

# **One Clear Objective**

poverty reduction through  
sustainable development

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COMMITTEE TO REVIEW  
THE AUSTRALIAN OVERSEAS PROGRAM

The Honourable Alexander Downer, MP  
Minister for Foreign Affairs and Trade  
Parliament House  
CANBERRA ACT 2601

29 April 1997

Dear Mr Downer

We have the pleasure of presenting our report on Australia's overseas aid program.

Yours sincerely



H. Paul Simons AM  
Chairman



Gaye Hart AM  
Committee Member



Cliff Walsh  
Committee Member

## SCOPE, METHODOLOGY AND ACKNOWLEDGMENTS

In June 1996, the Minister for Foreign Affairs, the Honourable Alexander Downer MP, commissioned an independent Committee to conduct a review of the Australian overseas aid program. The terms of reference for the review are at appendix A.

The Committee members were :

Mr Paul Simons AM (Chairman), former Executive Chairman of Woolworths

Ms Gaye Hart AM, Director of the Hunter Institute of Technology

Professor Cliff Walsh, Executive Director of the S.A. Centre for Economic Studies.

The subject of the review is the *official* Australian overseas aid program—that is, the resources appropriated in the Budget as Official Development Assistance (ODA). More particularly, the Committee has focused its attention primarily on that part of ODA which is managed by the Australian Agency for International Development (AusAID). AusAID manages 95 per cent of total Australian ODA. The balance is administered by the Australian Centre for International Agricultural Research (ACIAR) and by other government departments.

The review is forward looking. The Committee has based discussion and analysis of the issues on the existing aid program, and trends apparent over the last decade. But the aim of the report is to set a broad policy framework appropriate for the Australian aid program now and into the next decade.

The review is wide ranging, in response to the broad terms of reference, and was conducted over a relatively short time. The Committee was concerned to draw as much as possible on the views of those involved in the development and delivery of the aid program. A public call for submissions was made and 250 were received (submissions are listed at appendix B). Largely on the basis of these submissions, the Committee held discussions with many individuals and representatives of State Government and Commonwealth Government departments, Australian firms, tertiary and research institutions, and multilateral and non-government organisations. In addition to consultations held in Canberra, the Committee, as a whole or in part, held consultations in Adelaide, Brisbane, Darwin, Melbourne, Perth and Sydney.

The Committee also travelled to some of the major recipient countries to talk directly with beneficiaries of Australian aid programs, with relevant recipient government authorities and with other donors active in those countries. In September 1996, the Committee visited Papua New Guinea, Fiji and Kiribati for a wide range of meetings with government and project personnel. In Papua New Guinea, the Committee visited aid projects in a number of provinces as well as holding discussions in Port Moresby. In Fiji, the Committee also met with regional organisations based in Suva, and in Kiribati, various Australian aid activities were also visited. In November 1996, the Committee visited Indonesia, the Philippines and Vietnam. The visit included aid projects in Denpasar, Kupang and Flores as well as discussions with representatives of the Government of Indonesia in Jakarta. In the Philippines, the Committee visited projects in Manila and Mindanao and held discussions with representatives of the Government and the Asian Development

Bank. In Vietnam, the Committee's program included project visits in Hanoi, Ha Bac, Ho Chi Minh City, and Dong Nai.

In addition, individual Committee members took the opportunity of other private travel commitments to discuss development issues with recipient authorities or other donors and to visit projects. The Chairman visited India, Indonesia and Japan, and Professor Walsh visited the United Kingdom, Denmark, Kenya and South Africa.

A wide range of publications, papers and statistical material has been drawn on in developing the ideas in this report. These are listed in references at the end of the report.

The Committee was assisted by a small Secretariat of officers who were seconded from AusAID for the duration of the review to work directly to the Committee. The Secretariat members were:

Ms Miranda Rawlinson

Mr Richard Moore

Mr Ian Kershaw

Ms Vanessa Donnelly

Mr Simon Eccleshall.

In addition, Mr Geoff Adlide was seconded towards the end of the review process and provided valuable editorial and report production assistance.

The Committee freely acknowledges its substantial debt of gratitude to the members of the Secretariat. Their collective knowledge and experience and their capacity for independent, objective and high quality assessments of the issues raised by the terms of reference were critical in assisting us to prepare this report. Without their dedication to the task, the Committee would have been unable, given the exceptionally demanding time-frame, to complete its commission at a level of rigour and quality that we hope and believe will give the aid program renewed energy and a sharpened focus.

We also wish to place on record our particular thanks to Mr Trevor Kanaley, the Director General of AusAID, his senior executive colleagues and other AusAID officers at all levels, in Australia and overseas, for the generous cooperation and support that they gave to the Committee throughout the Review period. Likewise, the Committee appreciates the time and advice given freely by officers of the Department of Foreign Affairs and Trade, and representatives of recipient government authorities. The Committee is particularly grateful to the two independent reviewers of the draft report—Professor Ross Garnaut of the Australian National University and Mr Russell Rollason of International Development Support Services. Their comments, provided in a very short time-frame, were very useful to the Committee in finalising the report.

While the advice received has been valuable in informing the Committee's views and helping to form the conclusions, the Committee takes sole responsibility for the report.

This has been an independent review and, while we hope that the Government will support our recommendations, the extent to which they become adopted as official Government policy is, of course, for the Government alone to determine.

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## ABBREVIATIONS AND ACRONYMS

AAECP	ASEAN–Australia Economic Cooperation Program
ACFOA	Australian Council for Overseas Aid
ACIAR	Australian Centre for International Agricultural Research
ADAB	Australian Development Assistance Bureau (predecessor to AIDAB)
ADB	Asian Development Bank
ADCOS	Australian Development Cooperation Scholarships
ADF	Asian Development Fund (of the ADB)
ADS	Australian Development Scholarships
AIDAB	Australian International Development Assistance Bureau (AusAID from March 1995)
AIRP	AusAID Initiated Research Program
AMS	Activity Management System (of AusAID)
ANCP	AusAID–NGO Cooperation Program
ANAO	Australian National Audit Office
APEC	Asia Pacific Economic Cooperation
APTEA	Australian Program of Training for Eurasia
ASARC	Australian South Asia Research Centre
ASEAN	Association of South East Asian Nations
ASG	Advisory Services Group – Asia and Africa (of AusAID)
ASTAS	Australian Sponsored Training Scholarships
AusAID	Australian Agency for International Development (previously AIDAB)
CIDA	Canadian International Development Assistance Agency
CMDS	Centre for Migration and Development Studies
DAC	Development Assistance Committee (of the OECD)
DAP	Direct Aid Program
DHA	Department of Humanitarian Affairs (UN)
DIFF	Development Import Finance Facility
EAP	Environment Assistance Program
EFIC	Export Finance Insurance Corporation
FAC	Food Aid Convention
FAO	Food and Agriculture Organization
FDI	foreign direct investment
GAD	gender and development
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GEDS	Gender, Education and Social Development Section (of AusAID)

GNP	gross national product
IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Association (of the World Bank)
IMF	International Monetary Fund
IRRI	International Rice Research Institute
ISSS	International Seminar Support Scheme
LLDC	least developed country
MDB	multilateral development bank
NCDS	National Centre for Development Studies
NGO	non-government organisation
ODA	official development assistance (see glossary)
ODA	Overseas Development Administration (of the UK)
OECD	Organisation for Economic Co-operation and Development
PNG	Papua New Guinea
PRT	Pacific Regional Team (of AusAID)
RDE	Recognised Development Expenditure
SDRs	Special Drawing Rights
SFADTRC	Senate Foreign Affairs, Defence and Trade References Committee
SSG	Social Sector and Gender Section (of AusAID)
TAP	Technical Advisory Panel
UN	United Nations
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UPNG	University of Papua New Guinea
USP	University of the South Pacific
WFP	World Food Programme
WHO	World Health Organization
WID	women in development
WTO	World Trade Organization

## GLOSSARY

**Bilateral aid:** Aid that is provided directly by a donor country to an aid recipient country.

**Co-financing:** A funding arrangement where two or more agencies combine to provide financial support to a project/program in a developing country. This can involve a variety of agencies, but in the Australian aid program usually means collaborative projects with the development banks.

**Concessional finance:** Credit that has been 'softened' to provide a benefit to the borrower that would not be provided by a loan at market rate. The level of concessionality is determined by the grace period before repayments start, the duration of the loan and the interest rate.

**Country program:** AusAID's bilateral programs which seek to ensure that aid activities are designed around the needs and priorities of the recipient country.

**DAC/Development Assistance Committee:** The committee of the OECD which deals with development cooperation matters.

**Good governance:** The effective management of a country's social and economic resources in a manner that is open, transparent, accountable and equitable.

**Graduation:** The process by which development assistance is phased out as a country reaches the stage of development where there is no longer a strong need for highly concessional financing. It can also refer to an ordered reduction in the level of concessionality of financial assistance.

**Multilateral aid:** Aid that is channelled via an international organisation active in development (e.g. World Bank, UNDP).

**Official Development Assistance (ODA):** ODA refers to official government overseas aid expenditure. It includes bilateral programs as well as official support for other delivery channels, such as NGOs and multilateral agencies. ODA is widely used, including in this report, as shorthand for official aid. The DAC formal definition, the international standard, is: Grants or loans to developing countries which: are undertaken by the official sector; have promotion of economic development and welfare as main objective; and are at concessional financial terms (at least 25 per cent grant). Grants and loans for military purposes are excluded.

**SDRs/Special Drawing Rights:** An international monetary measurement equal to about A\$ 1.8.



## OVERVIEW

Australia's official overseas aid program involves expenditure of well over one billion dollars every year. While this a modest contribution, both in terms of global aid funds and of Australian Government outlays, it is still a significant use of taxpayers' funds.

It is against this background that the Review Committee was asked to report to the Minister for Foreign Affairs on how the Australian overseas aid program can best contribute to lasting poverty reduction, while also serving Australia's interests. We were asked to report on the overall priorities, objectives and focus for the program.

We found a program that has suffered from the lack of a clear objective, leaving it open to being pulled in different directions. The aid program is also in need of renewal—not just to accommodate the rapidly changing international environment, but also to shake out the habitual, to inject greater vitality and rigour and to sharpen the focus on the pursuit of excellence.

### **A new agenda for the Australian aid program**

We do not advocate revolutionary change. The basic arrangement of the aid program is sound. The design and management of the program should continue to be the responsibility of a single, independent agency. The countries of East Asia and the Pacific should continue to be the primary geographic focus, although there is a need to reduce the number of countries supported, both in the region and beyond. While the Australian Agency for International Development, AusAID, is a professional organisation dedicated to managing a complex and difficult task, substantial change is nevertheless required in the Agency's approach and operation.

The essential challenge for AusAID is to reorientate the program to focus more consistently on outcomes. This requires an organisation that values critical analysis and fosters an evaluative culture; one that learns from past successes and failures while focusing on the future. It requires a program that is innovative and responsive to changed circumstances but is clearly and singularly focused on its essential purpose—the reduction of poverty through sustainable development. It is equally important for the program to be in step with the priorities of recipient countries, and involve local communities.

We have attempted to take a long-term view and establish the parameters and policy framework to guide the Government and AusAID in renewing the Australian aid program to ensure that it is in the best position to contribute to lasting poverty reduction, while also serving Australia's interests.

## **Overseas development is in Australia's interests**

The principal motivation for the overseas aid program is based on humanitarian compassion. Australia is a relatively wealthy country and we have a moral obligation to assist those with significantly less opportunity than ourselves. One-fifth of the world's people still live in absolute poverty. Each day in the developing world, over 30 000 children under five die, mostly from preventable diseases. And more than a billion people are without access to clean water.

However, aid programs are not just about altruism. There is also a large degree of shared interest—and perhaps for none more than Australia. Unlike most other donor countries, we live in a developing part of the world. Our standard of living is much higher than the vast majority of our neighbours in Asia and the Pacific islands. The prosperity of the developing world is clearly in Australia's national interest—not only for regional stability and security but also for our own economic future. In an increasingly interdependent world, the people of the developing countries are our future partners in business and trade.

## **Focus on core business: poverty reduction through sustainable development**

The first and most fundamental change that we recommend is for the aid program to focus on a single and unambiguous objective: to assist developing countries to reduce poverty through sustainable economic and social development. While adopting this objective may appear unremarkable, the consequences for the Australian aid program will be profound.

At present, the managers of the aid program struggle to satisfy multiple objectives driven by a combination of humanitarian, foreign policy and commercial interests. The intrusion of short-term commercial and foreign policy imperatives has hampered AusAID's capability to be an effective development agency.

It would be naive to suggest that foreign policy will not play a role in determining which countries receive Australian aid. However, when deciding the most appropriate aid activities for particular countries, the single guiding principle must be the pursuit of poverty reduction through sustainable development.

Likewise, short-term commercial interests should not be allowed to determine the priorities of the aid program. It may well be that, as a result of its involvement in an aid project, an Australian company wins new markets. But outcomes must not be confused with objectives. To be effective, the aid program must stay focused on what it is trying to achieve. Australia's long-term economic and foreign policy interests are best served by ensuring the

maximum effectiveness of our development cooperation programs in promoting growth and reducing poverty.

Focusing on a single objective, in which the pursuit of short-term commercial interests has no place, will require a major change. The commercial orientation of the aid program has, at times, been a major factor in determining both the types of activities undertaken and where they are targeted—at considerable cost to development effectiveness.

### **A more strategic approach to poverty reduction**

An unencumbered focus on poverty reduction through sustainable development presents an opportunity to reorientate the aid program to focus squarely on development outcomes. Unequivocal priority must be given to activities which maximise the development benefits and have the greatest long-term impact on poverty.

Economic growth is central to sustainable poverty reduction; but growth alone is not sufficient. The pattern and quality of economic growth are also important. The aid program needs to promote patterns of growth which maximise sustainable poverty reduction. The priorities for aid programming should be promoting the basic prerequisites for broad-based economic growth, overcoming structural disadvantage and discrimination against the poor and increasing their productivity.

AusAID appears to have a good grasp of the policy approaches required to reduce poverty—and is properly positioned as a *development*, not a *welfare* agency. It has not been as good at consistently translating policies into strategies and program activities. There is a need to be more discriminating in the activities that are chosen for support. An effective aid program does not engage in activities because they will have *some* impact on poverty, it selects activities which *maximise* the impact on poverty. More analysis is needed of the economic and distributional impact of project proposals. AusAID needs to upgrade its analytical capacities and its use of specialist advice.

### **Reinvigorate country programming**

An aid program which seeks to maximise the effectiveness of its programs must be built on a firm partnership with recipient governments and communities. It is they who will ultimately determine the pace and type of development and it is they who must bear the primary responsibility for development.

Bilateral aid programs must be built around the needs and priorities of the individual recipient countries. AusAID's approach to country programming needs reinvigorating. Country strategies are an essential planning tool which should guide the overall approach and selection of the most effective

interventions. They need to be developed in close consultation with the recipient country and should be regularly revised to take account both of changing circumstances and of lessons learned. AusAID's country strategies are of variable quality and many have been allowed to lapse. Their revision should draw on the best available data and be informed by the best available advice.

Australia's aid program is relatively modest—less than two per cent of the total official aid effort of the OECD countries. This reinforces the need to ensure that aid activities are coordinated with, or take into account, the activities of other development players, including recipient governments, other donor countries, multilateral agencies and the private sector. A lack of coordination between donors is not only potentially wasteful, it can put considerable pressure on the recipient country.

### **Increase emphasis on governance**

Open, transparent, accountable and equitable government practices are prerequisites for sustainable development. An aid program can, and should, encourage good governance directly, through activities aimed at strengthening the capacity of political, administrative and legal institutions, and indirectly, through the ongoing dialogue that surrounds an effective aid relationship, both in day-to-day project implementation and in broader policy and planning discussions.

Beyond the Pacific islands region, Australia is a relatively small player in international development, and our capacity for promoting good governance in recipient countries should not be overestimated. However, assistance should not be provided to countries with policies inimical to sustainable development.

### **Focus on fewer countries**

To maximise its effectiveness, the Australian aid program needs to sharpen its geographic focus. Over sixty countries are currently receiving some sort of bilaterally programmed development assistance. Australia needs to limit the number of countries that we assist and develop a transparent and rigorous approach to graduating the more advanced developing countries from the aid program. Over time, limiting the number of countries that are assisted will facilitate a sharper focus on recipient countries' needs and their own development plans. It will also be administratively more efficient.

Decisions on which countries should receive Australian aid will inevitably be guided to some extent by broader national foreign policy interests. Other criteria, which provide a framework for determining the allocation of Australian aid both within and beyond our immediate region, are based on the objective of reducing poverty through sustainable development. They are relative need, effectiveness, efficiency and the involvement of other donors.

Using these criteria, the geographic focus of the Australian aid program should have the following order of priority: Papua New Guinea and the Pacific islands; East Asia, with a particular focus on Cambodia, Laos and Vietnam, and the poorer regions of Indonesia, the Philippines and China; and South Asia and Africa. Australia should not engage in bilateral aid in other regions.

These priorities will not and should not remain static. An effective aid program needs to remain flexible and responsive to changes such as in financial flows—both other donors’ aid and private flows—and emerging development achievements and needs.

Australia should continue to support multilateral development organisations such as the World Bank, the Asian Development Bank and various United Nations and Commonwealth agencies. In this way, Australian aid contributes to poverty reduction and development around the globe, including countries outside our bilateral focus. Support for these organisations needs to be based on a strategy which takes into account the relevance of the mandate of each organisation, as well as their effectiveness and efficiency.

### **Develop graduation strategies**

The implementation of effective development strategies implies that countries will reach a point where the need for foreign aid diminishes, and that aid will ultimately not be needed. It is incumbent on donors to prepare and plan their phased withdrawal well in advance and in close consultation with the recipient country. This process is known as graduation.

The strong growth record of a number of Australia’s traditional aid recipients in East Asia, and the continuing needs in other parts of the world, make it imperative that AusAID focus on developing long-term, planned graduation strategies. Practical approaches to graduation are also needed. The introduction of concessional loans may prove to be an effective graduation tool, as the level of concessionality can be gradually adjusted to phase out support.

### **Focus on sectors that reduce poverty**

The specific needs of developing country partners must determine what types of interventions are most appropriate. However, to maximise effectiveness, AusAID should also focus on particular types of activity. Greater sectoral concentration would allow the development of specialist expertise and help ensure that aid interventions are not dissipated on a range of non-complementary activities.

AusAID officers need a sound appreciation of the record of different aid interventions. Unfortunately, the Australian aid program has not been good at evaluating the effectiveness of its various sectoral investments. However, there is a body of research, drawing on international experience, which indicates that

interventions in some sectors have a greater impact on poverty reduction than others. It suggests that properly targeted and designed activities in the fields of health, education, basic infrastructure, agriculture and rural development can directly benefit the poorest, while building a broader base for economic growth.

### **Avoid duplicating the work of the private sector**

In most developing countries, it is the private sector which has the greatest potential to advance development. Aid can be very effective when it is directed to building an environment conducive to private sector development. It can be wasted if, for want of proper analysis, it supports activities which are capable of being financed privately. Aid support cannot be justified for commercially viable activities and it should not be used for direct industry assistance. The best way to support private sector development is for the aid program to help to get policy frameworks right, and support long-term investments in infrastructure and an educated and healthy population.

### **Improve engagement with non-government organisations**

Non-government organisations are important implementing partners of the official aid program, but they also play a wider role, representing community views on the aid program, encouraging community contributions to overseas development and supporting the growth of civil society in developing countries. AusAID should focus on the special characteristics of NGOs which make them valuable partners, but it also needs to assess more rigorously NGO capabilities and evaluate their performance. The wider application of cost-sharing arrangements would not be in the best interests of AusAID/NGO cooperation.

### **Reduce supply-driven distortions**

An aid program that is focused on securing the most effective development outcomes cannot also be locked-in to providing particular types of development assistance. The amount and type of aid provided should be based on how effective it will be in the unique context of the particular developing country, not on any supply-side obligation.

It is internationally recognised that tying aid to goods and services supplied exclusively by donor country companies increases the cost of the assistance and can encourage donor-driven supply—that is, providing what the donor can supply rather than what the developing country really needs. Australia stands out in the international donor community for tying a high proportion of its aid. The tied aid policy also sits uneasily with the general approach of successive Australian governments to encourage competition and free trade.

While there may be other reasons for continuing to tie parts of the Australian aid program to Australian procurement, such as the desire to maintain a clear Australian identity in aid projects, we believe that the interests of international development would be significantly advanced if donors were to untie their aid. Australia should work to encourage this in international forums and, in the meantime, should move progressively towards untying its own aid program. This can be done by untying aid to the poorest countries, and partially untying aid to other countries by allowing the local procurement of goods and services.

