



Australian Government
Department of Foreign Affairs and Trade



**Australian aid: promoting prosperity,
reducing poverty, enhancing stability**

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Students from junior secondary schools built under Australia's Education Partnership enjoying an AFL game with staff from the Australian Embassy, Jakarta, Indonesia. Photo: Matahati/DFAT

Mechanised ploughing in Cambodia. Photo: Chris Graham/DFAT

Private sector development at KK Kingston manufacturers in Lae, Papua New Guinea. Photo: George Fetting/Copyright Pacific Islands Trade & Invest

**Australian aid: promoting prosperity,
reducing poverty, enhancing stability**



Minister for Foreign Affairs, the Hon Julie Bishop MP, pictured with Nauru's Minister for Education, the Hon Charmaine Scotty, and students at the refurbished Nauru Secondary School, December 2013. Photo: Gay Uera/DFAT

Ministerial Foreword

The Australian Government's aid program reflects Australia's values, and our commitment to reducing poverty and lifting living standards through sustainable economic growth.

The aid program is not charity; it represents an investment in the future of the Indo-Pacific region. An effective aid program will contribute to greater prosperity and reduced poverty. Well-targeted Australian aid complements our diplomatic and security efforts to promote regional stability.

Our aid program needs to adapt to new realities. In 2015 the international community will sign up to a new development agenda, replacing the Millennium Development Goals negotiated in 2000. The aid world has changed in fundamental ways since then. Aid flows into developing countries are now dwarfed by foreign direct investment, equity flows and remittances, and countries increasingly have capacity to devote domestic resources to development. Traditional aid approaches are no longer good enough. We need a new development paradigm.

Australia seeks to play a prominent role in shaping this new paradigm. This new development policy *Australian aid: promoting prosperity, reducing poverty, enhancing stability* introduces key shifts in our aid program, reflecting both our national interests and the changed context in which our aid program operates.

We will change where we work by strengthening our focus on the Indo-Pacific region. Our neighbourhood is where we can make the most difference.

We will change what we do. We will focus on using our aid as a catalyst to promote economic growth and poverty reduction, including through a strong emphasis on aid for trade.

We will give increased attention to empowering women and girls as a central objective of our aid program, recognising the significant benefits that flow to whole communities from women's participation.

We will also change how we deliver aid. We will develop innovative models for private sector partnerships that leverage finance and ideas from a wide range of sources to achieve development outcomes. We will work in partnership with emerging economies. We will deliver aid in a way that reinforces the responsibility of partner governments to plan and fund their own economic development and poverty reduction strategies. Australian aid will not displace or undermine these core sovereign responsibilities.

We will ensure that taxpayers' money spent through Australia's aid program is effective, accountable and delivers results through a new performance framework *Making Performance Count: enhancing the accountability and effectiveness of Australian aid* incorporating rigorous benchmarks and mutual accountability. We will measure our effectiveness, learn from our mistakes and adjust or cancel programs that are not achieving results.

The Government's decision to integrate management of Australia's aid program into the Department of Foreign Affairs and Trade (DFAT) strengthens our platform to deliver an improved aid program. Aligning our diplomatic, trade, and development efforts will ensure the aid program supports the Government's commitment to put economic diplomacy at the heart of Australia's interactions with the world. Just as the goal of traditional diplomacy is peace, the goal of economic diplomacy is prosperity. Economic development will be central to Australia's aid program so that we maximise our contribution to sustainable economic growth and poverty reduction in our neighbourhood and beyond.

These reforms will build an aid program that is effective in promoting economic growth and reducing poverty, and that projects and protects Australia's broader interests in the Indo-Pacific region.



The Hon Julie Bishop MP
Minister for Foreign Affairs

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1. Purpose of the aid program

The Australian Government's aid program will promote prosperity, reduce poverty and enhance stability with a strengthened focus on our region, the Indo-Pacific.

The purpose of the aid program is **to promote Australia's national interests by contributing to sustainable economic growth and poverty reduction.**

Below left: Infrastructure projects in Vietnam are providing access to local markets and improving livelihoods of people living in the Mekong Delta region. Photo: Bui Huy Phuong/TAJ Media

Below right: Construction site of a small bridge financed by DFAT and the World Bank in Vietnam's Mekong Delta region. Photo: Vu Duc Cong/DFAT



2. The need for change

The world has changed—and our aid program must change too. Development assistance is no longer primarily a flow of resources from Organization for Economic Co-operation and Development (OECD) countries to developing countries. Today, many developing countries are growing rapidly; their growth is the main driver of global growth.

As a result, aid represents an increasingly small proportion of development finance. Other financial flows, including foreign direct investment, equity flows and remittances dwarf official development assistance (ODA) flows. Globally, private investment in developing countries is approximately six times the size of ODA flows (ODA was around US\$134 billion in 2013).¹ Remittances and domestic tax also contribute significant volumes of finance (around US\$400 billion² and US\$7.7 trillion³ respectively). ODA will continue to be important for development, especially for fragile and low income countries, but most finance for development now comes from a range of other sources. There is also an increasing diversity of players providing development assistance, including emerging economies, philanthropists, and global funds that tackle specific challenges in health and other sectors.

These changes are amplified in Australia's region, the Indo-Pacific, because of the accelerating shift in global economic power towards our region over the last decade.

To be effective in this new context, aid needs to be more nimble and catalytic, helping to unleash these other drivers for development. We need to recognise that aid alone cannot solve the problems of development; developing country institutions and policies need to lead. Where developing country institutions are weak and policies inappropriate, the impact of aid is compromised. This means that we need to build mature development partnerships—based on principles of mutual accountability—with partner governments and organisations.⁴

The experience of our region has demonstrated that sustainable economic development is central to poverty reduction. We know that countries that engage with the global economy—particularly through trade—will grow more quickly, and that the private sector is the engine of growth. Developing country institutions and policies are critical, including those that enable trade and private sector development, mobilise domestic resources, and support sharing the benefits of growth with the broader population.

Experience from our region has also shown us that many development challenges, particularly in fragile and conflict-affected countries, are highly complex and seemingly intractable. We need to tap into ideas from a wider range of sources, experimenting with new approaches and partnerships to find breakthrough solutions to entrenched development problems. We need greater innovation, which demands a different approach to managing risk.

1 Organization for Economic Co-operation and Development (OECD), *Development: Aid to developing countries rebounds in 2013 to reach an all-time high*, viewed 5 June 2014, <<http://www.oecd.org/newsroom/aid-to-developing-countries-rebounds-in-2013-to-reach-an-all-time-high.htm>>; United Nations Conference on Trade Development (UNCTD), *Global Investment Trends Monitor No. 15*, 28 January 2014, viewed 5 June 2014, <<http://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=687>>.

2 2013: World Bank, *Remittances to developing countries to stay robust this year, despite increased deportations of migrant workers*, says WB, viewed 5 June 2014, <<http://www.worldbank.org/en/news/press-release/2014/04/11/remittances-developing-countries-deportations-migrant-workers-wb>>.

3 2012: World Bank, *Financing for Development Post 2015*, October 2013, viewed 5 June 2014, <<http://post2015.org/2013/10/22/world-bank-report-financing-for-development-post-2015/>>

4 *Making Performance Count*: Strategic performance target no. 6.

Australia's aid program has an international reputation for flexibility, responsiveness and pragmatism. We will draw on these strengths to implement the required shifts in focus outlined in this new development policy.

Innovation

Innovation can improve the lives of poor people. The poor in developing countries face substantial challenges in accessing basic services, finding jobs and lifting themselves out of poverty.

Innovative development solutions, such as oral rehydration therapy, childhood vaccines, conditional cash transfers and higher-yielding and disease-resistant crops, have saved and improved millions of lives.

The Government will allocate A\$140 million over four-years to encourage innovative development solutions. Innovation funding will be used to identify, evaluate and help scale up innovations with high potential to generate significant development results.

Australia will become a partner in the Global Development Innovation Ventures (GDIV) program. GDIV will support a portfolio of innovations across multiple sectors including health, education, sustainable energy, food production, small business and accountable government. Innovations will be selected through open competition, and innovators supported to pilot and field test development ideas, rigorously assessing their impact and cost effectiveness. Help will be given to transition the most promising to implementation at scale. Australian funding will be used to provide staged financing to innovators working in the Indo-Pacific region.

