



**A NEW DIRECTION FOR AUSTRALIAN AID IN PNG:
REFOCUSING AUSTRALIAN AID TO HELP UNLOCK PNG'S ECONOMIC POTENTIAL**

At the 22nd Papua New Guinea–Australia Ministerial Forum on 11 December 2013, Australian and Papua New Guinean Ministers agreed that Australia would undertake an assessment of its aid investment in Papua New Guinea (PNG). This assessment would better align Australia's aid with both Governments' priorities and position the aid program to address key constraints to sustainable economic growth and equitable development in PNG.

2. The assessment's recommendations are based on extensive consultation with a wide range of stakeholders from PNG and Australia including Government, business, civil society and international donors. Attachment A provides a list of consultations undertaken in PNG and Attachment B provides a list of those consulted in Australia.

Summary

3. The assessment recommends changes to the way Australia delivers aid to PNG. It proposes options for consideration that will enable Australia to better support PNG to tackle its core economic development needs in areas that Australia is best placed to assist.

4. Australia values its longstanding ties with PNG – we are neighbours and partners, we have a shared history and a shared geography. Over time, our relationship has matured into one of economic and strategic partnership, and in April 2014 we signed a new Economic Cooperation Treaty (ECT). In line with the recommendations of the PNG aid assessment, and consistent with the objectives of the ECT, we will better align Australian aid with both the PNG and Australian Governments' priorities and to ensure our aid program delivers assistance that helps bring about sustainable economic growth and equitable development in PNG.

5. Over the last 12 years PNG's economy has grown strongly. However, the decade-long resources boom has not led to sustained development outcomes – PNG is not on track to meet any of the Millennium Development Goals, and is currently placed 156th out of 187 countries in the composite UN Human Development Index. PNG's economic expansion has led to a reduction in the comparative size of Australian aid – at independence in 1975 Australian aid represented 40 per cent of PNG's budget, today it represents less than 8 per cent. As PNG's economy continues to grow, Australia needs to make sure that our aid investment is best placed to make a difference and supports both Governments' priorities.

6. A prosperous PNG is in both PNG and Australia's interests. PNG's rapidly growing population; lack of infrastructure; and poor health, education and law and justice services are challenges to its future prosperity. Australia can and should help in these areas. Essential elements of long-term economic development and social stability are sustainable, inclusive economic growth and good governance. These elements should be central components of Australia's future support to PNG.



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Aligning Australian aid to PNG and Australian Government priorities

7. The Government of PNG has set out its priorities in the 2012 'Alotau Accord' and include education, health, law and justice, infrastructure and sustainable economic growth. The Government has presented an economic growth agenda focussed upon:

- investments in 'high impact infrastructure' - key roads, ports, power, and hospitals;
- job skills development - including assisting greater work-force participation amongst younger citizens; and
- partnering with the private sector - including supporting its role in service delivery where it will increase effectiveness.

8. Australia supports the Government of PNG's ambitious development aspirations including:

- to be in the top 50 Human Development Index (HDI) rankings by 2050 (Vision 2050);
- to be a prosperous middle income country by 2030 (Development Strategic Plan (DSP), 2010-2030);
- to be a world leader in the promotion and establishment of responsible sustainable development (2014 addendum to DSP 2030).

9. The Abbott Government has set a new direction for Australian aid which is directly aligned with PNG's own economic growth agenda – to focus more heavily on private sector-led growth, including through support for initiatives to reduce the constraints to business and to help PNG foster trade and investment.

Assessing our mutual performance

10. Australia and PNG will need to work closely to establish clearer, more realistic performance benchmarks to assess both governments' progress against set targets. This will assist the PNG and Australian Governments in monitoring the effectiveness of Australian aid and our progress toward mutual commitments. We will report back on progress against establishing performance benchmarks at the 2014 Papua New Guinea–Australia Ministerial Forum.