Obligations to provide an annual quota of food aid under the Food Aid Convention have also distorted the Australian aid program, resulting in more food aid activities than could be justified on effectiveness grounds alone. Australia is an internationally competitive food producer and might be expected to benefit from a general untying of food aid by the donor community. Australia should substantially reduce its commitment to the Food Aid Convention.

The abolition in 1996 of the tied aid, mixed credit scheme known as the Development Import Finance Facility (DIFF) was a positive step away from supply-driven aid. This type of scheme, developed as it was to assist Australian industry and administered separately from country programs, has no place in an aid program that is focused on maximising development outcomes. However, its abolition left the aid program without a capacity to use concessional loans as an alternative to grant funding. A new untied concessional loan scheme should be considered, but it must be carefully designed and managed to ensure that it contributes effectively to achieving the aid program's objective.

## **Focus on results and learn from experience**

Maximising the effectiveness of the aid program demands a continuous search for better ways of operating. Best practice must be pursued at all stages, from defining interventions and designing programs, through to project implementation and evaluation. A more analytical and evaluative culture needs to be built into the management and delivery of Australian aid, and this should start within AusAID.

AusAID must refocus on results. Perhaps the single biggest shortcoming in the administration of the aid program is the lack of priority afforded to evaluation. Development assistance is an inherently risky business. It should not be made riskier still by insufficient rigour in appraising proposals and evaluating results. A more rigorous assessment of results would enable the organisation to learn from its experiences. Evaluation is also the basis of accountability. An independent evaluation unit should be established, headed by a statutory officer reporting directly to the Minister and the Director General

of AusAID. All evaluation reports should be publicly available and effective systems devised for feeding lessons learned back into program operations.

## **Develop professional skills and decentralise program management**

AusAID needs to develop a culture that invites greater scrutiny and debate and encourages increased responsibility in staff. Upgrading staff skills needs continuous attention and expert sectoral advice has to be more readily available. The traditional public service hierarchical model should be replaced by a more consultative management style and team-based approaches. There needs to be greater devolution of authority over operational matters in order to foster staff responsibility and to free senior management to focus on strategic planning and overall program effectiveness.

A greater degree of decentralisation of staff both to and within developing countries would improve AusAID's capacity for effective planning, program delivery and policy dialogue. Combined with a devolution of responsibility, decentralisation could provide more flexibility to respond to changing circumstances and so maximise the value of the assistance provided.

The AusAID environment should encourage the contest of ideas, evaluation, feedback and learning. An excellent statistical service and an active research program are prerequisites. But most important is a management system that is transparent, open to challenge from inside and out, and committed to change. The current reshaping of the public service provides an opportunity for AusAID to devise new ways of using its resources that are more appropriate to the Agency's core business.

A Development Cooperation Advisory Board comprised of a small number of experts in development-related fields could assist the Minister by providing ongoing, independent oversight of the aid program. We also believe there would be merit in pursuing a legislative charter for the aid program.

## **A long-term commitment to change**

All the recommendations in our report are geared to maximising the effectiveness of Australian aid. But we caution against looking for immediate indicators of success. While foreign assistance can be of significant benefit, it will only ever be a contributor to development. The main responsibility for reducing poverty rests with the governments and people of the developing countries. It must also be recognised that development is a long-term process and effective development assistance necessitates long-term commitments from all parties. Changes to the Australian aid program's administration and management can occur relatively quickly. Sharpening the geographic focus and seeing the impact of new priorities will take more time.



Maximising the effectiveness of the Australian aid program requires a renewed effort from all involved, including AusAID management and the staff who design and administer the program, private contractors and consultants who implement the bulk of the projects, non-government organisations, the multilateral organisations and the recipient developing countries themselves. All carry a responsibility demanding a standard of operation that is no less than excellent. All need to be open to innovation and contestability. And all must remain focused on the task at hand: poverty reduction through sustainable economic and social development.

# CHAPTER SUMMARIES AND RECOMMENDATIONS

## PART A: CONTEXT

### 1. INTRODUCTION

*The primary motivation for providing aid is founded on the humanitarian desire to help those less well off than ourselves. But it also reflects the broader national interest in the stable and equitable development of poorer nations of the world. Although it must also accommodate emergency relief, the aid program is about sustainable development, not welfare. With this understanding, this report focuses on key issues and priorities for the Australian aid program over the next five to ten years.*

### 2. AUSTRALIA'S AID PROGRAM—CURRENT DIMENSIONS AND FOCUS

*The official Australian aid program, valued at over \$1 billion a year for more than a decade, is administered predominantly by the Australian Agency for International Development (AusAID). Aid is channelled through bilateral and multilateral programs in a number of forms, including project aid, student scholarships, food aid, emergency and refugee relief, funding for non-government organisations, and contributions to international development agencies. Australia's aid program is centred on the Asia-Pacific region, although aid is provided to a number of countries outside this region, primarily in South Asia and Africa. The program's policy base was influenced strongly by the watershed Jackson Review in 1984, which set the course for much of the program's development. Lessons learned from trying to follow the Jackson prescriptions were a significant input to this review.*

### 3. INTERNATIONAL CONTEXT

*The last decade has seen rapid, but uneven growth in international trade and investment, fuelled largely by economic liberalisation and by the communications revolution. This has enabled the powerhouse economies of East Asia to continue their third successive decade of fast economic growth. In the process, they have generated millions of jobs and achieved substantial reductions in poverty. Concerted action will be needed to ensure that the poorest and most isolated countries and peoples benefit from the growth of world trade and investment and that it reduces rather than increases existing global inequalities. In the wake of internationalisation, countries are becoming more vulnerable to global financial shocks, environmental degradation, the international spread of diseases, and the illegal movement of people. This necessitates international economic cooperation, the building of security frameworks and the development of multilateral environmental initiatives. In this increasingly interdependent world, development cooperation is an investment in international stability and security, as well as an expression of humanitarian concern.*

## PART B: RESPONSE

### 4. OBJECTIVE OF THE AID PROGRAM

*It is difficult to determine much else about the aid program without first being clear about its objective. Over the past decade, the Australian aid program has struggled to satisfy a triple mandate, emphasising foreign policy and commercial benefits to Australia as well as development benefits to recipient countries. This mandate, or rationale, has been confused with the program's operational objective, to the detriment of development effectiveness. A clear and unambiguous objective is required, emphasising poverty reduction through sustainable development. Community values and national interests will play a role in how this objective is pursued and will influence the scope and focus of the program. However, the purpose of the program—poverty reduction through sustainable development—must remain at the core of all aid policy and program implementation. AusAID needs to develop not just poverty reduction policies but also strategies to implement them, including a clear commitment to local participation in aid projects and programs.*

**Recommendation 4.1** The objective of the Australian aid program should be to assist developing countries to reduce poverty through sustainable economic and social development. Australia's long-term foreign policy and commercial interests also will be well served by a clear focus on this objective, but the pursuit of short-term commercial or diplomatic advantage through the aid program can seriously compromise its effectiveness and should play no part in determining project and program priorities.

**Recommendation 4.2** In seeking to promote poverty reduction through economic and social development, the Australian aid program should adopt the following *programming priorities* in its cooperation with developing countries:

- *Establishing a framework for broad-based economic growth*
  - by encouraging sound national economic policies; by helping to develop efficient, accountable and equitable government administration; and by providing essential economic and social infrastructure, with particular attention to the needs of poor communities.
- *Increasing the productivity of the poor*
  - by facilitating access by the poor to key productive assets, including land and credit; and
  - by investing in the human capital of the poor in areas such as health and population programs; education and training; and agricultural technology transfer.

- *Overcoming structural disadvantage and discrimination against the poor*
  - by removing barriers to the participation of the poor, including to participation in development decision-making processes, and including support for activities ensuring that women contribute to and benefit from development.

**Recommendation 4.3** AusAID should devise a new poverty-reduction policy framework and a plan for implementing it. The framework should include the programming priorities suggested in Recommendation 4.2 and adopt the following approach:

- The *primary purpose* of country strategy documents should be to determine how the aid program can maximise its contribution to sustainable poverty reduction in the recipient country.
- AusAID should conduct more analysis of the economic impact and the distribution of benefits of project proposals. Such economic and distributional impact analyses should be undertaken *wherever practicable*, to inform project investment decision-making, in order to maximise impact on poverty reduction.
- In cases where there is a choice between project alternatives which have broadly similar economic impacts, preference should be given to those where the benefits are captured directly by poor communities over those which benefit the poor only indirectly.
- Improved guidance should be provided to AusAID officers about how to put into practice the aim of maximising poverty reduction through sustainable development. This could include skills upgrading and the development of a handbook on poverty reduction for the use of staff and implementing partners. This could incorporate guidance for adopting a more participatory approach to development planning.

**Recommendation 4.4** The long held commitment to the aid volume target of 0.7 per cent of GNP is no longer credible. An achievable 3–5 year ODA/GNP target should be set in its place.

## 5. GEOGRAPHIC PRIORITIES

*There is a need to sharpen the geographic focus of the aid program to achieve greater efficiency and effectiveness; and a clear and predictable approach to graduation should be developed. In keeping with international and domestic expectations of Australia's role in the region, the Committee believes that PNG and the Pacific, and East Asia should continue to be the highest priorities for the Australian aid program. Carefully targeted assistance should also continue in South Asia and Africa, and resources should be redirected to these regions as countries in East Asia graduate.*

**Recommendation 5.1** In order to maximise development impact, the aid program should establish, and maintain, a tight geographic focus. The number of countries receiving bilaterally programmed assistance through AusAID should be substantially reduced.

**Recommendation 5.2** The geographic focus of the Australian aid program should reflect Australia's long-term national interests and regional responsibilities. Geographic allocation should therefore begin with a priority focus in the Asia-Pacific region, but should also be shaped by other criteria reflecting the objective—the reduction of poverty through sustainable development. These criteria are: relative need; effectiveness; efficiency; and the involvement of other donors.

**Recommendation 5.3** The order of geographic priorities for the Australian aid program should be: (1) PNG and the Pacific island nations; (2) East Asia: Cambodia, Laos, Vietnam, China, Indonesia, and the Philippines—focused on the poorest regions or provinces in the latter three countries, and with a view to their graduation; (3) South Asia and Africa—focused on the poorer countries which have positive development prospects.

**Recommendation 5.4** Clear and predictable graduation strategies need to be developed for fast-growing middle-income countries. A 'trigger' to start the process of negotiating graduation strategies with relevant recipients should be developed by AusAID.

## **6. PAPUA NEW GUINEA AND THE PACIFIC ISLANDS**

*Papua New Guinea and the Pacific islands are of considerable importance to Australia. They have unique and, in many cases, pressing development needs, and Australia has particular national interests in their stable and sustainable development. Because Australian aid has a significant impact in PNG and the Pacific, the policy significance of what Australia does is greater than in other regions. In particular, there is a strong need to continue efforts to support good governance, especially through economic reforms and sustainable resource management. To achieve this, AusAID may need to develop additional Pacific expertise.*

**Recommendation 6.1** A Treaty-based guarantee of the volume of aid is not the most appropriate framework for the Australia-PNG aid program in the longer term. The Treaty should not be renewed after it expires in 2000. Progress against benchmarks and effective policy dialogue on essential reforms should be the main determinants of future aid levels and program focus.

**Recommendation 6.2** The development of a smaller number of outcome-orientated benchmarks related to the effectiveness of the PNG aid program should be a major focus of the 1998 Treaty Review.

**Recommendation 6.3** Education and capacity building are fundamental to the long-term development of PNG. Management and administrative capacity are very scarce in all sectors. This is an area that Australia should focus on by developing specific, short-term public administration courses, located in the region.

**Recommendation 6.4** The focus on good governance and sound economic and social policies in the PNG program must be maintained and strengthened. This should include making good governance a discrete priority area for assistance. Continuing support for independent institutions of governance and encouragement for the long-term engagement of the World Bank are crucial.

**Recommendation 6.5** Australia should maintain the focus of its Pacific programs by restricting support for countries outside of the current core group to that provided through multilateral and regional organisations.

**Recommendation 6.6** A Pacific islands development strategy should be devised to reflect the different circumstances and assistance required by different island countries and the regional and sub-regional strategic approaches AusAID intends to take. This should include the graduation of wealthier countries with good prospects for self-reliance.

**Recommendation 6.7** The positive incentive to reform efforts resulting from additional funding being available to Pacific island nations through the Policy and Management Reform program should be continued. Australia should also not resile from reducing aid funds where there is little commitment to good governance or essential economic and resource management reforms and where efforts to build capacity and support reform have been ineffective.

**Recommendation 6.8** The possibility of establishing, in association with other donors, further individual trust fund arrangements for small Pacific island states should be explored where these will provide an income stream and can be effectively managed and safeguarded.

**Recommendation 6.9** Special attention should be given to Australia's aid relations with PNG and the Pacific because of the relative size and impact of Australian aid in the region, our potential to help achieve development, and our national interests. This is likely to require additional resources to be devoted to analysis, strategic planning, aid design and delivery, and may also require the posting of more staff to the region.

## 7. SECTORAL EXPERTISE AND FOCUS

*There is a strong case on development grounds for focusing on health, education, infrastructure and rural development, and within these sectors, on building the capacity to deliver services, especially to the poor. These conclusions should be used as a guide rather than as a prescription for allocating fixed proportions of the program to particular sectors. Sectoral choices and policies need to be complemented by close attention to economic management and good governance since both are crucial determinants of development success. AusAID's value as an organisation comes from being an authority on development rather than being expert in specific sectors. For that reason, and because the organisation is country focused, there is an increased onus on AusAID to ensure that its systems for considering sectoral issues and its access to specialist policy and project advice are excellent. Currently they are not. The solutions may include amalgamating existing sectoral units, and forging stronger links with centres of sectoral expertise throughout Australia.*

**Recommendation 7.1** AusAID should amalgamate the Pacific Regional Team, the Advisory Services Group—Asia and Africa, and its sectoral policy units, as part of a strategy to upgrade and expand specialist advisory services. Consideration should be given to the formation of advisory groups for each major sectoral area, drawing on the best available sources of relevant expertise. AusAID should seek to recruit staff with specific and relevant development skills and provide more training for new and existing staff in sectoral issues.

**Recommendation 7.2** AusAID should establish a system for regularly and objectively assessing the aid design and delivery capacity of Australian companies, organisations and individuals within the major sectors relevant to the aid program.

**Recommendation 7.3** Within the context of country programming, the Australian aid program should give priority to education, health, infrastructure and rural development in recognition of the critical importance of these sectors to poverty reduction through sustainable development.

**Recommendation 7.4** Ongoing sectoral evaluations of AusAID's activities should be undertaken and the results used to help determine sectoral policies and the activities within the priority sectors which have the highest rates of return in terms of development impact.

**Recommendation 7.5** AusAID should develop a new health policy giving clear priority to primary health care—particularly preventable infectious diseases and infant and maternal mortality—and to health sector management and reform. Discussions should also be held with the National Health and Medical Research Council and other relevant bodies with a view to giving a higher priority to health research relevant to developing countries, especially in the Asia-Pacific region.

**Recommendation 7.6** Funding for population activities, including voluntary family planning, should be at least maintained and possibly increased in real terms in the interests of advancing health, human rights and development objectives. These activities should be part of wider efforts to improve the health and education of women.

**Recommendation 7.7** AusAID should formulate a strategy for further advancing voluntarism and quality of care in its population activities. The development of such a strategy should be guided by an assessment of what constitutes coercion in this context.

**Recommendation 7.8** In the interests of development effectiveness and a tighter geographic focus, scholarships should not be offered to countries for which there is no formal country program.

**Recommendation 7.9** Selection procedures for Australian Development Scholarships should ensure that awards in both the public sector and open categories are made on the basis of academic merit and equity.

**Recommendation 7.10** AusAID should devise means to give effect to, monitor and evaluate, a substantial and sustained shift in AusAID-supported human resource development towards basic and other in-country education. AusAID staff should be required to give priority in country education and training strategies to a consideration of basic education needs.

**Recommendation 7.11** Infrastructure investments can make a substantial contribution to development, but large projects should be appraised very thoroughly, with explicit consideration of their distributional implications and the capacity for the private sector to fund them in whole or in part. Infrastructure assistance should be especially targeted at helping to increase the access of the most marginalised populations to essential services. Particular priority should be given to assistance with the provision of water and sanitation, and of transport and communications.

**Recommendation 7.12** AusAID should reassess its approach to agricultural and rural development activities with a view to increasing the proportion of overall support for effective aid activities in this sector in view of the importance of such activities to sustainable poverty reduction.

**Recommendation 7.13** In recognition of the returns to international agricultural research, funding for the Australian Centre for International Agricultural Research should be at least maintained in real terms. ACIAR should examine the focus of its activities, in the light of this report, to ensure that it continues to give priority to poverty reduction through sustainable development and to the application of its research through extension activities. ACIAR staff should be more directly and consistently involved in agricultural aid policy formation and strong links should be developed between ACIAR, AusAID and the agricultural advisers contracted to the aid program.



## **8. THE ROLE OF AID AND THE PRIVATE SECTOR**

*Private sector development is crucial to sustainable economic and social development. In most developing countries, and in all countries that are developing rapidly, the private sector is the major engine of growth, the generator of jobs, and the source of taxation revenue for social investment. In addition, international foreign investment and lending are playing a growing role in private sector development and development financing more broadly. Creating a strong enabling environment for private sector development and foreign investment is a key task for developing country governments and aid donors. In seeking to facilitate private sector development, Australia has to be particularly careful to avoid direct industry assistance, carrying risks the private sector will not accept, and the use of aid to finance activities that are capable of being funded privately. In seeking to support private sector development, there remain important roles for governments, supported by development assistance, in redressing market failure, directly pursuing social development, and making public investments that are essential to economic and social development.*

**Recommendation 8.1** The following principles should guide AusAID's private sector development assistance:

- AusAID should concentrate on helping to create an enabling environment for private sector development and, where policy settings are poor, assistance should be focused on trying to improve them.
- Assistance with access to international trade and investment should be targeted to countries and regions which do not currently benefit from private flows.
- Aid should not be used in support of activities which could be financed privately: this requires formal analysis of financing alternatives during project appraisal.

**Recommendation 8.2** AusAID should devote more resources to a strategic approach to trade and investment liberalisation that recognises its considerable benefits, but also takes account of adjustment costs. The possibility and desirability of making greater use of APEC to link targeted development cooperation and economic liberalisation should be further explored. The ASEAN-Australia Economic Cooperation Program should cease, in its current form, as it is inconsistent with the principle of assisting poorer countries which do not benefit from private trade and investment flows.

**Recommendation 8.3** The Private Sector Linkages Program should be recast to redress specifically market failure in the formation of business links with developing countries. If this is not possible, or cost-effective, the program should cease.

**Recommendation 8.4** Direct encouragement of private flows through co-financing and risk absorption involve highly complex issues and should be left to multilateral agencies. Australia should consider helping countries to build the capacity to package projects for international investment and should give increased attention to strengthening domestic capital markets, particularly where they work least well.

**Recommendation 8.5** Australian aid support for micro-finance activities should be encouraged, within clear and consistently applied guidelines which emphasise sustainability.

## 9. AID EFFECTIVENESS

*Improving the development effectiveness of Australian aid is central to this review. Assessing development outcomes, anticipated and actual, is crucial both to improved performance and to public accountability. This requires a rigorous approach to measuring aid effectiveness, despite the difficulties that this involves. While aid is inherently risky, and innovation is to be encouraged, the chances of failure are unnecessarily increased by failing to heed the lessons of the past. There is now a broad consensus on the essentials for program and project effectiveness. AusAID appears to have a good grasp of these principles at a policy level but, due to a range of constraints, has found it difficult to adhere to some in practice. AusAID's country programming approach, activity selection, evaluation and feedback systems all require strengthening.*

**Recommendation 9.1** Members of AusAID's senior executive should be given explicit responsibility for monitoring the performance of the Australian aid program against programming priorities, and sectoral and cross-sectoral policies established to maximise the development effectiveness of the overall program.

**Recommendation 9.2** Country strategies aimed at maximising poverty reduction through sustainable development should be prepared for all countries to which Australia provides bilateral aid. They should be based on the best available information and analysis, and should represent a jointly-owned blueprint for Australian assistance. Country strategies should be the basis of all bilateral development cooperation decision-making and should be reviewed regularly and formally to ensure that they remain relevant.

**Recommendation 9.3** To promote best practice and encourage the contestability of ideas, a wider program of staff exchanges should be instituted with other bilateral donors, multilateral agencies, private consulting firms, NGOs and the Australian Council for Overseas Aid. An officer should be posted to the Development Assistance Committee to provide AusAID with greater access to the experiences and insights of other donors and to ensure that AusAID engages in policy debate in the DAC. New opportunities for debating development issues should be created particularly within AusAID, and staff should be encouraged to engage in peer review.