Other initial investments will establish and deepen partnerships to unlock new sources of financing for priority development projects in Australia's region. This will include partnerships to address constraints to private sector investment, such as funding for early stage project development, assistance with arranging private debt and equity, as well as guarantees and insurance to offset risks.

3. Geographic focus

The aid program will have a sharper geographic focus. From 2014–15 at least 90 per cent of country program aid will be directed to the Indo-Pacific region, particularly South East Asia and the Pacific—our immediate neighbourhood.⁵

Some 743 million people still live in extreme poverty in the Asia-Pacific region, surviving on less than US\$1.25 per day and struggling to access the basics of life—food, water and sanitation.⁶ Millions more live barely above this extreme poverty line. Indonesia alone is home to more than 100 million people who live on less than US\$2 per day.⁷

Our sharper geographic focus reflects the reality that the vast majority of our nearest neighbours are developing countries. Many of them face significant development challenges. Ten of Australia's 15 top partner country aid recipients are considered to be fragile or conflict-affected.⁸ Their fragility has a direct impact on our national and security interests.

A focus on our region is an expression of our national interest—stronger growth, prosperity and stability in the region is of direct benefit to Australia, Australians and citizens of our neighbouring countries. It is also where Australia's aid can make the biggest difference.

While the focus of the aid program will be on the Indo-Pacific, the Government recognises Australia also has a responsibility to contribute to addressing global development challenges. This will include continuing to be a generous humanitarian donor and partnering with effective multilateral organisations to extend our reach.

Below left: Water project in Puware Shikhar, Nepal. Photo: Jim Holmes/DFAT

Below right: City Mission Farm vocational training for young people, Papua New Guinea. Photo: Jim Holmes/DFAT



⁵ *Making Performance Count*: Strategic performance target no. 5.

⁶ United Nations Economic and Social Commission for Asia and the Pacific (UN ESCAP), *Statistical Yearbook for Asia and the Pacific 2013*, viewed 5 June 2014, <<http://www.unescap.org/sites/default/files/D.1-Income-poverty-and-inequality.pdf>>.

⁷ 2011: World Bank, *Poverty and Equity Country Dashboard*, viewed 5 June 2014, <<http://povertydata.worldbank.org/poverty/country/IDN>>.

⁸ Based on OECD DAC (2014), World Bank (2014) and ADB (2013) classifications.

4. Re-shaping the aid program

The Government's aid program will promote prosperity, reduce poverty and enhance stability by focusing on achieving two development outcomes: strengthening private sector development and enabling human development. The impact of our aid in achieving these outcomes will be maximised through leveraging knowledge and non-ODA sources of finance and promoting innovation (see Figure 1).

Economies grow when resources are used more productively—when businesses can start or expand in response to new opportunities and when workers develop new or improved skills. Economies grow when the private sector expands and the public sector enables and supports this expansion. We will use more of our aid funding to expand trade and business opportunities for developing countries. We will support key growth sectors, build skills, empower women and girls to participate in the economy, and support an effective and efficient public sector.

Expanding opportunities for people, businesses and communities is the key to both promoting economic growth and reducing poverty. People leave poverty when they get a job or a better paying job, and when they have the opportunity to use their time and skills more productively.

Nine out of ten of these jobs are created in the **private sector**.⁹ The private sector encompasses informal sector activities, including individual farmers and street vendors, through to large locally owned firms and multinational corporations. Australian support will strengthen the private sector in our partner countries through improving the business enabling environment, and helping create better functioning markets.

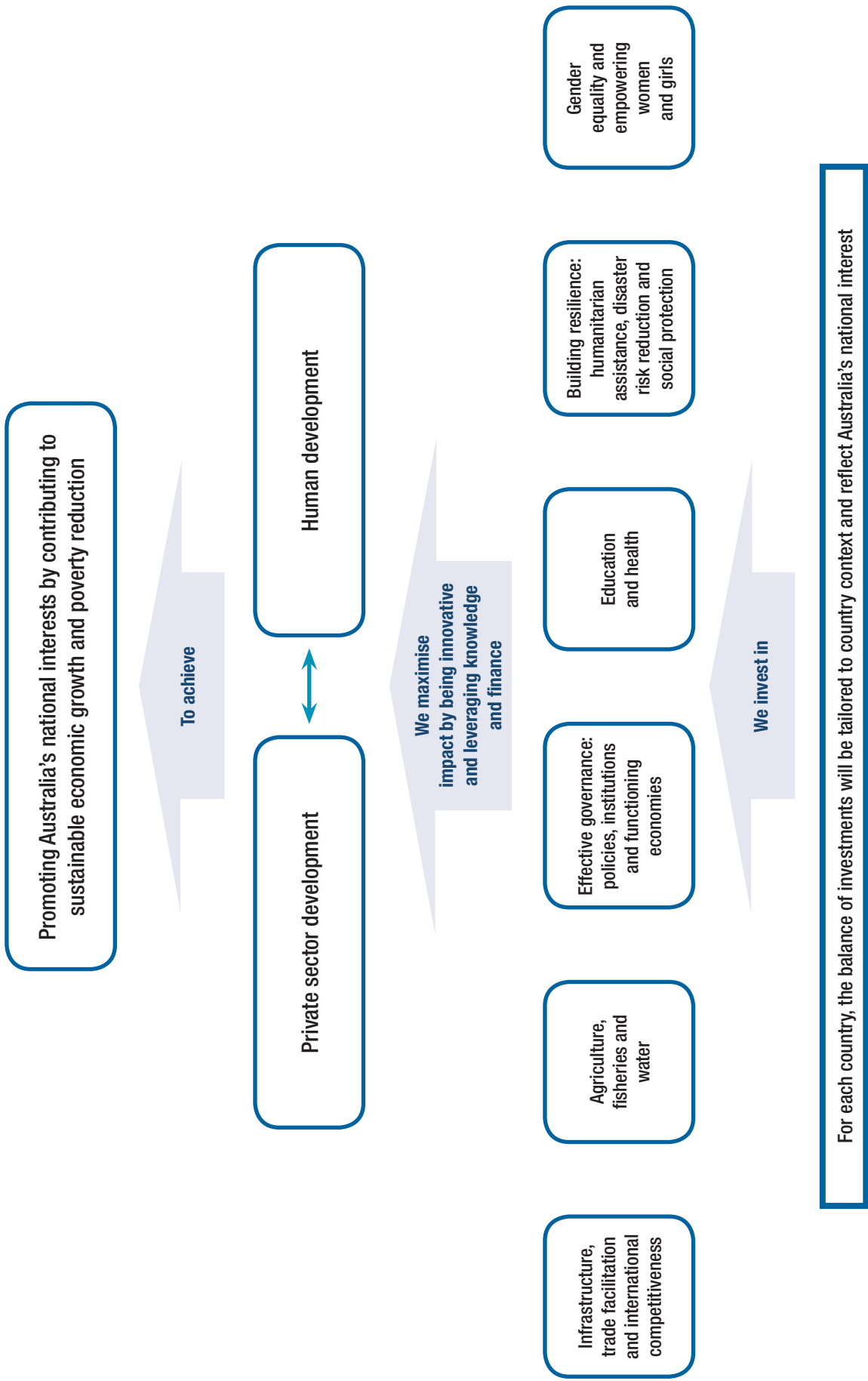
We know that a focus on the private sector alone is not enough. Promoting economic growth and poverty reduction requires a foundation of strong **human development**. Improving education, health, gender equality and women's empowerment are essential to both building a skilled and competitive workforce and lifting living standards. Educated women have fewer, healthier children who are themselves more likely to go to school. Healthier adults have better opportunities to earn an income, and children who are well-nourished and free of disease are able to learn at school and gain the skills needed to break out of poverty.

While increasing economic opportunities are necessary for sustainable poverty reduction, they still may be insufficient. Some people—the poorest of the poor, people with disabilities and ethnic minorities—can remain trapped in poverty and miss out on the opportunities provided by a dynamic growing economy. Some people slip deeper into poverty through no fault of their own. Disasters and economic shocks have a disproportionate impact on the poorest.

