



Australian Government

AusAID

Pacific Regional Aid Strategy

2004–2009

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2004–2009

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Cover image: Traditional warrior welcome, Borohinaba village, Solomon Islands. (Photo: Peter Davis).



ABOVE Honiara market, Solomon Islands. (Photo: Peter Davis)

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Summary

'THE CHALLENGES FACING OUR REGION MEAN THAT THE AUSTRALIAN GOVERNMENT MUST APPROACH DEVELOPMENT IN THE REGION IN A MORE CONCERTED WAY. WE MUST BE PREPARED TO USE THE FULL RESOURCES AND EXPERTISE OF ALL ARMS OF GOVERNMENT AND WORK MORE CLOSELY WITH OUR REGIONAL AND INTERNATIONAL PARTNERS. DIFFICULT TIMES DEMAND NEW THINKING AND NEW APPROACHES TO DEVELOPMENT...'

Minister for Foreign Affairs, Alexander Downer, 11 May 2004

Australia's aid to the Pacific aims to help nations maximise their development and self-reliance, reduce poverty through broad-based growth and build Pacific policies, institutions and capacities to better manage governance challenges and support effective service delivery.

Australia's Pacific neighbours are facing fundamental challenges to their economic and social futures. The development challenges confronting the region – governance, poverty, stability, economic security, rapid population growth, HIV/AIDS, strengthening the core institutions for democratic nationhood and ensuring individuals have a greater sense of their place within a broader national identity – cannot be addressed quickly or easily. The ability of Pacific governments to meet these challenges will depend on their capacity to implement sound domestic policies, create environments for private sector investment, overcome financial mismanagement and corruption, promote stability and provide appropriate services to their people.

Governance is at the heart of development issues in the South Pacific. A legacy of inappropriate colonial structures and issues with affordability of government have impeded internal political integration and nation building in many Pacific countries.

The challenges are complex and will require substantial investments in capacity building and the conditions to deliver broad-based sustainable growth or at least the highest possible level of self-reliance.

These challenges will not be solved by aid alone. Indeed, establishing the frameworks for economic and social viability rest with the Pacific islanders themselves.

However, engagement with the Pacific region will continue to be a long-term commitment for the Australian aid program. This engagement must be realistic and tailored to specific country situations.

A fundamental policy shift by Australia has sharpened the focus of engagement through necessity following the deterioration of security in Solomon Islands and in the context of global security and the understanding that a porous and undeveloped region is not in the interests of the Pacific or Australia.

A more hands-on approach is being adopted to assist Australia's Pacific partners to address their complex development challenges. Timely, direct assistance can reduce the financial and human costs of addressing more serious issues associated with further decline. The importance of Pacific island countries creating the right policy environment for growth and development will receive greater emphasis in Australia's engagement with Pacific island governments.

In their April 2004, *Auckland Declaration*, Pacific leaders agreed to strive for a region that is respected for the quality of its governance, the sustainable management of its resources, the full observance of democratic values and for its defence and promotion of human rights. Pacific leaders are giving impetus to a growing regional dynamic for reform and better governance.

Australia is actively supporting the 2004 Pacific Islands Forum review recommendations of **strengthening regional responses** to key governance challenges and greater pooling of resources among forum members. The development of the Pacific Plan in 2005 will provide further concrete and practical steps to take

forward this agenda. The Pacific Plan aims to create stronger and deeper links between Pacific island countries and will identify sectors where the region can gain most from sharing resources of governance.

The Pacific has a well-developed framework of regional organisations and institutions. During the Strategy period, Australia will continue to be a lead contributor to, and a member of many regional organisations. Australia will continue to work cooperatively with Pacific regional organisations to support their improved effectiveness and impact in the region, particularly through the Pacific Plan process, considering the effectiveness of the regional architecture to support leaders' visions; aligning funding with development; the implementation of program strategies approaches; and better performance information systems.

During the Strategy period, greater emphasis will be placed on **regional approaches** and analytical work in aid programming than in past years. Australia is already making regional approaches operational in key areas and has allocated new resources accordingly. Australia will continue to seek opportunities to add regional dimensions, where appropriate, to bilateral approaches.

The development cooperation program is centrally engaged in the implementation of strengthened policy approaches in the Pacific on a bilateral and regional basis.

The Pacific Regional Aid Strategy provides an overarching framework for Australia's aid interventions in the Pacific. The strategic approach outlined in the Pacific Regional Aid Strategy 2004–2009 lays the groundwork for poverty reduction and sustainable reform by identifying stability as the fundamental underpinning factor of development, by supporting a strong policy and economic environment and strengthening the drivers of economic growth. The Strategy also identifies the need to support reform – the conditions that help create demand for reform and render an environment less conducive to corruption.

In this context, Australia will sharpen its focus on **four key regional themes**:

Stronger broad-based growth addressing issues of strengthening the enabling environment for private sector development such as legislative and administrative reform and through policies aimed at improving economic competitiveness as well as expanding the productive sectors that drive broad-based growth, with a focus on providing income generation and employment opportunities and sustainable management of the environment.

More effective, accountable and democratic government through active support for good governance and economic and public sector reform including improved public expenditure management and by considering means of broadening the revenue base, strengthening democratic institutions and political governance and engaging more broadly with civil society as drivers of the demand for better governance.

Improved law and justice and security through support for police and legal institutions underpinning adherence to the rule of law, assisting regional security initiatives, addressing potential instability and the causes of conflict and investing in peace.

Enhanced service delivery through investing in government capacity to deliver basic health, education and infrastructure, particularly in rural and peri-urban areas and to disadvantaged groups. This is critical for stability, national unity and government legitimacy.

Sound fiscal management is essential for Pacific states and links the four regional themes of the Strategy. Only with sensible, well planned public investments and service delivery can healthy, productive economies be established and sustained. Enhanced fiscal management will impact positively on the prospects for private sector growth and employment and the quality and distribution of key services.

Australian aid will take a **calibrated approach**.

An increased proportion of assistance will be focused on the countries of Melanesia. Sustaining peace and stability and progressing reform in Solomon Islands remains a critical challenge and the aid program will continue to be an integral part of the Regional Assistance Mission to Solomon Islands (RAMSI). The full restoration of law and order by the government and prudent management of the economy is essential if gains are to be sustained. While practical assistance to help communities will continue, Australia recognises that sustainable reform will require long-term commitment. Building the capacity of key Solomon Islands institutions is now

a major focus, including in economic management, strengthening and reform of the justice system and the machinery of government.

More broadly, a greater focus on capacity building and conflict prevention will be a feature of Australia's assistance to the Pacific.

Australia's enhanced focus on Melanesia was reflected in the 2004–05 aid budget through resource increases to Papua New Guinea, Vanuatu, Fiji and regional programs and this trend is expected to continue through the course of the Strategy. However, Papua New Guinea, Australia's biggest aid partner, has a stand-alone strategy and is not covered in this Pacific Regional Aid Strategy.

Samoa, Tonga, Kiribati, Nauru and Tuvalu will continue to be important development partners. The focus will remain on areas such as supporting law and order, public expenditure management, service delivery and private sector development. Emphasis will be given to ensuring a balance between reform and support for good governance and supporting service delivery and broad-based growth.

In the smaller countries, aid will continue to play an important but different role and Australia will continue to maintain a supportive but limited development partnership with Micronesia, Cook Islands, Niue and Tokelau, harmonised to the greatest possible extent with New Zealand.

Programs in these smaller countries will continue to support service delivery and private enterprise but in recognition of the limited prospects of a self-sustaining economy, will also look to support mechanisms to provide governments with a predictable and durable source of external funding through the establishment of trust funds.

Australia's engagement with the region will be based on **robust dialogue** which will become broader in coverage, more substantial in depth and wider in participation.

Australian development assistance to the Pacific will be delivered within a stronger **whole-of-government context**, particularly through developing long-term institutional links between core Australian agencies and their Pacific counterparts, especially economic, financial and law enforcement agencies. While recognising the range of expertise the aid program draws on to deliver quality programs, a greater commitment by key Australian government agencies to the region is broadening the nature of engagement. As well as providing avenues to engage in substantial dialogue, senior Australian government personnel are working

in priority areas of Pacific governments (particularly in Solomon Islands, PNG and Nauru) including economic governance and law and justice. Drawing on state and local government expertise reflecting the scale of public sectors in the Pacific will also continue to be a feature.

During the Strategy, Australia will increasingly build people-to-people engagement with existing and future Pacific leaders and key players and will offer study and work attachments in Australia through initiatives such as scholarships. Australia recognises that change in the Pacific will be generational and building relations with the region's future leaders is a priority.

A key feature of Australian aid is the continued **strengthening of partnerships**, undertaking common work programs and engaging in joint policy dialogue with Pacific governments and other donors. Tying into country development plans, the relatively small circle of Pacific donors provides a rich opportunity to demonstrate international best practice in donor **coordination** and **harmonisation**. Significant harmonisation efforts are already underway with New Zealand. As the largest donor in the region, Australia will play a leadership role in seeking to coordinate aid efforts with other donors at the policy and program level. Australia, New Zealand, the World Bank and the Asian Development Bank have all indicated their commitment to strengthened coordination in the region, building on existing partnerships. For example, Australia's efforts will complement the leading role which the multilateral banks will take in analysis of private sector development and economic growth; and Australia is facilitating efforts of a wide range of donors to coordinate our assistance in the transport sector. Sustaining reform in the Pacific requires capitalising on the existing strengths of the small donor network and engaging at a strategic and practical level with emerging donors. Common strategic approaches and joint work programs and policy dialogue with Pacific governments and other donors will be explored.

Equally important is supporting the development of a **vibrant civil society** including church-based organisations to help communities participate in fulfilling their needs and aspirations and to build community resilience and social inclusion. Targeted capacity building of civil society including community-based organisations, those engaged with women, young people and vulnerable groups will strengthen their effectiveness to contribute actively to governance and development at community, national and regional levels.

PACIFIC REGIONAL AID STRATEGY 2004–09



An increased focus on *research and analysis* during the Strategy period will ensure that programs are more coherent and targeted with improved development outcomes through better preparation, activity design, enhanced selection of expertise to deliver assistance, monitoring and evaluation. AusAID has identified where deeper analytical work is needed on causes and constraints in the areas of governance, drivers of economic growth, peace and conflict prevention, corruption, urbanisation and the youth 'bulge', labour mobility, reducing the vulnerability of the poor, land tenure and how best to build institutional capacity in the Pacific.