**Recommendation 9.4** Greater and more consistent use should be made of rigorous project analysis techniques, including both cost-benefit and cost-effectiveness analysis. This should include the identification of the distribution of project costs and benefits. Approaches which test both social soundness and the capacity to engender and sustain greater local participation and commitment to aid-supported development projects should be especially explored and used.

**Recommendation 9.5** An independent Office of Evaluation should be established within AusAID, headed by a senior statutory officer, reporting directly to the Minister and also to the Director General and the proposed Development Cooperation Advisory Board.

**Recommendation 9.6** The effectiveness of Australian aid should be judged against development outcomes with a higher level of aggregation and degree of sophistication than is involved in separately evaluating the impacts of specific projects. While Country Effectiveness Reviews have the potential to provide the vehicle for more holistic evaluations, current processes for preparing them need fundamental review to improve the quality and rigour of the reviews.

## **PART C: SELECTED PROGRAMMING AND POLICY ISSUES**

### **10. TIED AID**

*Most studies indicate that tying aid to goods and services supplied exclusively by donor country businesses or agencies diminishes development effectiveness. Tied aid increases the cost of the assistance and can encourage donors to focus more on the commercial advancement of their companies than on what developing countries need. Australia does not have to tie its program to be confident of large and durable commercial returns from it. These come from maximising development in the region, which increases the markets for Australian products and from the involvement of truly internationally competitive companies. Restricting competition through tying may deliver some short-term benefits to Australian industry, but it carries long-term economic costs, by reducing the pressure for innovation, lower prices and quality improvements. This is recognised in most other areas of government policy. The Australian identity of Australian aid is regarded as important by many, and makes complete untying unlikely in the short term. Given this, Australia should move towards greater untying of its aid in a gradual way, encouraging other donors to do the same.*

**Recommendation 10.1** A thorough, independent study of the economic impact of tying Australian aid should be conducted. Such a study would determine:

- the extent of the cost premium being paid through the tying of Australian aid; and

- the net national economic benefit or cost to Australia of having a tied aid program.

**Recommendation 10.2** Australia should work with the Netherlands, Britain, Japan and other like-minded donors in the DAC to encourage all donors to untie their aid.

**Recommendation 10.3** To maximise the value of Australian development assistance, AusAID should move towards greater untying of the Australian aid program by:

- untying aid totally for the poorest countries; and
- partially untying bilateral programs elsewhere to allow procurement of goods and services from recipient country suppliers where this would be cost-effective.

## 11. GRANTS, LOANS AND MIXED CREDITS

*Grants and concessional loans each have a legitimate role to play as tools of development assistance, depending on the circumstances. Since the termination of the Development Import Finance Facility (DIFF) in July 1996, Australia has not had a concessional financing mechanism in the aid program. The Committee believes this is unduly restrictive. The Committee considers, however, that DIFF, as a tied aid mixed credit scheme initially established to help Australian companies compete in the face of aid-supported foreign competition, was irreversibly tarnished by its origins and history. Its abolition was desirable to clear the way for the design of a concessional loans instrument which, from its inception, is unquestionably an instrument of aid, not trade. The Committee proposes, therefore, that a new loan scheme be established under international competitive bidding rules to be used to fund a range of activities that fully accord with developing country public investment priorities.*

**Recommendation 11.1** A tied aid mixed credit scheme such as DIFF should not be reintroduced into the Australian aid program.

**Recommendation 11.2** Policy responsibility for any future ODA-eligible concessional financing mechanism for developing countries, no matter what form it takes, should reside with AusAID.

**Recommendation 11.3** A new, untied soft loans scheme should be created, subject to the outcome of discussions with the commercial finance sector, for discretionary use within the country programs of rapidly developing nations.

## 12. MULTILATERAL ASSISTANCE

*There are strong arguments in favour of a middle-level donor like Australia being an active supporter of the key multilateral development agencies. These agencies can mobilise resources on a large scale, coordinate donor responses to development problems that are of global proportions, and provide impartial, and sometimes sensitive, policy advice to developing countries. The main criterion for support should always be the relevance to Australia's development objective of the mandate of the particular international organisation. Burden-sharing issues between donors are also important, and so are assessments of the efficiency and effectiveness of the various multilateral bodies, together with efforts to achieve needed reform.*

**Recommendation 12.1** Support for multilateral development agencies needs to be based on a clear strategy giving careful consideration, on a case by case basis, to the importance of the agency mandate to Australia's development cooperation objective, the effectiveness and efficiency of the agency, and Australia's share of the international financial burden of maintaining those agencies identified.

**Recommendation 12.2** High priority and sufficient resources should be devoted to working closely with other members of multilateral organisations on reform agendas aimed at achieving greater efficiency and effectiveness in targeted organisations. This should include ongoing monitoring, support for joint evaluations of multilateral programs, and support for a more conditional or 'active multilateralism' approach where this will speed needed reform.

**Recommendation 12.3** Based on strategic assessment, AusAID should progressively narrow the focus of support to those multilateral agencies whose mandates are the most important to poverty reduction through sustainable development and which complement activities supported bilaterally and regionally.

## 13. GOOD GOVERNANCE

*Good governance, including effective government policies and administration, respect for human rights, the rule of law and participatory development, is widely regarded as important for sustainable and equitable development. Activities seeking to build recipient capacities in these areas are a well-established and important part of the Australian aid program. Effective governance should also be one of the criteria used in deciding the allocation of Australian aid.*

**Recommendation 13.1** Recognising the key links between good governance and sustainable development, AusAID should continue to give a high priority to activities within the country programming context that will bring about improvements in governance. Good policies and commitment to reform should be included in the criteria for determining the geographic allocation of Australian aid.

**Recommendation 13.2** AusAID should provide focused training courses for AusAID staff on good governance, the critical links with sustainable development and poverty reduction, and the types of aid interventions that can improve governance in developing countries.

#### **14. ENVIRONMENT**

*AusAID has been recognised as relatively advanced, among international donor organisations, in integrating concern for environmental issues into the aid program. However, there is scope for further clarifying environmental objectives and forging a greater coherence between environmental policies and program activities. In pursuing the objective of poverty reduction through sustainable development, the aid program should focus its attention particularly on the links between poverty and the environment. It should also be recognised that the aid program has limited scope to address global environmental issues and must remain focused on its core business.*

**Recommendation 14.1** AusAID should rationalise its support for environmental activities to ensure that its funds are directed only to activities which have close links with poverty reduction in developing countries. Environmental programs which have broader global objectives, without such direct links to poverty reduction, should be funded and managed by other government organisations.

#### **15. GENDER**

*Ensuring that men and women have equal opportunity to participate in, and benefit from, development remains one of the most significant challenges facing donors and recipients. With poverty twice as prevalent amongst women as it is amongst men, consideration of gender and development issues is fundamental to addressing poverty reduction. Australia has been committed for over a decade to the full integration of gender concerns into its aid program and has produced policy statements that reflect this aim. Such a commitment, however, has not been matched by effective policy implementation, because of a lack of resources and insufficient priority being given to women's participation in development. The Committee supports the thrust of AusAID's gender and development policy, but recommends formalising strategies for its realisation, including the introduction of gender audits to provide feedback on program performance. Such strategies must be backed by sufficient resources, and clear lines of responsibility for ensuring their implementation.*

**Recommendation 15.1** AusAID should strengthen its approach to gender and development by:

- introducing regular gender audits, based on the environment audit model, including independent members on the audit team and publishing of the reports;
- urgently reassessing the WID marker system to achieve quality assurance, including staff training and resources for quality checks; and

- allocating greater staff resources to gender monitoring, policy and coordination work, staff training and the provision of expert advice.

## **16. FOOD AID AND FOOD SECURITY**

*Food aid has been a major component of Australia's aid program for over 30 years. Although originally conceived as a practical way in which Australia's natural bounty could be applied directly to address the spectre of hunger in the developing world, there have been growing doubts about the effectiveness of such programs in meeting the food security needs of recipients. Australia's commitments under the international Food Aid Convention have become a distorting influence on the aid program, leading to many more food aid activities in the program than can be justified on efficiency and effectiveness grounds. The Committee recommends that Australia considerably reduce its FAC commitment and, in future, use food aid primarily for emergency relief.*

**Recommendation 16.1** Food aid should be used primarily for emergency and refugee relief activities. It should be used for development projects only in cases where it is the most appropriate way to resource a project and there is no risk of adverse impact on local food production. Food aid should not be used for the purpose of general budgetary or foreign exchange support.

**Recommendation 16.2** Australia should substantially reduce its commitment to the Food Aid Convention when the current agreement is renegotiated. Australia's commitments to compensate developing countries for the negative impact of the Uruguay Round Agreement should be met in the form of assistance to food security and not through increased food aid.

**Recommendation 16.3** The procurement of food aid should be partially untied, so that food commodities may be purchased either from developing countries or from Australia and New Zealand, whichever is the most cost-effective source.

**Recommendation 16.4** Australia should continue to support the World Food Programme, particularly in its important role in emergency situations, but assistance for its development activities should be reduced.

## **17. NON-GOVERNMENT ORGANISATIONS**

*Non-government organisations are more than convenient channels for official assistance. Clearer recognition should be given to their broader contributions to the development process. This includes representing community views on aid policy and program issues, their contribution to the development of civil society and their ability to mobilise voluntary community contributions. However, NGO claims to special advantages in areas such as cost-effectiveness and poverty impact must be tested through independent evaluation of their performance. Having considered the arguments for and against the wider application of cost-sharing arrangements in NGO programs, the Committee concludes that, on balance, the wider application of cost-sharing is not in the best interests of AusAID-NGO cooperation.*

**Recommendation 17.1** AusAID should re-examine the arrangements for funding of local NGOs in developing countries, to ensure that rigorous standards of effectiveness and accountability are applied to these programs.

**Recommendation 17.2** AusAID should develop a formal statement of policy principles and objectives for the Agency’s cooperation with NGOs, based on the following objectives:

- to support the valuable work of NGOs in advocacy and the development of civil society, on the basis of their role as independent representatives of community interests in overseas development;
- to encourage the mobilisation of voluntary community contributions to overseas aid; and
- to provide assistance to areas where it may be inappropriate for AusAID to use other channels for assistance, including:
  - small scale, community-level development activities, drawing on long-term partnerships with overseas community organisations; and
  - areas of civil unrest, war or emergency, or in sectors or countries where there are sensitivities in working directly with recipient governments.

**Recommendation 17.3** AusAID should commission, in cooperation with NGOs, an independent study of the relative cost-effectiveness of NGOs as a channel for development cooperation.

**Recommendation 17.4** NGOs make a significant contribution to the costs of projects supported through the country program windows, including costs relating to project design and overheads. These should remain the responsibility of NGOs, but proposals for the wider application of cost-sharing arrangements should not be adopted. However, the requirements for accreditation, competitive selection and performance assessment within these windows should be rigorously applied.

## **18. REFUGEE AND EMERGENCY RELIEF**

*The capacity to respond quickly and flexibly to crises in developing countries is important, but should not detract from the longer-term objective of reducing poverty through sustainable development. Emergency aid should always be orientated to moving on from the immediate crisis as soon as possible; and should also ensure that the critical issue of effective coordination is taken into account. While immediate relief aid is essentially a reactive element of the overall aid program, longer-term rehabilitation support does lend itself to programming, critical assessment and evaluation—much like any other aid program activity—and should be managed in this way. The priority for responding to sudden emergencies should be focused on our own region; and for protracted emergencies, priority should be given to those countries where country programs are already in place.*



**Recommendation 18.1** AusAID should base decisions on channels of delivery for refugee and emergency relief aid on a closer assessment of their relative effectiveness. Assessments of multilateral channels could be undertaken in association with other donors.

**Recommendation 18.2** Support for protracted emergency situations should be given, as a first priority, to those countries where Australia has an ongoing country program. Efforts to support conflict prevention or peace-building activities also need to be more structured, planned and focused in order to be effective, and should be closely linked with the country program longer-term development activities.

**Recommendation 18.3** Greater attention should be given to field monitoring and evaluation of emergency and rehabilitation aid, particularly in view of the complexity, speed and confusion that attach to emergency situations. Cost-effective mechanisms for doing this should be explored, including in association with other donors.

## **19. PUBLIC PERCEPTIONS, DEVELOPMENT EDUCATION AND DEVELOPMENT RESEARCH**

*Research indicates that overseas aid has broad but shallow support in the Australian community. The aid program needs a public information regime that is based on accountability and openness. The Committee favours a greater level of support for development education and for research on aid and development issues than has been the case to date. Increased awareness of development issues should lead to greater community understanding of, and engagement with, the official aid program—and a better program as a result.*

**Recommendation 19.1** AusAID should adopt a more open and transparent approach to public information and ensure that its information activities are guided by the objective of public accountability.

**Recommendation 19.2** AusAID should evaluate its development education activities to date and examine options for an expansion of the program.

**Recommendation 19.3** The possibility of AusAID conducting coordinated public attitudes research into overseas aid and development should be explored with Australian NGOs. Cost-effective options to commence a jointly-funded annual tracking survey should be developed, to establish a sound basis for public information and development education programs.

**Recommendation 19.4** A coordination and oversight role in relation to all official support for academic and development research activities should be given to a single section in AusAID. This section should act as a contact point for other areas of AusAID seeking to commission development research and for organisations seeking research funding from AusAID.

**Recommendation 19.5** There should be a modest increase in the funds allocated to development research, and AusAID should:

- prepare a strategic plan for development research, providing for the extension of access to research funds through wider competition; and
- establish a development research council to advise on the allocation of research funds, and provide peer review of the work undertaken.

**Recommendation 19.6** An internationally recognised expert in development studies should be appointed as an Academic-in-Residence in AusAID to assist with the development of new arrangements for supporting development research, to help forge closer links between AusAID and academic institutions and to promote active debate on development issues.

## **PART D: MANAGEMENT ISSUES**

### **20. MANAGEMENT STRUCTURE AND CULTURE**

*This review was not asked to undertake a comprehensive examination of aid management issues. However, it is clear that a range of factors currently act as constraints to the most effective management of the aid program. The Committee has identified some new directions or approaches that the Government and AusAID should consider in the ongoing pursuit of excellence in aid delivery, and in the context of implementing new public service reforms. Included are proposals for: the creation and role of an independent Advisory Board; improved performance measurement; a renewed focus on staff skills; and greater decentralisation and devolution.*

**Recommendation 20.1** The management of the aid program by a single organisation should be reaffirmed to ensure the coherence and integrity of the program. It is essential to the effective pursuit of a clear objective (poverty reduction through sustainable development) that the aid budget is managed by an organisation that has been unambiguously charged with that task.

**Recommendation 20.2** A Development Cooperation Advisory Board (of perhaps 5–7 members) should be established to provide an ongoing independent review of the focus and effectiveness of the aid program for the Minister, as well as to assist in creating and sustaining a more evaluative and analytical culture in AusAID. Members should be expert in fields relevant to development, and not selected as representatives of specific interest groups.

**Recommendation 20.3** The creation of a legislatively based Development Cooperation Charter should be considered as a way of encouraging greater multi-party support for the objective of the aid program, resulting in both a stronger political commitment to, and greater public understanding of, that objective.

**Recommendation 20.4** The devolution of greater responsibility and decision making to staff located in developing countries should be pursued. This may involve an increase in numbers of staff posted overseas. The AusAID Executive should also actively devolve greater responsibility *within* central office in order to allow senior staff to focus more on higher level policy development, strategic planning, program coherence and coordination.

**Recommendation 20.5** Innovative ways should be explored for developing and retaining high quality staff. To achieve the skills required of effective development officers may require increased resources devoted to staff training.

**Recommendation 20.6** Due diligence in contractor selection should be strengthened as a critical step in pursuing greater effectiveness of aid activities.

**Recommendation 20.7** Greater attention needs to be given to getting project design right to start with and, wherever possible, to an outputs/impact measurement approach to projects and the contracts that implement them.

**Recommendation 20.8** A management and organisational review of AusAID is needed as a matter of priority to progress the implementation of many of the recommendations contained in this report.

## PART A—CONTEXT

## CHAPTER 1: INTRODUCTION

*The primary motivation for providing aid is founded on the humanitarian desire to help those less well off than ourselves. But it also reflects the broader national interest in the stable and equitable development of poorer nations of the world. Although it must also accommodate emergency relief, the aid program is about sustainable development, not welfare. With this understanding, this report focuses on key issues and priorities for the Australian aid program over the next five to ten years.*

Australians spend a significant amount of money helping to improve the lives of people in poor countries. Thousands of Australians regularly donate to overseas aid agency appeals and many volunteer their time and skills, but by far the largest contribution is from the taxpayer. Over the past decade, each Federal budget has seen well over one billion dollars allocated to overseas aid. It is this, the *official* aid program, which is the subject of this report.

Australia's contribution is only part of a very substantial international mobilisation of resources to help development in the poorer nations of the world. In 1995, OECD countries contributed over US\$60 billion in Official Development Assistance (ODA). Our contribution may be small in the international context but it is nevertheless a significant part of an explicit commitment made by the richer countries of the world to help the poorer. Australia's contribution is even more significant when looked at in the context of specific regions, such as Papua New Guinea and the Pacific islands, where we are a major donor.

It is against this background that the Review Committee was commissioned by the Minister for Foreign Affairs to inquire into the Australian aid program, some twelve years after the last comprehensive review (Jackson 1984). The terms of reference for the review are broad but in essence ask the Committee to examine the overall priorities, objectives and focus of the program and to make recommendations about how to ensure its maximum effectiveness.<sup>1</sup>

As with many, but not all, other donor countries, the volume of Australian aid has been steadily falling in proportion to our increasing wealth. Despite the decline in aid as a share of our GNP, the official aid program remains a significant item of government expenditure. As long as Australia continues to devote sizeable amounts to development assistance it is important that there should be a shared national understanding of why we do so.

<sup>1</sup> The terms of reference are at appendix A.

Over the past decade, each Federal budget has seen well over one billion dollars allocated to overseas aid.

## Why assist developing countries?

Overseas aid assists the peoples of poorer countries in their own efforts to improve their income and their access to the necessities of life, including food, water and shelter, as well as to improve their levels of education, health and sanitation.

The primary motivation behind overseas aid programs is humanitarian. The desire to address relative deprivation and suffering wherever it is seen, is a defining characteristic of civilised societies. It expresses human solidarity whether inspired by religion, philosophy or enlightened self-interest. It reflects the widely held view that grossly unequal access to basic necessities is unjust. This egalitarianism is also ingrained in the Australian psyche as 'a fair go'.

...for all our problems, Australia is a rich country in a world in which poverty is extensive.

The reality is that, for all our problems, Australia is a rich country in a world in which poverty is extensive. Humanitarian concerns are based on compassion and the moral imperative to respond to extreme poverty and to the needs of those who have nothing like the same kind of advantages or opportunities as we have. Supporting sustainable development overseas is based on a concept of shared humanity and implies an acceptance of obligations beyond one's own national borders.

Giving aid is a matter of enlightened self-interest for the developed world. Secure and predictable development, with fair and equitable access to resources, has positive implications for peace and security, regionally and globally. Putting energy and resources into the prevention of conflict is more cost-effective than the kind of response needed from the international donor community after the event, to say nothing of the saving in human suffering.

The concept of *national* solutions to pressing global or trans-boundary problems is increasingly anachronistic. Such problems as environmental impacts, new human health epidemics, or the large-scale movement of people, narcotics, and plant and animal diseases, pose new threats. Many global problems present significant risks to which Australia, with its long coastline, sparse population and dependence on primary production, is particularly vulnerable. The need for international cooperation in the face of such threats is clear, as is the role for well-targeted development assistance programs in helping to address such problems.

It is also in our broader national interest for Australia to play a part in global burden-sharing: to be recognised as a good international citizen and a credible player on the world stage, and so to be listened to in policy debates in key international organisations on many of these global issues and problems.

Australia is one of only a few donor countries located in a region of developing countries.

Australia is one of only a few donor countries located in a region of developing countries. This fact highlights the links between the development of our neighbours and our own prosperity and security.

Economic development in the region has trade benefits for Australia, enlarging the market for our exports and foreign investment. It also diminishes the risk of conflict in which Australia could become embroiled and the associated risk of large-scale refugee movements. Properly targeted, Australian aid can help to deal with global environmental, health, and security problems that could have severe effects on Australia and on neighbouring developing countries.

As the OECD's Development Assistance Committee (DAC 1996c) concluded in a recent review: 'Those of us in the industrialised countries have a strong moral imperative to respond to the extreme poverty and human suffering that still afflict more than one billion people. We also have a strong self-interest in fostering increased prosperity in the developing countries...All people are made less secure by the poverty and misery that exists in the world. Development matters'.

All people are made less secure by the poverty and misery that exists in the world.