We all pay a price if the most disadvantaged people are left behind. Giving people a hand-up out of poverty increases the growth potential of the economy. Ensuring that all parts of society benefit from economic opportunities is a strong insurance policy against future instability. So our investments will support the poor to become participants in, and contributors to, stronger economic development. We will work with effective partners, including non-government organisations (NGOs), to extend the reach of our aid on the ground. Australia remains firmly committed to assisting the most disadvantaged, including people with disability, find pathways out of poverty.

⁹ World Bank, *World Development Report 2005: A better investment climate for everyone*, World Bank, Washington, DC, p.1.

Figure 1: A new strategic framework for the aid program: promoting prosperity, reducing poverty, enhancing stability



Priorities to promote prosperity, reduce poverty and enhance stability

The Government's aid program will focus on priority areas that contribute to the achievement of our two development outcomes: private sector development and human development.

A strong **aid for trade** focus arches over our investments, particularly those related to private sector development. All countries that have experienced sustained growth have opened their economies to the opportunities presented by global trade and investment. Our investments in infrastructure and trade facilitation, key growth sectors and effective governance will all support countries engaging with the regional and global economy. By 2020, the Government will increase expenditure on aid for trade to 20 per cent of Australia's annual aid spend.¹⁰

Investments in **infrastructure, trade facilitation and international competitiveness** are aimed directly at supporting the private sector to expand. Better infrastructure reduces the cost of doing business, while trade facilitation ensures that businesses can take advantage of international opportunities.

Agriculture and fisheries are key growth sectors and critical to strengthening global food security and improving nutrition. These sectors provide important pathways out of poverty. Increased agricultural productivity plus improved water resource management increases incomes and frees up labour to move into other sectors. For island economies, fisheries also represent a major source of domestic revenue.

Investments in **effective governance** support the stronger operation of the public sector. An effective public sector, led by committed political leaders, invests the country's own resources into pro-growth and poverty reducing activities. It also provides a regulatory environment that supports stronger private sector growth.

The aid program will include investments in better quality **education**, enabling young people to get the skills they need to contribute to the economy. We will invest in **health**—**particularly health systems**—so that women, men and children can access better health and live healthy and productive lives.

Below left: Panel beating and spray painting student at the Tonga Institute of Science and Technology. Photo: Conor Ashleigh/DFAT

Below right: Shoemakers in Sindangsari village in West Java have improved their livelihoods as a result of Australia's support to small businesses through Indonesia's National Community Empowerment Program. Photo: Jennifer Bennett/DFAT



¹⁰ Making Performance Count: Strategic performance target no. 1.

Australia will continue to be a generous friend and neighbour, providing **humanitarian assistance** in response to emergencies. We know that preventing crises is a good investment, so the aid program will also work to reduce disaster risks and promote preparedness. The aid program will strengthen **social protection** to provide safety nets in the face of shocks, and enable the poor to build skills and increase their participation in the economy.

We will support initiatives which promote **gender equality and empowerment of women and girls**. When women are able to actively participate in the economy, everyone prospers.

Implementing our priorities

Focusing on the private sector

We will engage with the private sector both in Australia and in developing countries.

This will involve supporting our partner countries to build better environments for business and address constraints to growth in specific markets. For example, through reforming business registration, contracting laws and addressing problems local firms have in accessing finance or skilled labour. We will reinforce these efforts by supporting more effective dialogue between the private sector and developing country governments to ensure that those governments address constraints to private sector growth through their own investments and regulatory reforms.

We will also look to address development challenges by leveraging the resources of the private sector in developing countries and in Australia. Business expansion can be supported by successful partnerships that combine Australian and international expertise, private capital, developing country revenue and Australian aid.

We will also support private sector development through changing how we work. When the private sector provides a value for money solution—because it is more nimble, more innovative or can leverage off an existing logistics network—then we will use it. However, Australian support will not subsidise business by financing activities that a business would otherwise have financed itself.

To better realise the development potential of the private sector, the Government has set a new target requiring all new aid investments to explore innovative ways to promote private sector growth in our partner countries or engage the private sector in achieving development outcomes.¹¹

Leveraging our aid

With aid a decreasing proportion of overall development finance, we will increase our efforts across all programs to leverage knowledge and non-ODA sources of finance from our developing country partners and other stakeholders. This is critical to ensure that Australian aid delivers systemic development pay-offs. While ODA may be diminishing in relative size, it has a catalytic role to play. Without the constraints of a profit imperative, ODA is a critical component of the broader development financing picture—particularly when coupled with private sector financing and innovation. It can pursue change over longer time horizons and decrease the risk environment. These properties are vital to attracting and leveraging private sector funding.

A stronger commitment to performance

Through *Making Performance Count*, a rigorous set of performance targets will reinforce the new directions in the strategic framework and ensure that our aid investments are well planned, achieve results and provide value-for-money. The new framework will be underpinned by a funding base that is responsible,

¹¹ *Making Performance Count*: Strategic performance target no. 2.

affordable and sustainable. We will work with high performing partners that deliver the most effective outcomes for people most in need.

An integrated approach to foreign, trade and development policy

The integration of Australia's aid program into DFAT aligns Australia's foreign, trade and development policy efforts, with economic diplomacy at the forefront of Australia's international engagement. The integrated Department brings together the range of expertise and resources required to work for Australia's long-term economic prosperity and that of the region as a whole. Aid investments and diplomacy will be mutually reinforcing. Australia will draw on diplomatic resources to advocate for partner government policy reforms that promote economic growth and poverty reduction, complementing aid program support.

Economic diplomacy and development

Economic diplomacy is the use of Australia's diplomatic, trade and aid resources to support Australia's economic interests by increasing trade, supporting economic growth, encouraging investment and assisting business. Australia's development and economic diplomacy efforts are complementary and mutually reinforcing. Both development efforts and economic diplomacy promote Australia's interests in a more prosperous, more stable and more secure region.

The four pillars of economic diplomacy—trade, growth, investment and business—all promote development outcomes and are closely related to Australia's development policy objectives:

- **Trade**—Australia's economic diplomacy in support of greater trade liberalisation in our region, together with aid program investments in "aid for trade", build the capacity of developing countries to participate in the global trading system. This helps them make the most of their natural advantages, become more competitive and increase their export income, which in turn stimulates economic growth, creates jobs and lifts people out of poverty.
- **Growth**—By tackling regional infrastructure bottlenecks and investing in education and health, we help to strengthen the basic building blocks for sustainable economic growth. Such programs lift the productivity of individuals and companies and empower people to contribute positively to their economies. Australia will also advocate for our partner governments to implement regulatory reforms which address constraints to growth, and to prioritise investments in critical infrastructure and building human capital.
- **Investment**—We work in partnership with developing countries to make their economies more attractive to investment and other sources of private development finance. Prospective investors seek predictable regulation, stable governance, skilled workers and a healthy population. Development assistance can build the environment for foreign investment to drive innovation, productivity and sustainable economic growth.
- **Business**—The private sector is a proven driver of job creation and economic growth. Australia's aid program helps foster the development of the private sector in developing countries. We will also leverage the resources of the private sector in developing countries and in Australia to address development challenges.

5. Investment priorities

The Australian Government will focus aid program investments in a select number of priority areas, reflecting our expertise and strengths, regional barriers to growth, and key poverty challenges. The balance of investments will reflect our national interest and each country context.

Infrastructure, trade facilitation and international competitiveness

Infrastructure

Issue

One of the largest constraints to private sector development in the region is inadequate infrastructure. It is also a major “behind the border” constraint affecting trade. The Asia-Pacific region is estimated to need more than US\$8 trillion worth of infrastructure by 2020.¹² This is a significant development problem. Australia will do more to help our regional partners address this substantial investment gap in infrastructure.

Australia’s response

Australia is committed to tackling infrastructure bottlenecks in the region to help create the right conditions for the private sector and to expand trade. The Australian Government will work with partner governments to strengthen the policy and regulatory environment for infrastructure investment, and increase the aid program’s infrastructure portfolio over the coming years as a key plank of the Government’s commitment to scale-up the aid for trade portfolio. We will:

- facilitate greater private investment in infrastructure by helping partner governments to get the policy and regulatory settings right, and by promoting public-private partnerships (PPPs)
- invest in infrastructure that enables private sector and human development, such as transport infrastructure and water systems
- expand access to reliable energy—vital for businesses and for communities
- unlock transformational information and communication technologies to expand access to banking services, market information, and commercial opportunities
- work with multilateral organisations that have significant expertise in innovative solutions to deliver enabling infrastructure
- work through international forums, such as Asia-Pacific Economic Cooperation (APEC), Association of Southeast Asian Nations (ASEAN) and the Group of 20 (G20), to address systemic barriers to investment in infrastructure.

