



**Australian Council for  
International Development**

**AID BUDGET 2007–08  
– Overview and Analysis –**

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### **Overview**

The 2007–08 Aid Program Budget provides a positive step towards improving and expanding Australia’s official aid program, and reflects well on Government commitments to implement the 2006 aid White Paper recommendations.

The increase of \$10m from \$27.4 million in 2006–07 to \$37.5 million in 2007–08 in the AusAID-NGO Cooperation Program (ANCP) is particularly welcome, given the importance of this program to many NGOs.

The AusAID budget papers foreshadow two key areas for the NGO sector to actively engage and monitor:

At first glance the overall official development assistance (ODA) funding levels in the 2007–08 budget provides only a 4.5% real increase over the 2006–07 budgeted ODA and 3.0% over actual ODA expenditure. However, the 2006–07 ODA included one-off Iraq debt cancellation of \$343 million and other one-off debt relief initiatives of \$122m. The 2007–08 budget includes \$674 million of new expenditure in health, education, environment, infrastructure and governance programs. The budget forward estimates provide for a gradual increase in ODA up to \$4.3 billion in 2010–11. While this is greater than the Prime Minister’s \$4 billion commitment, it will still leave Australia at about 15<sup>th</sup> place among OECD countries in terms of ODA/Gross National Income (GNI). This forward commitment also remains tied to evidence of progress on governance, anti-corruption and the effectiveness of the aid program.

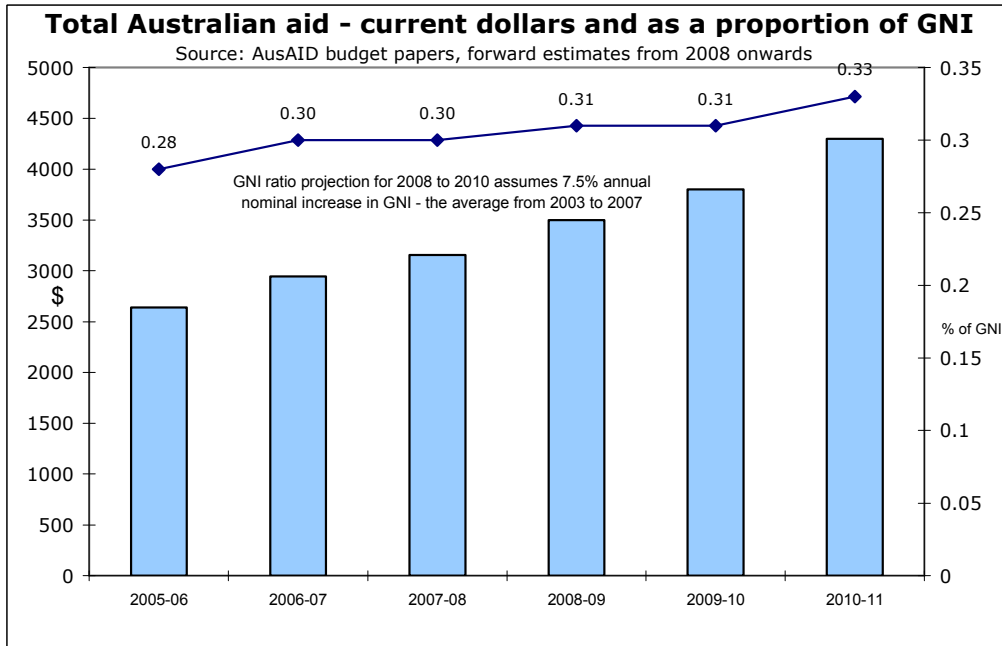
The budget includes two years funding for a new Performance Incentives program. This reaffirms a White Paper commitment to introduce these performance payments to partner governments. It is proposed that they will eventually account for 10% of ODA. AusAID is modelling this program on DFID’s experiences in Africa, and AusAID’s recent multilateral work in Vietnam and experience in PNG. AusAID has stressed that it is adopting a cautious country-by-country approach and will pursue a sectoral or geographic focus in the majority of cases.

### **Highlights**

- Increased funding for the AusAID-NGO Cooperation Program (ANCP) (from \$27.4 million in 2006–07 to \$37.5 million in 2007–08).
- Increased funding to Indonesia, Philippines, Bangladesh, the Mekong region, Papua New Guinea and the Pacific Region.
- New initiative to enhance emergency response capacity in the Asia-Pacific (\$93.2 million over four years).