#### **Box 1.1 A note on terminology**

The term 'humanitarian' appropriately describes the primary motivation behind the aid program. But it is also sometimes used to describe emergency assistance in the aftermath of disaster, or even applied to the aid program as a whole. This is not only confusing, but it misrepresents the aid program. It suggests a 'hand-out', or charity-based orientation when, in reality, most of the program is about long-term sustainable development.

The Committee's preferred term for the aid program is 'development cooperation'. This gives the wider understanding that the activities undertaken are very much in cooperation with developing country governments and targeted communities. However, while this is more accurate, it does not have the wide currency, or ease of use, of the term 'aid'. But 'aid' also can be confusing: it too can have the misleading connotation of an emergency response to provide immediate relief of acute suffering. It is also seen by some developing countries as patronising. Nevertheless, it is at least widely understood in the community to mean 'overseas aid programs' and to many it does encompass the broader sustainable development nature of the program. It also contains a sense of the underlying altruistic motivation. So, while the preferred language is 'development cooperation', in the interests of brevity, 'aid' has also been used in this report.

The last major review of the Australian aid program (Jackson 1984) also noted that Australia 'gives aid principally for humanitarian reasons to assist those who live less ample and fulfilling lives'. It went on to say that assistance for development is not wholly altruistic: that fostering greater world security is in Australia's strategic and commercial interests. This review comes to much the same conclusion about the

...the lack of a clear objective for the Australian aid program underlies many of its current problems.

rationale, or motivation, for development assistance, but warns against confusing the *motivation* of the aid program with its *objective*. The Committee believes that the lack of a clear objective for the Australian aid program underlies many of its current problems. Clarifying the objective is therefore fundamental to the future of an effective Australian development assistance program.

The world of international development assistance is a particularly complex arena of public policy. The path to development, itself hotly debated, is neither direct nor obvious. It is the long-term result of economic, political and social processes. Promoting development in poor countries is inherently difficult, and trying to assist from the outside is fraught with complexity—from matters of state to personal cross-cultural confusions.

Unlike almost all other Government programs, the results of our aid program are not visible to most taxpayers. By definition, its major immediate impact is overseas, away from the ready scrutiny of Parliament, the media and the public.

It is the Committee's hope that this report will help inform Australian taxpayers about the importance of international development assistance and stimulate debate on the complex issues associated with development.

## Report structure

The report does not attempt to cover *all* the issues that relate to the official development assistance program. Nor has it been possible within the limited time available to the Review Committee to respond to all of the many and varied concerns raised in the 250 submissions received.<sup>2</sup> Instead, the Committee focused on the key issues and the priorities that the Australian development cooperation program should be seeking to establish over the next five to ten years. The report does not attempt to recount the historical development of the aid program. In considering trends over time, for example, the Committee has generally looked at the last decade, the period since Jackson reported.

**Part A** of the report sets the context and briefly outlines the current program and its evolution. It also examines the major international changes that the aid program needs to respond to, and how these affect the kind of program that Australia should be developing. **Part B** sets out the response and determines how the Australian aid program should be focused to maximise effectiveness. **Part C** reviews some selected programming and policy issues where the Committee considers there are important new directions that need to be taken. **Part D** outlines some important management issues that the Committee sees as critical to achieving and sustaining an efficient and effective aid program.

<sup>2</sup> The review methodology is outlined at page v. Appendix B lists the submissions received, and the consultations the Committee undertook on the basis of these.



## CHAPTER 2: AUSTRALIA'S AID PROGRAM— CURRENT DIMENSIONS AND FOCUS

*The official Australian aid program, valued at over \$1 billion a year for more than a decade, is administered predominantly by the Australian Agency for International Development (AusAID). Aid is channelled through bilateral and multilateral programs in a number of forms, including project aid, student scholarships, food aid, emergency and refugee relief, funding for non-government organisations, and contributions to international development agencies. Australia's aid program is centred on the Asia-Pacific region, although aid is provided to a number of countries outside this region, primarily in South Asia and Africa. The program's policy base was influenced strongly by the watershed Jackson Review in 1984, which set the course for much of the program's development. Lessons learned from trying to follow the Jackson prescriptions were a significant input to this review.*

### Introduction

Australian aid is provided in a variety of forms including development projects, student scholarships, support for non-government organisation (NGO) programs, emergency and refugee relief, food aid, and contributions to international and regional development organisations. With the exception of budget support to Papua New Guinea, which is being rapidly phased out, Australia does not provide cash grants to recipient countries.

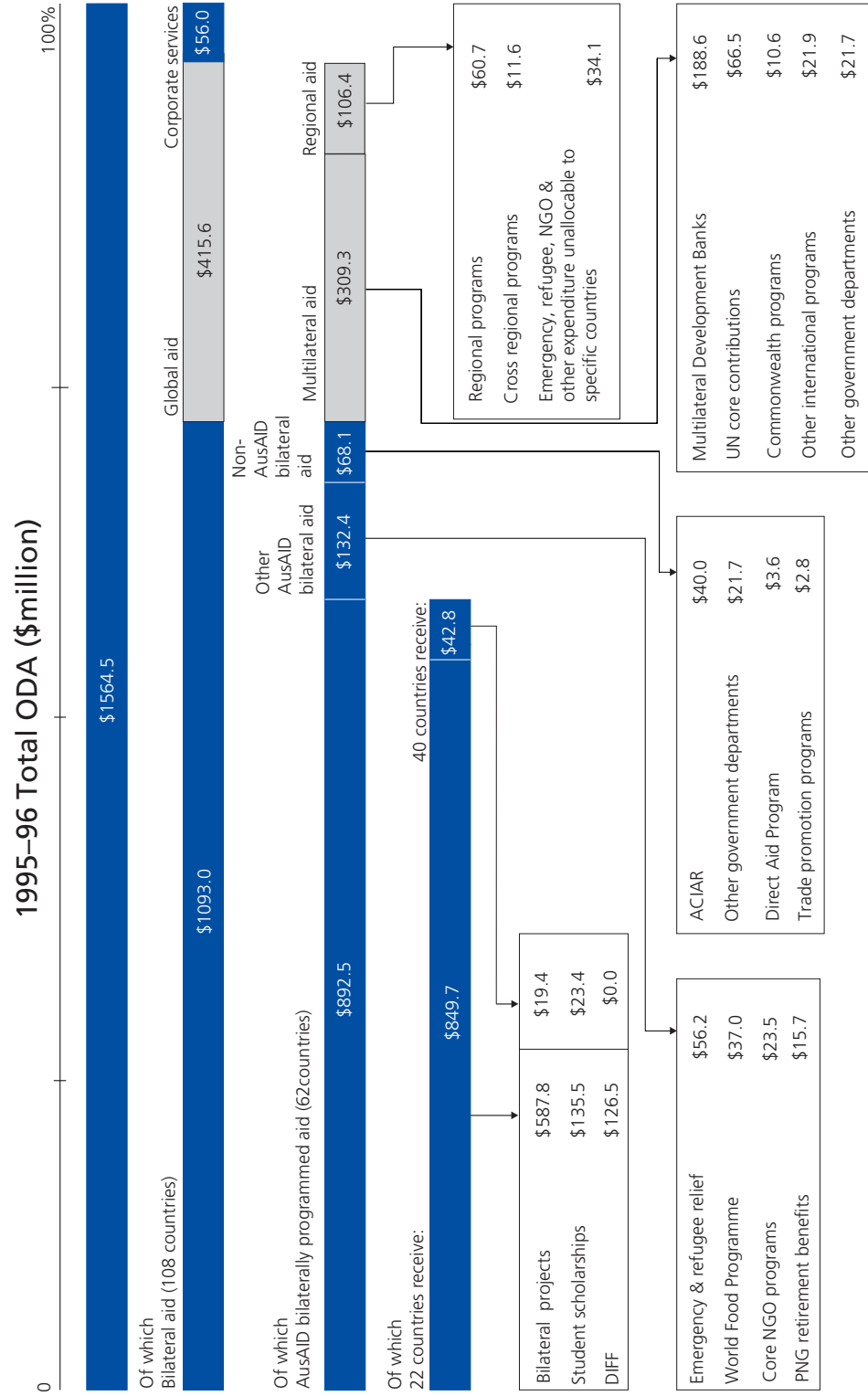
Australia's official aid program is managed by AusAID, the Australian Agency for International Development,<sup>1</sup> which is an administratively autonomous agency within the Department of Foreign Affairs and Trade. AusAID plans and administers the program, but aid delivery is undertaken largely by the private sector and NGOs. In 1995–96 AusAID administered contracts with a total value of approximately \$1 billion and approximately \$115 million was channelled through NGOs.

Bilateral or government-to-government aid makes up the bulk of the Australian aid program. Figure 2.1 shows Australian aid program expenditure for 1995–96. Some \$1 093 million or 70 per cent of the \$1 564 million program was directed to bilateral assistance. This included bilateral projects, student scholarships, the now defunct

Bilateral or government-to-government aid makes up the bulk of the Australian aid program.

<sup>1</sup> See also box 20.1 for a brief description of the key features of AusAID.

Figure 2.1 Australian aid program expenditure, 1995–96

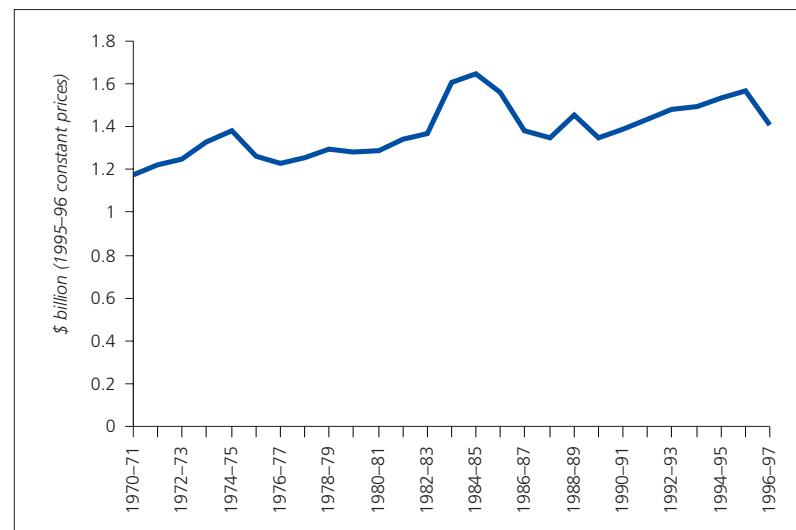


Development Import Finance Facility (DIFF), emergency and refugee relief, core NGO programs and funds through the World Food Programme. A limited amount of bilateral aid was also administered by agencies other than AusAID, including other government departments (Commonwealth and State), the Australian Centre for International Agricultural Research and through the Direct Aid Program, which provides discretionary funds to ambassadors and high commissioners in developing countries. Another \$415.6 million was for contributions to multilateral development agencies (such as the multilateral development banks, and United Nations and Commonwealth development agencies) and regional assistance. The remaining \$56 million was spent on AusAID corporate services.

### Volume of aid

In 1996–97, expenditure on Official Development Assistance (ODA) will amount to an estimated \$1.45 billion. This is equivalent to 1.1 per cent of Commonwealth Government outlays, and 0.29 per cent of Australia’s gross national product (GNP). Expenditure on the aid program was cut by 10 per cent in the 1996–97 financial year, the first real cut in a decade. As figure 2.2 shows, aid expenditure has gradually increased in real terms since 1970. However, this growth in aid has not kept pace with the growth in Australia’s GNP. The volume of the aid program has suffered a steady decline in terms of the ratio of ODA to GNP. (See figure 2.3.) For a comparison of Australia’s performance against other donors see figure A1 in appendix C.

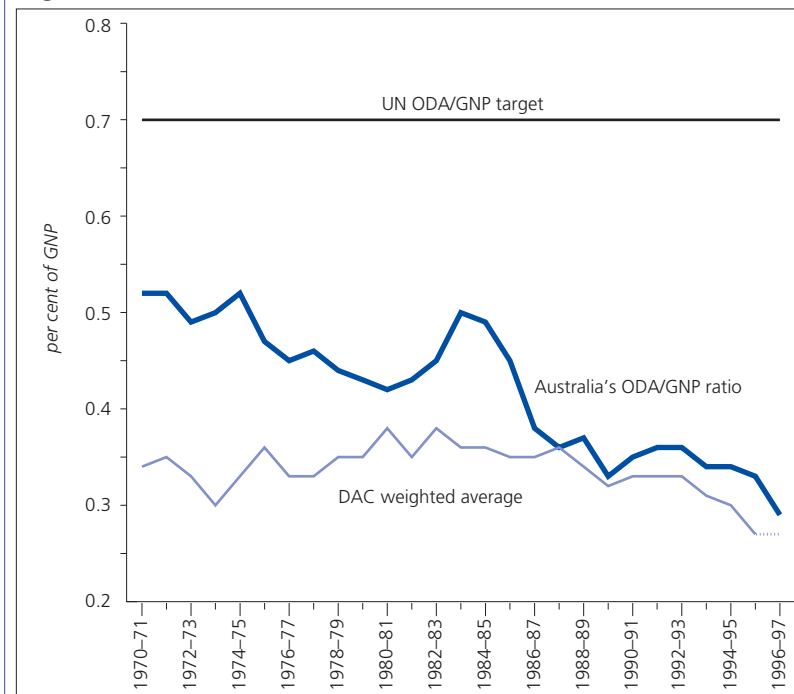
**Figure 2.2 Total Australian aid flows, 1970–71 to 1996–97**  
(\$ billion, 1995–96 constant prices)



Source: AusAID.

The sharp increase in 1983–84 marks the inclusion, for the first time, of the Government's contribution towards the education in Australia of all students from developing countries, not just those holding aid-sponsored scholarships. Aid fell significantly in 1986–87 during a period of government expenditure reduction. The jump in 1988–89 is an anomaly caused by the bringing forward of multilateral development bank payments. This increased 1988–89 expenditure, but caused a decrease in 1989–90. As figure 2.2 shows, from that year the aid budget was increased in real terms annually until 1996–97. This growth can be accounted for in part by increases in the Development Import Finance Facility, shown in figure 11.3.

**Figure 2.3 Australia's ODA/GNP ratio, 1970–71 to 1996–97**



Source: AusAID.

Note: Australian ODA is calculated using the 'encashment method'. The DAC average is calculated using the 'deposit method'. See note under figure A1, appendix A, for explanation.

### Geographic distribution

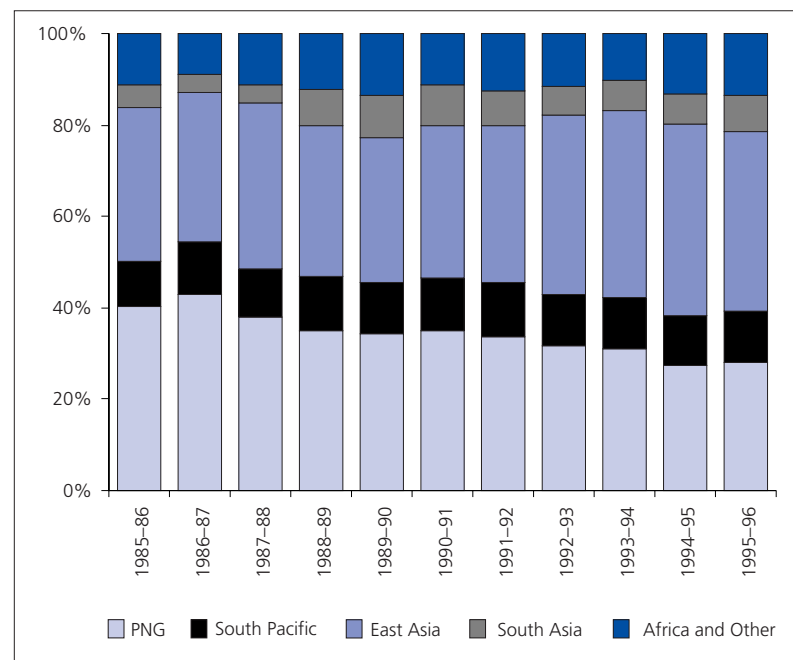
Australia's aid program is focused on the Asia-Pacific region.

Australia's aid program is focused on the Asia-Pacific region. In 1995–96, of the expenditure that can be attributed to specific countries and regions, 78 per cent flowed to East Asia and the Pacific. The remaining funds flowed to South Asia (8 per cent), Africa (10 per cent) and the rest of the world (4 per cent). In 1996–97, Papua New Guinea (PNG) will receive the largest share of Australian aid, followed by

Indonesia, Vietnam, the Philippines and China. These top five recipients will receive an estimated 43 per cent of total Australian aid flows. Over the last decade, the countries which received the greatest share of aid were PNG, Indonesia, China, the Philippines, and Malaysia.

Figure 2.4 illustrates the geographic distribution of aid by region from 1985–86 to 1995–96 as a percentage of total bilateral and regional flows (excluding contributions to multilateral agencies and administration costs).

**Figure 2.4 Geographic distribution of Australian aid by region, 1985–86 to 1995–96**



Source: AusAID.

The relative shares received by East Asia and Papua New Guinea have altered considerably over the last decade, with aid to East Asia increasing from 33.5 per cent in 1985–86 to 39 per cent in 1995–96. Over the same period, aid to PNG and the Pacific fell from 50.1 per cent of allocable aid to 39.3 per cent.

Of the aid that can be attributed to specific countries, \$582 million or 48.7 per cent flowed to low income countries in 1995–96.<sup>2</sup> Of those funds, \$233 million flowed to countries which are categorised by the United Nations as 'least developed'. Australia, with 20.3 per cent of

<sup>2</sup> Low income countries are defined by the United Nations as having a per capita GNP below US\$765 (in 1995). See appendix D for a list of aid recipients by development status.

funds flowing to least developed countries, is below the OECD donor average of 25.7 per cent (DAC 1997a, p. A58). This can largely be attributed to Australia's high contribution to Papua New Guinea, which is classed as a lower middle income country.

Education remains the largest sector of the aid program

## Sectoral profile

Education remains the largest sector of the aid program, amounting to \$241.2 million, or 15.4 per cent of total expenditure in 1995–96.<sup>3</sup> Three other sectors have grown significantly over the past decade, so that by 1995–96, transport and communications accounted for 9.4 per cent of the aid budget, while health (5.6 per cent), water supply and sanitation (4.4 per cent) and agriculture, forestry and fishing (3 per cent) were also major areas of activity.

The framework and policy base of the current Australian aid program remains largely founded on the watershed Jackson Review.

## Evolution of the program

The framework and policy base of the current Australian aid program remains largely founded on the recommendations of the watershed Jackson Review, completed in 1984 (Jackson 1984). This was the first comprehensive review of the aid program and led to significant policy, program and management changes. Jackson sought to unify the program's often disparate parts by developing a coherent rationale for its activities. The Government accepted most of Jackson's recommendations.

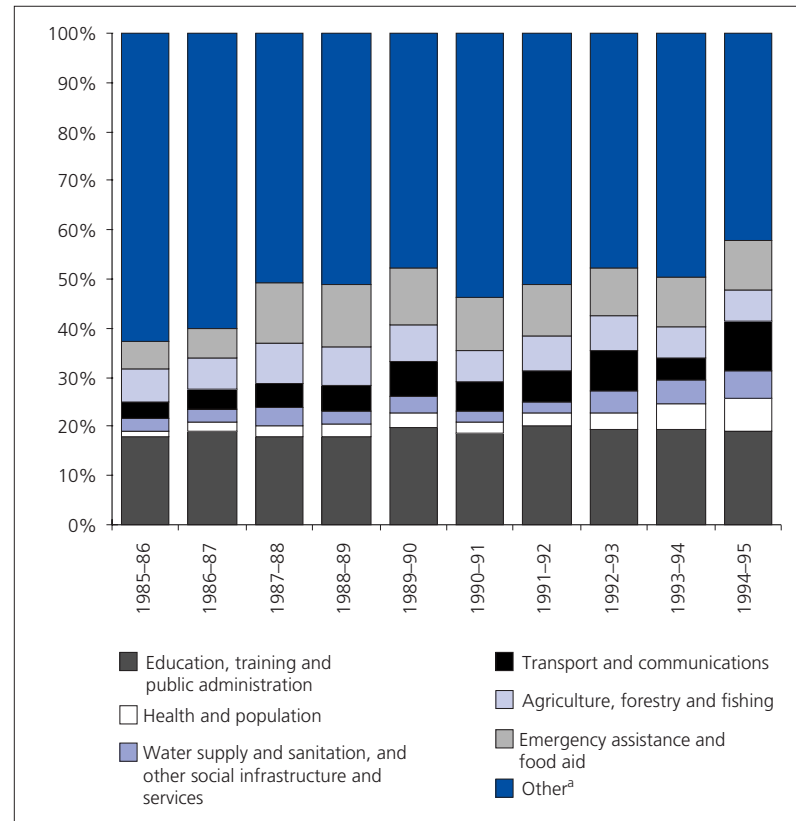
## Approach to development

Jackson argued that aid was most effective when applied to removing major constraints to development. His report concluded that this involved investment in people and in such capital-intensive facilities as roads, dams and ports. A recommendation of Jackson was the enhancement of aid effectiveness through a concentration on Australia's areas of sectoral expertise. That is, the Australian aid program should exploit Australia's relative sectoral strengths to address major development constraints in recipient countries.