¹² Estimate for the period 2010–2020: BN Bhattacharyay, *Estimating Demand for Infrastructure in Energy, Transport, Telecommunications, Water and Sanitation in Asia and the Pacific: 2010–2020*, Asian Development Bank (ADB) Institute Working Paper Series, No. 248, September 2010, p. 11–12, viewed 5 June 2014, <<http://www.adbi.org/working-paper/2010/09/09/4062.infrastructure.demand.asia.pacific/>>.

Road repairs in Tongaputu, Tonga. Photo: Conor Ashleigh/DFAT



Public-private partnerships for infrastructure

Infrastructure enables access to markets and ensures reliable water, energy and other services. It is critical to driving economic growth and reducing poverty. With more than US\$8 trillion worth of infrastructure needed in the Asia-Pacific Region by 2020,¹³ governments and donors cannot plug this investment gap alone. Public-private partnerships (PPPs) can help address this shortfall.

The Philippine PPP Centre is an example of successful collaboration between governments, donors and the private sector. Australia's A\$20 million contribution constitutes over 80 per cent of donor funding to the PPP Centre and has helped develop over A\$1 billion worth of PPP infrastructure projects—an impressive return on Australia's aid investment.

Building on the experience in the Philippines, Australia is now supporting a new pilot PPP centre in Indonesia that will help the Indonesian public sector to develop expertise in designing and managing PPPs to deliver infrastructure quickly and affordably.

Australia's investment in these centres draws on Australia's own experience and lessons to build effective PPPs which improve the investment climate in our region, enable the private sector to contribute strongly to the regional economy, and meet priority infrastructure needs.

Through the G20 presidency Australia is pursuing a multi-year program of work to address barriers to investment in infrastructure in developing countries, including a focus on project preparation and improving the business enabling environment.

¹³ Estimate for the period 2010-2020: BN Bhattacharyay, *Estimating Demand for Infrastructure in Energy, Transport, Telecommunications, Water and Sanitation in Asia and the Pacific: 2010-2020*, Asian Development Bank (ADB) Institute Working Paper Series, No. 248, September 2010, p. 11-12, viewed 5 June 2014, <<http://www.adbi.org/working-paper/2010/09/09/4062.infrastructure.demand.asia.pacific/>>.

Trade facilitation and international competitiveness

Issue

The increasingly integrated nature of the global trading system provides opportunities for Australia's partner countries to boost economic growth through increased exports, technology transfer and financial inflows. However, there are large variations across our region in terms of countries' ability to conduct business across borders. To seize these opportunities, developing countries need to create an environment that allows their private sector the best chance of success in international markets. This includes building functioning market environments that are open and competitive so that firms can seek out cost-effective and profitable ways of doing business. It also includes ensuring sound macroeconomic and structural policy settings, with greater mobility and connectivity of workers and capital to support the most productive sectors of the economy.

Australia's response

Australia will work with our developing country partners to support private sector growth, facilitate trade and promote international competitiveness.

Australia will provide practical assistance and advice to help our partner countries engage and be competitive in the global trading system. The analysis underpinning country-specific Aid Investment Plans

Private sector development at KK Kingston manufacturers in Lae, Papua New Guinea. Photo: George Fetting/Copyright Pacific Islands Trade & Invest



will inform Australia's assistance in this area. Australia will advocate for the policy changes required to build functioning markets and expand trade opportunities. We will:

- support sound and stable macroeconomic policy settings, and taxation settings that encourage private domestic and foreign investment, including in the extractives industry
- promote structural policy reform that facilitates the effective functioning of markets
- encourage increased innovation and knowledge transfer to high productivity sectors
- support countries' efforts to tackle "beyond the border" constraints, by providing trade policy and analysis training; and "at the border" constraints, by improving the efficiency of functions such as customs and quarantine services
- invest in infrastructure that facilitates the flow of goods and services across borders.

Aid for trade

Aid for trade helps developing countries improve their capacity to trade, which drives economic growth and provides opportunities to build livelihoods and increase income.

Aid for trade addresses key constraints to trade, including:

- weak public sector institutions, with poor capacity to formulate economic policy and negotiate trade agreements
- poor infrastructure, including poor transport and communications
- insufficient private sector capability, including poor access to finance, supply chains, and a skilled workforce.

On average, every dollar invested in aid for trade increases recipient country exports by an additional US\$8.¹⁴ Given this high return on aid for trade investments, the Government has set an ambitious but achievable target of increasing aid for trade to at least 20 per cent of Australia's annual aid spend by 2020. This target will bring Australia more in line with the current percentage of aid for trade assistance of other donors, and will build upon Australia's existing contribution to aid for trade (A\$630 million or 12.5 per cent of total ODA in 2013–14).¹⁵

In scaling up aid for trade, Australia will target country-specific constraints to participation in trade. Areas of focus will include governance and regulatory impediments, trade facilitation, infrastructure, water, private sector development, agri-food, fisheries and services, and empowering women to engage in economic activities. The private sector, multilateral development banks and other donors will be important partners in the delivery of aid for trade outcomes.

¹⁴ OECD/World Trade Organization (WTO), *Aid for Trade at a Glance 2013: Connecting to Value Chains*, OECD/WTO, 2013, p.145, viewed 28 April 2014, <http://www.wto.org/english/res_e/booksp_e/aid4trade13_e.pdf>.

¹⁵ Food and Agriculture Organization of the United Nations (FAO), *World Agriculture Towards 2030-2050: The 2012 Revision*, Rome, FAO, 2012, p.7.

Agriculture, fisheries and water

Issue

The agriculture and fisheries sectors provide livelihoods for millions of workers, particularly in rural areas, and underpin food security and nutrition. Agricultural productivity and production will need to grow to meet future global food demand, which is expected to rise by 60 per cent over coming decades as population and wealth increase, especially in the Indo-Pacific region.¹⁶ This additional demand will provide new market opportunities for the region's agricultural and fisheries sectors.

At the same time, 842 million people still suffer from chronic hunger globally.¹⁷ Two-thirds of these are in our region.¹⁸ Water resources are coming under competing pressures from agriculture, industry, electricity generation, growing urban populations and the impacts of climate variability. Overfishing practices threaten the long term sustainability and profitability of global and regional fisheries.

Optimising the potential of agriculture, fisheries and water for economic development, while ensuring sustainable use of resources for long term prosperity, is one of the biggest challenges facing our region.

Australia's response

Australia will support agricultural productivity, sustainable fisheries management and water resource management, and will address impediments that prevent producers linking effectively into domestic and international markets. Our work will enhance global food security and improve early childhood nutrition, a critical driver of better development outcomes. We will address these challenges at a country level in our region as well as through support for regional and multilateral cooperation.

Grafting of a cocoa seedling, Kebu farm, Solomon Islands. Photo: Irene Scott/DFAT



¹⁶ FAO, *World Agriculture Towards 2030–2050: The 2012 Revision*, p.7.

¹⁷ FAO, The International Fund for Agricultural Development (IFAD) and United Nations World Food Programme (WFP), *The State of Food Insecurity in the World 2013 - The multiple dimensions of food security*, Rome, FAO, 2013, p. 8.

¹⁸ FAO, IFAD and WFP, *The State of Food Insecurity in the World 2013 - The multiple dimensions of food security*, p. 8.

We will:

- improve agricultural productivity and distribution channels, and address barriers to market access, through an integrated approach that includes both development assistance and advocacy for more open markets
- invest in agricultural and fisheries research, particularly through the Australian Centre for International Agricultural Research (ACIAR), to increase productivity, reduce post-harvest losses and make supply chains more efficient
- support small-scale farmers, fishers and entrepreneurs—many of whom are women—to meet their livelihood and food security needs, including by addressing the key challenges that inhibit commercial viability
- assist partner countries to better manage water resources through sharing Australia's world-renowned policy and technical expertise
- support Pacific island countries to increase government revenues and their contribution to gross national income (GNI) from the fisheries sector
- address agricultural and fisheries subsidies, including through the multilateral trading system, and strengthen fisheries protection through working with relevant international and regional organisations.