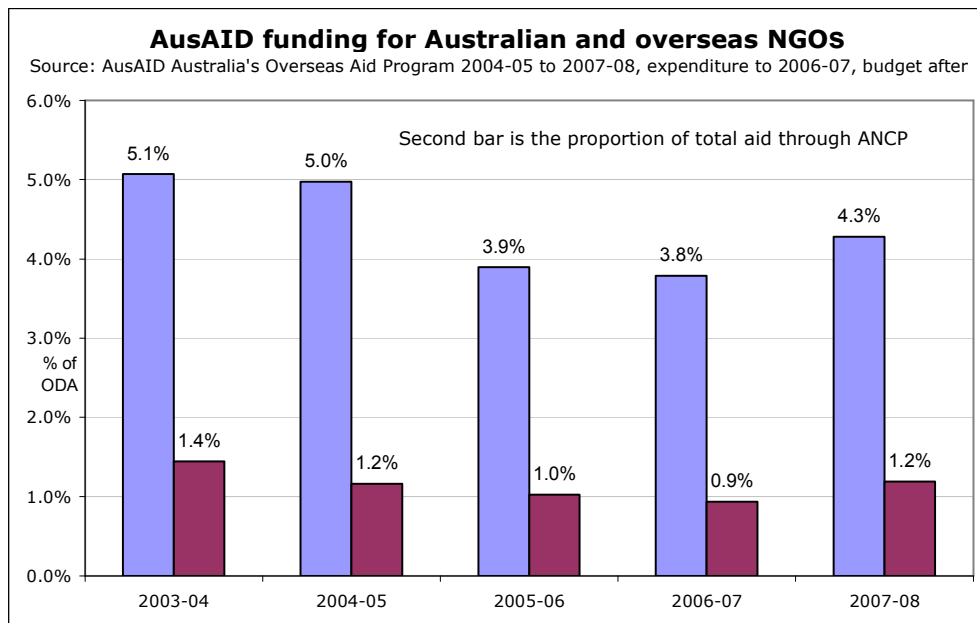
## Scale of Aid Budget

Based on forward estimates in the 2007–08 budget papers, Australia’s estimated ODA/GNI ratio in 2010–11 will be 0.33%. However, the OECD estimates that in 2010 the average country effort (the unweighted mean) will be greater than 0.50%. The Australian Government prefers to quote the “weighted mean” which is a lower figure than the unweighted mean because the large economies of the US and Japan which have less generous aid programs weigh down the mean.



## Funding for NGOs

ACFID welcomes the 20% increase in real terms in funding for NGO programs, to \$135m in 2007–08. In a positive response to ACFID lobbying, we also welcome AusAID’s decision to guarantee that accredited agencies will receive 75% of their current financial year’s allocation into the next financial year. This is to provide more certainty for program planning and management. There are also increases in bilateral and humanitarian NGO expenditure, although disappointingly there is no increase in real terms in volunteer programs.



## Sectors

### Health

***Delivering Better Health*** is a major initiative with \$585m over four years. It focuses on women and children, reproductive health, non-communicable diseases (in the Pacific), global health partnerships and strengthening of health systems (the latter reflecting a specific point in ACFID's Budget Submission). STD control, including HIV/AIDS (at 28%) makes up the major health sector sub-group. Despite this large increase in health funding, disability has yet again not been addressed.

### Education

***Delivering Better Education*** is a major initiative with \$540m over four years. Basic Education, at 27%, is the largest of the education sector sub-groups, with relatively large amounts for education governance (23%) and technical and vocational education (21%). This support includes improving relevance of vocational and technical education; expanding support for Islamic education to help raise employment prospects; and expanding English language skills.

### Environment

The commitment of \$32.5m in 2007–08 to climate change programs run by the multilateral development banks is welcome, but the budget represents a missed opportunity to make climate change a central element of Australia's own aid activities. The pressure of climate change on Pacific Island and low-lying Asian countries requires an integrated strategy to strengthen partner government and civil society capacity in environmental management, resilience in agricultural livelihoods and the transfer of low emissions technologies.

The budget does include \$164m over five years for the previously announced Global Initiative on Forests and Climate. This is an important regional initiative. Plenty of work still needs to be done over the coming months to translate this policy commitment into a viable program to reduce deforestation.

### Infrastructure

***Infrastructure for Growth*** is a major initiative with \$505m over four years. It aims to ease the infrastructure bottlenecks that constrain economic growth in many countries in our region. Expanding and maintaining roads and other transport infrastructure will be a feature of the initiative, as will strengthening public sector management in relation to infrastructure development.

Regrettably, the budget did not include a substantial new commitment on water and sanitation. However, the new Greater Mekong Subregional Strategy does include some money for improving water resource management through a partnership with the Mekong River.

### Humanitarian and Emergencies

A 22.5% funding increase for humanitarian and emergency programs was welcome. This included an initiative to enhance emergency response totaling \$93m over four years. We anticipate that AusAID will work closely with the NGO sector in the implementation of this program.

The expected focus of the program will be increasing capacity of local disaster management offices around the region. Following the tsunami in the Solomon Islands, which demonstrated a lack of capacity by the local management, this funding will hopefully improve these offices for future disaster responses.