The Jackson Review stressed the importance of economic growth as the long-term means of overcoming poverty in developing countries. This became the basis of the approach to sustainable development pursued by the Australian aid program. The most recent policy framework for poverty reduction (Bilney 1993) noted that poverty reduction was promoted through: sustainable economic growth, investment in human resources through education, health, capacity building and social sector development, and safety nets and poverty targeting, including emergency relief. In this framework,

<sup>3</sup> Sectoral statistics are compiled according to the OECD Development Assistance Committee (DAC) codes. Full definitions of these sectors can be found in AusAID (1995b).

**Figure 2.5 Sectoral distribution of Australian aid (percentage of total ODA), 1985–86 to 1994–95**



Source: AusAID.

<sup>a</sup> 'Other' includes: development and planning services, river development, energy, other economic infrastructure and services, manufacturing, extractive industries and construction, trade and export promotion, banking, multi-sector, debt reorganisation, program assistance, general purpose contributions and administrative budgets.

economic growth is seen as essential: without it, broad-based development is not possible, but it has to be accompanied by human resource development.

The priority given to social sectors in the aid program has steadily increased in recent years to the point where such expenditure accounts for some 25 per cent of the program. New programs in population, health, HIV/AIDS, basic education, and micro-enterprise development have been initiated in the decade since Jackson.

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### Country programming

The introduction of country programming was one of the main legacies of the Jackson Review. Until the mid-1980s, the aid program was largely administered according to the form of aid which was being delivered, whether it was food aid, scholarships or projects. One of Jackson's innovations was the recommendation of a country programming approach which aimed at increasing aid effectiveness by ensuring that aid activities were designed around an in-depth knowledge of recipients and their needs. Country programming engenders a cooperative approach to aid and allows Australia's aid to be tailored to a recipient's specific needs within the context of the broader program objectives. It also allows Australia to assess what other donors are doing and where Australian support can best fit in.

To facilitate country programming, country strategies were developed for all major bilateral partners, in association with recipient government authorities. These outline Australia's development cooperation objectives in the partner country, consider cross sectoral issues such as women in development, the environment and poverty alleviation, and set future priorities for each program.

### Geographic focus

The Jackson Review recommended a sharper geographic focus for Australian aid with a concentration on our immediate Asia-Pacific region. Australia's relatively unusual position as a donor country situated within a region with huge development needs was acknowledged. The importance of Asian countries continuing to receive a significant proportion of Australian aid was endorsed, as was the need to sharpen the focus on specific countries where Australia could have a tangible impact.

Papua New Guinea's pre-eminent position in the aid program was affirmed by Jackson. A significant policy change introduced more recently to the PNG program was the move away from budget support to a program based on jointly identified priorities. This was embodied in the Treaty on Development Cooperation signed in 1989.

Despite the strong regional focus recommended by Jackson, aid has continued to flow to a large number of countries, including some well beyond Australia's region.

Despite the strong regional focus recommended by Jackson, aid has continued to flow to a large number of countries, including some well beyond Australia's region. Table 2.1 shows that, in 1995–96, Australian aid flowed to 108 countries, including 44 in Africa and the Middle East. This is an increase on 1983–84, when aid flowed to 93 countries. There has been large growth in the number of recipients in both Central Asia and Europe, and in Sub-Saharan Africa. Aid to Latin America and the Caribbean has contracted from 21 recipients in 1983–84 to 10 in 1985–86. In volume terms, when the aid going to Papua New Guinea is removed from the equation, there is a large number of countries competing for a relatively small volume of aid.



**Table 2.1 Number of countries receiving Australian aid by region, 1983–84 to 1995–96**

Region	1983–84	1985–86	1990–91	1995–96
Pacific	15	13	15	17
East Asia	11	14	15	15
South Asia	9	7	8	8
Central Asia & Europe	3	2	5	14
Middle East & North Africa	8	10	9	9
Sub-Saharan Africa	26	39	32	35
Latin America & Caribbean	21	24	19	10
Total	93	109	103	108

Many of these countries receive only limited aid. For example, excluding emergency and refugee assistance to the former Yugoslavia, the 14 recipient countries of Central Asia and Europe shared only \$1.4 million in 1995–96. Most of this aid is accounted for under the Australian Program of Training for Eurasia (APTEA). Similarly, the 10 recipient countries in Latin America and the Caribbean shared only \$1.6 million in the same year. This was a mixture of scholarships, emergency aid, NGO assistance, food aid, and Direct Aid Program funds.

## Continuing key issues

The role of NGOs, the particular place of education and the issue of women in development were key considerations of the Jackson Review and continue to be central issues for the aid program.

## Non-government organisations

The Jackson Report praised the vital role played by NGOs in aid delivery, noting their ability to provide a plurality of approaches that are complementary to official aid. Jackson’s recommendation for increased official funding for NGOs was acted on. Aid flows through NGOs increased from around \$33 million (in constant prices) in 1985–86 to \$115 million in 1995–96, a 350 per cent increase. In addition to the AusAID-NGO Cooperation Program (ANCP), NGOs participate through other activities such as NGO windows in country programs, development education activities, and emergency and refugee relief programs.

Following the *Review of the Effectiveness of NGO Programs* (AusAID 1995d) and the Australian National Audit Office’s performance audit, *The Management of Funding to Non-government Organisations* (ANAO 1996), a number of reforms were introduced. The reforms seek to simplify funding mechanisms, increase the efficiency of AusAID’s management of NGO funding, and improve accountability and performance management. As part of the reform process, the NGO

The Jackson Report praised the vital role played by NGOs in aid delivery, noting their ability to provide a plurality of approaches that are complementary to official aid.

Environment Initiative and the Women in Development Fund were incorporated into the ANCP in the 1996–97 budget. The role of non-government organisations in the official aid program is the subject of chapter 17.

### Education

The Australian aid program has long been involved in education, primarily by providing scholarships for tertiary study. The Jackson Review recommended increased Australian efforts, particularly in post-secondary training in Australia, supporting simplification of student administrative processes and expanding the scholarship scheme to include issues of merit, gender balance and participation by disadvantaged groups. In line with the shift to country programming, Jackson recommended that scholarships be integrated into country programs.

Tertiary study remains a substantial part of the program, and represented 76 per cent of education expenditure in 1994–95.

These recommendations were generally implemented. The scholarship system has undergone a number of revisions in the past decade, most recently with establishment of the new Australian Development Scholarships (ADS), which from 1998 will replace both the merit-based Australian Development Cooperation Scholarships (ADCOS) and the Australian Sponsored Training Scholarships (ASTAS) which are largely awarded to nominees of recipient governments. Tertiary study remains a substantial part of the program, and represented 76 per cent of education expenditure in 1994–95.

Little progress has been made on Jackson's recommendation of increased emphasis on education needs outside the tertiary sector. In fact, between 1990–91 and 1994–95 support for primary and secondary education fell by a third, to just six per cent of expenditure in the sector. Vocational and technical training has seen an increase over this period of 58 per cent. However, in 1994–95 it was still only nine per cent of education spending. A basic education initiative was launched in 1994. This was followed by the release of a new AusAID education policy in August 1996 promising increased emphasis on basic education and vocational and technical training (AusAID 1996c). The place of education in the aid program is considered in chapter 7.

### Women in development

Key recommendations from Jackson included raising the proportion of women trained in Australia to 50 per cent of developing country students, and establishing a special women in development (WID) fund to support projects aimed at women's needs. A 1992 internal AusAID review of WID policy and practice noted improvements but recommended that a greater emphasis be placed on women's contribution to development and on increasing the access to basic schooling of women and girls. The resultant policy, which focused on integrating women into the aid program by encouraging greater

participation, has recently been revised to incorporate broader gender considerations. The WID Fund which was established following the Jackson Report was focused on NGO activities and, in 1996, was folded back into the ANCP in order to encourage the involvement of women in the mainstream of development and simplify NGO funding arrangements. Gender and development is the subject of chapter 15.

## Recent policy issues

Other policy areas which have gained greater prominence since Jackson are summarised below.

### Environmental issues

The growing international concern about the environment has been reflected in the aid program. Following a 1989 Senate inquiry into the environment and the aid program, efforts have been made to integrate environmental objectives into the mainstream of the aid program. AusAID's *Environmental Assessment Guidelines* (AusAID 1996d) provide a framework for dealing with the environmental aspects of all development projects. As well, the aid program directly supports a broad range of environmental activities in areas such as water supply and sanitation, natural resource management, biodiversity conservation and cleaner energy. Environmental issues are the subject of chapter 14.

### Population issues

Jackson noted that high rates of population growth were threatening living standards in many developing countries, and recommended that the aid program play a stronger role in supporting effective family planning programs. In considering population and development, Australian aid policy recognises the intrinsic links between this issue and broader questions of the status of women, women's health and equality of opportunity. In 1993 the Australian Government commissioned an independent inquiry into population and development which reported that family planning activities are an important component of effective development strategies (*Population and Economic Development* 1994).

The aid program has been subject to criticism that support has been given to family planning programs that are coercive, or at least that these programs are implemented within a coercive domestic policy context within the recipient country. This is a difficult and sensitive human rights issue. However, considerable efforts have been made through the development of checklists and guiding principles used to screen potential population-related activities to ensure that coercive practices are not supported and that the principle of voluntarism is upheld. In addition, it is Government policy that aid funds are not used for abortions. Population issues are discussed in chapter 3 and chapter 7.

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Almost one quarter of Australian aid is channelled through multilateral agencies

### Multilateral funding

Almost one quarter of Australian aid is channelled through multilateral agencies, reflecting Australia's commitment to cooperate at the international level on issues of development. Multilateral aid allows donors to achieve a scale of intervention necessary to tackle global development concerns and provides for a coordinated response to recipients' needs. Australian support is provided to United Nations development agencies, Commonwealth organisations, selected international programs and multilateral development banks, chiefly the World Bank and the Asian Development Bank.

Since the mid-1980s, multilateral expenditure has remained relatively constant at an average of 22 per cent of ODA, with fluctuations caused only by the scheduling of bank contributions. However, in this period, funding to multilateral banks increased by around 46 per cent, while contributions to UN agencies declined by 33 per cent. Australia's involvement in UN agencies was further reduced in the 1996–97 budget. Multilateral assistance is the subject of chapter 12.

Implementation of the aid program is largely contracted to the private sector

### Commercial interests

Implementation of the aid program is largely contracted to the private sector and as a consequence, commercial interest in the aid program is high.

One means by which business involvement in the aid program was encouraged was through a mixed credit scheme known as the Development Import Finance Facility (DIFF). The DIFF scheme combined an aid grant from AusAID with export credits provided by the Export Finance Insurance Corporation (EFIC). The aid grant, in effect, softened the terms of the loan to the recipient country, and tied provision of the project to a company having a high Australian content. DIFF grew from a \$1.5 million scheme in 1982–83, or 0.2 per cent of the program, to \$126 million, or 8 per cent of the program, before its abolition in 1996. The Government terminated the scheme as part of a shift towards a sharper humanitarian focus. Mixed credits and loans are the subject of chapter 11 and particular issues relating to the private sector are taken up in chapters 8 and 10.

### Aid administration

Aid administration was a major focus of the Jackson Report. The report recommended the creation of an autonomous administrative agency with adequate professional skills and systems designed to achieve policy objectives as essential prerequisites for an effective aid program.

Following Jackson, the aid agency was made substantially autonomous from the Department of Foreign Affairs

Following Jackson, the aid agency underwent significant change. It was made substantially autonomous from the Department of Foreign Affairs with authority to control its own resources and report directly to the Minister. Organisational changes included the move to a three-

division structure, and the development of a corporate policy and corporate services capacity. A parliamentary review of the aid program conducted five years after Jackson by the Joint Committee on Foreign Affairs, Defence and Trade found that the new aid policies and management reforms had been firmly entrenched in AusAID's delivery of aid, making it an 'efficient organisation capable of achieving [its] objectives' (JCFADT 1989, p. 129).

Significant improvements in management were also noted by the OECD's Development Assistance Committee in its most recent periodic review of the Australian aid program (DAC 1996a):

'By the mid 1990s, the Australian aid administration has reached an impressive level of professionalism, transforming the situation of a decade earlier, when the Jackson Committee described the Agency as "predominantly a clerical rather than a professional organisation".'

## CHAPTER 3: INTERNATIONAL CONTEXT

*The last decade has seen rapid, but uneven growth in international trade and investment, fuelled largely by economic liberalisation and by the communications revolution. This has enabled the powerhouse economies of East Asia to continue their third successive decade of fast economic growth. In the process, they have generated millions of jobs and achieved substantial reductions in poverty. Concerted action will be needed to ensure that the poorest and most isolated countries and peoples benefit from the growth of world trade and investment and that it reduces rather than increases existing global inequalities. In the wake of internationalisation, countries are becoming more vulnerable to global financial shocks, environmental degradation, the international spread of diseases, and the illegal movement of people. This necessitates international economic cooperation, the building of security frameworks and the development of multilateral environmental initiatives. In this increasingly interdependent world, development cooperation is an investment in international stability and security, as well as an expression of humanitarian concern.*

### Introduction

Over the last decade, the incidence of global poverty has declined, life expectancy has continued to rise and infant and maternal mortality have fallen. Poverty however remains extensive and the number of people living on under US\$1 a day has risen to over 1.3 billion. The countries that are growing fastest have harnessed the forces of economic liberalisation to accelerate their development, but the participation of the poorest countries in the international economy is declining. The major development cooperation challenge is to help equip the poorest countries to lay the foundations for sustainable growth and development. If this does not occur, disparities in international living standards may become increasingly destabilising.

### Geopolitical change

The single biggest international development of the last ten years was the demise of the Soviet Union. This has had several major development consequences. The Soviet Union and most of its former satellite states have had to grapple with huge structural adjustment problems and rapidly worsening poverty. As the data in table 3.1 show, their production declined at the rate of almost 10 per cent a year in the early 1990s. This has caused aid, especially from the US and

The countries that are growing fastest have harnessed the forces of economic liberalisation to accelerate their development

Europe, to be diverted towards these 'countries-in-transition'. It is likely that many of these countries will continue to require assistance over at least the next five years, leaving less to go round elsewhere.

The end of apartheid in South Africa and the extension of the Middle East peace accords have also improved regional prospects for growth and development and placed additional strains on international assistance as donors have used aid to try to cement peace and reconciliation. As investments in peace building, these efforts may be highly productive, though Australia needs to weigh up carefully how effective it can be in assisting such endeavours outside its main areas of geographic focus.

## International economic growth

Table 3.1 illustrates the different growth experiences of developing and developed country regions over the last thirty years. Although developing countries *as a group* have tended to grow faster than developed countries, this is largely because of very high rates of growth in East Asia. Unfortunately, that has not been the experience of the majority of developing countries. Between 1984 and 1993, over three-quarters of developing countries grew by less than two per cent per capita (World Bank 1996a, p. 1–11). A fundamental international economic challenge is to increase the number of countries which enjoy broad-based sustainable growth. If that does not occur, greater global inequality will result, jeopardising international stability.

As a result of consistent growth in East Asia, Singapore and Hong Kong enjoy higher levels of GDP per head than Australia, with rapid progress being made in Malaysia, South Korea and Thailand. Over the period 1996–2005 the World Bank expects East Asia to grow at an average rate of 7.9 per cent—more than double the world average. The experiences of the fast growing nations of East Asia provide lessons for developing and donor countries alike, as discussed in chapter 8, although there is argument about precisely what these lessons are.

If this fast growth can be maintained it will be the turning point in reducing both the incidence of global poverty and the number of poor people

China and India are particularly important. Their sheer size, with a combined population of over 2 billion people, makes them impossible to ignore, but rapid economic growth is compounding their demographic significance. China achieved growth in excess of 10 per cent per annum in the early 1990s and India about half this, but still well above the developing country average. If this fast growth can be maintained it will have very considerable development consequences. It will be the turning point in reducing both the incidence of global poverty and the number of poor people in the world. It will also help China and India to join Korea and Japan as Asian nations with economies amongst the ten largest in the world. In turn, they will assume greater political and strategic importance and this will continue to shift international attention towards the East Asian region.

**Table 3.1 Summary of world economic growth, 1966–1973 to 1996–2005  
(average annual percentage change—real GDP)**

	1966– 1973	1974– 1980	1981– 1990	1991– 1994	1995 <sup>a</sup>	1996– 1997 <sup>b</sup>	1996– 2005 <sup>b</sup>
World	5.1	3.4	3.2	1.6	2.7	3.1	3.5
High Income Countries	4.8	3.0	3.2	1.7	2.5	2.6	2.9
Developing Countries	6.9	5.0	3.2	0.8	3.5	4.8	5.2
East Asia	7.9	6.8	7.6	8.9	9.2	8.2	7.9
South Asia	3.7	4.0	5.7	3.9	5.3	5.4	5.4
Sub-Saharan Africa	4.7	3.4	1.7	0.7	3.5	3.7	3.8
Latin America & Caribbean	6.4	4.8	1.7	3.6	0.7	2.6	3.8
Europe & Central Asia	7.0	4.9	2.9	-9.8	-0.8	3.0	4.3
Middle East & North Africa	8.5	4.7	0.2	2.2	1.7	3.2	2.9

<sup>a</sup> Estimates; <sup>b</sup> Forecasts

Source: World Bank (1996a).

The implications for Australia are considerable. East Asia already consumes 60 per cent of Australian exports. Strong growth will increase markets for Australia's products, giving us an even greater stake in the region. Conversely, Australia will become less important as a market for East Asian products with our economy likely to shrink in relative terms to a third the size of the ASEAN total by 2010. One implication pertinent to development assistance, is that explicit strategies will be needed to graduate the richer developing countries of the region from Australian aid (see chapter 5) and to encourage them to become larger providers of aid. Some, however, will continue to require assistance for the foreseeable future, including several of the countries of the Mekong basin which have amongst the world's lowest levels of GNP per head. Vietnam, for example, has a level of GNP per head of US\$200 per annum and Laos, US\$320 per annum.

The data in table 3.1 also illustrate the poor economic performance of Sub-Saharan Africa. Its current growth of 3.7 per cent, while higher than at any time since the early seventies, is inadequate to make any significant impact on poverty, given its high population growth rates. IMF/World Bank sponsored debt forgiveness and moves towards better governance are now creating the prerequisites for growth and development in some countries. The challenge is to reinforce these firmer foundations and to find more effective ways of dealing with some of the world's most intractable development problems.

...explicit strategies will be needed to graduate the richer developing countries of the region from Australian aid



The major risk to the achievement of strong global economic growth is conflict. War destroys the stability essential for growth, diverts investment to munitions, disrupts harvests and destroys infrastructure and trade. It is the scourge of development. It has greatly undermined development prospects in Africa and in parts of Latin America. While Asia is currently relatively peaceful, potential flash points exist, particularly in South Asia and closer to home: for example, in the territorial dispute over the Spratly Islands and the fragility of the situation in Cambodia. If strong global growth prospects are to be realised, considerable international diplomatic efforts will be needed in building peace and confidence.

### Economic integration and liberalisation

...the single most important factor explaining significant differences in the performance and prospects of developing countries.

The extent to which countries participate in the rapid growth of the world economy is the single most important factor explaining significant differences in the performance and prospects of developing countries. Trade and investment are engines of growth and are increasing rapidly. In 1994 and 1995 the volume of world trade increased by over 9 per cent. This was more than double the annual growth of the 1980s. World trade is projected to continue to grow by more than 6 per cent each year between now and 2005, creating much greater economic interdependence (World Bank, 1996a, p. 1–17). Foreign investment is also growing rapidly. Foreign direct investment (FDI) in developing countries rose from US\$8.4 billion in 1985 to US\$64 billion in 1995 (UN 1997, p. 7). This internationalisation of economic activity has been encouraged by a technological revolution in communications and computing which has cut business transaction costs and increased productivity. It has also been bolstered by trade and investment liberalisation flowing from greater recognition of the benefits of market-driven decisions and international competition. This has allowed countries to capitalise on their comparative advantages and supplement local resources with those from overseas.

A large group of poor countries is outside the primary international system of creating and distributing wealth.

The countries that have integrated most quickly into the world economy have grown fastest (World Bank 1996a, p. 2-1). However, this is not a global phenomenon. Over the period 1985–94, trade to GDP ratios fell in nearly half of all developing countries. The 48 least developed countries now account for only 0.4 per cent of world trade—half the proportion of 1980. Foreign direct investment to GDP ratios fell in a third of developing countries between 1985 and 1994. A large group of poor countries is at present unwilling to join the world economy or experiencing difficulties in doing so. For the time being, at least, they are outside the primary international system of creating and distributing wealth. Bringing these countries into that system on terms that clearly benefit them is a major global economic challenge.