Australian Centre for International Agricultural Research (ACIAR)

As Australia's specialist agricultural research for development agency, ACIAR improves our partner countries' trade and economic growth through mobilising cutting-edge research.

ACIAR's research programs will enable partner countries to increase their participation in domestic and international agricultural trade by:

- improving agricultural competitiveness and sustainability
- strengthening agricultural value chains and overcoming regulatory impediments to trade
- facilitating research-uptake amongst the private sector and NGOs
- building capacity for ongoing agricultural innovation.

For example, in Vanuatu, ACIAR supports smallholders supply cocoa to organic, "fair trade" and conventional markets. We will enhance their profits through promoting links to higher value Australian "bean to bar" chocolate markets.

Effective governance: policies, institutions and functioning economies

Issue

Governance affects virtually all aspects of a country's prosperity. An effective public sector and functioning, predictable institutions provide the foundations for economic growth, private sector investment and trade. Well-functioning institutions generate revenue and redistribute income. They provide stability and maintain law and order by ensuring disputes among citizens are settled peacefully and fairly. They also deliver education and health services that build a skilled, productive and healthy workforce. However, where governance is poor, development outcomes are also poor.

Australia's developing country partners have a diverse range of governance and institutional capabilities. Partner countries range from highly populous Indonesia to the micro-states of the Pacific, from stable to highly volatile, from resilient to fragile, and from capable to very weak. Differentiated approaches are required to address the varied economic, political and social factors hindering development in each of these country contexts.

Conflict, particularly intra-state conflict, remains a major constraint to development in the region. Conflict reverses the gains achieved through economic development and can set a country back decades. Countries experiencing conflict are less able to control their borders and are more vulnerable to transnational crime or extremist organisations that threaten the stability of our region.

Fragile states with weak institutions struggle to deal with emerging health challenges, and this can have major cross-border impacts. For example, drug resistant tuberculosis (TB) poses a major threat to countries in our region, but also to Australia's interests and citizens. TB causes approximately 1.3 million deaths a year worldwide.¹⁹ It is highly infectious, almost impossible to cure and costs around US\$200,000 to treat an individual.²⁰ Through the aid program, Australia is tackling these problems at the source and drawing on Australia's diplomatic resources to engage and influence countries in our region to solve this problem.

Australia's response

Australia will focus on supporting the building of institutions that have a direct role to play in promoting stability, inclusive economic growth and poverty reduction, and in strengthening gender equality and women's empowerment. We will work with civil society and the private sector to strengthen environments in our partner countries in which citizens and organisations can make legitimate demands of their governments. We will:

- build institutions that support private sector growth, including those that strengthen the credibility of the macro-economic framework, ensure a more transparent and efficient regulatory framework for business, fight corruption, and provide predictable and credible property rights
- support efforts to build a broad and well-balanced tax base in our partner countries
- improve the transparency and accountability of extractives-related revenues in partner countries
- reform institutions to strengthen regulation and delivery of public services and deliver more representative and accountable government

¹⁹ Based on 2012 figures. WHO, *Global Tuberculosis Report 2013*, 2013 p. 1, viewed 29 May 2014, <http://www.who.int/tb/publications/global_report/gtbr13_executive_summary.pdf?ua=1>.

²⁰ Estimate based on average cost of US\$134,000 for treating multidrug-resistant TB and US\$430,000 for treating extensively drug-resistant TB. Marks SM, Flood J, Seaworth B, Hirsch-Moverman Y, Armstrong L, Mase S, et al. *Treatment practices, outcomes, and costs of multidrug-resistant and extensively drug-resistant tuberculosis, United States, 2005–2007*. *Emerg Infect Dis* [Internet], 2014 May, viewed 5 June 2014, <<http://dx.doi.org/10.3201/eid2005.131037>>

- build effective law and justice systems, drawing on the Australian Federal Police and Attorney-General's Department, to strengthen policing, increase the safety and security of communities and improve people's access to justice and address violence against women
- contribute to peace-building initiatives in conflict-affected areas to address long-standing grievances and other drivers of conflict.

Across all aid program investments, Australia will tailor support to the political context. This will require an understanding of what is politically feasible and economically desirable. Through high quality political economy analysis we will identify the constraints to growth, including the underlying blockages and power structures that affect growth and development in each country. Such analysis will be particularly important in addressing development challenges in fragile and conflict affected situations, including unequal access to the benefits of economic growth and employment, political alienation and a sense of injustice, which can lead to conflict.

Australia's diplomatic and aid program efforts will foster country-led reform initiatives and assist local champions implement workable solutions to local development problems, recognising these will be more legitimate and durable than solutions introduced from outside. Australia is uniquely placed within the region to support local innovation and reform processes, assisted through the provision of specialist technical advice, where needed.

Australia's diplomats will seek to understand the influences, interests and institutions that exist in our partner countries and respond flexibly where there are strong leaders and reform opportunities. Where appropriate, we will take an incremental approach, pursuing opportunities as they arise.

Indigenous community forum on legal rights in Monduliri, Cambodia. Photo: Sinith Yos/DFAT





Children at Buk bilong Pikinini (books for children) Port Moresby, Papua New Guinea. Photo: Ness Kerton/DFAT

Education and health

Issue

Education and health are critical to improving livelihoods, enabling poor people to participate in the economy and lifting living standards.

More than 200 million children under five do not reach their potential due to poverty, poor nutrition and health, and inadequate learning opportunities.²¹ Access to quality education and health services remains a persistent challenge in our region. There are still 17.5 million children in the Asia-Pacific region who do not complete primary school²² and of children not in school, one-third have a disability.²³ On average, 288 women in our region die every day due to complications during pregnancy or at childbirth.²⁴ Nearly three million children under five years of age died in 2011 in the Asia-Pacific,²⁵ and 75 per cent of all deaths in the Pacific are caused by non-communicable diseases.²⁶

The health and education systems of countries in our region are constrained by inadequate financial and human resources. They struggle to deal with persistent and complex challenges. In health, challenges include the dual burden of rising rates of non-communicable diseases, including heart disease, cancer and strokes, while infectious diseases continue to be major health problems. Inadequate hygiene and access to safe drinking water and sanitation compound these health problems. Malnutrition rates in some countries in our region are amongst the worst in the world. Trans-boundary health challenges, such as emerging drug resistance to infectious diseases, are significant threats to economic growth and health security.

In education, the quality of learning is the critical issue. Many young people are leaving school without the skills they need to get a job and participate fully in society. Women, girls and people with a disability are particularly disadvantaged by poor quality and inadequate health and education services. We also know that efforts in health and education programs combined produce greater outcomes for beneficiaries. For example, improved childhood nutrition is directly correlated with higher cognitive development, more years of schooling and better education achievement.

Australia's response

Australia's investments in education and health will primarily focus on supporting changes to the systems and policies that deliver better education and health in our region. This focus on systemic change requires our aid investments to be catalytic, leveraging other sources of financing for development, particularly the domestic tax revenues of our partner countries and private sources of funding. Australia's diplomats will advocate for reforms to health and education and more effective spending by partner governments and multilateral organisations.

21 S. Walker et al, 'Inequality in early childhood: risk and protective factors for early child development', *The Lancet*, vol 378, 2011, p. 1325.

22 United Nations Educational, Scientific and Cultural Organization (UNESCO), *Education for All Global Monitoring Report: Teaching and Learning*, UNESCO, Paris, 2014, p.52, viewed 29 January 2014, <<http://www.unesco.org/new/en/education/themes/leading-the-international-agenda/efareport/reports/2013/>>.

23 J. Modern, C. Joergensen and F. Daniels, *DFID, Disability and Education: Bridging the Implementation Gap, RESULTS UK*, London, January 2010, p. 6., viewed 29 April 2014, <<http://results.org.uk/sites/default/files/DFID%2C%20disability%20and%20education%202010.pdf>>.