Another focus is achieving better analysis and risk reduction. This is sure to involve other Australian government departments like Geoscience Australia, and potentially CSIRO.

Funding to the International Refugee Fund and the Central Emergency Response Fund have remained static at \$15m and \$10m respectively, while the International Committee of the Red Cross and Red Crescent has received an increase of \$3m to total \$12m.

## Governance

Amongst the highlights, the two-year **Better Governance and Leadership** initiative has been allocated \$41m, of which \$16m is for 2007–08. This has been planned for only two years initially in order to ensure that relevant knowledge can be brought together to achieve effective programming. There is scope for NGO engagement under the Better Governance and Leadership initiative, especially in the Pacific. AusAID is actively seeking case studies and other field-based information to assist this design work.

A particular focus of this initiative is on the role of women in governance.

Acknowledgement of the role of churches in promoting increased government accountability in Melanesia is reflected in funding for partnerships between local Pacific and Australian church agencies in Solomon Islands and Vanuatu, building on the successful PNG Church Partnership Program (CPP) model. Funding too is provided for the regional Pacific Council of Churches under the **Pacific Leadership Program** within the Better Governance and Leadership initiative.

## Anti-Corruption for Development

The Budget includes \$16m for AusAID's new Anti-Corruption Policy. The implementation of the "Building constituencies for anti-corruption reform" component of the Anti-Corruption for Development initiative is expected to provide new opportunities for NGO participation.

## Countries

**South-East Asia (including Indonesia)** received the greatest increase in country allocations.

### Pacific

There is a huge increase (126% in real terms) for **Pacific regional activities** including the Australia-Pacific Technical College (APTC) and a scholarship program for small island states to enable students to travel to the College that will be located in only four countries. Increased funding is allocated to most Pacific Island countries except Fiji, no doubt reflecting the Government position on the military take-over last year.

### Philippines

The budget includes a very large increase in aid to the Philippines from \$69m in 2006–07 to \$100m in 2007–08. The increased expenditure will be focussed on the areas of strengthening public sector management, improving the availability and quality of basic education, and supporting peace building in Mindanao.

### Mekong Region

All Mekong countries had funding increases in 2006–07. In this budget, significant new money has been invested in a Mekong Subregional Strategy. Continued funding of livelihoods programs for the rural poor is very welcome, with funding for basic health, education, and institutional capacity building other features of the bilateral programs. The new Mekong Subregional Strategy will fund improved backbone transport infrastructure, facilitation of intra-regional trade, and enhanced management of water resources.

### Africa

An increase to \$12m for the Australian Fund for Zimbabwe is welcome. This covers funding to community organisations. It remains to be seen whether there are appropriate organisations that can absorb and deliver the funds effectively. General funding to Africa is to be channeled through multilaterals and NGOs. From recent discussions with AusAID, our impression is that the vast majority is likely to be spent through UN agencies, particularly the World Food Programme.

### Indonesia

The other major funding increase at country level is for Indonesia. It has received an additional \$114m, the highest increase in any country programs. This will be spent on new initiatives in health and education, reflecting the wider trend of the aid budget. A large portion will be for loans and grants under the AIPRD program to fund improvements to the national road network. Other focal areas include strengthening legal and human rights reform and funding for communicable diseases and avian flu. The new Indonesia country strategy currently under development should provide more insight into how this additional funding will be allocated.

## AusAID capacity and effectiveness

Since the aid White Paper, AusAID's departmental expenditure has risen from \$77.8m in 2005–06 to \$93.5m in 2006–07 to a budgeted \$109.2m in 2007–08. Part of this increase simply reflects the cost of administering a much larger aid program. But it also reflects a new way of doing business (Vision 2010) with increased in-house technical capacity, greater placement of AusAID staff overseas, more investment in program quality and effectiveness, and a larger focus on building partner government capacity and developing other innovative modes of aid program delivery. Given the need for AusAID to become more innovative and to draw more directly on expertise from the field as it scales up the whole program, the additional staffing and administration expenditure appears to be a necessary investment.

The first **Annual Review of Development Effectiveness** (ARDE) to be produced by AusAID's Office of Development Effectiveness will be tabled in Parliament in late 2007. AusAID indicates the ARDE will draw primarily on three sources: Annual Program Performance Updates, Annual State of the Sector Reports and evaluations. An indication of AusAID's current thinking on performance indicators can be found by looking at those provided against AusAID's outcomes in the Foreign Affairs and Trade Portfolio Budget Statement.

## Other Government Department expenditure

Key changes in relation to expenditure in other government departments are reduced expenditure for ongoing ADF deployments in the Defence portfolio and AFP deployments in Attorney Generals portfolio, with higher establishment costs in 2006–07, and reduced debt relief expenditure in the Foreign Affairs and Trade portfolio.