### Concerns about liberalisation

Many developing countries and non-government organisations worry that trade and investment liberalisation may disadvantage the poorest countries. Obviously, countries with high proportions of people barely subsisting have the least margin for error and the least ability to respond flexibly and innovatively to changes in world markets. There are also concerns that the growing volume of international finance is increasing the vulnerability of the global banking system to economic shocks. A key part of economic liberalisation has been the easing of restrictions on capital movement. Daily foreign exchange dealings now amount to over US\$1 trillion with the vast bulk of it seeking short-term returns. Very large resource flows can occur very quickly, increasing the chances and the consequences of financial runs. The OECD has found that '[in] the wake of the Mexican crisis [of 1994], the sustainability and stability of large global financial market-intermediated resource flows to developing countries is seen to involve systemic risks requiring the provision of a much larger officially provided financial safety net and intensified surveillance by international organisations' (DAC 1996a, p. 57). The World Bank and the IMF already play a very important role in underpinning the security and the stability of the international financial system. As that system grows, they are likely to assume even greater importance.

The finalisation of the Uruguay Round of the General Agreement on Tariffs and Trade and the formation of the World Trade Organization (WTO) with clear timetables for the reduction of tariffs have given liberalisation trends added impetus. There are major consequences for developed and developing countries alike. While there will be many winners, there will also be losers, at least in the short term. Those countries which have specialised in highly protected products, or which depend on preferential access to developed country markets, may be among them. Others may find it difficult to access the opportunities afforded by liberalisation, especially those which have little experience of international trade; which are remote from major markets; or which are reluctant to cede national economic control.

There is no real alternative for countries but to adjust to the new and rapidly changing world economic environment. In an internationalising world, the pursuit of self-sufficiency is a recipe for isolation, stagnation and impoverishment. There are adjustment costs for all countries, but these are obviously much easier for wealthier nations to bear. In addition, while the benefits can be considerable they are not usually immediate. Policymakers in developing countries need to know more about the likely employment, revenue and domestic production impacts of liberalisation and how they might be managed. In short, they need to be convinced that they can gain from liberalisation, and to know over what period they will do so.

There is no real alternative for countries but to adjust to the new and rapidly changing world economic environment.

The links between economic growth and improvements in human development are generally strong, but they are not automatic.

### **Broadening the global economic base**

If the liberalised world economy is to deliver the rewards it promises, if it is to be stable and sustainable, much greater attention will need to be given to equipping poor countries to take advantage of new opportunities and to hedge against the risks. This means that wealthier countries need to do more than just educate developing countries about the new world trade rules. They need to redouble their efforts to help them construct better social and economic foundations to attract private investment and to participate in trade. They also need to recognise that not all will be successful, at least in the short-to-medium term.

Developed countries have to be prepared to help ease the adjustment burdens of developing countries. This is partly recognised in the longer time-frames for developing countries to reduce protection under WTO and APEC rules, but will probably require greater structural adjustment lending by the multilateral financing institutions, particularly aimed at improving safety nets for the poor. In the longer term, safety nets for the poor can only be as strong as a country's economic performance and its commitment to social solidarity. Developing countries must vigorously pursue broad-based sustainable growth and must reinvest the proceeds in means to allow their people to share and contribute further to that growth.

### **Development successes and failures**

The purpose of pursuing economic growth and development is to achieve improvements in people's quality of life. The links between economic growth and improvements in human development are generally strong, but they are not automatic. Papua New Guinea, for example, experienced exceptionally fast, but narrowly based, growth in the early 1990s, accompanied by declining human development. The neighbouring Solomon Islands have achieved reasonable economic growth, but through unsustainable logging, while in phosphate-rich Nauru, growth came at the cost of environmental destruction and had major negative consequences for the population's health and culture. Examining the development record, therefore, entails looking at a wider range of social and economic indicators than growth alone.

Over the last forty years, life expectancy in developing countries has increased by almost twenty years. Over the same period, maternal and infant mortality rates have been halved and adult literacy has doubled. Access to safe drinking water has also doubled to about 70 per cent and food production and consumption have grown 20 per cent faster than the world's population.

**Table 3.2 Improvements in global and regional Human Development Indexes, 1960–1993**

	1960	1970	1980	1993
World	0.392	0.459	0.518	0.746
OECD	0.802	0.862	0.890	0.910
Developing Countries	0.260	0.347	0.428	0.563
Least developed countries	0.161	0.205	0.245	0.331
East Asia	0.255	0.379	0.484	0.633
Latin America & Caribbean	0.465	0.566	0.679	0.824
South Asia	0.206	0.254	0.298	0.444
Sub-Saharan Africa	0.201	0.257	0.312	0.379

Source: UNDP (1996).

Improvement in these fields is reflected in table 3.2 which uses the United Nations Development Programme's Human Development Index to measure development progress by aggregating life expectancy, educational attainment and income.<sup>1</sup> Since 1960 the world Human Development Index has almost doubled. As might be expected from the previous analysis of GDP growth, progress in human development has been most rapid in East Asia and least rapid in Africa. Even the limited rate of progress achieved in Africa over the last thirty years is now threatened by the high incidence of HIV/AIDS.

## Poverty

While the overall development record is good, much remains to be done. It is estimated that between 800 million and 1.3 billion people subsist on less than US\$1 per day. These people are the absolute poor, beside whom most of even the poorest Australians are relatively wealthy. The existence of such extensive poverty amid considerable wealth provides the fundamental reason for having a government development assistance program. Massive inequalities are self reinforcing and destabilising. A world in which the wealth of 358 billionaires is greater than the combined annual incomes of nearly half of the world's population is not politically, economically or morally sustainable (UNDP 1996, p. 2).

<sup>1</sup> The Human Development Index is a composite index compiled as a simple average of progress in increasing life expectancy, adult literacy and primary, secondary and tertiary education enrolment ratios, and income per head. The maximum possible HDI value is 1. The HDI should be more widely used to assess the extent and pace of development—including in the Australian aid program—as it combines some of the most relevant economic and social development data in the one indicator.

...between 800 million and 1.3 billion people subsist on less than US\$1 per day.

**Table 3.3 Poverty in the developing world, 1987–1993**

Region	1987	1990	1993
	Millions of poor (% of pop in each region)		
East Asia	464.0	468.2	445.8
	28.2%	28.5%	26%
East Asia excl. China	109.2	89.3	73.5
	23.2%	17.6%	13.7%
East. Europe & Central Asia	2.2	n.a.	14.5
	0.6%	n.a.	3.5%
Lat. America & Caribbean	91.2	101.0	109.6
	22.0%	23.0%	23.5%
Middle East & North Africa	10.3	10.4	10.7
	4.7%	4.3%	4.1%
South Asia	479.9	480.4	514.7
	45.4%	43.0%	43.1%
Sub-Saharan Africa	179.6	201.2	218.6
	38.5%	39.3%	39.1%
Total	1227.1	n.a.	1313.9
	30.1%	n.a.	29.4%

Source: World Bank (1996c, p. 4).

Table 3.3 illustrates recent global poverty trends which provide a major context in which AusAID must make its policy decisions. The decline in the incidence of global poverty between 1987 and 1993 is largely a welcome consequence of greater growth. The reduction in poverty in East Asia (excluding China) from 23.2 per cent in 1987 to 13.7 per cent just six years later is particularly striking. So too is the fact that South Asia, with the highest numbers and incidence of poverty, has slightly reduced the proportion of its population in poverty over the same period. The major exception to this positive picture is Sub-Saharan Africa, where the numbers of poor grew by over 20 per cent over this short period and where the incidence of poverty has also increased. It is likely that Africa will, in time, replace South Asia as the region with the highest incidence of poverty in the world.

### Future challenges

An effective development assistance program requires a good sense of what the most pressing development needs are, where they are, and how they are likely to change. Many current trends can be altered and unforeseen developments may create entirely new circumstances. An effective aid program must constantly reassess and decide how best to respond to changing needs.

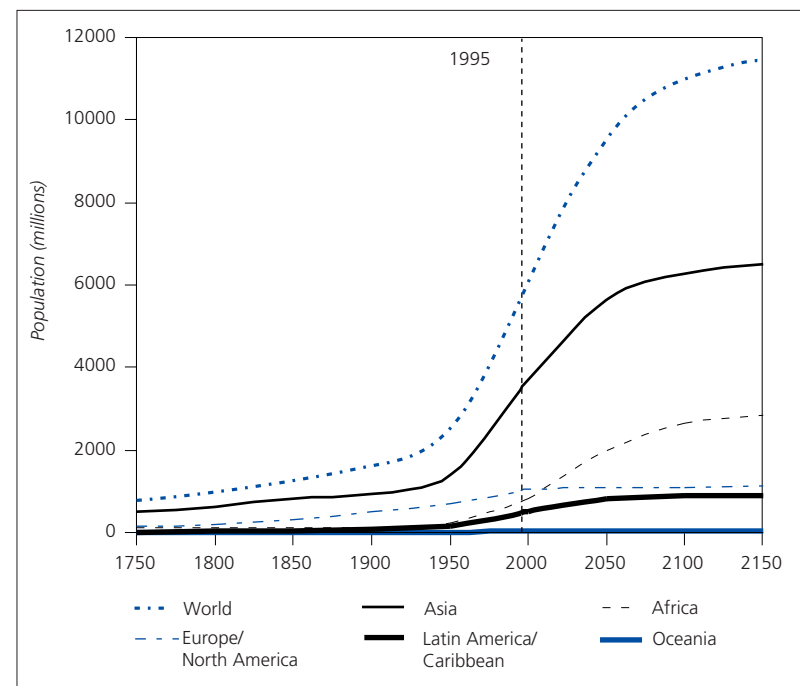
### Population growth

While the rate of population growth is slowing across the world and in every region of the globe, the number of people is continuing to grow strongly, currently by over 90 million people each year (see figure 3.1). The world's population will probably not level out until towards the end of next century. By that time, there may be 11 billion people on earth. Nearly all of the additional population growth is occurring in developing countries, reflecting poverty and the inadequacy of educational and health programs in those countries.

Population growth increases the demand for food, shelter, fuel and employment, causing some to argue that we are approaching finite limits to the carrying capacity of the earth. However, growing numbers of people contribute extra labour and ingenuity as well as adding to demand. Population growth can force the pace of innovation leading to unforeseen improvements in technology and production. For these reasons it is not clear that fast population growth inevitably retards development. The challenges, however, are much greater for poorer societies. These countries generally lack the institutional capacity to respond to fast growing populations. Unfortunately, these are the very regions where population growth is fastest. They include most of the countries of Africa, parts of Asia and many of the Pacific island states.

While the rate of population growth is slowing, the number of people is continuing to grow strongly

Figure 3.1 World population increase, 1750–2150



Sources: Bos et al. (1994, p. 13); UN (1994, p. 101).

...world rice production will need to increase by 70 per cent over the next thirty years

### Food

Sustainably meeting future food needs is a major concern of development planners, agricultural scientists and environmentalists. The International Rice Research Institute (IRRI) projects that world rice production will need to increase by 70 per cent over the next thirty years, mainly to meet the growing needs of the poor in developing countries. Feeding a world of perhaps 10 billion in the middle of next century will require a continuation of significant yield improvements at a time when agricultural productivity gains appear to have reached a plateau. It may also entail further extension onto marginal and environmentally critical lands, increasing subdivision and a greater use of irrigation, fertilisers and pesticides. Marine resources will also come under increasing pressure, with the possibility of major damage to the environment and food supply through over-exploitation. These problems may well be surmountable, as they have been in the past, but not without substantial new investments in agricultural research, in infrastructure and education, and the more urgent application of sustainable production practices.

...most Asian countries will have severe water problems by the year 2025.

### Water

While the percentage of the world's population with access to safe water has increased over the last few decades, much current use is unsustainable. Over the course of this century, water withdrawal from lakes, rivers and aquifers has increased at twice the rate of population growth. The number of people facing water scarcity is projected to increase 500 per cent over the next 30 years, reaching nearly a billion people. It has been predicted by IRRI that most Asian countries will have severe water problems by the year 2025. Other critical areas will include North Africa and the Middle East, but also less expected quarters such as some of the small Pacific island states. Already per capita water availability in Asia has declined by half since the 1950s. The solutions involve much more than dams, water treatment plants and pipes, important as these can be. They require better management—more efficient irrigation, appropriate pricing policies, recycling and the protection of watersheds—and the negotiation of international and domestic agreements on water use to prevent water shortages becoming major sources of conflict.

The world's labour force is expected to increase by about 40 million people a year over the next decade.

### Employment

The world's labour force is expected to increase by about 40 million people a year over the next decade. While extra workers can increase output, absorbing them into productive employment is a big challenge for many countries. The South Asian economies of Pakistan, Bangladesh and Nepal will need to generate 30 per cent more jobs to accommodate labour force growth while an even bigger increase will be required in Solomon Islands and Vanuatu. Failure to do so will not only further entrench poverty but will also exacerbate crime, violence and

political instability. This underlines the importance of achieving broad-based, sustainable economic growth and development. Only sustainable growth can deliver long term jobs in sufficient numbers and at high enough wage levels to make a long term impact on poverty.

### Urbanisation

A pronounced shift of the world's population from rural to urban areas is currently under way. Early next century, for the first time in human history, a majority of the world's population will live in urban areas. These are in many cases chaotic conglomerations of people caught between tradition and modernity. Over the next twenty years the cities of Asia may gain another 500 million inhabitants. The biggest problems are occurring with the growth of megacities of over 20 million people, many of them made up of shanty towns and slums without sanitation, power or water. To alleviate these problems, massive investments in urban infrastructure will be required, mostly financed by the private sector. Increased efforts will also be required to lift agricultural productivity and incomes, both to feed the cities and to slow the movement of people towards them.

### Interdependence, security and shared interests

The rapid integration of the world economy, the communications and computing revolutions and increased travel between countries, are causing international problems as well as providing new opportunities for prosperity. Many of the biggest threats to national and global security now come from international economic fluctuations, social and economic inequalities, and the greater mobility of people and products, as well as from international environmental impacts. Australia, with its vast coastline, sparse population and heavy dependence on primary produce, is particularly vulnerable to some of these threats. It is very much in our interest for us to work to diminish them.

Few of these threats to national and global security can be dealt with effectively by markets, by individual nations, or even by bilateral partnerships. They require consistent, coordinated and effective multilateral responses. As noted in a submission to this review: 'With rapidly intensifying global integration, the only efficient means of offsetting some forms of international market failure is through cooperative public provision of certain types of goods and services, including basic development assistance'.<sup>2</sup>

<sup>2</sup> Langmore, Mr John, MP, Canberra, A.C.T.

Over the next twenty years the cities of Asia may gain another 500 million inhabitants.

Few of these threats to national and global security can be dealt with effectively by markets, by individual nations, or even by bilateral partnerships.



The number of refugees and displaced people almost doubled from about 22 million in 1985 to about 40 million in 1995.

### Environmental degradation

Environmentalists argue that population growth and increasing per capita consumption are already threatening the ecological basis of life on earth. Deforestation, soil loss, salinisation and loss of biodiversity are all major problems. Potentially, the most significant of all is climate change brought about by global warming. Reducing carbon dioxide emissions, projected to grow by 40 per cent by 2010, will be very difficult. But if global warming is a reality and world weather patterns alter significantly, agricultural production, including in Australia, may be severely disrupted and some countries, most notably Bangladesh and small low-lying islands in the Pacific, may lose large tracts of land to the sea.

Links between development and the health of the environment are best countered through the pursuit of ecologically sustainable development. The most useful long-term strategies for improved environmental management involve incorporating environmental costs into resource and product prices. Higher prices for goods or services that are environmentally destructive to produce will reduce demand for those products and stimulate the search for cheaper, less damaging alternatives.

### Conflict and humanitarian emergencies

The number of humanitarian emergencies has increased considerably over the last three decades due to increased numbers of people in poverty, environmental degradation, ethnic rivalry and the relaxation of superpower conflict-management. The number of refugees and displaced people almost doubled from about 22 million in 1985 to about 40 million in 1995. It is estimated that there are currently 50 or more 'little conflicts' around the globe, affecting about 300 million people. Spending on emergency relief and rehabilitation has had to increase substantially, diverting resources from long-term development efforts.

Apart from fundamental humanitarian concerns, Australia has a national interest in diminishing the likelihood of conflict and emergencies. Ethnic, religious and political conflicts easily spill over national borders. Other countries can become embroiled, leading to regional instability and warfare, and greatly reducing the prospects of mutually beneficial economic growth and development. Prolonged and intense emergencies can generate large movements of people, as can large economic disparities. Each year over a million people illegally cross the Mexican border into the United States seeking higher standards of living. Australia experienced the arrival of relatively small numbers of 'boat people' from Vietnam in the 1970s, and more recently asylum seekers from Cambodia and China. Any major instability in the region, or extensive failure of development, might be expected to generate much larger waves of refugees to Australia. It is in Australia's interests to work to prevent such disruptive mass movement by dealing with its potential causes.

## Health and quarantine threats

The effective eradication of smallpox and the control of polio and tetanus are major development victories which diminish health risks in developed as well as developing countries. Malaria and tuberculosis, however, persist and are on the increase, new viruses have emerged and many bacteria are becoming more resistant to antibiotics. Each year over 12 million children under five (over 30 000 a day) die, mostly from preventable diseases. Australia has an interest in reducing the incidence of diseases overseas to reduce their spread to this country. The increased mobility of people is increasing the mobility of disease. The spread of Dengue fever in northern Australia is a case in point.

Much more devastating, however, is HIV/AIDS. Growth in understanding of HIV/AIDS and its severe development impact has been slow, but the progress of the disease has not. The number of cases of HIV worldwide is projected to be as high as 110 million by 2000, with 90 per cent of them in developing countries. In Africa, life expectancy is expected to be reduced from 62 years to 47 years by the year 2000 as a result of HIV/AIDS. Particular concern has been expressed by the World Health Organization at the potential for the number of infected people to escalate rapidly in Papua New Guinea and the Pacific, which raises particular challenges for regional governments, and for Australia.

Plant and animal diseases and pests cross national boundaries just as human diseases do, and the risk increases with increased international tourism and trade. As a major primary producing nation, Australia has a particular interest in safeguarding its crops and animals from disease. Supporting international agricultural research is one way in which pests and disease can be controlled at home and abroad. Assisting countries such as PNG with quarantine procedures is another. For example, knowledge gained through aid to assist Asian and Pacific countries in dealing with fruit fly infestation led to the rapid identification of papaya fruit fly in northern Australia in 1995 and the basis for a control strategy. Similar local benefits have resulted from work in developing countries on other problems, such as Newcastle Disease which afflicts poultry.

## Trends in private finance and Official Development Assistance

### Private finance

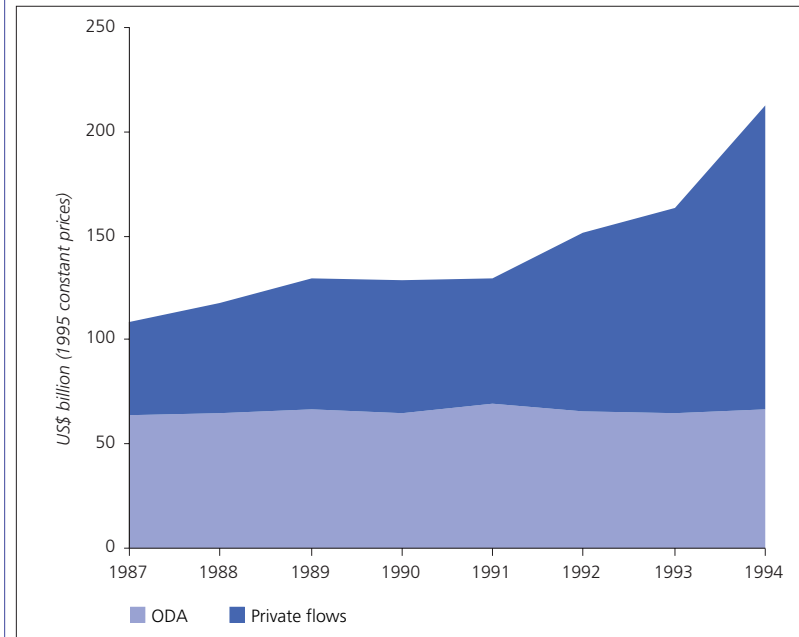
The complex international changes outlined above are already affecting interaction between developed and developing countries. A notable change, as indicated in figure 3.2, is the increase in flows of private capital to developing countries. Net private flows, including foreign investment and commercial lending, more than doubled between 1991

Each year over 12 million children under five die, mostly from preventable diseases.

