New International Development Policy

"What's the point?"

A new development policy/strategy/framework could have one or more different objectives - stakeholder management; show and tell; a loose statement of intent, or a tool to articulate and drive change.

The new government has consistently signalled that it wants change. This policy may be a principal vehicle for achieving it. That sets a high bar and requires the policy to be clear, specific, focused, realistic, resourced and implementable. The 2014 policy did not pass these tests and had little impact. Likewise, the Secretary's 2019 Development Policy Conference speech that presented laudable goals for the development program, included few means for them to be realised and soon ran aground.

So, how will good intentions become reality? The government's level of ambition has to be very clearly and specifically stated. First and foremost, **regional development in South East Asia and the Pacific needs to be identified as a top tier national interest** and an Australian objective in its own right, **not just a tool for other ends**. The more ambitious we want to be in our neighbourhood, the more focused we need to be to amass the skills, knowledge and enduring relations to deliver strong outcomes. Spreading too thin is the fastest route to poor outcomes.

If we get the framing right, we must then follow through. What will deliver the goals we have set? No one thing. We need a **structured, systematic approach** that forces us to confront choices using the best evidence we have and that favours those that maximise development and in ways that also advance other regional interests. This requires a **culture of constructive contestability**, out of the shadows as much as possible - and **led from the top**.

It is true that many development strategy, planning and management tools are clunky and inefficient, but we need them. Where they work we should sharpen them. Where there is little evidence they make a substantial difference but have major costs, they should go. We need a big effort to free **very scarce DFAT time from low-value adding administration to reallocate it to strategic guidance and partner engagement**. This means the way we design, contract and deliver assistance will need to change - a lot.

Need for an overall overhaul

Boring as it is - our aid and development machinery needs a thorough revamp if we are to deliver more ambitious development and diplomatic outcomes. In fact, given the challenges we face, those clearly coming - and the speed of change, our machinery needs an **overall overhaul**.

It seems unlikely this will occur through this review which is focussed on new policy settings, but as discussed, it is essential to their realisation. How to square this circle? Perhaps the best way is not to try to cram some initial and in complete thinking into the policy, but rather to commit to a separate, detailed exercise, that also picks up outcomes from the capability and development finance reviews, to reorganise the architecture, mechanics and modalities of how we deliver the new policy.

A couple of other big issues

1. **Resources matter - especially for DFAT**

The amalgamation of AusAID and DFAT provided a diplomatic gold mine that disguised the chronic under funding of the department - and that was in much less challenging times. That mine is now empty.

We know there are major fiscal constraints and huge pressures on the budget. We know the government can't be extravagant or undisciplined. We know voters will expect pressing domestic concerns to take precedence. But the current expectations management exercise that is underway that talks of major change coming in a second term, mistakes the urgency required. Our national interests are under extraordinary threat now and the situation will most likely be worse in three years' time.

For the last two decades or more, a narrow form of economics has eaten everything - including foreign policy. That needs to change. We must escape the budgetary trap. The solution is for the PM, the Foreign Minister and the Cabinet to lead the nation to a deeper understanding of our circumstances and what is required to address them. Singapore PM Lee Hsien Loong's address to the nation in 2019 provides a model.

DFAT is in urgent need of modernisation, reorganisation and substantial resource supplementation. It will not be possible to create the development capability, systems or expertise until that is addressed. Nor will it be possible to seriously address the incomplete DFAT AusAID integration that is becoming a growing liability. Development issues now loom larger for us and our neighbours and the solutions require very complex negotiations, development diplomacy and intense practical cooperation over many years - think climate change; health security and systems; economic integration and debt restructuring, for a start. We're just not geared for this.

If we can't muster the money and will to deal with this soon, there are second best solutions that involve ways of bringing forward resources. The least-best option is the status quo - with or without the new forward estimates.

2. A development finance institution would have major costs as well as benefits

There is a case for a DFI, but that case should not be overstated, nor the opportunity costs ignored.

It is a moot point whether now is the right time to be offering loans to partners, many of whom are already heavily debt laden. While this is true particularly of several Pacific Islands, Sri Lanka shows what can happen when a middle income country takes on more commercial debt at much higher prices and mismanages the consequences. Rising interest rates are likely to deliver debt stress to additional countries in the region. That calls into question the market for new lending.

If we want to maximise the flow of concessional finance and/or draw more private sector money into priority countries - it might be most efficient and effective to work more with the Asian Development Bank and the World Bank. We can and should drive a harder bargain and better leverage our own core and non-core contributions, but the MDBs do have strong systems for targeting finance and staying out of trouble.

If we do not go that route, we either have to replicate expensive systems and skills or do things on the cheap. Either way there are problems.

Talk of delegating arrangement to EFIC runs the risk of confusing export promotion and our economic interests - which are real and substantial - with our regional development interests. The two sometimes overlap, but it takes real skill to find the sweet spot. It is very easy for poorly targeted export subsidies to deliver neither sustainable business nor sustainable development.

Conversely, if we go all out to build our own development focused DFI the risk is that it will suck money and skills out of DFAT. It is also not entirely clear that adding modest amounts of additional financing will actually give us the relationship gains that alternative use of those resources might.

DFI decisions will need very careful consideration, discussion and debate.