Australia's aid program has contributed to many gains in the region in recent years. However, for the aid program to remain relevant in this rapidly changing and increasingly complex international environment it must continually strive for improvement. The Pacific Regional Aid Strategy 2004-09 has been designed to position AusAID to respond effectively to the changing development context. It is a reflection of AusAID's on-going process of renewal and improvement.

Implementation of Australian aid will be strengthened

and informed by latest international thinking on aid delivery and lessons learnt from a history of delivering aid in a Pacific context which includes a number of fragile countries. A differentiated approach will be taken, reflecting the vast differences in government capacity and commitment to reform across the region. Australia's aid will continue to be innovative with a focus on identifying new approaches and methods of implementation and flexibility to respond to emerging needs and/or changed circumstances. In addition to a greater focus on long-term institutional links between Australian agencies and their Pacific counterparts, this will include an increased focus on program and sector-wide approaches, selected placement of Australian government officials in counterpart Pacific agencies,

greater policy engagement and focus of aid interventions on improved policy settings, and increased flexibility in delivery mechanisms so programs can respond to the rapidly changing and increasingly complex development context of the region.

The delivery of Australia's aid has changed substantially over the past few years. Programs will continue to evolve in response to changing circumstances and the identification of new ways to support development in the Pacific.

The strategic approach outlined in the Pacific Regional Aid Strategy 2004-2009 recognises the critical issues in the region that need to be addressed. By following these broad directions, supported by more detailed analysis on specific topics during the Strategy period, better program outcomes will be achieved. While regional approaches will receive greater emphasis, differences between countries are such that a country focus remains necessary. It will be reinforced by individual country strategies to guide Australia's bilateral aid partnerships. These strategies will be reviewed regularly between 2004 and 2009 in consultation with key development partners, with a focus on regionalising programs and pooling scarce national resources. Australia's aid program is large and visible and this can lead to unrealistic expectations, domestically and in the region, that Australian aid can or should attempt to deliver successful development outcomes in all areas, despite the significant constraints in many Pacific island countries. In this context, it is important to maintain sensible timeframes for development, an appreciation of the importance of incremental progress and an understanding that the effective implementation of appropriate national policies will always be more critical than the levels of donor aid in determining development outcomes. Australia recognises the need for flexibility and responsiveness and the Strategy may have to be adapted during the five-year Strategy period to reflect the fluid Pacific environment.

1 Introduction

AUSTRALIA'S PACIFIC NEIGHBOURS ARE FACING FUNDAMENTAL CHALLENGES TO THEIR ECONOMIC AND SOCIAL FUTURES. THEIR ABILITY TO MEET THESE CHALLENGES WILL DEPEND ON THEIR CAPACITY TO IMPLEMENT SOUND DOMESTIC POLICIES, CREATE ENVIRONMENTS FOR PRIVATE SECTOR INVESTMENT, OVERCOME FINANCIAL MISMANAGEMENT AND CORRUPTION, PROMOTE STABILITY AND PROVIDE APPROPRIATE SERVICES TO THEIR PEOPLE.

The development challenges confronting the region – governance, poverty, stability, economic security, rapid population growth, HIV/AIDS, strengthening the core institutions for democratic nationhood and ensuring individuals have a greater sense of their place within a broader national identity – cannot be addressed quickly or easily.

Governance is at the heart of development issues in the South Pacific. A legacy of inappropriate colonial structures and issues with affordability of government have impeded internal political integration and nation-building in many Pacific countries.

The international community, particularly Australia, has a critical role to play through its aid program. Aid can have a catalytic role in larger Pacific countries and can be a source of predictable resource flows in smaller Pacific countries. It is an effective means of reinforcing reform in strong policy environments as well as encouraging reform in weaker policy environments. Government ownership and leadership of national development and donor coherence and coordination is essential.

The Pacific Regional Aid Strategy 2004–2009 provides a framework for Australia's long-term development goals in the region. It comes under the umbrella of the 2002 statement by the Minister of Foreign Affairs which sets out the general policy, operating principles and focus of Australia's Official Development Assistance program and retains a core focus on the Pacific. The Pacific Regional Aid Strategy guides Australia's country strategies and regional programs. It sets out the broad nature of Australia's commitment on development assistance for the Pacific, the strategic directions and priorities that guide Australian Government activities and identifies the areas and sectors where Australian aid will focus its involvement with key development partners. The Strategy is not a program implementation document. Separate country program strategies reflect the broad objectives of the Pacific Regional Aid Strategy and provide operational details against which objectives will be measured with a focus on regionalising programs and pooling scarce national resources.



ABOVE *Training session, Fiji. (Photo: Tim Acker)*

2 The Pacific and Australia's national interest

THE PACIFIC'S DEVELOPMENT INTERESTS AND AUSTRALIA'S NATIONAL INTEREST ARE INEXTRICABLY LINKED. AN ECONOMICALLY VIABLE PACIFIC IS IN AUSTRALIA'S NATIONAL INTEREST. WHILE POVERTY, HARDSHIP AND VULNERABILITY REMAIN SUBSTANTIAL PROBLEMS IN THE REGION, SO DOES THE POTENTIAL FOR INSTABILITY.

Pacific nations are some of Australia's most important development partners, reflecting Australia's geographic position, historic relationship and special responsibilities in the region. Emerging Pacific challenges have altered the development assistance context. Australia has sharpened its focus on the region following the deterioration of security in Solomon Islands and in the context of global security increasing trans-boundary challenges and the understanding that a porous and undeveloped region is not in the interests of the Pacific or Australia. Australia's interest in the stability and development of the Pacific is based on greater regional prosperity and reducing the growing threat from trans-national crime (including money laundering, terrorism, drug trafficking and people smuggling), increasing urbanisation, population growth, increasing HIV/AIDS rates, inadequate health and education systems, environmental vulnerability and unemployment.

The Pacific Regional Aid Strategy 2004–2009 reflects the lessons learnt over recent years as instability within the region has become more widespread. It draws on the 2001 *Review of Australia's Relationship with the Pacific* by the Australian Government, the 2002 Ministerial aid policy statement *Australian Aid: Investing in Growth, Stability and Prosperity*, AusAID's poverty framework and conflict strategy, other poverty and instability studies commissioned by AusAID and a series of policy workshops for aid practitioners and experts held in the Pacific and Australia.

It particularly reflects the fundamental policy shift by Australia in relation to the Pacific. In October 2003, the Foreign Minister, Mr Downer, stated: 'We are seeking to review our responses to ensure our approach best supports our neighbours and meets our own interests in a stable and prosperous Pacific... Australia is no longer willing to stand back and watch regional neighbours descend into instability... Our engagement will be based on an increasingly robust dialogue on reform. We will enhance the capacity of the region to pursue governance reform and to work collectively to address shared problems.'

Australia's more assertive policy recognises that Pacific island countries need more assistance to meet core challenges. Efforts will increasingly be made to pre-empt economic collapse, improve security, reduce corruption and promote strong economic growth.

The Strategy also reflects priorities of the Pacific Islands Forum concerning the need for greater focus on governance and security and the pooling of regional resources to strengthen national capabilities.

3 Pacific development challenges

THE PACIFIC HAS RECORDED ACHIEVEMENTS. THERE HAVE BEEN SUBSTANTIAL IMPROVEMENTS IN SOCIAL INDICATORS ACROSS THE PACIFIC OVER THE PAST 15 YEARS, PARTICULARLY IN LIFE EXPECTANCY RATES WHICH HAVE SIGNIFICANTLY OUTPACED THOSE IN THE CARIBBEAN AND SUB-SAHARAN AFRICA.

(i) SOCIO-ECONOMIC CHALLENGES

Infant mortality rates have decreased at a rate comparable to that of the Caribbean and are well below rates in sub-Saharan Africa.

However, the overall development record of the Pacific has been mixed. Against measures such as the UN's Human Development Index, human development gains in the Pacific have been relatively positive. The better performing Pacific states rank on par with the Caribbean states, while the weaker performing Pacific states still rank significantly higher than the average for sub-Saharan Africa. Nonetheless, there are significant disparities between and within countries in the region.

Economic gains have been weak and volatile

Based on regional analysis by the World Bank, the Asian Development Bank (ADB), IMF and others, average GDP per capita in the Pacific has increased by 0.5 per cent a year since 1975. Performance has recently deteriorated, even from this low base, and most of the larger regional economies experienced a fall in per capita income between 1996 and 2002. Pacific economies have also suffered from volatility in economic performance. This stems from their economies being small, open and dependent on a narrow range of exports.

Pacific economies are relatively undiversified and dominated by the primary and tertiary sectors of the economy. Their remoteness and isolation from major trade and commercial centres has made it difficult to compensate for limited domestic markets through trade. They suffer from poor capacity in public and private sectors and are particularly vulnerable to the economic consequences of natural disasters. Real annual GDP growth in the region has fluctuated from a low of -5.5 per cent in 1997 to a high of +4.1 per cent in 1999. In addition, economic growth in many parts of the

region has come at the expense of the natural environment and has significantly impacted on the sustainability of the region's fragile resource base.

Pacific governments have had difficulties managing their public expenditure. There has been a trend towards high wastage and poor management of public spending. In addition to damaging the prospects for private sector growth and employment, poor public expenditure management impacts on the quality and distribution of key services and the sustainable use of natural resources, including ocean resources. In Solomon Islands, for instance, weak management capacity has hampered the supply and distribution of essential medicines and educational materials and the maintenance of key infrastructure such as roads.