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Assessment recommendations for consideration:

- 1. Align the aid program with shared political and economic objectives of Australia and Papua New Guinea.** The integration of the former AusAID into the Department of Foreign Affairs and Trade will most directly support this overall objective.
- 2. Reprioritise 30 per cent of the current aid program, over the coming three years, to fund initiatives focused on private sector-led growth and aid for trade.** Savings to fund these new initiatives could be sourced from phased reductions to basic service delivery activities agreed by both Governments. New areas of focus should include improving the enabling environment for business (particularly SMEs and partnering with the private sector), agriculture market investments, strengthening technical & vocational training (TVET), and infrastructure support.
- 3. Maintain priority investments in improving health, education, infrastructure and law and justice systems** as they remain fundamental to delivering inclusive, sustainable economic growth and improved human development outcomes. These investments should maintain a focus on supporting the PNG Government to take greater sovereign responsibility for meeting the needs of its people, including through system strengthening and transitioning out of basic service delivery.
- 4. Increase effective partnerships with the private sector.** This should include increased engagement with business to guide improvements in the legal, regulatory and policy environment and to support more effective service delivery in PNG.
- 5. Expand our support for good governance.** This should include expansion to the *Strongim Gavman Program* ('SGP'), strengthened anti-corruption and security efforts, and professionalisation of the PNG public service through training and mentoring. There should also be a focus on improved accountability and leadership, improving PNG's ability to lead and undertake critical economic reforms and meet the basic needs of its people.
- 6. Maintain a strong program of support for building the capacity of PNG's police.** This should include support for the Royal PNG Constabulary (RPNGC) to maintain law and order through the deployment of Australian Federal Police (AFP) officers in advisory and mentoring roles and an expansion of the training opportunities for RPNGC members in Australia.
- 7. Expand support to women's empowerment.** This should include increased focus on women's effective participation in the economy through agribusiness, financial literacy, and microfinance; women's leadership in public and community life; and improved security in public and private spaces.
- 8. Increase aid investments in Bougainville as a greater proportion of the bilateral PNG program.** This should include a focus on supporting the effective implementation of autonomy arrangements and building the Autonomous Government of Bougainville's capacity to deliver basic services ahead of the referendum to determine Bougainville's political future; as agreed under the Bougainville Peace Agreement of which Australia was a witnessing signatory.
- 9. Establish clearer, realistic performance benchmarks to assess both our and PNG's performance against set targets, and to drive mutual accountability for agreed actions.** Both value for money and support to shared political and economic objectives of Australia and PNG should be key criteria in assessing effectiveness.



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Australia's proposed approach to align aid investments to the Government of PNG's priorities:

Government of PNG priority	Australia's proposed approach
Greater focus on infrastructure	Insufficient or inadequate infrastructure creates significant costs to doing business, and constrains economic growth. Australia's aid investment in infrastructure is currently set to increase from 37% of the program to approximately 50% by 2017. Australia should support the PNG Government's goal of delivering infrastructure that will encourage economic growth. Australia should establish a new Economic Infrastructure Advice Facility to provide advice to the PNG Government on scoping, planning and financing the infrastructure needed to support economic growth, and the required reforms that underpin these efforts. It should also be available to provide advice on private-sector partnerships to leverage domestic and international finance for key infrastructure investment projects.
Australian aid to shift away from direct service delivery as PNG builds capacity to meet the needs of its population	Transitioning Australian aid support away from direct service delivery should occur in a way that does not pose excessive risks to the lives of vulnerable people. Australia should include targeted support for PNG Government to assume responsibility for service delivery in line with Government of PNG's free health and education policies - particularly the provision of basic medical supplies to the vulnerable poor. Australia should shift away from responsibility for text book distribution, payment of education subsidies and the provision of the majority of basic medical supplies.
Job skills development, including greater work-force participation amongst younger citizens	Australia should increase aid investments in TVET and Higher Education, responding to businesses' and government's need for more skilled employees. People-to-people and institutional links between PNG and Australia should be grown. Australia should focus its investments in literacy, technical skills, better quality tertiary institutions, and an enhanced teaching and health workforce. Australian aid should support improvements in the quality of education by investing in teachers and school infrastructure enabling more school leavers to be literate and capable of engagement in the cash economy.
Focus on improving the enabling environment for business, particularly small-to-medium sized enterprises and partnering with the private sector	The aid program's private sector growth initiatives should focus where Australia has a comparative advantage and can achieve the most valuable results. This should include addressing economic and governance reforms important to sustainable growth; dialogue with the private sector to inform improvements to the legal, regulatory and policy environment benefiting the sector; partnering with the private sector for improved delivery of infrastructure, health, education and other services; supporting emerging businesses; assisting women's economic empowerment; supporting rural livelihoods; and investing in technical education and vocational training and improved economic and financial literacy.