24 UN ESCAP, *Statistical Yearbook for Asia and the Pacific 2013*, p. 35.

25 UN ESCAP, *Statistical Yearbook for Asia and the Pacific 2013*, p. IX.

26 UN ESCAP, *Statistical Yearbook for Asia and the Pacific 2013*, p. 64.

Education

The aid program will invest in better quality education, enabling young people to gain knowledge and skills to contribute productively to society. We will:

- get the foundations right to ensure children are healthy, safe and ready to learn by supporting early childhood development
- promote learning for all with a special focus on girls, disadvantaged children and those with disability, through teacher training, curriculum development and education infrastructure
- prioritise skills for growth to enable people to be job-ready and adaptable, by improving access to quality assured technical education and training, which matches the needs of the local private sector
- innovate for learning and improve education outcomes by working with the private sector and civil society to develop creative solutions to persistent education challenges
- continue to enable students from our partner countries to undertake tertiary study in Australia, enhance cross-cultural understanding through people-to-people links and build their capacity to contribute to development in their countries.

Pupils at Namone Primary School, Xieng Khouang Province, Lao PDR. Photo: Bart Verweij/DFAT





Australia Awards alumni, Antoni Tsaputra, who now works for the Social Affairs Agency in Padang, West Sumatra, Indonesia where he designs programs to empower people with disability. Photo: DFAT

Australia Awards and the New Colombo Plan

We invest in two complementary scholarship programs—the Australia Awards (which enables students from developing countries to study in Australia) and the Government’s new foreign policy initiative, the New Colombo Plan (which enables Australian students to study in the region). Together they offer a two-way exchange that is critical to Australia’s engagement with the Indo-Pacific region. Through Australia Awards, funded by the aid program, the Government will offer close to 4,500 scholarships and fellowships in 2014–15. This will support emerging leaders from developing countries to study in Australia, build people-to-people links and return home to contribute to economic and social development.

The Government is also developing a global network of alumni to promote ongoing connections between Australia Awards alumni, New Colombo Plan alumni and non-award (private) alumni, as part of increased public diplomacy efforts.

Health

We will invest in health—particularly health systems—so that women, men and children can achieve better health and live healthy and productive lives. Australia will:

- support partner governments deliver better health for all, including to the poor, with a focus on cost-effective interventions to prevent communicable diseases such as HIV, tuberculosis (TB) and malaria
- promote improved health outcomes through quality maternal and child health and family planning services

- strengthen our focus on nutrition as part of our commitments to improve maternal and child health and to prevent and manage non-communicable diseases
- support regional solutions to trans-boundary disease threats and address malaria and other emerging trans-boundary diseases by working with our partners to mobilise political leadership, technical support and financial investments
- support partner governments to improve hygiene and access to essential water supply and sanitation services in poor communities and in schools and health centres to directly benefit women and girls
- use global investments to maximise our impact in the region, supporting global health organisations to extend the reach of our aid program and leverage funds from capital markets and the private sector
- work with the private sector to develop innovative ways to improve health in our region and prevent the costs of health care exacerbating poverty
- invest in research for health development to improve the effectiveness and efficiency of health investments including supporting the development of new technologies
- continue to share our world-class expertise in health systems, regulation, research, prevention and disease control.

Asia-Pacific Leaders Malaria Alliance

Malaria is one of the world's most prevalent infectious diseases, with approximately 28 million cases and 45,500 malaria related deaths in the Asia-Pacific in 2012.²⁷ The Australian Government is taking a leadership role in bringing together countries across the region to reduce and ultimately eliminate malaria. The emergence of drug resistant malaria is a major public health threat. If not arrested now, drug resistant malaria has the potential to unwind substantial gains made over the last decade.

Australia has committed A\$20 million to support interventions to reduce malaria and eliminate the threat of anti-malarial drug resistance. Australia's Prime Minister, Tony Abbott, and Vietnam's Prime Minister, Nguyen Tan Dung, initiated the Asia-Pacific Leaders Malaria Alliance (APLMA). Through APLMA we will support the global target of reducing malaria by 75 per cent²⁸ by 2015 and tackle anti-malarial drug resistance.

We will prioritise investing in the most pressing issues that constrain efforts to tackle malaria—improving access to affordable, quality medicines, and strategies to strengthen sustainable financing for malaria interventions.

The Australian Government is also supporting the Asian Development Bank's and World Health Organization's efforts to combat drug resistant malaria in the region.

²⁷ World Health Organization (WHO), *World Malaria Report 2013*, 2013, WHO, Geneva, p. 61, viewed 30 April 2014, <http://www.who.int/malaria/publications/world_malaria_report_2013/en/>

²⁸ In comparison to malaria levels in 2000.

Building resilience: humanitarian assistance, disaster risk reduction and social protection

Issue

External shocks, including natural disasters, conflict, and economic shocks (such as food and fuel price spikes) severely undermine growth, reverse hard-won development gains and increase poverty and insecurity. Women and children are often the most exposed to these risks, losing income and opportunities and facing increased risk of sexual and gender based violence during crises.

Australia's region is highly vulnerable to these shocks, and their impact is becoming more extreme as climate-related disasters become more severe and frequent. In the past decade, 2.2 billion people were affected by natural disasters with around two-thirds located in the Asia-Pacific region.²⁹ The associated global economic cost is estimated at US\$1.5 trillion, with around US\$750 billion incurred in the Asia-Pacific.³⁰

This means that we need a more effective humanitarian system to ensure timely, coordinated international responses to specific disasters. Disaster preparedness, risk reduction and social protection help build the resilience of countries and communities. Social protection (including regular, predictable cash and other transfers) is critical to building community resilience. In emergencies, cash transfers are one means to address the most pressing needs. Social protection is also effective in dealing with the daily stresses experienced at the household level. Transfers can enable people to meet their basic needs, learn new skills, ensure their children are educated and keep their families healthy.

Below left: Dr Ian Norton, Director of Disaster Preparedness and Response at the National Critical Care and Trauma Response Centre in Darwin, assisting a patient at the AusMAT medical facility in Darwin. Photo: Gemma Haines/DFAT

Below right: Parent volunteer and student, Pagasa Special Education Centre, San Pablo, Laguna, Philippines. Photo: Anne Rigby/DFAT



29 Estimate for the period 2000-2009: J.Kellett and D. Sparks, *Global Humanitarian Assistance, Disaster Risk Reduction: Spending where it should count*, March 2012, p.1, viewed 1 May 2014, <<http://www.globalhumanitarianassistance.org/wp-content/uploads/2012/03/GHA-Disaster-Risk-Report.pdf>>.

30 Estimate for the period 2003-2012: International Federation of Red Cross and Red Crescent Societies, *World Disasters Report 2013*, Geneva, 2013, p. 233.

Australia's response

In line with our global responsibilities, Australia will respond promptly and effectively to humanitarian disasters. In our own region, we will pursue a number of measures to build the resilience of countries, communities and the most disadvantaged members of communities to future disasters and shocks.

We will:

- rapidly respond to disasters in the Indo-Pacific, drawing on specialist expertise within Australia, using pre-positioned relief supplies and standby arrangements with effective Australian and international humanitarian partners
- work to improve the reach, quality and responsiveness of the international humanitarian system
- promote effective disaster risk reduction in our region, working with partner governments and the private sector to identify risks and hazards and increase disaster-resilient investments
- inform and enhance our efforts by working closely with effective Australian NGOs and international humanitarian partners
- work with countries in the region to build resilience to climate-related shocks and manage the impacts of climate change
- draw on civilian specialists from the Australian Civilian Corps primarily to help our neighbours in the Indo-Pacific region prevent, prepare for, stabilise and recover from disasters and conflict
- work closely with partner governments to improve and expand the coverage of national social protection systems so transfers reach the poor, enabling them to improve their own lives.

Including people with disability

Australia is recognised internationally as a leading donor in disability-inclusive development. Ensuring our aid investments include people with disability is good development practice—contributing to poverty reduction and economic growth and creating better development outcomes for all. Some 15 per cent of the global population have a disability, and people with disability and their families are disproportionately affected by poverty.

Through the aid program, Australia will continue to work with partners to tackle the stigma that surrounds disability, which can be one of the largest barriers to full participation in community and economic life. We will promote disability-inclusive education, help remove physical barriers through our investments in infrastructure, and enable people with disability to access services. And we will continue to support disabled people's organisations in developing countries which play a vital role in giving people with disability a voice.