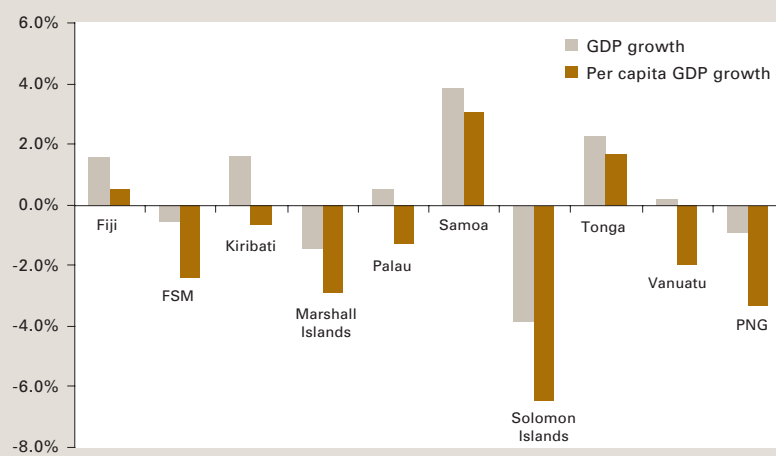
Inefficient state owned enterprises and poor governance significantly aggravate fiscal problems. The shortage of public resources has meant chronic under-investment in physical infrastructure, especially communications, which is a critical necessity given the remoteness and vulnerability to natural disasters of the island economies. The aggregate impact of these shortcomings has led to an increase in poverty and growing social instability in several parts of the region (*Economic and Social Survey of Asia and Pacific*, 2004).

The record of Pacific states reflects shortfalls in the quality of domestic policies, the ability to identify and exploit trading opportunities and the capacity to attract and retain private capital while maintaining investments in human capital. Trade is central to the Pacific's development and remittance earnings play a critical role, particularly in Fiji, Polynesia and Micronesia.



ABOVE Navua River, Fiji. (Photo: Tim Acker)

FIGURE 1: AVERAGE GDP AND PER CAPITA GDP GROWTH, 1996-2001



Source: World Bank, World Development Indicators 2002-2003

Population growth is complicating efforts to improve living standards

Weak economic growth and high population increases have restricted per capita growth in GDP in most of the Pacific countries since 1996. Notable exceptions have been Fiji, Samoa and Tonga which have benefited from comparatively low population growth, achieved partly through emigration.

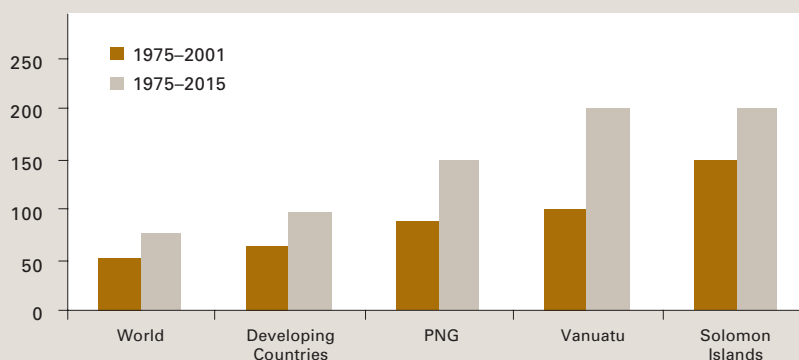
Melanesia has recorded negative rates of per capita economic growth (Figure 1, pg 13) and very young demographic profiles. In Solomon Islands and Vanuatu, almost half the population of the two countries is under the age of 14, contributing to poor per capita income performance.

The relatively high annual population growth of these Melanesian countries (more than 2.5 per cent) is shown in Figure 2. In Vanuatu and Solomon Islands, on current trends it is expected that by 2015, population growth rates will have progressed from 1975 levels at twice the developing country average. Even in countries such as Samoa and Tonga, where the population is not increasing as rapidly because of emigration, lack of investment and subdued economic growth is making life more difficult for people.

At the other end of the spectrum, civil unrest in Solomon Islands contributed to a decline of about 25 per cent of GDP during 2000–2003, with a much sharper fall in per capita income given the high population growth rate of about 3 per cent annually.

FIGURE 2: POPULATION GROWTH IN THE PACIFIC

% Population Increase (actual and projected)



Source: World Population Prospects 2002, Human Development Report 2003, CIA Factbook 2002

Poverty is increasing

The continuing improvement in social indicators is a feature of the Pacific, particularly since the early 1990s. It is likely that these improvements are due to effective investments in basic health and nutrition, a robust informal and subsistence economy, and traditional practices that have historically provided a social safety net. However, the extent to which these gains can be maintained in the face of economic stagnation is open to question, especially in Melanesia, with signs that many service delivery systems and traditional support mechanisms are under stress with population pressures intensifying.

The Australian aid program's definition of poverty recognises its multidimensional nature and sees the poor as those who suffer such a level of deprivation that they are unable to meet minimum standards of well-being. Aspects of this include adequate resources for attaining the basic necessities of food, water, shelter and clothing, access to acceptable levels of health care and education, accountability by state institutions and civil society and freedom from excessive vulnerability to adverse shocks.

Although up-to-date, in-depth information on the extent of poverty in the Pacific is limited, analysis confirms that poverty exists, that it is substantial and increasing in some countries. Analysis by the Asian Development Bank of poverty in eight Pacific countries in 2000-2003 concluded that poverty is a significant issue in the region. Previously mitigated by social safety nets in rural villages, it now manifests as hardship in meeting basic needs for people in urban and peri-urban settlements, isolated rural areas and outer islands.

The estimated proportion of people living in poverty was 20.3 per cent in Samoa in 1996, 23.8 per cent in Tonga in 2001 and 40 per cent in Vanuatu in 1998. The last reported household and income expenditure survey for Fiji was in 1990-91 when 25.5 per cent of the population were found to be living below the poverty line. More than 25 per cent of the populations of Kiribati, the Federated States of Micronesia and Solomon Islands are considered to be living in poverty.

Even where economies are growing, there has not been a commensurate improvement in the quality of life of the poorer sections of society because of inequitable distribution of the benefits of growth. Traditional approaches to development through national planning and conditionality have had little impact on poverty reduction in many countries. Experience suggests that in addition to sustained growth, measures designed specifically to increase access to economic opportunities for the poor are necessary if poverty is to be sustainably eliminated. Gender-based violence is also a significant constraint to development for many Pacific countries because it prevents women's social and economic participation.

The ADB surveys reported the key concerns of the poor as lack of safe drinking water, unusable roads, insufficient job opportunities and deteriorating transport and other public services. Two priorities emerge consistently. They are that the region's poor want access to cash income-generating opportunities, and social services, especially primary education and health care.

Attachment A provides more details on poverty in the Pacific.

(ii) POLICY CHALLENGES

Addressing governance lies at the core of development in the Pacific.

The quality of governance is at the heart of growth in the Pacific because it has a decisive influence on development, particularly in small, open states with limited economies of scale and opportunities for diversification. Although resources and vulnerability are important factors, good governance is the most critical precondition to poverty reduction and sustainable development. Aid is largely ineffective in its absence. Poverty is linked directly, although not exclusively, to poor governance including weak leadership and corruption.

The Pacific record on governance is mixed, stemming from a lack of institutional capacity and a legacy of inappropriate colonial structures that have seriously impeded internal political integration and nation building. In many cases governance has also been affected by a lack of political will and corruption. Political leadership of reform has not been sustained and has been derailed in some instances by short-term political expediency and the self-interest of elites.

Poor governance has contributed to poor economic growth. While there is clearly a continuing need for institutional and policy reform in the region, the challenge has been implementing these reforms. This has proven onerous for small countries such as Kiribati and Tuvalu.

Of continuing concern is the affordability and relevance of government administrative structures in several Pacific countries. Government income in these countries is inadequate to maintain a service delivery system that has been largely transferred from previous colonial systems which were often heavily subsidised. The growing demands of delivering adequate education, health, communications and transport infrastructure are increasingly beyond countries' resources.

In the face of rapidly growing populations, this will continue to be the case even where broader economic management is improved. The availability of resources is one aspect of the problem, but so too is the appropriateness of the structures for service delivery and the broader supporting machinery of government.

The larger nations are not short of good legislation and policies. Their problems lie in an inability or lack of will to implement these policies. Effective democratic institutions capable of leading change agendas rather than merely existing are the key to more responsible and responsive government.

Building law and order, peace and stability

Avoiding the emergence of failed states is vital to sustained development in the region. Since the late 1980s, lawlessness and instability in parts of the region have compounded the inability of Pacific countries to attract investment and generate growth. The causes of lawlessness in Solomon Islands, for example, are rooted in a complex interplay of factors including social and political transformation, unemployment, demographic change and the breakdown of traditional structures. Similarly, tensions in Fiji have centred around competition between different groups of indigenous Fijians and between Fijians and Indo-Fijians. Continuing concerns regarding law and order and stability are significantly impacting on investment, particularly in Melanesia.

The costs of such instability are substantial. The instability in Fiji in 2000 had a dramatic and sudden impact on Fiji's economy, particularly tourism. A return of stability quickly reversed the downturn. In Solomon Islands, the fiscal deficit reached double figures by July 2003, exports fell by two-thirds and international reserves dwindled to zero.

A key challenge in the short to medium term is the capacity of law and order institutions to maintain their impartiality and effectiveness, particularly during periods of crisis and unrest. Over the longer term, strong police, legal and judicial systems largely determine the capacity of countries to combat corruption, achieve growth and attract foreign investment.

A lasting solution to lawlessness and instability requires growth, employment and development that can generate investments in the basic services that help underpin government legitimacy and national unity. Where governments fail to fulfil this responsibility their domestic legitimacy can be questioned and fragmentation pressures can intensify.

Tackling corruption

Corruption in the Pacific has predominantly centered on the exploitation of natural resources where outside interests, in concert with corrupt elites, have in some cases been able to expropriate national economic endowments. Pressure for corruption linked to traditional or clan-based systems of loyalty is particularly prevalent in Melanesia. Trans-national forces and outside influences are driving new, more sophisticated forms of corruption such as money laundering and drug and people trafficking. This has been encouraged partly by the growth in trade of 'tokens of sovereignty' such as passport sales and the provision of tax havens.

Corruption is both a symptom and a cause of poor governance. In some Pacific countries strong leadership, legislation, an active media, the spread of internet access and increased public advocacy are positive developments. However, where strong regulatory institutions are central to combating corruption, these agencies typically suffer from weak preventative and enforcement capacities. Cultural traditions also continue to blur the line between corruption and legitimate transactions, making cronyism more prevalent. Evidence is also emerging that local political behaviour contributes to corruption. Fluid party membership, poverty and low levels of voter education conspire to produce short-lived governments where the emphasis is on immediate gains rather than long-term reform.