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<p>Law and justice</p>	<p>Australia should maintain a strong program of support for building the capacity of the RPNGC to manage law & order including through the deployment of AFP officers in advisory and mentoring roles and expanding the training opportunities for RPNGC members in Australia. Australia will continue to support PNG to improve the business enabling environment by supporting PNG's efforts to combat corruption through improving legislative and regulatory frameworks, detection, investigation, prosecution and resistance to corruption initiatives and implementing the recommendations of the Financial Action Task Force (FATF). Australia should focus on promoting a culture of performance in the delivering of cost-effective law and justice services. Australia's aid should continue to strengthen access to justice and local conflict resolution mechanisms to promote community safety and stability. Opportunities to build on existing cooperation with the private sector, eg to increase support for victims of family and sexual violence should be pursued. As a witness to the Bougainville Peace Agreement, strengthening the Bougainville Police Service should be a particular focus for Australia.</p>
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Possible new areas of Australian aid investment in PNG to support economic growth:

<p>Support to policing Maintain a strong program of support for building the capacity of the RPNGC to manage law & order including through the deployment of AFP officers in advisory and mentoring roles and expanding the training opportunities for RPNGC members in Australia.</p>
<p>Increased support to Strongim Gavman Program (SGP) Increased advisory support to strengthen government capacity through strategically placed advisors and enhanced training of public sector leaders. This would include the use of both Australian Government officials and contracted technical advisors to pursue essential economic and public sector reforms, to encourage anti-corruption, support functioning markets, reduce barriers of trade and investment, and improve PNG's service delivery capability. This assistance will aim to build a more effective, transparent and accountable PNG public sector.</p>
<p>Private sector development/Aid for Trade Upgrade existing arrangements for consultations with business on the aid program, including by expanding the dialogue to encompass the broader economic policy settings in PNG. Increased support for rural livelihoods, in partnership with ACIAR, with a focus on developing markets in the agriculture sector. Opportunities exist to partner with the private sector to provide targeted support to develop markets, generate new economic opportunities and improve access to finance, particularly for women. Targeted aid-for-trade support to build PNG's capacity to deal with cross-border trade issues such as quarantine and customs, to help PNG access international markets, and support for PNG's preparation for hosting APEC in 2018. An innovation fund to encourage social entrepreneurship and business-led investments through a competitive process. The fund would build on the approach of the Incentive Fund and Enterprise Challenge Fund pilot program, aiming to work with well performing institutions and offering</p>



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innovative solutions to stimulate economic development and support women's economic empowerment.

Increased support to technical vocational education and training (TVET) for skilled human capital. An enhanced investment in the TVET sector would be welcomed by the private sector and could be a key hub in enhanced collaboration with business. Increased investment in TVET would complement the European Union's expected niche support and Australian aid support for education quality, teachers and school infrastructure enabling more school leavers to be literate and capable of engagement in the cash economy.

Targeted investments to improve economic literacy among graduates and local research institutions, to provide the private and public sectors the critical capacity needed to undertake policy-relevant economic inquiry required to drive economic reform at the national level.

