)
Indonesia	-40%	-219.5
Afghanistan	-40%	-52.4
Philippines	-40%	-44.7
Vietnam	-40%	-39
East Asia Regional	-40%	-34.2
Burma	-40%	-28
Bangladesh	-40%	-28
Pakistan	-40%	-26.2
Infrastructure and Rural Development	-40%	-25.5
United Nations Children's Fund (UNICEF)	-40%	-14
Palestinian Territories	-40%	-13.7
Laos	-40%	-13.7
Sri Lanka	-40%	-13.3
Regional South Asia	-40%	-13.1
United Nations Development Fund (UNDP)	-40%	-8.5
World Health Organisation (WHO)	-40%	-8.2
Governance	-40%	-7.2
United Nations Population Fund (UNFPA)	-40%	-6.2
Fisheries and Agriculture	-40%	-5.7
Commonwealth Organisations	-40%	-4.8
Community Engagement and International Research	-40%	-4
Mongolia	-40%	-3.9
United Nations Program on HIV and AIDS (UNAIDS)	-40%	-3
Bhutan	-40%	-1.4
Maldives	-40%	-1.2

Source: Australian Government (2015c)

It is unlikely that a measured assessment of each program's efficiency and outcomes could have found such a universal level of savings. The ANU Development Policy Centre's Matthew Dornan said: "The across-the-board cuts indicate that there has been next to no consideration of the individual initiatives being implemented in each country – not of the stage at which initiatives were at, and not of their effectiveness."¹³

Indeed, DFAT recently released its *Performance of Australian Aid 2013-14* review,¹⁴ which showed that the programs that have been spared from serious cuts are among the worst-performing. According to DFAT's review, 100 per cent of programs are meeting their performance targets in Bangladesh and the Philippines, and over 80 per cent in Indonesia, Laos, Burma and Vietnam. These countries have seen 40 per cent cuts. By comparison, only 60 per cent of programs are on track in Cambodia, 50 per cent in Timor-Leste, and zero per cent in Nauru, but these countries have been spared serious cuts.¹⁵

This means that high-quality aid programs are being cut but low-performing programs are being spared. Some cuts to aid could be justified if program efficiency were improved. More aid could be delivered for less money. This does not appear to be the case here. Rather the government has just cut aid by 40 per cent to most countries.

ADVICE ON FOREIGN AID

In March 2015, Minister Bishop announced Bjorn Lomborg's appointment to the International Reference Group to make recommendations to the Minister for future directions.¹⁶ Dr Lomborg's Copenhagen Consensus Centre specialises in studies designed to direct aid in the most efficient manner. They claimed that one of the most cost-effective measures was to direct funding to reduce growth stunting in childhood, by improving nutrition. They ranked countries by the return-on-aid investment they expected.

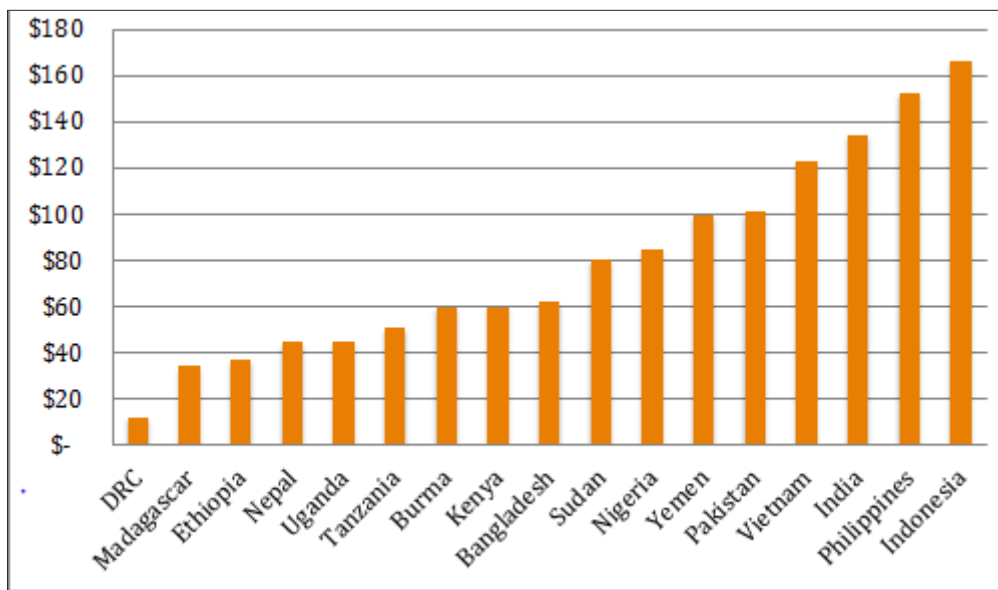
¹³ Dornan (2015) *The same, the bad, and the ugly: country allocations in the 2015-16 budget*

