

# Consultation Paper: Performance Benchmarks for Australian Aid

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The arguments outlined in this submission will be explored further in a forthcoming Centre for Independent Studies publication proposing reforms to Australia's Official Development Assistance (ODA) program.

## Recommendation

- *That facilitating the domestic policy reforms needed to enable economic growth in aid-recipient countries be a performance benchmark for Australia's ODA.*

In response to the *Independent Review of Aid Effectiveness* in 2011, the then Australian Agency for International Development (AusAID) acknowledged that aid is much less important for economic development than a country's domestic policies.<sup>\*1</sup> Despite this admission, domestic policy reform in aid-recipient countries does not feature among Australian ODA's five strategic goals: saving lives; promoting opportunities for all; achieving sustainable economic growth; improving governance; and providing humanitarian and disaster relief (see Appendix A).<sup>2</sup>

A sixth strategic goal should be added and used to assess the performance of the Australian aid program: Provide the expertise required to redesign and restructure ineffective domestic policies, and thereby facilitate the reforms needed to enable economic growth. Assessing the performance of Australia's ODA with reference to this benchmark would improve the effectiveness and efficiency of the Australian aid program, give taxpayers better value for money, and offer aid-recipient countries the best chance of ending their dependence on overseas assistance.

The Australian aid program's fourth strategic goal touches on the need for domestic policy reform. Among other things, it calls for improvements to existing governance structures through better services and increased government efficiency and effectiveness. However, economic development often requires overhauling existing governance structures instead of simply improving their current performance.

Consider, for example, the dire need to reform landownership and management systems in many Pacific nations.<sup>3</sup> Unless collectively owned communal land is privatised, many recipients of large sums of Australia's ODA in the Pacific, most notably Papua New Guinea and the Solomon Islands, will not develop the dynamic private sectors necessary to escape poverty (see Appendix B). Given that governance structures

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\* As well as capping aid spending at \$5 billion (adjusted for inflation), the Coalition government has determined that AusAID will lose its status as an independent government agency and will be fully amalgamated with the Department of Foreign Affairs and Trade (DFAT). See Greg Sheridan, '[Rational approach to aid long overdue.](#)' *The Australian* (21 September 2013); Michelle Grattan, '[DFAT secretary's tough message about AusAID integration.](#)' *The Conversation* (3 November 2013).

in developing nations often need to be reformed rather than made more efficient, facilitating essential domestic policy reforms in aid-recipient countries should be a performance benchmark for Australia's ODA.<sup>4</sup>

## Appendix A: Australian ODA's five strategic goals<sup>5</sup>

1. Saving lives:
  - improving public health by increasing access to safe water and sanitation;
  - saving the lives of poor women and children by providing greater access to better maternal and child health services; and
  - supporting large-scale disease prevention, vaccination and treatment.
  
2. Promoting opportunities for all:
  - giving more children access to education;
  - empowering women to participate in the economy, leadership and education; and
  - enhancing the lives of people with disabilities.
  
3. Sustainable economic development:
  - ameliorating food security;
  - improving incomes, employment and enterprise opportunities; and
  - reducing the negative impacts of climate change and other environmental problems.
  
4. Effective governance:
  - improving governance to deliver better services, increase security, and enhance justice and human rights.
  
5. Humanitarian and disaster response:
  - providing more effective preparedness for and responses to disasters and crises.

## **Appendix B: Domestic policy reform and China's economic renaissance**

Papua New Guinea and the Solomon Islands are endowed with massive reserves of valuable natural resources, including timber, minerals, fishing stocks, and fertile agricultural land. Yet they have GDP per capita of approximately US\$2,200 and US\$1,800, respectively.<sup>6</sup> For the Solomon Islands, that is barely US\$700 more than it was 20 years ago; for Papua New Guinea, the increase is less than US\$1,200 in the same period.<sup>7</sup>

This economic stagnation contrasts sharply with China's economic renaissance. During Mao Zedong's reign as Great Helmsman, China's economy was a sclerotic mess. Under the shackles of economic collectivisation and centralisation, GDP per capita stagnated at around US\$100 and millions of Chinese lacked the basic necessities of life.<sup>8</sup> China's tentative steps towards economic liberalisation after Mao's death in 1976 marked the beginning of one of the greatest explosions of prosperity in history.<sup>9</sup>

The initial impetus for China's frenetic economic development was the de-collectivisation of agricultural production under Deng Xiaoping.<sup>10</sup> Recognising that communal farming had mired China in famine and poverty, Deng gave official blessing to experiments with private family farming.<sup>11</sup> Coupled with other liberal economic reforms, such as business-friendly special economic zones, the result was 35 years of uninterrupted economic expansion, during which annual economic growth rates averaged 10% and GDP per capita surged to more than US\$5,500.<sup>12</sup> In fewer than 40 years, 600 million Chinese were lifted out of poverty and the largest middle-class of any nation emerged.<sup>13</sup> Propelled by cautious but consistent free-market reforms, China's economic resurgence continues: By 2050, China will be the source of nearly 20% of the world's middle-class consumption, and is predicted to boast by far the world's largest economy.<sup>14</sup>

China does not owe this breakneck economic development to international aid or charity. Instead, it is primarily a product of domestic policy reforms that progressively accorded individuals more economic freedom. China's precise reform path since the 1970s may not be immediately applicable to Papua New Guinea and the Solomon Islands—vastly different developing nations with vastly different barriers to prosperity. But one lesson from China's spectacular economic rise is relevant: Domestic policy reforms, and especially land reform, must be a central plank of effective development.