Australia is developing a new strategy to ensure that people with disability play an active and central role in Australia's aid program beyond 2015.

Gender equality and empowering women and girls

Issue

Gender inequality persists in our region, undermining economic growth, human development and poverty reduction. It is estimated that the Asia-Pacific region is losing up to US\$47 billion annually because of women's limited access to employment opportunities, and up to US\$30 billion annually due to gender gaps in education.³¹ Women in the Pacific continue to be under-represented in Parliament, comprising approximately five per cent of parliamentarians³² compared to the global average of 21.7 per cent.³³ Rates of domestic violence are alarming, with approximately one in three women in South East Asia,³⁴ and two in three women in some Pacific countries experiencing physical and/or sexual abuse by their intimate partner.³⁵ The evidence is clear—gender equality is critical to development, and must be a key part of aid programming.

Australia's response

The Australian Government is strongly committed to being at the forefront of efforts to empower women and girls and promote gender equality in the Indo-Pacific region. Reflecting this commitment, the Government has appointed an Ambassador for Women and Girls to advocate on these issues. The Government has also set a target requiring that at least 80 per cent of investments, regardless of their objectives, will effectively address gender issues in their implementation.³⁶ Where there are persistent challenges and slow progress towards equality, we will invest strongly in enhancing:

- women's voice in decision-making, leadership, and peace-building
- women's economic empowerment
- ending violence against women and girls.

We will also ensure our aid program aligns with our international diplomatic efforts by:

- expanding women's access to and participation in the global economy through advocacy within international fora, such as the G20
- ensuring the empowerment of women and girls in our region is a high priority for global and regional bodies through our partnerships with UN Women, the Association of Southeast Asian Nations (ASEAN), the Indian Ocean Rim Association (IORA) and the Pacific Islands Forum
- implementing the UN Security Council's Women, Peace and Security commitments through effective aid program investments in countries affected by conflict.

31 International Labour Organization (ILO) and ADB, *Women and labour markets in Asia: Rebalancing for gender equality*, 2011, ILO and ADB, Bangkok, Thailand, p.1.

32 Inter-parliamentary Union, *Women in National Parliaments – World Average*, 1 February 2014, viewed 28 April 2014 <<http://www.ipu.org/wmn-e/world.htm>>.

33 Inter-Parliamentary Union, *Women in National Parliaments – World Average*.

34 WHO, *Global and regional estimates of violence against women: prevalence and health effects of intimate partner violence and non-partner sexual violence*, 2013, p. 2, viewed 28 April 2014 <<http://www.who.int/reproductivehealth/publications/violence/9789241564625/en/>>.

35 Secretariat of the Pacific Community, *Solomon Islands Family Health and Safety Study: A study on violence against women and children*, 2009, p. iii, viewed 28 April 2014 <https://www.spc.int/hdp/index.php?option=com_docman&task=cat_view&gid=39&Itemid=44>. Secretariat of the Pacific Community, *Kiribati Health and Support Study: A study on violence against women*, 2010, viewed 28 April 2014, p. 2 <http://www.spc.int/hdp/index.php?option=com_docman&task=cat_view&gid=89&Itemid=44>. Vanuatu Women's Centre, *Vanuatu National Survey on Women's Lives and Family Relationships*, May 2011, viewed 28 April 2014, p. 16 <<http://aid.dfat.gov.au/countries/pacific/vanuatu/Documents/womens-centre-survey-womens-lives.pdf>>.

36 *Making Performance Count: Strategic performance target no. 4*.

Pacific Women Shaping Pacific Development

One of the best ways to achieve economic growth and prosperity in the region is to empower women. Empowering women benefits all of society. The Australian Government is supporting an ambitious ten year A\$320 million program to improve the political, economic and social opportunities for Pacific women in 14 Pacific countries. The *Pacific Women Shaping Pacific Development (Pacific Women)* program will work with Pacific governments, civil society organisations, the private sector, and multilateral and regional agencies to:

- increase the effective representation of women, and women's interests, through leadership at all levels of decision-making
- expand economic opportunities for women through improved access to financial services and markets
- reduce violence against women and increase access to support services and to justice for survivors of violence.

Gender inequality remains a significant development challenge in the Pacific—as it does for many countries and regions of the world. There are signs that change is possible, although progress is slow. Women's opportunities are still very constrained and no single action will change this. Through *Pacific Women*, Australia is making a long-term commitment across several fronts to support women to fully participate in political, economic and social life in their nations.

Bottom left: Hohola Youth Development Centre, Port Moresby, Papua New Guinea. Photo: Ness Kerton/DFAT

Bottom right: Gerehu Market, Papua New Guinea, where women and children make up the majority of people in the market. Photo: Ness Kerton/DFAT



6. Translating priorities into practice

Four tests will guide strategic choices across the aid program, translating this new strategic framework into practice.

A balanced assessment against the four tests will guide aid allocation decisions at two levels. The tests will be applied to **global aid allocations** as part of the Government's annual budget process. They will also be applied at the country level through **Aid Investment Plans** (AIPs). By July 2015, all country and regional programs will have AIPs that describe how Australia's aid program will promote economic growth in ways that provide pathways out of poverty.³⁷ AIPs will identify the key constraints to growth and private sector development, based on economic, political and social analysis. They will outline how our investments will promote private sector-led growth and enable the poor to participate and share in the benefits of greater economic prosperity, including the most disadvantaged, such as people with disabilities. AIPs will align with the Australian Government's broader foreign policy and economic diplomacy priorities.

Test 1: Pursuing national interest and extending Australia's influence

Australia's longer-term strategic and economic objectives will guide aid allocation decisions. Considerations will include an assessment of the costs of regional instability and insecurity, including financial, humanitarian, political and health-related risks, prospects to strengthen trade and investment, and the potential to extend Australia's influence.

Test 2: Impact on promoting growth and reducing poverty

Australia will direct aid where it will best tackle constraints to growth and poverty reduction. The poverty situation in a country will continue to be a major determinant of need. A country's capacity to mobilise domestic resources and self-finance its own efforts to accelerate and sustain growth and poverty reduction programs will inform future levels of aid as well as the types of aid we provide.

Test 3: Australia's value-add and leverage

Aid allocations will reflect an assessment of Australia's value-add and our realistic capability to shape partner countries' efforts to pursue economic reform, growth and poverty reduction. In each country, we will look to leverage existing public spending (including by making it more effective), private sector investments, and other streams of development finance. This emphasis on leverage will reinforce the responsibility of partner governments to plan and fund their own economic development and poverty reduction strategies. Australian aid will not displace these core sovereign responsibilities.

³⁷ *Making Performance Count*: Strategic performance target no. 3.

Test 4: Making performance count

The Government's new performance framework *Making Performance Count: enhancing the accountability and effectiveness of Australian aid* will drive real links between performance and aid funding decisions, ensuring a stronger focus on results and value-for-money. At the country program level, performance benchmarks will provide a sharper basis for assessing program performance. A stronger focus on results will require enhanced monitoring of the progress of our aid investments. Poorly performing aid investments will be subject to a stricter new management requirement—they will be cancelled if they do not improve within one year. Where aid investments perform well, we will look for ways to increase their funding or replicate them in other countries. Delivery partners will be selected based on an assessment of their effectiveness and capacity to deliver.

A key principle underlying this approach is that funding at all levels of the aid program will be informed by these four tests, including a rigorous assessment against the aid program's new performance framework.

Strategic performance targets for the Australian aid program

A new performance framework will operate at all levels of the aid program, with ten high level targets to assess the aid program against key goals and reinforce efforts to re-shape the aid program in line with the priorities in *Australian aid: promoting prosperity, reducing poverty, enhancing stability*.