However, there are indications that demands in the region to reduce corruption are rising, suggesting that an important foothold is being established within government and civil society.

Better fiscal management

Sound fiscal management, particularly in the context of high population growth rates, is essential for improved social and economic performance in Pacific states.

Only with sensible, well planned public investments and enhanced revenue collection to support service delivery can healthy, productive economies be established and sustained. Transparent and efficient public expenditure management is critical. Enhanced fiscal management will positively impact on the prospects for private sector growth and employment and the quality and distribution of key services.

Reducing the vulnerability of the poor

For many of the poor in the Pacific, geographic and social isolation, weaknesses in government capacity and poorly developed non-government organisations expose them to economic disruption and downturns, humanitarian disasters and conflict. There is a growing incidence of urban poverty in the region, usually the result of increasing rural-urban population drift.

Throughout the region, women and girls have lower social status than men and boys, so they are generally less well educated, their health concerns are not adequately addressed and they often have little authority in family income and expenditure decisions. Violent behaviour is becoming increasingly widespread in the Pacific and community authorities and the legal sector are struggling to cope with this growing problem. Violence against women and girls is frequent and there is inadequate recourse or shelter for victims.

Combating HIV/AIDS

HIV/AIDS has become an increasing priority for Australia's development co-operation program in the region. Responses to it must be broad-based, reflecting the high prevalence of sexually transmitted infections (STIs) which makes the Pacific particularly vulnerable to a HIV/AIDS epidemic. Pacific island countries are susceptible to economic and social devastation if an epidemic occurs and is left unchecked.

During the Strategy period, the Pacific HIV/AIDS Project will continue to strengthen the capacity of Pacific island countries to develop an effective and sustainable multi-sector response to the infection.

Expanding regional approaches

The demands on Pacific nations to meet the requirements of effective governance are onerous. It is becoming increasingly difficult to maintain all the sophisticated arms of modern government on a purely national basis. Some attempts to do so have contributed to high levels of public debt and resultant negative impacts on national economies and development, draining resources away from funding basic services such as health, education and law and order and from stimulating wealth generating activity by the private sector.

The Pacific Islands Forum contributes to economic, governance and public sector reform in the region by providing a strong tradition and basis for cooperation. Pacific leaders have renewed the forum's mandate and vision to provide leadership on regional cooperation and integration. This includes consolidating its position as the pre-eminent political group in the region, focusing primarily on economic growth, sustainable development, good governance and security, and examining the pooling of regional resources to strengthen national capabilities. The proposed Pacific Plan is expected to provide an implementation strategy for the better sharing of resources of governance and aligning policies between Pacific nations.

Australia is taking a regional approach with other donors to build and sustain capability. In an effort to build the capacity of national police forces on a regional basis, Australia and New Zealand are undertaking a Pacific Regional Policing Initiative (PRPI) during the Strategy period to build on progress already made in bilateral programs. The PRPI will focus on improving basic policing and technical skills such as forensics.

An important component of the PRPI will be the development of an ethos of police professionalism through a regional Executive Development Program.

Pacific island countries have an on-going need to access effective transport links. Weaknesses in transport infrastructure are prolonging economic stagnation. Pacific airlines and shipping lines are facing severe challenges in continuing to provide economically viable services. Pacific leaders agreed at the 2003 Pacific Islands Forum to identify areas where resources might be pooled on a regional basis to assist in the continuing viability and reliability of the transport system and Australia is assisting the region to address these issues.

4 Regional strategy

THE PACIFIC REGIONAL AID STRATEGY 2004-2009 AIMS TO HELP NATIONS MAXIMISE THEIR DEVELOPMENT AND SELF-RELIANCE, REDUCE POVERTY THROUGH BROAD-BASED GROWTH AND BUILD POLICIES, INSTITUTIONS AND CAPACITIES TO BETTER MANAGE GOVERNANCE CHALLENGES AND SUPPORT EFFECTIVE SERVICE DELIVERY.

(i) STRATEGY OBJECTIVES

Australia's Pacific neighbours are facing fundamental challenges to their economic and social futures. The development challenges confronting the region – governance, poverty, stability, economic security, rapid population growth, HIV/AIDS, strengthening the core institutions for democratic nationhood, and ensuring individuals have a greater sense of their place within a broader national identity – cannot be addressed quickly or easily. The ability of Pacific governments to meet these challenges will depend on their capacity to implement sound domestic policies, create environments for private sector investment, overcome financial mismanagement and corruption, promote stability and provide appropriate services to their people.

The challenges are complex and will require substantial investments in capacity building and the conditions to deliver broad-based sustainable growth or at least the highest possible level of self-reliance.

These challenges will not be solved by aid alone. Indeed, establishing the frameworks for economic and social viability rest with the Pacific islanders themselves. However, engagement with the Pacific region will continue to be a long-term commitment for the Australian aid program. This engagement must be realistic and tailored to specific country situations.

(ii) STRATEGY FOCUS

A fundamental policy shift by Australia has sharpened the focus of engagement through necessity following the deterioration of security in Solomon Islands and in the context of global security and the understanding that a porous and undeveloped region is not in the interests of the Pacific or Australia.

To assist Australia's Pacific partners to address their complex development challenges Australia is adopting a more hands-on approach. Timely, direct assistance can serve to reduce the financial and human costs of addressing more serious issues associated with further decline. The importance of Pacific island countries creating the right policy environment for growth and development will receive greater emphasis in Australia's engagement with Pacific island governments.

To achieve these objectives, the Pacific Regional Aid Strategy sharpens the focus of the Australian aid program on four outcomes most critical to establishing the foundations for poverty reduction, stability, growth and peaceful development. They are:

- > **Stronger broad-based growth** addressing issues of strengthening the enabling environment for private sector development such as legislative and administrative reform and through policies aimed at improving economic competitiveness and expanding the productive sectors that drive broad-based growth, with a focus on providing income generation, employment opportunities and sustainable management of the environment.

Australia will continue to strengthen human resource development approaches to build the skills needed to manage modern economies with formal and informal sectors. Assistance will continue for training and institutional strengthening of central government economic and finance ministries, and to improve



ABOVE Apia Lower Primary School, Apia, Samoa. (Photo: Geoff Adlide)

financial sector monitoring and prudential oversight. Assisting Pacific countries to take advantage of trade liberalisation is a priority.

During the Strategy period, Australia will assist the expansion of support to the productive sectors that drive broad-based growth with a focus on providing income generation and employment opportunities for Pacific islanders, particularly women and young people, and the sustainable use of natural resources and managing environmental risks. Analysis will be undertaken to determine the drivers of growth at a regional and national level. Analysis is underway at different country levels (eg in Vanuatu and Fiji) and is already showing agriculture and tourism as the sectors with the best potential for driving growth with direct opportunities for the disadvantaged. Analysis is also underway on the developmental benefits of labour mobility in driving growth such as networks, skills and remittances.

- > **More effective, accountable and democratic government** through active support for good governance, economic and public sector reform including improved public expenditure management and considering means of broadening the revenue base, strengthening democratic institutions and machinery of government and engaging more broadly with civil society on driving the demand for better governance. Identification of opportunities for sustainable reform, particularly through governance, is central to Australia's approach in the Pacific. For this reason, Australia's approach now takes good governance as a starting point upon which other sectoral objectives are built. The Australian aid program will continue to actively encourage good performance in these areas through technical assistance, institutional strengthening and a mix of incentive schemes. Corruption will be addressed through public expenditure and procurement reforms, support to strengthen accountability institutions and direct support for Pacific and international agencies outside government recognised as strong performers in fighting corruption.
- > **Improved law and justice and security** through support for police and legal institutions to underpin adherence to the rule of law, assisting regional security initiatives, addressing instability and the causes of conflict and investing in peace. There are already Australian-supported police capacity building and/or law and justice programs in all Melanesian countries as well as in Samoa, Tonga and Nauru. In addition, the new Pacific Regional Policing Initiative is providing a comprehensive 'critical mass' approach

to police training across the region and a flexible mechanism to provide targeted support to national police agencies. Australia will continue to refine bilateral support in these areas and develop additional regional initiatives such as strengthening judicial and prosecutorial institutions.

- > **Enhanced service delivery** through investing in government capacity to deliver basic health, education and infrastructure, particularly in rural and peri-urban areas and for disadvantaged groups, which is critical for stability, national unity and government legitimacy. Continued support for basic service delivery functions will be a major feature of the Pacific Regional Aid Strategy, particularly in countries where service delivery standards are deteriorating due to population growth rates such as Vanuatu and Fiji. Breakdowns in health, sexual and reproductive health services and education and essential infrastructure services not only have a significant human cost, but they also undermine the legitimacy of nation states and can provide the catalyst for instability. Assessments will be continually made of the most effective means of providing service delivery support in such circumstances. Improved service delivery outcomes will only be sustainable if the management of health and education services at national and local levels is strengthened and reformed in the long term. During the Strategy period, Australia will continue to assist countries to develop better quality, cost effective and community-focused service delivery systems to support the sustainable delivery of services and lead to better health and education outcomes.

Sound fiscal management is essential for Pacific states and links the four regional themes of the Strategy. Only with sensible, well planned public investments and service delivery can healthy, productive economies be established and sustained. Enhanced fiscal management will positively impact on the prospects for private sector growth and employment and the quality and distribution of key services.

To achieve these outcomes the Pacific Regional Aid Strategy introduces a sharper focus on:

- > the drivers of sustained and equitable growth;
- > maintaining stability through greater adherence to the rule of law as the fundamental building block for other development efforts;
- > analysing the drivers of conflict situations and where necessary continuing to assess vulnerability;
- > underlying incentives to encourage good governance, accountability and transparency;
- > the critical role that delivery of essential services to all elements of a population plays in broader stability and national coherence;
- > supporting nation building as an on-going task directly related to more effective government;
- > the sustainable use and harvesting of natural resources, particularly ocean resources and forests;
- > promoting an increased role for civil society organisations (NGOs, youth, women, churches) and the private sector, especially in the delivery of community and humanitarian programs and as agents in nation building activities;
- > regional approaches and solutions to issues;
- > more active engagement and coordination with other donors, including harmonisation where possible; and
- > deriving pragmatic and measurable performance indicators across all programs to provide a better statistical and analytical focus on achievements.