Infrastructure

An Economic Infrastructure Advice Facility to provide advice to the PNG Government on scoping, planning and financing the infrastructure needed to support economic growth, and required reforms, including SOE reforms and privatisation. It would also be available to advise on private-sector partnerships to leverage domestic and international finance for key development projects. Shifting aid investments from road maintenance to the reconstruction and upgrading of key economic roads critical to supporting the PNG economy, including the Ramu and Highlands Highways as PNG agrees to increase its funding for road maintenance.

Women's leadership and economic empowerment

Expanded support to women's economic empowerment in PNG, including through the Australia-Pacific Women Parliamentary Partnerships program; supporting access to adequate services for survivors of family and sexual violence; addressing constraints to women's effective participation in labour markets and agribusiness through financial literacy, microfinance, and building markets.

Sports

Harnessing the political leverage, public diplomacy and nation building opportunities through new development-through-sport investment in PNG, including partnering with local communities and the private sector.

Bougainville

Additional funding for a separate Bougainville-specific suite of activities designed to support governance, economic development, the peace process and preparations for the referendum.



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Attachment A
List of consultations undertaken in PNG

Business

Port Moresby Chamber of Commerce and Industry
Lae Chamber of Commerce
Oilsearch and Oilsearch Foundation
Newcrest
Business Council of PNG
Exxon Mobil
SP Brewery
PNG Manufacturing Council
Chamber of Mines and Petroleum
Palm oil council
Oil Palm Research Association
Digicel Foundation

International Development Agencies

Asian Development Bank, PNG
World Bank
International Finance Corporation
UNDP

Civil Society and Faith based organisations

World Vision
Red Cross
Transparency International PNG
Care
Buk Bilong Pikinini
Eastern Highlands Family Voice
Callan Services
Church Leaders Council, and Church Partnership Program including Catholic, United, Baptist and Lutheran Churches and the Salvation Army.
Consultative Implementation and Monitoring Council

DFAT's Managing contractors

Coffey International Development
Cardno Emerging markets
URS Australia
ABT JTA
GRM International

PNG Government

Minister for Planning
Minister for Transport
Minister for Works and Implementation
Minister for Health and HIV/AIDS
Minister for Justice and Attorney General
Minister for Higher Education
PNG Electoral Commissioner
Department of Prime Minister and National Executive Council
Department of Finance
Department of National Planning and Monitoring
Department of Works
Department of Transport
Department of Personal Management
Department of Provincial and Local Government Affairs
Department of Justice and Attorney General
Royal PNG Constabulary

Higher Education and Research

PNG National Research Institution
Vice Chancellors Committee
Australian Government Partners working in PNG
Strongim Gavman Program Team leaders
Australian Federal Police
Department of Defence
Department of Environment
Austrade PNG
Alumni of the Emerging Leaders Dialogue



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Australian Government

DFAT executive and specialists (*Economics, Governance, Health, Gender and Education*)
Australian Electoral Commission
Australian Public Service Commission
Attorney-General's Department
Department of Prime Minister and Cabinet
The Treasury
Australian Federal Police
Department of Infrastructure and Regional development
Australian Centre for International Agricultural Research
Department of Finance
Australian Taxation Office
Australian Customs and Border Protection Service
Commonwealth Ombudsman
The Australian National Audit Office
Department of Health
Department of Immigration and Border Protection
Austrade
Queensland Department of Premier and Cabinet
Trade and Investment Queensland
International Development Agencies
World Bank
Asian Development Bank

Business

Australia-PNG Business Council
Australia Fiji Business Council Business
Australian Pacific Islands Business Council
Pacific ANZ
Newcrest
Bougainville Copper Ltd
SVP Carnival Australia
Pacific Legal Network
Virgin Australia
Neptune Pacific Line
Pacific Islands Trade and Invest
Australian Business Volunteers
ABT JTA
Gadens Lawyers
Westpac Pacific Banking
Think-tanks, academia and NGOs
Lowy Institute,
Australian Strategic Policy Unit
Australian National University
Australian Council for International Development
PNG Experts
Ian Kemish
Ian Prentice
Grant Mitchell

Attachment B

List of consultations undertaken in Australia