¹⁴ Australian Government (2015c)

¹⁵ Australian Government (2015b) *Performance of Australian Aid 2013-14*

¹⁶ Australian Government (2015a) *International Reference Group*

Figure 3 – Reducing Stunting: Benefit for every dollar spent by country



Source: Horton et al (2014) Discount rate = 3%, final working age 50

It should be noted that all but one country with a DFAT aid budget on Dr Lomborg's list is included in the blanket 40 per cent funding cut. Nepal, the odd country out, has recently suffered a major disaster. Whether it will have ongoing funding once attention has shifted is unclear.

These cuts are in direct contradiction to what Dr Lomborg's research recommends. It seems that the government is ignoring the advice of Dr Lomborg. This is strange given the lengths to which the Abbott Government went to receive his advice.

Dr Lomborg's appointment to the International Reference Group was at the express direction of the Minister.¹⁷ It also seems the government will be paying Dr Lomborg's travel from Europe twice a year to attend advisory board meetings. This comes at a cost to tax payers of around \$20,000 per year.

CORPORATE-DELIVERED FOREIGN AID

The Foreign Minister recently announced that the Australian government will partner with private corporations to deliver medical aid.¹⁸ The rationale being that private corporations with extensive distributional networks can more efficiently deliver medical aid than governments or NGOs.

¹⁷ AAP (2015) *Bishop made call on Lomborg aid gig*

¹⁸ Wahlquist (2015) *Julie Bishop: Australia will use private firms like Coca-Cola to deliver aid*

While this might seem like a more efficient method of delivering aid, caution needs to be taken. Commercial interests and aid interests do not necessarily align. There is the potential for significant risks that will need to be carefully managed.

For example, companies with vested interests could boost their public appeal by delivering government-funded aid and blurring the public impression of the source of the aid. The recipients of foreign aid are vulnerable people, and may come to believe that the granting of aid is dependent on the corporation rather than the interests of the Australian government. If this occurs, a project that is not necessarily in the local population's best interest may be approved for fear of losing that aid.

Such conflicts of interest might be difficult to anticipate and therefore difficult to regulate. While there may be some circumstances where corporations are more efficient in the delivery of non-complex foreign aid, it is rarely true that corporate interests are altruistic or even benign.

Conclusion

When it comes to foreign aid, Australia is not generous – irrespective of whether this is considered against historical or world standards. Furthermore, our aid is less than generous than the general public perceives.

The current foreign minister, Julie Bishop, has overseen the biggest cuts to aid as a portion of national income in our history. These cuts have been made in a way that does not consider their value or performance, but as across-the-board 40 per cent cuts. Well-performing programs and poorly performing programs alike have been cut indiscriminately.

Despite Australia being the eighth richest country in the OECD, it will soon become only the nineteenth most generous donor. The Australian government has abandoned the United Nations Millennium Development Goals, and now looks increasingly like it is not contributing its fair share.

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