The number of cases of HIV worldwide is projected to be as high as 110 million by 2000, with 90 per cent of them in developing countries.

Net private flows more than doubled between 1991 and 1995.

**Figure 3.2 Total net ODA and private flows to developing countries, 1987–1995 (US\$ billion, 1995 constant prices)**



Source: DAC 1997a, (p. A1).

and 1995. This increase was partly caused by recession in developed countries, resulting in the diversion of capital to fast growing markets in developing countries. This, and a recent slowdown in East Asia, have caused doubts about the sustainability of the rate of growth in private flows. The underlying trend, however, is more long-term, being driven by the fundamentals of globalisation, especially growing markets and lower labour and production costs in developing countries.

...three-quarters of all foreign direct investment has gone to just ten countries

One conclusion that might be drawn from the growth in private flows is that there is a diminished need for aid. Fast growing, stable countries now have much easier access to private funds for development and less need for aid. Private flows, however, are heavily concentrated. Over the last twenty-five years three-quarters of all foreign direct investment has gone to just ten countries—most of them in East Asia and Latin America. By contrast, net private flows to Africa actually declined between the mid-1980s and early 1990s and remain under three per cent of total private flows.

Private flows go where the highest returns can be earned, at the lowest risk.

Private flows tend to bypass the poorest countries because they are poor and because they are often politically less stable than wealthier countries. Many have inadequate infrastructure, poorly educated and often unhealthy populations and weak governance. The investment risks are higher and rewards fewer. Private flows go where the highest returns can be earned, at the lowest risk. While this rewards good

policies and sound projects, it does not respond to need and tends to increase the gap between rich and poor. Part of the answer is to encourage private flows into a much wider range of countries, regions and sectors. Clearly aid has a role here, as discussed in chapter 8. Even so, it is unlikely that international private flows will become a major source of development finance for most of the least developed countries in the foreseeable future. Private financial flows have not obviated the need for Official Development Assistance.

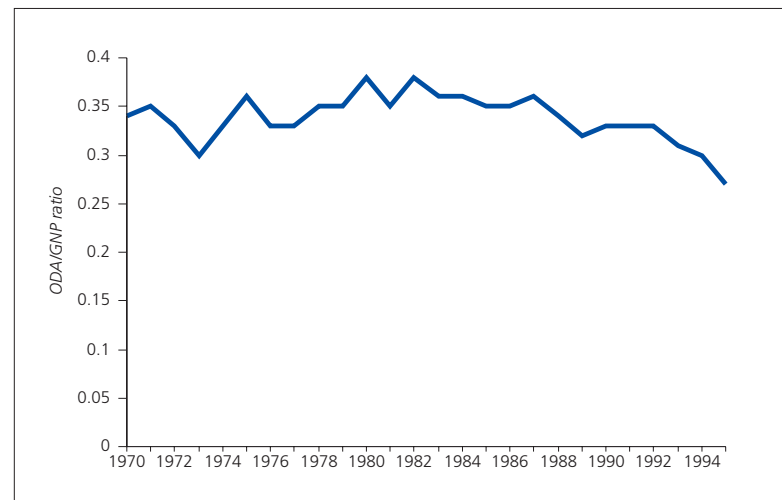
### Official Development Assistance

The volume of Official Development Assistance has fallen significantly as a percentage of the total GNP of donor countries: down from around 0.35 per cent, where it had stood for most of the twenty years up to 1987, to 0.27 per cent in 1995.

The decline in ODA partly reflects pressures to reduce government spending, the reduced use of aid as a strategic weapon following the end of the cold war, and scepticism about aid effectiveness. Even so, it seems surprising in the face of growing international economic, environmental and social interdependence. The need for multilateral action to create frameworks for international trade and financial flows and to deal with the health and criminal consequences of the unprecedented movement of people and products has never been stronger. Nor has the case for using the tools and technologies of the richer countries to help the poorer ones. And yet ODA/GNP ratios fell in 15 of 21 OECD countries in 1995, with United States aid falling by a quarter.

ODA/GNP ratios fell in 15 of 21 OECD countries in 1995

**Figure 3.3 DAC weighted average ODA as a percentage of GNP, 1970–1995**



Source: DAC (1997a).

...real risk that aid is being asked to do too much and this is dissipating its effectiveness, and may further reduce public support.

Part of the response of aid agencies to pressure on ODA spending has been to try to demonstrate direct relevance to the resolution of every international difficulty from upgrading North Korea's antiquated nuclear power system to directly ending child labour. Some new themes reflect heightened understanding of the importance of such development fundamentals as good governance, local ownership and private sector development, but many seem to be about serving, or at least appealing to, special interests. The development agenda has become much more crowded as a result of constituency-building exercises. There is a real risk that aid is being asked to do too much and this is dissipating its effectiveness, and may further reduce public support. Development agencies need to refocus their activities on the core business of development and judge their success against the long-term progress of poor countries.

As a result of reduced resources, and because of the diversion of aid to countries-in-transition and to peace keeping and relief activities, development resources are being severely squeezed. Donors are already becoming much more selective, narrowing the range of countries assisted and setting more conditions. This has led to an effective withdrawal of Britain and the US from the South Pacific, potentially increasing the demands made on Australia. Countries not fully focused on maximising their own development will face more difficult circumstances in future, as they find themselves increasingly bypassed by aid as well as by private flows.

The emergence of several actual and potential new donors offers one of the few prospects of increasing total ODA in the medium term. Regional countries like South Korea, Taiwan, Singapore, Malaysia, Brunei and Thailand are increasingly able to provide development assistance to their poorer neighbours. Developed countries have an interest in them doing so, not just to reduce the call on their own resources but also to encourage regional cooperation and the sharing of development experiences. Developed countries can also gain new insights from working directly with emerging donors, helping to improve aid quality. Existing donors such as Australia can support emerging donors through consultative groups, bilateral discussions, officer exchange and co-financed activities.

## **Australia and globalisation**

The powerful forces of international economic integration and globalisation are also having major effects on Australia. Like many nations, Australia is experiencing significant adjustment problems, particularly in relation to freer trade and investment. We are, however, in a much better position than many countries because of our strong resource base and high national income. If higher living standards are to be achieved, ongoing restructuring, and international integration will

be required. Cooperation with the developing world is essential to this process to remove impediments to mutual growth and to bring about greater stability and security. And yet over the last decade Australia has reduced development cooperation spending from 0.45 per cent of GNP to 0.29 per cent. Only four countries—Belgium, Germany, Italy and the US—have reduced their assistance more.

The Review Committee believes that declining aid levels reflect not only the need for fiscal responsibility, but also public ambivalence about both internationalisation and the effectiveness of aid. It was easier to support ‘charity for the starving’ in the 1960s when unemployment was under 2 per cent than it is to support *development cooperation* with people who are increasingly among our direct competitors in the 1990s when unemployment is at 8 per cent or more. It is also easier to deny the success of aid when countries in which it has been highest for long periods have developed least (i.e. in Africa). The people of developing countries, however, are not only our future competitors, they are also our future customers, business investors and employers. We need their cooperation to achieve greater economic, environmental and national security and they require our cooperation to accelerate their development. In order to achieve this, Australia needs an aid program that is based on an understanding of likely future trends, and which is capable of being responsive both to gradual, predictable changes, and to the unexpected.

Development assistance programs that help poor people and nations also strengthen our economy and support our broader foreign policy goals.

The people of developing countries are not only our future competitors, they are also our future customers, business investors and employers.

## **PART B—RESPONSE**

## CHAPTER 4: OBJECTIVE OF THE AID PROGRAM

*It is difficult to determine much else about the aid program without first being clear about its objective. Over the past decade, the Australian aid program has struggled to satisfy a triple mandate, emphasising foreign policy and commercial benefits to Australia as well as development benefits to recipient countries. This mandate, or rationale, has been confused with the program's operational objective, to the detriment of development effectiveness. A clear and unambiguous objective is required:*

***The objective of the Australian aid program is to assist developing countries to reduce poverty through sustainable economic and social development***

*Community values and national interests will play a role in how this objective is pursued and will influence the scope and focus of the program. However, the purpose of the program—poverty reduction through sustainable development—must remain at the core of all aid policy and program implementation. AusAID needs to develop not just poverty reduction policies but also strategies to implement them, including a clear commitment to local participation in aid projects and programs.*

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### Introduction

The current aid program is beset by a confusion of purpose. This was a clear and recurring criticism put to the Committee and one that was confirmed in our consultations, discussions with AusAID officers and by our experience overseas. The confusion arises from there being three different impulses, humanitarian, commercial and diplomatic, all acting on the program and not always in the same direction.

It is widely understood that the primary motivation for providing aid is humanitarian. Many also argue that the case for a substantial government aid program is bolstered by foreign policy and commercial considerations. A government-to-government aid program is, by definition, part of a donor country's relations with recipient countries—it cannot be conducted without regard for foreign policy considerations. In fact, most donors see aid as a significant tool in support of their foreign policy, and some also try to use aid to promote their commercial interests directly.



The question is the extent to which foreign policy and commercial considerations should influence aid priorities: whether they are seen to be benefits that will automatically flow from a well designed and directed aid program or whether they drive it to an extent that could compromise development objectives.

## Evolution of objectives

The triple mandate which currently underscores the aid program has its roots in the 1984 Report of the Jackson Committee of Review. That report said (Jackson 1984, p. 19): 'Australians generally agree that the overall aims of foreign aid are to achieve humanitarian, strategic and commercial goals and are prepared to support an aid program which achieves these objectives. Australian aid policy has, therefore, not one but several mandates, and these need to be balanced against each other through the political process'.

Since Jackson, aid policy has been founded on a pragmatic statement of goals which allows for considerable flexibility in determining the relative priorities for individual components of the aid program. Development has usually, but not always, been acknowledged to carry more weight than commercial and foreign policy interests. However, in the operating environment of AusAID, the ambiguity has been more pronounced. The current Corporate Plan, which has been in place since 1994, articulates the goal as follows: '[to] promote sustainable development in developing countries in response to Australia's humanitarian, foreign policy and commercial interests'.

For the past decade, there has been debate about how the requirements of these various objectives should be balanced within the program and whether and to what extent the pursuit of multiple objectives has eroded effective development impact. A parliamentary committee reviewing the implementation of Jackson's recommendation in 1989 confirmed that, '[the] humanitarian motive must be paramount: aid should be given to promote development' and warned that, '[AusAID] must take care to ensure that foreign policy and commercial goals are pursued without corrupting the quality of aid' (JCFADT 1989).

The Government elected in March 1996 announced a change in aid policy objectives to clarify and simplify the purpose of the aid program. The most recent Budget document states: 'The principal objectives [of Australia's foreign aid] are to ensure the reduction of poverty and the promotion of economic development as a permanent means of overcoming such poverty' (*Australia's Overseas Aid Program 1996-97*, 1997, p. 10).

## Public views about aid objectives

The public submissions received by the Committee, and consequent consultations, were valuable in developing the Committee's thinking on the key question of objectives. While some groups pursued special interests, there was a high degree of convergence on the view that the primary goal of development assistance should be poverty reduction.

Many submissions were critical of the lack of focus in the program, which they attributed to the triple mandate. There was sustained criticism from various sources that this has confused objectives and compromised developmental outcomes.

...the lack of focus has confused objectives and compromised developmental outcomes

### Box 4.1 Aid objectives: excerpts from submissions against mixed objectives

'It is essential that the Australian aid program's primary motivation be humanitarian and that its fundamental goal be about poverty eradication...In the past the Australian aid program has sent mixed messages to its recipients and has resulted in conflicting agendas. The triple mandate perpetuated by the Jackson Review underlined this result.' *World Vision of Australia*

'The hierarchy of goals of Australian aid have generally constituted flimsy *post hoc* rationalisations. Though the emphasis has been on 'development' assistance, trade needs and strategic issues have played a major role in final decisions. This has, inevitably, had negative effects. It has created confusion in the minds of the public and many aid professionals about the purpose of Australian aid, and that confusion is bound to promote inefficiency. But more importantly, multiple aid goals have fostered a situation of moral ambiguity.' *Professor Dean Forbes, Flinders University of South Australia*

'The primary objective of aid is to alleviate poverty in developing countries through economic and social development. Economic growth is fundamental to poverty alleviation; it is a necessary condition for sustained improvements in living standards...it is doubtful that multiple objectives can be pursued without trade-offs between conflicting objectives.' *Commonwealth Department of the Treasury*

'Aid programs in the 1980s and 1990s have become skewed geographically and sectorally in favour of countries and sectors which promise greatest commercial returns for the donor countries, rather than favouring programs and projects which are most likely to directly target poverty eradication. The confusion in the objectives of development assistance programs has also contributed to some erosion in public support for them. Research

shows that the majority of Australians believe overseas aid should be directed at meeting the basic needs of the poor, not at attracting commercial benefits for Australian companies.' *Australian Council for Overseas Aid*

'Much has been made...of the benefits which accrue to Australia through its official aid program. Whilst these benefits are both real and considerable, there can be dangers in unduly shaping the aid program in order to obtain or maximise them.' *University of Sydney*

'...the principal objective of the aid program should be poverty reduction. Political and commercial considerations will influence the aid program, however humanitarian considerations should be the clear priority of Australian aid...Commercial, private sector led initiatives...may often be the best mechanisms to achieve effective and sustainable development. However it does not follow that facilitating or being an integral part of this process is the best use of aid...Aid can be most effective when it is employed to assist regions, sectors and communities which other resource flows bypass or are slow to target.' *Hassall and Associates Pty Ltd*

Some submissions, however, while accepting the importance of sustainable development, went on to argue that other, usually commercial, objectives are also important and could be pursued vigorously without diminishing the achievement of the development objective.

#### **Box 4.2 Aid objectives: excerpts from submissions supporting mixed objectives**

'There is nothing wrong with Australia's using its aid program to benefit its exporters where this fits in with the requirements of the recipient nation. On the contrary a strong Australian economy with the industrial infrastructure capable of delivering a significant aid program can only benefit recipients.' *The Association of Consulting Engineers Australia*

'The Queensland Government believes that the current policy framework of the Australian aid program, under which it meets three objectives—humanitarian, strategic and commercial—has served Australia well, and should be retained.' *Department of Economic Development and Trade, Queensland Government*

“The [aid] philosophy must firstly ensure economic benefits for the recipient country through an ongoing reduction of poverty and for Australia through sourcing of our goods and services. Secondly, strategic benefit for our trade and external policies is an aspect of our aid program that has been lacking in the past, but must now be a fundamental tenet in deciding the future direction of our aid program. Using these tenets as the basis for providing aid will provide a very powerful tool for both Australia and the recipient countries of our aid.’ *Department of Asian Relations, Trade and Industry, Northern Territory Government*

## Need for a more focused approach

The Committee believes that the aid program will benefit considerably from a clearer, more focused and unambiguous statement of its objective.

## Pursuit of multiple objectives has compromised development impact

The Committee believes that trying to satisfy the conflicting agendas of Jackson’s triple mandate has compromised the aid program’s capacity to pursue the most effective development activities. This is a well-recognised problem. In his seminal work, Professor R. Cassen (1994, p.12) notes: ‘On the donors’ side, one of the most common causes of failure is the excessive intrusion of commercial or political motives. When the donor is less interested in development than in the sale of equipment or in the political gains from supporting a regime, it is not surprising that aid may give a poor return economically’. Gordon (1996) makes much the same point: ‘It has often been difficult to use foreign aid effectively to pursue multiple goals. In particular, there are cases where aid given for security purposes has had the side-effect of impeding economic reform’.

In recent years, the pursuit of commercial returns has become a driving force of Australian aid. Since 1993, there has been a requirement that all areas of the aid program be covered by commercial strategies. Country strategy papers must ‘indicate how the proposed program will serve Australia’s trade interests’ (AIDAB 1993b). Unfortunately, there is no parallel requirement to indicate how the aid program can best contribute to poverty reduction. This sends the wrong signals to aid decision-makers about the relative importance of these two objectives. The China and India country programs, for example, were both developed with an explicit commercial focus which led to the selection of activities based in part on the desire to demonstrate Australian expertise and to help build Australia’s markets in those countries. Some of these activities, for example wool storage and diamond processing in China and metal smelting in India, have

...the pursuit of commercial returns has become a driving force of Australian aid

...short-term commercial and foreign policy interests may also have unduly influenced Australia's education and human resource development policies, resulting in an imbalance in favour of in-Australia tertiary scholarships

The Development Import Finance Facility (DIFF) was arguably the most damaging way in which direct commercial objectives were pursued

apparently been both commercially and developmentally unsuccessful. In other country programs, activity choice has been strongly influenced by short term commercial and foreign policy considerations with decisions on some high-profile projects taken before hard analysis of development benefits and various financing options.

The Committee is concerned that short-term commercial and foreign policy interests may also have unduly influenced Australia's education and human resource development policies, resulting in an imbalance in favour of in-Australia tertiary scholarships. There is good evidence that this has been at the expense of more cost-effective in-country and in-region training, and at the cost of support for basic education and higher-education capacity building which, as is discussed in chapter 7, yield much higher development returns.

Development effectiveness can also be compromised through the practice of tying Australian aid to the exclusive purchase of Australian goods and services. The Committee has concluded that tying aid is likely to result in a development penalty of tens of millions of dollars per annum (see chapter 10). Even in the case of products where Australia is an internationally competitive supplier, such as wheat and rice, AusAID may not be obtaining the best possible price. The practice of tying aid to Australian grain purchases diminishes AusAID's negotiating power, and concern to maximise the benefits to Australian suppliers seems to have militated against a more hard-headed approach to contract negotiations with the grain marketing authorities. As is set out in chapter 16, it has also resulted in the provision of much more food aid than could be justified on development grounds alone.

The Development Import Finance Facility (DIFF) was arguably the most damaging way in which direct commercial objectives were pursued under the aid program, since not only Australian aid, but also the *recipient's* scarce capital were tied to Australian supply, thereby multiplying any cost penalty. In addition, during most of its history, projects were supplier-driven and subject neither to domestic competition nor to the setting of priorities within a full range of alternative development activities in the country in question. The problems of DIFF are discussed in chapter 11. Another commercial program, the Private Sector Linkages Program (PSLP), supports Australian businesses in establishing links with similar enterprises in developing countries. However, AusAID's own survey of recipients shows that over half of the activities would have been undertaken without aid funding, although perhaps in a different form. To use aid funds to finance these projects means transferring at least some aid resources to Australian businesses rather than to developing countries.

The pursuit of short-term commercial and foreign policy interests has had far reaching impacts on development effectiveness in another way too. It is partly as a result of the need to maintain flexibility to

pursue multiple objectives that AusAID's systems, from strategic planning to country programming, activity selection and evaluation, are too imprecise to allow it to determine and pursue the best development choices, or to assess the developmental effectiveness of choices made. Aid effectiveness is the subject of chapter 9.

This was a theme advanced in some of the submissions received. For example, the South Australian Government noted: 'The aid program suffers from a certain degree of "ad hoc-ism". "Off-the-cuff" decisions, usually made at the Ministerial level, to provide funding for major projects, such as bridges, can weaken other areas of the aid budget thus disadvantaging groups with possibly more urgent needs. It is important to develop guidelines for aid delivery that ensure the aid program is not susceptible to distorting political and commercial pressures'.<sup>1</sup>

### Advancing Australia's interests

In the Committee's view, the aid program can be a very effective tool for *indirectly* promoting Australia's *long-term* foreign policy and commercial interests, but it is quite undesirable that it be used to promote Australia's *short-term* foreign policy and commercial interests *directly*.

The risk to the best development outcome of pursuing a direct commercial objective is too high. Commercial objectives should have no role in shaping the program. Also, while it might be appropriate for foreign policy objectives, among other criteria, to have a role in guiding the geographic focus, at the level of individual project or program selection, they can be distorting.

A well-designed and delivered aid program will deliver long-term foreign policy and commercial benefits without the need to pursue them specifically. The Committee believes that maximising developmental benefits to recipients is most likely to maximise long run returns to Australia in terms of increased trade opportunities with growing economies, regional security and stability, and recognition of Australia as a responsive and effective development partner. More immediate commercial and diplomatic benefits may well flow from aid projects, but although these can be welcomed as an additional benefit, they should play no part in project planning. The fact that projects have multiple *outputs* (or benefits) does not mean that they should have multiple *objectives*.

Many and varied pressures will inevitably continue to be brought to bear on the aid program: what should be delivered, where and how. Without a clear understanding of its objective there is the potential for the program to be swung off track. However, if the test 'does it advance the objective?' is always applied, then such influences should not be able to distort the longer-term focus of the program.

<sup>1</sup> Submission from Department of Manufacturing Industry, Small Business and Regional Development, Government of South Australia.

A well-designed and delivered aid program will deliver long-term foreign policy and commercial benefits without the need to pursue them specifically.