## Outcomes of Sector Lobbying

This table provides a brief overview of favourable budgetary outcomes of recent lobbying by ACFID and the sector.

NGO sector recommendations for the Australian Aid Program	ACFID Submissions		AusAID Responses		
	White paper submissions	Pre-budget submission	White Paper	Budget FY06–07	Budget FY07–08
Increase Australia's aid program to 0.5% GNI by 2010		YES	✗	\$↑	\$
Expand use of Australian NGOs by doubling the budget for the AusAID/NGO Cooperation Program	YES	YES	✓		\$↑
Establish a Pacific-based Regional Vocational and Education Training Centre	YES		✓	\$	\$↑
Target vocational training within the AusAID scholarships program	YES		✓	\$	\$↑
Leadership program scholarships	YES		✓	\$	\$↑
Increase funding for basic education programs.	YES	YES	✓	\$	\$↑
Increase funding for primary health programs	YES		✓	\$	\$↑
Long-term strategies for strengthening national health systems including maternal & child health and sexual & reproductive health		YES	✓	\$	\$↑
Provide financial support for AusAID/NGO collaborations to trial demand-led governance work in selected countries	YES	YES	✓	\$	\$↑
Increase funding for the <i>Global Fund</i>		YES	✓	\$	\$↑
Increase funding for the <i>Central Emergency Response Fund</i>		YES	✓	\$	\$
Increase funding for disaster risk management		YES	✓	\$	\$↑

### Key

Budget FY06–07: \$ means funding included.

Budget FY07–07: \$ means funding steady, \$↑ means funding increased.

## Aid Budget Analysis by Country 2007–08

	2006–07 budget A\$m current dollars	2007–08 budget A\$m current dollars	% change in in real terms since last budget	% change in real terms since 1995–96
<b>Total Aid Budget</b>	<b>2,946.3</b>	<b>3,155.3</b>	<b>4.5</b>	<b>46.8</b>
<b>Total budget minus AIPRD</b>	<b>2,767.9</b>		<b>-100.0</b>	<b>-100.0</b>
<b>Total budget minus PNG, Solomons and Indonesia</b>	<b>2,046.8</b>	<b>2116.7</b>	<b>0.9</b>	<b>42.1</b>
<b>PNG</b>	<b>332.2</b>	<b>355.9</b>	<b>4.5</b>	<b>-23.5</b>
<b>Pacific</b>				
Fiji	33.8	28.7	-17.2	-4.7
Vanuatu	34.7	44.5	25.1	110.6
Solomon Islands	223.0	223.9	-2.0	1297.6
Western Samoa	22.0	23.3	3.3	37.2
Tonga	13.4	15.7	14.3	-2.8
Kiribati	13.0	15.0	12.6	57.4
Nauru	17.7	8.7	-52.0	117.2
Tuvalu	5.4	5.6	1.2	4.0
Other island nations	12.7	15.6	19.8	
Regional	58.5	135.6	126.1	180.5
<b>Total Pacific</b>	<b>434.4</b>	<b>516.6</b>	<b>16.0</b>	<b>196.9</b>
<b>East Asia</b>				
Indonesia	344.3	458.5	30.0	155.7
East Timor	43.6	72.8	62.9	
Vietnam	81.5	90.8	8.7	3.7
Philippines	68.8	100.6	42.7	-1.8
China	41.8	39.3	-8.3	-54.3
Cambodia	48.5	54.0	8.6	23.3
Thailand	5.3	6.5	19.6	-87.3
Laos	21.9	27.2	21.2	0
Other & Regional	57.9	120.4	102.9	75.4
<b>Total East Asia</b>	<b>713.6</b>	<b>970.4</b>	<b>32.7</b>	<b>50.2</b>
<b>South Asia</b>				
Bangladesh	36.3	47.6	27.9	2.6
India	9.8	6.3	-37.3	-81.2
Sri Lanka	31.0	25.0	-21.3	60.2
Nepal	7.2	8.2	11.1	-18.7
Pakistan	17.0	27.1	55.5	75.2
Afghanistan	33.9	99.6	186.6	1402.4
Other & Regional	23.1	34.5	45.7	613.7
<b>Total South Asia</b>	<b>158.3</b>	<b>248.3</b>	<b>53.0</b>	<b>87.3</b>
<b>Africa and Other</b>				
Africa	82.1	94.4	12.2	-37.1
Middle East	374.6	39.2	-89.8	198.8
<b>Total Africa and Other</b>	<b>456.7</b>	<b>133.6</b>	<b>-71.5</b>	<b>-27.5</b>
<b>Core contributions to multilateral organisations, other ODA expenditure</b>	<b>653.2</b>	<b>840.7</b>	<b>25.6</b>	<b>51.2</b>
<b>Other government departments - unallocated</b>	<b>202.8</b>	<b>88.5</b>	<b>-57.4</b>	