Given Papua New Guinea's and the Solomon Islands' poor development outcomes—lower GDP per capita than more than 125 of the world's countries—and their location on Australia's doorstep, it is no surprise that they are the beneficiaries of a massive chunk of Australia's aid spending.<sup>15</sup> In 2013–14 alone, they will together receive nearly \$540 million (more than 10% of Australia's annual ODA budget).<sup>16</sup> Notwithstanding the

value of the roads, hospitals and schools financed with Australian aid dollars, loosening the grip of the Wantok ('one talk') kinship system and reforming the related regime of collective landownership and management are prerequisites for prosperity in both nations.<sup>17</sup>

Wantok arrangements can provide a valuable safety net by compelling the group to meet individual needs and provide collective economic and physical security.<sup>18</sup> However, they also foster a culture of clientelism that sees elected representatives and officials pursue the narrow interests of their communal group at the expense of society-at-large.<sup>19</sup> By leaving political systems in the grip of patronage, Wantokism breeds corruption and makes it harder to instigate necessary reforms, which in turn has a corrosive effect on economic growth.<sup>20</sup>

The commercial instinct that leads to business creation and underpins economic growth is also severely undermined by a system of collective landownership and management that impedes the sale of land and bars individuals from profiting from their efforts to add value to property.<sup>21</sup> As in pre-Deng China, collective landownership and management stymies the efficient use of private property by stifling individual entrepreneurship: The incentive to develop and efficiently use property quickly evaporates if it is impossible to profit from it individually.<sup>22</sup> Domestic policy reforms, such as overhauling collective landownership and modifying the Wantok kinship system, will therefore be essential for nations like Papua New Guinea and the Solomon Islands to achieve economic self-reliance.

## Endnotes

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- <sup>1</sup> AusAID, [An Effective Aid Program for Australia: Making a Real Difference—Delivering Real Results](#) (Canberra: Commonwealth of Australia, 2012), 13–14. See also AusAID, [Independent Review of Aid Effectiveness](#) (Barton: Commonwealth of Australia, 2011).
- <sup>2</sup> AusAID, [An Effective Aid Program for Australia](#), as above, 4.
- <sup>3</sup> Helen Hughes, [The Pacific is Viable!](#) Issue Analysis 53 (Sydney: The Centre for Independent Studies, 2004), 1, 4.
- <sup>4</sup> AusAID, [Helping the World's Poor Through Effective Aid: Australia's Comprehensive Aid Policy Framework to 2015–16](#) (Canberra: Commonwealth of Australia, May 2012), 7.
- <sup>5</sup> As above.
- <sup>6</sup> The World Bank, 'Data,' <http://data.worldbank.org/>.
- <sup>7</sup> As above.
- <sup>8</sup> As above.
- <sup>9</sup> Cary Huang, [Party Central Committee's third plenum raises reform expectations.](#) *South China Morning Post* (14 October 2013).
- <sup>10</sup> Paul R. Gregory and Kate Zhou, [How China Won and Russia Lost.](#) *Policy Review* 158 (1 December 2009).
- <sup>11</sup> As above.
- <sup>12</sup> The World Bank, 'Data,' as above.
- <sup>13</sup> Toh Han Shih, [China's formula to reduce poverty could help developing nations.](#) *South China Morning Post* (29 March 2013).
- <sup>14</sup> Homi Kharas, [The Emerging Middle Class in Developing Countries](#) (Paris: OECD Development Centre, January 2010), 29; Karen Ward and Frederic Neumann, [Consumer in 2050: The Rise of the EM Middle Class](#) (London: HSBC Bank, 15 October 2012), 29; [India to surpass China, will become world's largest economy by 2050: Report.](#) *The Economic Times* (28 March 2012).
- <sup>15</sup> The World Bank, 'Data,' as above.
- <sup>16</sup> DFAT (Department of Foreign Affairs and Trade), 'Five billion dollar aid budget to focus on the region,' <http://aid.dfat.gov.au/publications/Pages/five-billion-dollar-aid-budget-to-focus-on-the-region.aspx>.
- <sup>17</sup> AusAID, [AusAID Annual Report: 2012–13](#), as above, 40–51.
- <sup>18</sup> Gordon Leua Nanau, 'The Wantok System as a Socio-economic and Political Network in Melanesia,' *The Journal of Multicultural Society* 2:1 (2011), 32, 35, 42.
- <sup>19</sup> As above, 50.
- <sup>20</sup> Helen Hughes, [The Pacific is Viable!](#), as above, 5.
- <sup>21</sup> As above, 4.
- <sup>22</sup> Paul R. Gregory and Kate Zhou, [How China Won and Russia Lost.](#) as above.