Attachment B links the Pacific Regional Aid Strategy's objectives to a framework for specific regional and bilateral activities and forms a basis for performance management and monitoring.

Strengthening regional responses

The Pacific Regional Aid Strategy 2004–2009 will continue to take forward strengthened regional responses to key governance challenges including increased efficiency in the operations of the regional architecture.

In their April 2004, *Auckland Declaration*, Pacific leaders agreed to strive for a region that is respected for the quality of its governance, the sustainable management of its resources, the full observance of democratic values, its defence and promotion of human rights. Pacific leaders are giving impetus to a growing regional dynamic for reform and better governance. Australia is actively supporting the 2004 Pacific Islands Forum review recommendations of **strengthening regional responses** to key governance challenges and greater pooling of resources among forum members.

The development of the Pacific Plan in 2005 will provide further concrete and practical steps to take forward this agenda. The Pacific Plan aims to create stronger and deeper links between Pacific island countries and will identify sectors where the region can gain most from sharing resources of governance.

Australia is implementing regional approaches in key areas including building the capacity of national police forces on a regional basis through the Pacific Regional Policing Initiative (PRPI), supporting forum leaders to define more rational arrangements for regional transport services and promoting good governance through a viable and responsible regional media through the Pacific Media and Communications Facility (PMCF). In health, key regional approaches are in place for HIV/AIDS and immunisation. In the social sector, key areas are child protection and gender-based violence and in relation to the environment, climate change and sea level monitoring will continue to be a focus of regional activities.

The development of the Pacific Plan, mandated by Pacific leaders and expected to be completed in 2005, will provide further direction to programs to support better governance through pooling of scarce regional resources. Areas of potential cooperation between Pacific governments include economic management (such as common financial regulations), vocational education and common regulatory frameworks in customs, quarantine, trade and migration.



ABOVE *Freshwind settlement choir, Vanuatu. (Photo: Peter Davis)*

During its Pacific Regional Aid Strategy 2004–2009, Australia will add regional dimensions to bilateral approaches. In line with development of the Pacific Plan, regional and multi-country programs will have a stronger focus on evaluating activities to establish whether they are more cost-effective than bilateral approaches or are addressing genuine trans-boundary issues of importance such as fisheries arrangements, trade facilitation or security issues. Building regional links with the PNG aid program is a priority in this context. The institutional and attitudinal barriers that inhibit effective links between regional, bilateral and sectoral programming approaches will be identified and managed.

The Pacific has a well developed framework of regional organisations and institutions. During the Strategy period, Australia will continue to be a member of many regional organisations and play a lead role in contributing to their progress. Australia will continue to work cooperatively with Pacific regional organisations to support their improved effectiveness and impact in the region, particularly through the Pacific Plan process considering the effectiveness of the regional architecture to support the vision of leaders, alignment of funding with development, implementation of program strategy approaches and better performance information systems. This includes the Secretariat of the Pacific Community (SPC), the South Pacific Regional Environmental Program (SPREP), the South Pacific Applied Geoscience Commission (SOPAC), the Forum Fisheries Agencies (FFA), the University of the South Pacific (USP), the South Pacific Board of Educational Assessment (SPBEA) and the Fiji School of Medicine (FSM).

A calibrated approach

Australian aid will take a *calibrated approach* and the Strategy acknowledges that both significant differences and broad similarities exist between Pacific countries. Implementing strategic development approaches within the circumstances of each Pacific nation is therefore an appropriate and practical approach and will be articulated through separate country program strategies.

An increased proportion of Australia's assistance will be focused on the countries of Melanesia. Sustaining peace and stability and progressing reform in Solomon Islands remains a critical challenge and the aid program will continue to be an integral part of the Regional Assistance Mission to Solomon Islands (RAMSI). The full restoration of law and order by the government and prudent management of the economy is essential if gains

are to be sustained. While practical assistance to help communities will continue, Australia recognises that sustainable reform will require long-term commitment. Building the capacity of key Solomon Islands institutions is now a major focus, especially in economic management, strengthening and reform of the justice system and the machinery of government.

More broadly, a greater focus on capacity building and conflict prevention will be a feature of Australia's assistance to the Pacific.

Australia's enhanced focus on Melanesia was reflected in the 2004–05 aid budget through resource increases to Papua New Guinea, Vanuatu, Fiji and regional programs and this trend is expected to continue through the course of the Strategy. However, Papua New Guinea, Australia's biggest aid partner, has a stand-alone strategy and is not covered in this Pacific Regional Aid Strategy.

Samoa, Tonga, Kiribati, Nauru and Tuvalu will continue to be important development partners. The focus will remain on areas such as supporting law and order, public expenditure management, service delivery and private sector development. Emphasis will be given to improving the balance between reforms and supporting good governance.

In the smaller countries, aid will continue to play an important but different role and Australia will continue to maintain a supportive but limited development partnership with Micronesia, Cook Islands, Niue and Tokelau, harmonised to the greatest possible extent with New Zealand.

Programs in the smaller countries will continue to support service delivery and private enterprise but in recognition of the limited prospects of a self-sustaining economy will also look to support mechanisms to provide governments with a predictable and durable source of external funding through the establishment of trust funds.

(iii) IMPLEMENTING THE STRATEGY

Implementation of Australian aid will be strengthened

and informed by latest international thinking on aid delivery and lessons learnt from a history of delivering aid in a Pacific context which includes a number of fragile countries. A differentiated approach will be taken, reflecting the vast differences in government capacity and commitment to reform across the region. Australia's aid will continue to be innovative with a focus on identifying new approaches and methods of implementation and flexibility to respond to emerging needs. In addition to a greater focus on long-term institutional links between Australian agencies and their Pacific counterparts, this will include an increased focus on program and sector-wide approaches, selected placement of Australian government officials in counterpart Pacific agencies, greater policy engagement and focus of aid interventions on improved policy settings and increased flexibility in delivery mechanisms so programs can respond to the rapidly changing and increasingly complex development context of the region.

The delivery of Australia's aid has changed substantially over the past few years. Programs will continue to evolve in response to changing circumstances and the identification of new ways to support development in the Pacific.

The strategic approach outlined in the Pacific Regional Aid Strategy 2004–2009 recognises the critical issues that need to be addressed. Better program outcomes will be achieved by following these broad directions supported by more detailed analysis on specific topics. While regional approaches will receive greater emphasis, differences between countries are such that a country focus remains necessary. The Pacific Regional Aid Strategy will be reinforced by individual country strategies to guide Australia's bilateral aid partnerships. These strategies will be reviewed regularly between 2004 and 2009 in consultation with key development partners and with a focus on regionalising programs and pooling scarce national resources.

More substantial engagement by Australia backed up with resources

The starting point for Australian engagement with the region is the development objectives and priorities of the countries themselves. To further assist Pacific nations to address their complex development challenges, Australia is adopting a more hands-on approach. Timely, direct assistance can reduce the financial and human costs of addressing more serious issues associated with further decline. More substantial engagement will involve:

- > Devoting **increased resources** to tackle the development challenges in the region. Australian overseas development assistance to the Pacific (excluding PNG) doubled to \$383 million in 2004–05. Funding for Papua New Guinea increased from \$334 million in 2003–04 to \$436 million 2004–05 and the Solomon Islands allocation increased from \$38 million in 2003–04 to \$202 million in 2004–05 to support the long-term goals of strengthening governance and economic reform. Vanuatu and Fiji programs increased by more than 25 per cent in 2004–05. AusAID has also devoted substantially increased human resources to Pacific issues in Canberra, Honiara, Port Vila and Suva.
- > **Additional flexible and targeted resources** on top of country and regional allocations. The Australian aid program will retain the flexibility to scale its engagement to match progress. The Policy and Management Reform fund is a responsive mechanism which provides an incentive-based focus to support reform. The Peace and Security Fund provides additional flexible funding to respond to emerging conflict or post-conflict needs in Pacific countries.
- > Increasingly **robust dialogue** at senior political and bureaucratic levels and with donors to encourage reform efforts. Australia's participation at the Pacific Islands Forum and Forum Economic Ministers' Meeting provides important regional avenues to further support enhanced bilateral dialogue. Policy dialogue will continue to be an important part of Australia's aid and broader engagement with the Pacific. In particular, this includes an explicit focus on good governance as the cornerstone of Australia's support for the development efforts of Pacific countries. Key analytical work underway will be used as a basis for strengthening policy dialogue with partners at regional meetings and in smaller bilateral meetings. These policy dialogue opportunities will include bilateral high level dialogue (eg ministerial visits), specific bilateral discussions (eg on trade or



ABOVE *Boys in a canoe, Solomon Islands. (Photo: Peter Davis)*

education), regional dialogue (eg Secretariat of the Pacific Community), high level and program level dialogue on the bilateral aid program (eg annual High Level Consultations), consultations with other donors in the Pacific and activity identification, design and management processes.

- > Deepening ***Australian whole-of-government coordination and partnerships*** with key Pacific counterparts, particularly with economic, financial and law enforcement agencies. This includes a greater commitment by key Australian government agencies to the region, particularly through the development of longer term institutional links and, especially in Solomon Islands and Nauru, the placement of Australian government officials in Pacific counterpart agencies. As well as providing avenues to engage in substantial dialogue, senior level Australian government personnel will increasingly

work in priority areas including economic governance and law and justice. The practice of transferring public sector expertise will continue as a recurring feature of Australia's Pacific Regional Aid Strategy. A Pacific Governance Support program has been established to fund activities that enhance good governance and institutional capacity by transferring public sector expertise, including at state and local levels, between Australia and the Pacific. However, there are limits to what the public sector can provide in resources and capacity. Australia will also continue to draw on a broad range of expertise with proven specialist skills.

Strengthening incentives to support governance reform

Strengthening incentives in the aid program to support governance reform will be a strong feature during the Strategy period of 2004 to 2009. Experience shows that without good governance, scarce resources including aid dollars, will not be used to their fullest potential. Recognising that internal incentives determine how societies use the resources and opportunities available to them, Australia will identify the key individual and institutional drivers of change to support a conducive enabling environment for growth and poverty reduction. Where the drivers of change are weak and government systems are dysfunctional, Australia will work outside existing government systems. Alternative assistance will be provided with government support and may include help for sub-national or non-government service providers.