1. **Promoting prosperity:** Promote economic development by increasing Australia's aid for trade investments to 20 per cent of the aid budget by 2020.
2. **Engaging the private sector:** All new investments will explore innovative ways to promote private sector growth or engage the private sector in achieving development outcomes.
3. **Reducing poverty:** By July 2015, all country and regional programs have Aid Investment Plans that describe how Australia's aid will promote economic growth in ways that provide pathways out of poverty.
4. **Empowering women and girls:** More than 80 per cent of investments, regardless of their objectives, will effectively address gender issues in their implementation.
5. **Focusing on the Indo-Pacific region:** Increase the proportion of country program aid that is spent in the Indo-Pacific region to at least 90 per cent from 2014–15.
6. **Delivering on commitments:** From July 2015, progress against mutual obligations agreed between Australia and its key partner governments and organisations will form part of program performance assessments.
7. **Working with the most effective partners:** By July 2015, design and apply new systems to assess the performance of the aid program's key delivery partners and ensure stronger links between performance and funding.
8. **Ensuring value-for-money:** Deliver high standards of value-for-money in at least 85 per cent of aid investments. Where standards are not met and improvements are not achieved within a year, investments will be cancelled.
9. **Increasing consolidation:** Reduce the number of individual investments by 20 per cent by 2016–17 to focus efforts and reduce transaction costs.
10. **Combatting corruption:** Develop and implement new fraud control and anti-corruption strategies for all major country and regional programs by July 2015.

7. More effective aid: changing how we deliver

The strategic framework will drive change to “what” the aid program does. This change will be matched with significant improvements to the way that we deliver aid.

Working with the most effective partners

The Australian Government will work with others to enhance the impact and value of the Australian aid program to our region. The aid program will be delivered through partnerships with the private sector, multilateral organisations, NGOs, volunteer organisations, philanthropic organisations and partner governments. Australia will leverage its investment with private sector and other donors’ funds to maximise outcomes. The Australian Government will work with the most effective and innovative delivery partners to achieve our international objectives with a particular focus on value-for-money and achieving results. This includes applying due diligence processes to ensure the aid program is working with the most effective partners, such as the accreditation of NGO partners that occurs through the Australian-NGO Cooperation Program.

As part of the aid program’s new performance framework, the systems used to assess the performance of the aid program’s key delivery partners will be strengthened. While existing systems provide a good base for collecting performance information, more can be done to better link partner performance with budget allocations so that funding increasingly flows to organisations best placed to achieve Australia’s objectives.

The new systems will provide a streamlined and focused way of assessing partner performance, including progress towards mutually agreed obligations. They will be developed collaboratively with our partners by July 2015.³⁸

Consolidation

The current structure of the aid program is one of its biggest weaknesses: it is spread too thinly. A sharper geographic focus is the first step towards restructuring the program. It will allow us to engage more deeply in those countries that matter to us most. But we need to go further. To ensure that we play to our comparative strengths and focus on what we do best, we will consolidate our portfolios of aid investments at country level. Focusing on fewer, larger investments will increase the impact and effectiveness of our aid, as well as reduce the administrative overheads required to manage the program. To this end, the program will reduce the number of individual aid investments by 20 per cent by 2016–17.³⁹

³⁸ *Making Performance Count*: Strategic performance target no. 7.

³⁹ *Making Performance Count*: Strategic performance target no. 9.

Risk and safeguards

The business of delivering aid in challenging environments involves taking calculated risks to maximise the returns from our aid investment. This is particularly true in fragile and conflict-affected settings. With approximately 60 per cent of Australia's country or regional aid directed to fragile or conflict-affected countries, we are working with our partners on some of the deepest challenges in development today.

In order to foster greater innovation and better outcomes we will be prepared to actively engage with risk. This requires a greater acceptance of failure as a consequence of pursuing higher risk approaches that may lead to systemic development pay-offs. It also involves taking a long-term perspective and not declaring "failure" prematurely—particularly in fragile and conflict settings where developmental progress is often slow. Across a country portfolio, we will take a pragmatic approach to managing risk: one that is informed by understanding risk within a particular context and its potential consequences; one that balances different risks; and one that involves actively putting in place effective strategies to mitigate risks.

We will also actively manage risk by mitigating adverse environmental and social impacts in the aid program through the application of mandatory safeguard policies in environment, resettlement, and child protection. These policies seek to ensure that our aid investments do not cause unacceptable adverse impacts to people and their environment.

Fraud and anti-corruption

In developing countries the risk of fraud and corruption is often high. The Australian Government continues to have zero tolerance of fraud in the aid program. We take a robust approach to preventing, detecting and rapidly responding to fraud. By July 2015, Fraud Control and Anti-Corruption Strategies will be developed for all major country and regional programs as part of Aid Investment Plans.⁴⁰ These will detail the measures we will adopt to protect Australian Government aid funds and how we will support our partner country's anti-corruption efforts. Support may include public financial management reform programs, funding of civil society organisations that champion anti-corruption and funding other anti-corruption bodies.

Value-for-money

A new set of value-for-money (VFM) principles will be applied across the aid program lifecycle to maximise the impact of aid investments. The principles will promote: cost consciousness, competition, evidence-based decision-making, proportionality, performance and risk management, a results focus, experimentation and innovation, and accountability and transparency. They will maximise outcomes, while containing costs. At least 85 per cent of aid investments will be required to achieve high standards of VFM.⁴¹ Where standards are not met and improvements are not achieved within a year, investments will be cancelled.

Australia's aid program has been untied since 2006, meaning that there are no nationality or residency restrictions for delivery partners. Untying Australian aid is consistent with the Government's commitment to openness in trade and competition. Untied aid is an important way to ensure activities deliver value for money, are cost-effective and use the best globally available expertise.

⁴⁰ *Making Performance Count*: Strategic performance target no. 10.

⁴¹ *Making Performance Count*: Strategic performance target no. 8.

Transparency

We are committed to high standards of transparency and accountability in the management of the Australian aid program. We will give effect to this commitment through publishing information on the aid program on the DFAT website, including policies, plans, results, evaluations and research. An annual report will be issued assessing the performance of Australia's aid. Australia will fully participate in the International Aid Transparency Initiative. DFAT's Annual Procurement Plan and contracts awarded will continue to be published on AusTender in accordance with legislative requirements. We will continue to promote early industry engagement in the design and procurement of aid activities.

In line with our stronger focus on performance, our commitment to transparency also entails a more open discussion about the performance of the aid program, and individual aid investments. This includes frank admissions when failures occur (and understanding why they occur), as a critical step in learning for better outcomes.

Water and sanitation mural explanation, Ganespur Community of Bastipur, Nepal. Photo: Jim Holmes/DFAT



8. Shaping global development

Australia will engage globally to shape the new development paradigm.

The global development architecture needs to adapt and respond to contemporary challenges. The new architecture that succeeds the Millennium Development Goals must be fit for purpose. Our international engagement will help to shape the actions of other development actors, leverage their experiences, and coordinate our efforts.

Internationally, Australia advocates for development policy approaches that align with our national interests and promote economic growth and a strong role for the private sector. We promote the use of ODA as a catalyst for leveraging other sources of finance, and encourage efforts to increase domestic resource mobilisation, as the most sustainable means to finance development and reduce poverty. We promote approaches to international development cooperation that are more inclusive and innovative—including encouraging greater engagement of civil society and the private sector, and the use of a wider range of financial instruments and innovative financing mechanisms. We argue for reforms to development institutions to ensure they are fit for purpose and deliver results. Australia strongly supports the prioritisation of gender equality and women's empowerment in international forums, and we continue to advocate for disability-inclusive development policies.

Australia seeks to influence global policies for development through our participation in a range of forums including the G20, UN, World Trade Organization, OECD, and regional forums such as the PIF, APEC, the East Asia Summit (EAS) and IORA. We are also active in the governing bodies of key development organisations including the multilateral development banks, UN funds and programs, and major sectoral funds.

We work closely with like-minded bilateral partners to develop common and shared positions on international development issues. Australia will expand its partnerships with emerging economies in the Indo-Pacific region. We will work with emerging economies to better coordinate development policy and programs in countries and sectors of mutual interest. As with traditional (OECD) donors, partnering with emerging economies can boost development effectiveness by drawing on their strengths and experience to complement and amplify the impact of Australia's development program. Emerging economies can bring a unique and valuable perspective to development cooperation by drawing on their own success in achieving significant levels of economic growth and poverty reduction.

By working internationally with other countries and partners to build shared objectives and shape the new global development paradigm, Australia will have a much greater impact on development outcomes. This will extend Australia's reach and influence and will deliver greater sustained growth and poverty reduction for the Indo-Pacific region.