Management approaches

The Pacific Regional Aid Strategy is being implemented concurrently with AusAID's Strategic Plan which strengthens AusAID's analysis and policy development functions to deliver more effective development outcomes. Accordingly, the Pacific Regional Aid Strategy 2004-2009 will be implemented through a thematic, sectoral approach of enhanced analysis and policy engagement as well as associated devolution of activity management to Pacific posts.

Management of Pacific programs will be strengthened and informed by latest international thinking on aid delivery and lessons learnt from a history of delivering aid in a Pacific context which includes a number of fragile countries. A calibrated approach will be taken, reflecting the vast differences in government capacity and commitment to reform across the region. Where appropriate this will include an increased focus on program and sector-wide approaches, greater policy engagement and focus of aid interventions on improved policy settings and increased flexibility in delivery mechanisms so programs can respond to the rapidly changing and increasingly complex development context of the region. Improved analysis will feed directly into program management to inform activity preparation, activity design, contracting, monitoring and evaluation.

(iv) STRENGTHENING PARTNERSHIPS

Partner governments

Australia will build on and strengthen the existing close relationship with Pacific island governments. There will be an increased focus on supporting partner governments to strengthen national development frameworks and designing aid interventions to support these frameworks. Jointly developed country strategies informed by the directions of the Pacific Regional Aid Strategy will continue to form the basis for Australia's assistance.

Donor coordination and harmonisation with other donors

The small circle of Pacific donors provides a rich opportunity to demonstrate international best practice in donor harmonisation and coordination. As the largest donor in the region, Australia will strongly pursue greater collaboration between all major donors.

Australia, New Zealand, the World Bank and the Asian Development Bank have all indicated their commitment to strengthened coordination in the region, building on existing partnerships. For example, Australia's efforts will complement the leading role which the multilateral banks will take in analysis of private sector development and economic growth; and Australia is facilitating efforts of a wide range of donors to coordinate our assistance in the transport sector. Sustaining reform in the Pacific requires capitalising on the existing strengths of the small donor network and engaging at a strategic and practical level with emerging donors. Common strategic approaches and joint work programs and policy dialogue with Pacific governments and other donors will be explored.

The Strategy recognises that donor resource demands on partner governments and their line agencies are becoming unacceptably high. The Australian aid program has embarked on a process of harmonisation with New Zealand to reduce demands on line agencies in Pacific countries while at the same time improving donor coordination and ultimately the effectiveness of Australian program delivery.

Australia and New Zealand have commenced tripartite aid consultations with Samoa and Tonga and are expanding this process in other countries. Implementation of a single co-funded program in Cook Islands and a development trust fund in Niue are underway. Australia is also working with New Zealand to adopt uniform entitlements for both countries' Pacific scholarship schemes and to merge the pre-award administrative processes. Australia will continue to work closely with New Zealand in providing support for a number of regional organisations. The coordinated approach aims to support a more strategic approach to the work of the agencies, streamline administration and provide multi-year funding security for the regional bodies.

Australia will seek to work with other interested donors to build on these harmonisation efforts with New Zealand.

Regional organisations and Australian institutions

Australia will continue to work with the well developed framework of regional institutions and organisations in the Pacific ranging from those with broad policy or technical assistance mandates such as the Pacific Islands Forum Secretariat and the Secretariat of the Pacific Community, to sector-specific bodies such as the Forum Fisheries Agency and the South Pacific Regional Environmental Program. The University of the South Pacific, the region's major tertiary institution, is another key partner.

The regional institutions will have an important role to play in supporting a greater focus on regional solutions to shared problems in the Pacific. Through dialogue with these organisations and regular high-level discussions, Australia will continue to encourage an enhanced focus on the quality of their programs, capacity building efforts and internal management.

During the Strategy period institutional links with the Australian and Pacific academic and research community will be strengthened through continued support for development research, publications, conferences and workshops and facilitation of more effective links between the academic and policy communities.

Civil society and non-government organisations

Australia recognises the importance of supporting the development of a vibrant civil society to enable communities to participate actively in fulfilling their needs and aspirations and to build community resilience and social inclusion. The role of civil society in encouraging the demand for better governance including efficient public expenditure, reform, accountability and improved service delivery can be important. Australia will explore innovative ways of supporting civil society organisation in this role.

Long-term engagement with communities through targeted capacity building of civil society, including community-based organisations and churches, particularly to empower women, young people and vulnerable groups will strengthen their effectiveness to contribute actively to development at community, national and regional levels. Options will be explored with civil society to help expand the productive sectors that drive broad-based growth such as agriculture and tourism with a focus on providing income generation and employment opportunities for Pacific islanders.

As appropriate and in line with country strategies, Australia will continue to support activities implemented by Pacific and Australian non-government organisations in the Pacific island countries under bilateral and regional programs. This is a versatile and effective way of delivering aid to small communities.

5 Research and analysis

AN INCREASED FOCUS ON RESEARCH AND ANALYSIS DURING THE STRATEGY PERIOD WILL ENSURE THAT PROGRAMS ARE MORE COHERENT AND TARGETED WITH IMPROVED DEVELOPMENT OUTCOMES THROUGH BETTER PREPARATION, ACTIVITY DESIGN, MANAGEMENT APPROACHES, CONTRACTING, MONITORING AND EVALUATION.

Key opportunities for highly focused and practical analytical work to support program sustainability will be identified through bilateral country strategies. This will include developing stronger research and analysis links with the PNG program. AusAID has identified where deeper analytical work is needed on causes and constraints in the areas of:

- > **Governance** - The appropriateness of the current balance of Australia's governance assistance in the Pacific will be reviewed, based on consideration of the cultural, political and social context in the region. A gap analysis will be undertaken that will consider whether sufficient attention is paid to issues such as the links between partner governments, development assistance and civil society and ways of achieving private sector development through development assistance. During the Strategy period, research and analysis will identify models of good governance that work within the Pacific's unique social, political and cultural contexts, the likely drivers for change within the region, and how development partners can do things differently to support sustainable change.
- > **Economic growth** - In endorsing the Pacific Plan at the August 2004 forum, leaders called for 'concrete plans for the enhancement of economic growth'. Given the region's poor growth record over the past decade and high level support for a stronger focus on growth, research and analysis will include explicitly identify key drivers and constraints on economic growth at a regional and sub-regional level and the role aid might play in triggering higher sustained growth.
- > **Peace and conflict prevention** - Australian experience in the Pacific has highlighted the central role that development assistance can play in conflict prevention, peace building and security. Instability in Vanuatu, Fiji, Bougainville and Solomon Islands has highlighted the need for the flexible and innovative use of aid to address the causes of conflict and to provide critical 'peace dividends' to assist conflict resolution and post-conflict reconstruction.

To better inform this process, analysis will be undertaken to identify sources of conflict in the Pacific and instability triggers and develop a suite of possible response options. Developing measures to integrate conflict prevention strategies into the broader development framework, particularly in states considered 'at risk', will be a key objective of this analysis.
- > **Urbanisation and the youth 'bulge'** - Australia recognises the need for further research on systematic population issues which are creating a barrier to growth and impacting on the potential for long-term sustainability. Growing population and urbanisation, particularly in Melanesia, is creating a youth 'bulge' with potential impacts on all aspects of development including employment, law and order and delivery of basic services. Focused analysis will help identify the best ways to provide access to opportunities, particularly for disadvantaged groups in peri-urban areas for employment creation, education and access to services.
- > **Corruption** is a symptom and cause of poor governance. To underpin work in public expenditure and procurement reforms and to support Pacific agencies recognised as strong performers in fighting corruption, Australia is expanding its relationship with international anti-corruption bodies such as Transparency International (TI) to identify causes and manifestations of corruption on a country basis.

- > **Capacity building** - While capacity building efforts are intended to supply organisations with skills and equipment to operate more efficiently, focused attention on technical advice has not always succeeded in changing dysfunctional systems and has eroded ownership and commitment and led to a sense of dependence. Analysis will help ensure that capacity building efforts can be more effective.
- > **Labour mobility** - With a strong correlation between labour mobility and poverty reduction (particularly in regard to remittances) research is required into how best to harness its potential for poverty reduction. Labour mobility is a complex, fluid and growing pattern and responses to it should be flexible, targeted and well-grounded in empirical research.
- > **Reducing the vulnerability of the poor** who are exposed to economic disruption, climatic shocks, humanitarian disasters and conflict. Because women and girls have lower social status in the region they are generally less well educated, their health concerns are not adequately addressed and they often have little authority in family income and expenditure decisions. Violence against women and girls is frequent and there is inadequate recourse or shelter for victims. Research will be undertaken, possibly with UNICEF, to explore viable options for militating against these trends.
- > **Land tenure** - The traditional communal systems of land ownership have led to a low level of security of tenure for investors which impacts on the development of the private sector and economic growth. A lack of clarity around land ownership is creating conflict within Pacific societies. While clearly a long-term and challenging issue, Australia will support research, pilot approaches and consider options for progressing this issue.



ABOVE Taro planter, Samoa. (Photo: Yvonne Green)

6 Managing risk and measuring performance

QUALITY ASSURANCE MEASURES ARE INCREASINGLY UTILISED BY THE AID PROGRAM TO IMPROVE RISK ANALYSIS AND MANAGEMENT.

(i) RISK ANALYSIS AND MANAGEMENT

Improved risk analysis and scenario planning by stakeholders during the Strategy period will enhance Pacific capacities for disaster preparedness and identification of potential social conflict. A number of emerging issues are likely to present significant risks for the Strategy meeting its objectives. These include:

- > more frequent emergence of violent conflict including disputes over access to key resources and management of them, particularly as population pressures rise;
- > serious concerns in several countries that government administrative structures (including those for service delivery) are not affordable or adequate;
- > declining basic educational achievement for large components of the population in several countries, especially in Melanesia;
- > falling terms of trade for Pacific economies as prices decrease for many agricultural exports, costs rise for imports and natural disasters have the potential for large-scale destruction;
- > exploitation of natural resources and failure of regulatory processes, particularly in relation to oceanic resources and forests;
- > continuing significant underdevelopment of civil society institutions (with the notable exception of church groups); and
- > increasing levels of violence in communities and families.

This Strategy takes into account Australia's larger role in the Pacific and recognises that the aid program is only one aspect of a number of bilateral and multilateral relationships that Australia maintains, including membership in many regional organisations.

(ii) MEASURING PERFORMANCE

During the initial period of the Pacific Regional Aid Strategy 2004–2009 AusAID will:

- > develop, design and implement a specific monitoring and evaluation framework for the Strategy which will incorporate methods, appropriate indicators and information gathering systems that assess the adherence to the Strategy and outcomes of it;
- > in line with lessons learnt, revise approaches and response capacity for future Pacific regional programming; and
- > actively support the development of regional monitoring standards, particularly through support to regional organisations and in the development of the Pacific Islands Forum Plan.

Attachment B provides a framework for this Strategy that will be developed into a more specific results framework for monitoring and evaluation in the initial stage of the Strategy period.



ABOVE Red Cross personnel loading emergency relief items. (Photo: Rob Walker)

A key issue in aid planning and impact measurement in the Pacific is the poor quality of valuable statistical data, particularly economic data. Considerable improvements in statistical services in the Pacific are required to support the planning and development of meaningful performance indicators and planning, especially in the key areas of health, education and informal sector economic activity. Australia is supporting a program through the Secretariat of the Pacific Community (SPC) to help governments understand the benefits of sustaining the production of appropriate statistics to ensure that statistical collections are better targeted and more timely.

(iii) LESSONS LEARNT

An analysis of lessons learnt during Australia's long-term aid relationship with the Pacific has underscored the importance of a continuing emphasis on governance and ensuring national stability through basic service delivery for rural, urban and peri-urban centres. The importance of retaining flexible and responsive mechanisms to meet evolving challenges, particularly in pre and post conflict situations has also been highlighted.

Attachment D provides further details on lessons learnt under the Australian aid program.

7 Resources

REALIGNMENT OF RESOURCES IN AUSAID'S PACIFIC BRANCH HAS BEEN UNDERTAKEN TO REFLECT THE NEW STRATEGIC APPROACH OUTLINED IN THE PACIFIC REGIONAL AID STRATEGY.

This includes additional personnel resources for the implementation of a strengthened program of assistance with Solomon Islands through RAMSI and a greater emphasis on regional approaches.

Australia's enhanced focus on Melanesia was reflected in the 2004-05 aid budget through resource increases to Papua New Guinea, Vanuatu, Fiji and regional programs and this trend is expected to continue through the course of the Strategy.

Under AusAID's Strategic Plan significant responsibility for activity management is being devolved to AusAID posts in the region, facilitating more effective program responsiveness and enabling a greater focus on program quality and policy by Canberra staff.

Australia's aid program is large and visible and this can lead to unrealistic expectations, domestically and in the region, that Australian aid can or should attempt to deliver successful development outcomes in all areas, despite the significant constraints in many Pacific island countries. In this context, it is important to maintain sensible timeframes for development, an appreciation of the importance of incremental progress and an understanding that the effective implementation of appropriate national policies will always be more critical than the levels of donor aid in determining development outcomes. Australia recognises the need for flexibility and responsiveness and the Strategy may have to be adapted during the Strategy period to reflect the fluid Pacific environment.



ABOVE Soccer practice, Honiara, Solomon Islands. (Photo: Peter Davis)

ATTACHMENT A

Pacific poverty framework

Analysing and addressing poverty in about 500 inhabited islands spread over 30 million square kilometres and involving almost 250 language groups presents significant difficulties. The aid program for the Pacific should nevertheless be guided by a robust poverty analysis that identifies and focuses on the areas of greatest need. Australia is presently drawing on its own analysis and analyses by the United Nations, the World Bank and the Asian Development Bank. These organisations have now agreed with key Pacific donors (Australia, New Zealand, United Kingdom, France and Japan) to coordinate Pacific poverty analyses.

TABLE 1: NATIONAL POVERTY INCIDENCE IN THE PDMCS

PDMC	Population below (a) basic needs poverty line	Data source
Cook Islands	12.0%	1998 HIES
Fiji	25.5%	1990/91 HIES
Kiribati	51.0% (b)	1996 HIES
Marshall Islands, Rep. of	20.0%	1999 Census (c)
Micronesia, Fed. States of	39.5%	1998 HIES
Papua New Guinea	37.5%	1996 HIES
Samoa	20.3%	2002 HIES
Timor-Leste	39.7%	2001 TLSS
Tonga	23.0%	2001 HIES
Tuvalu	29.3%	1994 HIES
Vanuatu	40.0%	1998 HIES

HIES = household income and expenditure survey, PDMC = Pacific developing member country, TLSS = Timor-Leste Living Standard Measurement Survey.

- (a) With the exception of RMI and Vanuatu which have US\$1-a-day poverty incidence based on 1999 prices for RMI and 1998 prices for Vanuatu.
- (b) Refers to poverty incidence in South Tarawa (for Outer Islands, incidence is 50%).
- (c) Calculated using the income data (Table H.18) of the 1999 Census.

Source: Work carried out under TA 6002-REG (ADB. 2002. *Technical Assistance for Consultation Workshops for Poverty Reduction Strategies in Selected Pacific Developing Member Countries*, Manila) and TA 6047-REG (ADB. 2002. *Technical Assistance for the Preparation of National Poverty Reduction Strategies in Pacific Developing Member Countries*, Manila)

Poverty framework for the Pacific

The emerging consensus from poverty analyses in the region is that poverty expresses itself differently in the Pacific to poverty in Asia or Africa. Most Pacific island countries do not suffer the extreme poverty of resources experienced in many other developing countries.

For example, few Pacific islanders can be shown to be without adequate levels of food, shelter or water.

For many Pacific islanders, poverty manifests itself through vulnerability to isolation, conflict, natural disasters, marginalisation in the global trading and financial system and through the lack of choices and opportunities for those aspiring to a livelihood other than subsistence. It is closely related to the social and economic marginalisation that results from living in isolated and dispersed communities. Geographic isolation and the lack of viable development options are the key defining variables of Pacific poverty.

Other factors that contribute to poverty in Pacific island countries include political instability, poor governance by national institutions, inadequate health and education services, vulnerability to violence and discrimination and deficiencies in physical and institutional infrastructure. In many Pacific island countries there is also a growing incidence of urban poverty which is usually the result of increasing rural-urban population drift. The poverty reduction framework for the Australian aid program incorporates four broad strategies: promoting inclusive economic growth, enabling the poor to increase their productivity, encouraging the accountability of governments and institutions, and reducing the vulnerability of the poor. In the Pacific context, each of these strategies needs to be specifically targeted to reflect local needs.

Promoting inclusive economic growth

Pacific island countries have a mixed but generally poor record of economic growth because there are very significant constraints on their economic potential. These include remoteness from markets, limited diversification options, susceptibility to natural disasters, difficult access to external capital and high costs per person for public goods such as policy formulation, regulatory activities, justice, foreign affairs, security, health and education.

Within these constraints another significant impediment to economic growth has been the failure of most Pacific governments to implement strong and consistent public sector management and growth promoting policies.

A number of Pacific countries lack the cohesive national political structures that might enable them to promote these approaches.

Policies and practices that might improve access to economic opportunity for the geographically isolated typically involve improvements to transport and communications infrastructure. The cost and complexity of achieving such outcomes in the Pacific should not be underestimated. Solutions that are put forward need to take account of local financial and technical constraints and particularly the issues of recurrent cost funding and maintenance regimes.

Enabling the poor to increase their productivity

Development experience across the world has demonstrated that one effective way to increase economic productivity is through supporting equitable access to improved education and health services, particularly for women. Yet providing such access is becoming increasingly difficult for Pacific island countries, especially as their educational and health systems fail to keep up with rapid population growth and the needs of modern, diversifying economies. Curricula need to be developed that are more vocationally oriented and which reflect the economic needs and real opportunities in the Pacific. Equally, cost effective health systems are required that reflect the changing morbidity patterns and economics of public health in the Pacific.

In service industries and sectors (such as tourism and the public sector), the introduction of computer technology and improved administrative practices has helped lift productivity. However, these improvements have tended to be concentrated in urban areas. Agriculture forms the basis of livelihood for most Pacific islanders, so improved agricultural policy settings, institutional arrangements and access to commodity markets are probably the most direct means of raising the economic productivity of most people in the region. Research and extension services that improve techniques and strains of produce have the potential to significantly raise subsistence farming and cash crop productivity. However, these approaches are best targeted at products with good market potential, bearing in mind the falling international demand for most traditional cash crops, or at crops where increased productivity would contribute to improved food security.

Technical improvements to forestry and fisheries programs are also likely to increase the economic productivity of large numbers of Pacific islanders. Industry-wide benefits are most likely to be gained from better resource management policies and practices while activities to promote productivity gains in smaller-scale forest and fishing industry operations such as artisanal fisheries offer some scope to specifically target the poor as beneficiaries.

Encouraging the accountability of governments and institutions

Whether through national reform programs or under the Forum Economic Action Plan, all Pacific governments have agreed on the importance of improving accountability of policies and services including for their poor and most disadvantaged citizens. This involves strengthening the capacity of governments, provincial and local authorities and other public sector agencies to provide clear, accurate and timely information to the public.

Improved accountability also requires that parliaments, auditors-general, the media, civil society organisations and the public understand and are able to carry out their role in scrutinising governments. The participation of non-government organisations and the private sector in the institutions of civil society in general tends to be relatively weaker in the Pacific than elsewhere and they often have limited capacity to articulate agendas for social and political action.

Reducing the vulnerability of the poor

For many of the poor in the Pacific, geographic and social isolation, weaknesses in government capacity and poorly developed non-government organisations make them especially vulnerable to economic disruption and downturns, climatic shocks, humanitarian disasters and conflict. Throughout the region, women and girls have lower social status than men and boys, so they are generally less well educated, their health concerns are not adequately addressed and they often have little authority in family income and expenditure decisions. Violent behaviour is becoming increasingly widespread in the Pacific and community authorities and the legal sector are struggling to cope with this growing problem. Violence against women and children is frequent and there is inadequate recourse or shelter for victims.

Strategy framework

Improved law and justice and security

- > Provide increased support for law and justice institutions (including basic police training, organisational reform and community policing approaches as appropriate).
- > Support regional approaches on key security issues such as legislative frameworks for people smuggling and terrorism.
- > Incorporate instability analyses into relevant country aid programs.
- > Incorporate 'Do No Harm' principles and 'Local Capacities for Peace' initiatives into programs delivered in conflict prone areas.
- > Continue to develop innovative approaches for providing a 'peace dividend' for communities emerging from conflict.
- > Support policies and legislation to counter gender-based violence and support countries' capacity to implement measures.

More effective, accountable and democratic government

- > Retain a strong focus on improving the capacity and accountability of partner governments, legislatures and regional institutions and identifying bilateral and regional corruption issues.
- > Maintain programs that support significant economic and public sector policy reform.
- > Support political governance activities including strengthening the operation of parliaments, electoral systems and civic education.
- > Expand the focus of flexible incentives mechanisms such as the Policy and Management Reform Fund to include more peace and nation building activities.
- > More active engagement of civil society including church, youth and women's organisations and support for selected nation building activities in fractured communities, particularly in Melanesia.
- > Support for media institutions and NGOs focused on improving governance and accountability.
- > Support initiatives (such as SPC/PRISM with other donors) to improve the capacity of governments and other institutions to collect, improve and maintain useful statistical data.

More inclusive growth

- > Assist with training and institutional strengthening of central government economic and finance ministries and improve financial sector monitoring and prudential oversight.
- > Require appraisal and analysis of urban and rural/outer island dimensions in activity design and implementation.
- > Promote activities to address inequities in economic opportunity including deficiencies in physical infrastructure and limited access to finance.
- > Prioritise capacity building to upgrade skills required for the modern economy.
- > Support equality of gender opportunity in economic activities.
- > Expand and improve resource management systems for forestry and fisheries and environmental management including by ensuring all resource owners have a say in key decisions.
- > Continue and expand programs to introduce modern land titling and improved land management systems.

Better service delivery

- > Support the development of systems and human capacity to more effectively manage service delivery to remote and fragmented populations.
- > Assist maintenance of adequate standards of health and education services.
- > Consider all levels of the service delivery chain in activity designs including decentralised national government functions and roles of provincial and local governments.
- > Consider alternative non-government delivery in activity designs for education and health sector programs.
- > Establish institutional strengthening programs for civil society organisations with a focus on service delivery.
- > Pay careful attention to the affordability of service delivery systems being developed.
- > Establish complementary HIV/AIDS activities in regional and bilateral programs.

ATTACHMENT C

Pacific donors

OFFICIAL DEVELOPMENT ASSISTANCE TO PACIFIC ISLAND COUNTRIES BY DONOR, 2002

Donor	A \$m	Main areas of assistance
BILATERAL	491.5	
Japan	164.0	<ul style="list-style-type: none"> > Trade development assistance > Security (especially small arms) > Information and communication technology > Distance education
Australia ¹	175.80	<ul style="list-style-type: none"> > Law and justice > Peace and conflict > Economic reform and governance > Education and training > Health
New Zealand	79.2	<ul style="list-style-type: none"> > Poverty elimination > Good governance > Trade development assistance > Health > Gender > Conflict prevention and peace building > Environment > Harmonisation > Human rights
United States ²	35.4	<ul style="list-style-type: none"> > Governance > Economic reform
France ³	16.4	<ul style="list-style-type: none"> > Institutional strengthening > Health > Education
United Kingdom	14.2	<ul style="list-style-type: none"> > Regional organisations (SPC and Pacific Island Forum)
Canada	6.7	<ul style="list-style-type: none"> > Health > Basic education > Water and sanitation > Good governance > Environment > Private sector development
European Union	35.7	<ul style="list-style-type: none"> > Capacity building > Governance > Infrastructure > Education > Community assistance > Agriculture / forestry / fishing > HIV/AIDs
MULTILATERAL	81.5	
ADB	23.7	<ul style="list-style-type: none"> > Pacific Island Country Economic Reports > Technical assistance
World Bank	0.4	<ul style="list-style-type: none"> > Distance education (Virtual Colombo Plan) > Economic and sector studies > Finance
United Nations	32.0	<ul style="list-style-type: none"> > Poverty alleviation > Governance > Non-macroeconomic areas (e.g. judicial strengthening, parliaments and decentralisation)
Other multilateral organisations	22.9	<ul style="list-style-type: none"> > Technical assistance > Finance
TOTAL ODA⁴	572.9	

1 Australia's Overseas Aid Program 2003-04 Budget Paper

2 Excludes US ODA to former US Trust territories

3 Excludes France ODA to French Territories (French Polynesia, New Caledonia and Wallis and Futuna)

4 Includes Oceania unallocated and excludes Papua New Guinea

Sources: DAC On-line database: Australia Overseas Aid Program 2003-04 Budget Paper

Lessons learnt

The previous Pacific Islands Development Strategy (1999–2001) focused on better governance, stronger growth, improved Pacific capacities and enhanced service delivery. However, the instability which affected the Pacific towards the end of this Strategy period meant that Australia needed to fundamentally reassess its aid relationship. Aid has and will continue to play an important role in Australia's broader national interest relationship with Pacific island countries. A significant investment, it must be sharply focused on areas where it will make the most substantial contribution to stability and peaceful development.

An analysis of lessons learnt over that period underscored the importance of a continuing emphasis on governance and ensuring national stability through basic service delivery for rural and peri-urban centres. The analysis also emphasised the importance of retaining flexible and responsive mechanisms to meet evolving challenges, particularly in pre and post-conflict situations. The potential for conflict and instability to rapidly undo development gains was strongly reinforced in the Pacific in 2000. During the initial part of the previous Strategy period there was only limited engagement with the law and justice sector. A focus on law and order as the fundamental building block for other development efforts will be a growing feature of Australia's assistance during the five-year strategy.

Specific lessons include:

- > ***Need for more robust, direct approach***
Australia has sharpened the focus of engagement through necessity following the deterioration of security in Solomon Islands and in the context of global security and the understanding that a porous and undeveloped region is not in the interests of the Pacific or Australia.

A more hands-on approach is being adopted to assist Australia's Pacific partners to address their complex development challenges. Timely, direct assistance can reduce the financial and human costs of addressing more serious issues associated with further decline. The importance of Pacific island countries creating the right policy environment for growth and development will receive greater emphasis in Australia's engagement with Pacific island governments.

- > ***Need to build stronger law and justice institutions***
Events in several countries from 1999 to 2001 highlighted the systemic weaknesses in the law and justice sector across the region. This suggests stronger analytical capacity in this area, more resources to law and justice programs and strengthened law and order responses across the region.
- > ***Appropriateness of emphasis on economic and governance reform***
The continuing challenges Pacific island countries face in developing viable economies at a time of rapid global economic and technological change, confirm that the aid program should retain its strong focus on the core development challenges of economic and governance reform.
- > ***Need to enhance support for service delivery and rural and provincial development***
As a result of directing significant support towards reform in central agencies, aid efforts tended to become concentrated in the capital cities of the Pacific, despite local service delivery capacity in rural areas remaining generally weak. To focus programs on poverty alleviation more effectively, more consideration is required to balance the delivery of aid activities between the centre and the periphery and to enhance the legitimacy and stability of Pacific governments.
- > ***Need for conflict and instability analysis and responses***
The events of 2000 in the Pacific highlighted the requirement for the flexible and innovative use of aid in addressing the causes of conflict in particular societies and providing a critical 'peace dividend' to assist with the resolution of conflict. In order to be well positioned for such responses greater analytical work on instability triggers and possible responses needs to be undertaken.

> ***Value of flexible approaches***

The Pacific aid program's flexibility in reallocating resources within and between programs proved to be a useful tool in responding to the challenges of the period. Flexibility between programs meant the Australian Government was able to direct substantial resources to Solomon Islands from 1999 to 2001 and away from Fiji during the sanctions period.

> ***Importance of whole-of-government issues***

The Pacific is a region where a whole-of-government approach can be an important addition to the aid program. Engagement by line agencies can build long-term institutional links between Australian agencies and their Pacific counterparts. The placement of Australian government officials from central agencies in counterpart Pacific agencies has strengthened engagement in Solomon Islands and Nauru.

Australia's aid program in Solomon Islands has been strengthened by a whole-of-government strategy utilising a comprehensive approach to addressing law and order, economic stability and reform of the machinery of government.

> ***Value of activist approaches to donor coordination***

Australia's commitment to coordination with other bilateral and multilateral donors reaped significant benefits including increasing the number of cooperative program activities, progressive harmonisation of some Australian and New Zealand programs and joint donor agreement on policy parameters for economic recovery assistance to Solomon Islands. Further donor coordination initiatives need to be pursued.

> ***Importance of support for nation-building activities and democratic institutions***

Recent threats to national unity and stability in the region have inflicted significant and sometimes enormous damage on national development prospects. More assistance is warranted for core democratic institutions such as parliamentary and electoral institutions and for greater support of civil society engagement in the processes of government.

> ***Balancing bilateral and regional approaches***

While bilateral aid partnerships will continue to be at the heart of Australia's aid engagement with Pacific island countries, the range of regional institutions and common issues across several nations reinforces the gains that may be made by regional approaches.

ATTACHMENT E

Key documents

ADB Pacific Strategy 2005-2009, Discussion Paper

PNG and the Pacific: A Development Perspective, AusAID, September 2003

The Pacific and PNG: Sustaining Reform, AusAID Director General, Mr Bruce Davis, Australian Institute of International Affairs, 2004

Economic and Social Survey of Asia and the Pacific 2004, Economic and Social Commission for Asia and the Pacific (ESCAP)

Small States: Meeting Challenges in the Global Economy, Report of the Commonwealth Secretariat/World Bank Task Force on Small States, April 2000

Towards a Strategy for the Pacific Islands Region, New Zealand Agency for International Development, July 2002

Better Government for Poverty Reduction: More Effective Partnerships for Change, DFID, 2003

Pacific Islands Forum, the Auckland Declaration, April 2004

Australian Aid: Investing in Growth, Stability and Prosperity, Ministerial aid policy statement, 2002

Reducing Poverty: The Central Integrating Factor of Australia's Aid Program, 2001

AusAID's Strategic Plan – Improving Effectiveness in a Changing Environment, December 2001

Peace, Conflict and Development Policy, AusAID 2002

Review of Australia's Relationship with the Pacific, Australian Government, 2001