**Recommendation 4.1** The objective of the Australian aid program should be to assist developing countries to reduce poverty through sustainable economic and social development. Australia's long-term foreign policy and commercial interests also will be well served by a clear focus on this objective, but the pursuit of short-term commercial or diplomatic advantage through the aid program can seriously compromise its effectiveness and should play no part in determining project and program priorities.

The use of the word 'sustainable' in this recommended objective for the aid program reflects two intentions. Firstly, it reflects the need to ensure that aid supports activities which have *lasting* impacts in recipient countries. This is achieved when development activities take into account the social, financial, economic and institutional context in which they are implemented and encourage community participation and ownership of the activity. Secondly, it also reflects the now widely endorsed requirement that aid projects should be environmentally sustainable. That is, they should be undertaken in ways which maintain the ecological processes upon which life depends. This aim of environmentally sustainable development is discussed in chapter 14.

The Committee considers that it is also appropriate to pursue the idea of a development charter to give the aid program a legislative mandate. A charter would provide a clear, binding and public understanding of the objective of the aid program. The proposal for a charter is discussed in chapter 20.

## Approach to poverty reduction

A more focused objective for the aid program has implications in practical and operational terms for AusAID. The following considerations need to be taken into account in giving effect to the new poverty reduction objective.

### More than economic growth

Development experts have debated the relationship between economic growth and poverty reduction for decades and there is now widespread agreement on two points:

- economic growth plays a vital role in sustainable poverty reduction in developing countries; and
- development strategies which focus only on maximising economic growth are inadequate: the *pattern* and *quality* of growth are just as important as its pace.

Leading development organisations such as the World Bank and the United Nations Development Programme now agree that, in addition to promoting growth in a broad sense, aid interventions need to be more carefully targeted to promote patterns of economic growth which maximise the impact on poverty.

‘...this growth by itself does not automatically translate into the fastest possible rate of poverty reduction in a specific country...While economic growth remains the cornerstone of the Bank’s strategy for reducing poverty in developing countries, measures can be taken to maximise the benefits received by the poor from growth. There are constraints that mute the poor’s and the very poor’s contribution to growth and their ability to take full advantage of the opportunities produced by growth...much of the Bank’s recent support for governments in the area of poverty reduction has concentrated on removing these constraints’ (World Bank 1996c, p. 10).

This convergence of perspectives on poverty reduction has been brought about in part by the results of recent economic research. Whereas traditional theories focused on physical capital formation as the critical engine of growth, more recent work has convinced many economists that human capital has a much more important role than was previously recognised. For example, World Bank research covering 192 countries found that only 16 per cent of growth was explained by physical capital, while 64 per cent could be attributed to human and social capital (UNDP 1996, p. 7). This has led the World Bank to increase rapidly its investments in human resource development and in interventions designed to increase the economic participation of the poor.

### **AusAID policy**

In 1993, a comprehensive statement of the Australian aid program’s poverty reduction policy (Bilney 1993) put forward a framework for poverty reduction based on support for three key areas:

- sustainable economic growth
- investment in human resources through education, health, capacity building and social sector development; and
- safety nets and poverty targeting, which includes emergency relief.

This is broadly consistent with the new direction in development theory and the approaches of leading international development organisations to the poverty question. However, AusAID appears to have regarded this policy statement, and its predecessor in 1991, as a re-statement of existing policy and practice rather than as guidance to program managers on how to improve the impact of their programs on poverty. The 1993 statement was not accompanied by any strategy for putting the policy into effect, except a requirement that country strategy papers be broadly compatible with the policy.

...in addition to promoting growth in a broad sense, aid interventions need to be more carefully targeted to promote patterns of economic growth which maximise the impact on poverty.

Whereas traditional theories focused on physical capital formation as the critical engine of growth, more recent work has convinced many economists that human capital has a much more important role than was previously recognised.



AusAID needs poverty reduction *strategies*, as well as a poverty reduction *policy*.

AusAID is a *development* agency and not a *welfare* agency. Its strategies for poverty reduction should be through social and economic development programs.

### Priorities and strategies

The Committee believes that AusAID's approach to poverty reduction should be more strategic and more targeted. If the objective of the aid program is to become more clearly focused on sustainable poverty reduction, then AusAID needs to implement its policy on this issue. AusAID needs poverty reduction *strategies*, as well as a poverty reduction *policy*.

It is important to maintain AusAID's practice to date of avoiding welfare approaches to poverty reduction, apart from in cases of emergency relief. AusAID is a *development* agency and not a *welfare* agency. Its strategies for poverty reduction should be through social and economic development programs. However, there are many paths to sustainable development, and some have greater, more direct, or more sustainable effects on poverty than others. This means that AusAID needs to become more discriminating in choosing its interventions, in order to maximise the impact on poverty in recipient countries.

On the basis of the Committee's examination of recent trends in development theory, the experience of successful developing countries, and the work of other donor organisations, including that of the World Bank (1996c), the Committee recommends that AusAID move to a revised poverty reduction policy. This should strike a balance between strategies which help to establish a framework for broad-based economic growth, and other, equally important strategies which directly target the poor in ways which increase their productivity and overcome constraints to their full integration into the growth economy. The new poverty reduction framework should therefore be based on the following programming priorities:

**Recommendation 4.2** In seeking to promote poverty reduction through economic and social development, the Australian aid program should adopt the following *programming priorities* in its cooperation with developing countries:

- *Establishing a framework for broad-based economic growth*
  - by encouraging sound national economic policies; by helping to develop efficient, accountable and equitable government administration; and by providing essential economic and social infrastructure, with particular attention to the needs of poor communities.
- *Increasing the productivity of the poor*
  - by facilitating access by the poor to key productive assets, including land and credit; and

- by investing in the human capital of the poor in areas such as health and population programs; education and training; and agricultural technology transfer.
- *Overcoming structural disadvantage and discrimination against the poor*
- by removing barriers to the participation of the poor, including to participation in development decision-making processes, and including support for activities ensuring that women contribute to and benefit from development.

The sectoral priorities contained in these programming priorities are discussed in more detail in chapter 7.

The first of these programming priorities relates largely to activities at the broad national level and therefore does not exclusively target the poor, although particular attention should be given to the provision of government services and economic and social infrastructure in poor communities. The second and third are *targeted interventions* which would seek to focus their impact specifically and directly on the poor, often in communities or regions where poverty is most prevalent.

### **Need for more rigorous analysis**

It is often difficult to determine which of many possible aid interventions will make the greatest and most sustainable impact on poverty reduction, even within the scope of these programming priorities. How should AusAID choose between projects implemented at the broader, regional or national level and those which directly target the poor at the community level? For example, between an urban water-supply project which will improve water supplies to commercial and domestic users in the city, and a rural water-supply and sanitation project serving poor rural villages. The urban project is likely to contribute to economic growth through improved industrial productivity and improved health of the urban workforce, which will lead to benefits for the rural poor in the longer term, through broad national economic development. The rural project is likely to have direct and sustainable impact on the health and labour productivity of the poor, thus also contributing to national economic growth, but through a project where most of the benefits are captured directly by the poor. The decision about which project to choose, in order to maximise sustainable poverty alleviation should be based on two essential criteria:

- the likely contribution of each of the projects to economic growth (measured by economic rates of return); and
- the distribution between the various economic groups in society of benefits likely to arise from the two projects.

The outcome of these analyses will vary from country to country and region to region, and therefore need to be assessed for each individual project proposal. Where water-supply shortages are rare and health indicators relatively good, economic rates of return from such investments are likely to be low. Rates of return therefore indicate where the most pressing development constraints are. Since safe water supplies are often more scarce in rural areas, rates of return to rural water projects are often higher, but not always.

Many poverty-targeted projects have similar positive impacts on economic growth, including credit and micro-enterprise activities, water supply and sanitation, health and education projects, and rural development programs. In order to maximise impact on poverty reduction, where the economic returns from alternative projects are broadly equivalent, projects which promote growth by directly involving and benefiting poor communities should be given preference over those which affect the poor less directly.

Such judgments will require AusAID to conduct more analysis of not only the economic impact, but also the distributional impact of project proposals than is currently the case. This is discussed further, in the section on measuring and maximising aid effectiveness in chapter 9.

A more difficult choice occurs when the two options are a project with high rates of return, but no immediate impact on the poor and a second project which is poverty-targeted, but with a lower rate of return, since this involves a choice between long-term/indirect and short-term/direct impact on the poor. This choice becomes even more difficult when rates of return cannot be calculated—as is often the case, for broader, national level projects in the social sectors—but which are expected to have high returns. In such instances, judgments must be made in the absence of detailed analysis, but can be informed by international experience on the typical returns to various types of development projects. However, wherever they can be applied, rates of return and distributional impact analyses should be conducted in order to help focus aid investments more rigorously on projects which maximise poverty impact, and the Committee believes that AusAID could improve its performance in this area.

### **Country poverty reduction strategies**

While the three programming priorities in recommendation 4.2 set an overall agenda for the aid program, the needs of individual countries are quite diverse. Furthermore, strategies must accord with Australia's capacity to assist and must take into account the activities of other donors in each country. For these reasons, decisions about individual interventions will need to be guided by poverty reduction *strategies* developed, for the most part, at the level of individual country or regional programs.

The terms of the 1993 poverty policy were so broadly defined that almost any development intervention might be considered to be contributing to poverty reduction. As a result, there has tended to be no *explicit* discussion of poverty reduction in AusAID's country strategy papers, which are designed to guide individual country program development. The danger here is that priorities may then readily be set by competing objectives such as commercial, diplomatic or administrative pressures. The Committee believes that the *primary purpose* of country strategy papers should be to assess *how the aid program might maximise its contribution to sustainable poverty reduction* in that country.

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**Recommendation 4.3** AusAID should devise a new poverty reduction policy framework and a plan for implementing it. The framework should include the programming priorities suggested in Recommendation 4.2 and adopt the following approach:

- The *primary purpose* of country strategy documents should be to determine how the aid program can maximise its contribution to sustainable poverty reduction in the recipient country.
- AusAID should conduct more analysis of the economic impact and the distribution of benefits of project proposals. Such economic and distributional impact analyses should be undertaken *wherever practicable*, to inform project investment decision-making, in order to maximise impact on poverty reduction.
- In cases where there is a choice between project alternatives which have broadly similar economic impacts, preference should be given to those where the benefits are captured directly by poor communities over those which benefit the poor only indirectly.
- Improved guidance should be provided to AusAID officers about how to put into practice the aim of maximising poverty reduction through sustainable development. This could include skills upgrading and the development of a handbook on poverty reduction for the use of staff and implementing partners. This could incorporate guidance for adopting a more participatory approach to development planning.

A first step in framing approaches to poverty reduction in each country strategy paper would be to draw on the analytical work of the major multilateral organisations. For example, the World Bank has completed detailed 'country poverty assessments' for most of the countries in which AusAID is involved. They describe the current profile of poverty in the country concerned, the major constraints to poverty reduction and the key strategies agreed between the Bank and

recipient governments to meet these needs. AusAID should draw on such documents in preparing its own strategies, in consultation with recipient governments. In countries where such work has not been carried out, AusAID may need to commission these kind of country-specific studies to inform its decision-making.

## Volume of aid

Our capacity to pursue the objective of the aid program effectively is related, in part, to the quantity of resources that we are prepared to contribute to the task. The question of aid volume was not included in the Committee's terms of reference, and is ultimately a matter for governments to determine in the Budget context. However, a large number of the submissions received by the Committee commented on this issue and it was also raised by many in consultations. In January 1997, the Minister for Foreign Affairs also asked the Review Committee to 'take account of' the views contained in a report by a parliamentary committee, which includes a recommendation that 'as a member of the DAC, the Government reaffirm its commitment to achieving the ODA/GNP target of 0.7 per cent' (JSCFADT 1996).

Many submissions to the review also urged the need to establish a credible and staged strategy to reach the United Nations' goal of allocating 0.7 per cent of donor gross national product to ODA.<sup>2</sup> Others raised new and innovative approaches to financing development (see chapter 8).

It is clear that while successive Australian governments have stated an aspiration to the 0.7 per cent ODA/GNP ratio target, they have come nowhere near to achieving it. In fact, the overall trend in the volume of Australian aid has seen a steady decline in the ODA/GNP ratio over the last 20 years. The 0.7 per cent ODA/GNP target has been effectively abandoned, as it has been in many other donor countries. It needs to be acknowledged that the oft-rehearsed political commitment to the 0.7 per cent target, 'as and when budgetary circumstances permit', has long since lost credibility.

The Committee considers it is time to recognise that the long-held commitment to the aid volume target of 0.7 per cent of ODA to GNP is no longer realistic. It would be better instead to set more credible targets to increase the ratio, which might be achieved over a 3–5 year period.

**Recommendation 4.4** The long held commitment to the aid volume target of 0.7 per cent of GNP is no longer credible. An achievable 3–5 year ODA/GNP target should be set in its place.

<sup>2</sup> The ODA/GNP ratio was established on the recommendation of the Pearson Commission (1969) and has become the international measure of comparative donor performance.

## CHAPTER 5: GEOGRAPHIC PRIORITIES

*There is a need to sharpen the geographic focus of the aid program to achieve greater efficiency and effectiveness; and a clear and predictable approach to graduation should be developed. In keeping with international and domestic expectations of Australia's role in the region, the Committee believes that PNG and the Pacific, and East Asia should continue to be the highest priorities for the Australian aid program. Carefully targeted assistance should also continue in South Asia and Africa, and resources should be redirected to these regions as countries in East Asia graduate.*

### Introduction

Australia's aid program is small in relation to the needs of the developing world. In an environment of budgetary restraint, the challenge more than ever is how to make the most effective use of the funds that are available for overseas aid. To achieve this, there is a clear need to guard against spreading resources too thinly. A small aid budget necessitates establishing, *and maintaining*, a tight geographic focus. This needs to be developed in the context of well thought-out, clear and predictable graduation strategies for those countries whose stage of development is nearing the point where they will no longer need foreign assistance. As countries graduate, resources are freed to be redirected to other countries which still have high levels of poverty, and where Australia has the capacity to assist.

A small aid budget necessitates establishing, *and maintaining*, a tight geographic focus.

### Need to refocus the program

The Committee's view is that the aid program is spread too widely. The broad geographic spread of the Australian bilateral aid program was also a concern of the Jackson Committee, which commented that: 'Australia gives aid to a greater number of countries than most other donors...Australian aid has a big "body" in the form of aid to PNG and a long "tail" of relatively small grants of aid to over 70 countries' (Jackson 1984, p. 49).<sup>1</sup>

The Jackson Committee recommended that countries should be grouped according to region and the kinds of aid for which they were eligible—the so-called 'eligibility framework'. The main effect of the

<sup>1</sup> The number of countries quoted by Jackson differs from the figures shown for 1983–84 in table 2.1 of chapter 2. The difference can be accounted for by contributions through the World Food Programme, which were counted by Jackson as multilateral, not bilateral, assistance. Recipients of WFP assistance are included in table 2.1.

framework was to ease the administrative complexity of the program, in that all forms of aid were no longer available to all recipients. It did not result in a significant reduction in the number of countries receiving aid from Australia.

As a result, the number of countries receiving bilateral aid from Australia is now greater than at the time of the Jackson Review. Figure 2.1 (in chapter 2) shows that the number of recipients has increased to 108.<sup>2</sup> However, this figure requires clarification. Of total bilateral aid in 1995–96 amounting to \$1 093 million, \$68 million or six per cent, was managed by agents other than AusAID, primarily ACIAR, other government departments, and heads of mission who administer the Direct Aid Program. An additional \$132 million, or 12 per cent, was directed largely through NGO core programs, emergency and refugee relief and the World Food Programme.

The remaining \$893 million or 80 per cent can be said to be ‘bilaterally programmed’<sup>3</sup> by AusAID and is received by 62 countries. The bulk of this aid is already highly focused, with 95 per cent, or \$850 million, directed through just 22 country programs. The Committee’s principal concern is that the remaining small amount of aid (\$43 million) is highly dispersed among a large number of countries. About half of this is spent on bilateral projects and the other half on student scholarships.

There are two reasons why Australian aid should be concentrated in fewer, but larger, country programs. First, there are costs in terms of efficiency and effectiveness if AusAID does not have a ‘critical mass’ of funds and activities in each of the countries in which it operates. There are dangers in managing assistance to a large range of countries with only skeleton staff, as the activities are less likely to be the subject of careful and considered selection and analysis.

One of the first principles of country programming is that decisions about what should be supported must be based on a sound understanding of the circumstances and development needs of the country concerned. Where the aid program is spread too widely, it is not possible for AusAID, with limited staff resources, to maintain effective engagement with each of the countries in which it operates, or to ensure the most effective use of aid funds. For example, just three AusAID staff in Nairobi and Harare (plus local staff), had responsibility for 20 countries in Sub-Saharan Africa which received AusAID bilaterally programmed assistance in 1995–96.<sup>4</sup> Under these

<sup>2</sup> The countries receiving Australian bilateral aid in 1995–96 are listed in table A2, appendix C.

<sup>3</sup> ‘AusAID bilaterally programmed’ as defined here, includes bilateral projects (including NGO projects funded through the country program windows), student scholarships and DIFF.

<sup>4</sup> These officers managed \$23 million of bilaterally programmed assistance and a further \$30 million of emergency and refugee relief in 1995–96.

One of the first principles of country programming is that decisions must be based on a sound understanding of the circumstances and development needs of the country concerned.

circumstances, AusAID is forced to pare monitoring back to the minimum, and use easy-disbursement mechanisms (such as food aid or scholarships to Australia) which may not be the most effective use of aid funds. If AusAID's country programs are to be well planned and managed, AusAID staff need to be posted to the countries concerned. However, each country program needs an expenditure of some several million dollars per year before the expense involved in posting staff can be justified.

The second reason for the need to concentrate resources is that Australia is regarded by recipient governments as a meaningful development partner only if we can provide a significant amount of assistance. Although the nature of the bilateral relationship, and perceptions of Australia's expertise also come to bear, whether we like it or not, the level of our assistance is usually a key determinant of our status as a donor. Small contributions from Australia mean that many of the 108 recipients of Australian aid cannot regard Australia as a significant player, or dialogue partner, in development policy issues. The amount of assistance which might be regarded as enough to establish the status of a 'serious player' in a country's development efforts will vary a great deal, according to the size of the country, and the scale of assistance received from other donors. In the Pacific island countries, for example, levels of aid that equate with 'lead donor' status are considerably less than in countries such as India or China where contributions need to be more commensurate with the size of the economy and scale of needs.

The difficulty of achieving and maintaining a tight geographic focus is one that most donor countries would recognise. It is not easy to rule out countries or regions as 'ineligible' either on the grounds of logic (if these are poor countries, then why should they be excluded?) or in foreign policy terms. Relations with developing countries are very important to donor countries on the basis of a much wider set of issues and concerns than just development cooperation. There can be considerable sensitivities in winding back aid programs to particular countries.

Nevertheless, the Committee believes that the number of countries receiving AusAID bilaterally programmed assistance should be reduced. It would be better if Australian aid funds were concentrated in a much smaller number of countries, in each of which a substantial volume of activities could be established and AusAID could put into effect more considered country program planning. Countries that no longer receive bilaterally programmed aid would still be eligible for other forms of aid within Australia's program, such as emergency and refugee assistance, and through NGO funding and multilateral agencies.

It would be better if Australian aid funds were concentrated in a much smaller number of countries, in each of which a substantial volume of activities could be established and AusAID could put into effect more considered country program planning.



**Recommendation 5.1** In order to maximise development impact, the aid program should establish, and maintain, a tight geographic focus. The number of countries receiving bilaterally programmed assistance through AusAID should be substantially reduced.

The Committee recognises that it will not be easy to achieve this sharper focus for bilaterally programmed aid. However, a clearer aid objective should help, as should the application of the criteria for determining geographic focus discussed below. Likewise, the adoption of a more active graduation policy, outlined later in this chapter, should assist in time.

The imperative to make the best use of limited resources is also leading other donor countries, including the UK, Canada, Denmark, Finland, Austria, Belgium, Germany and the Netherlands, to adopt a sharper geographic focus in their aid programs.

**Box 5.1 Geographic focus: approaches of selected donors**

*Denmark (total ODA in 1995 US\$1.62 billion):* In 1995 Denmark selected 20 program countries on which most bilateral assistance will be concentrated in the future. This is to be accompanied by the gradual phasing-out of assistance to some 18 other developing countries, including China and Thailand, by 1998. The selection of program countries has concentrated on the poorest countries, with particular emphasis on Sub-Saharan Africa.

*Canada (total ODA in 1995 US\$2.07 billion):* Canada's aid program currently extends to 106 countries. In 1987, the Government response to the *Report by the Standing Committee on External Affairs and International Trade* accepted the recommendation that there was a need for a new 'eligibility system'. The proposed system included the following criteria for the selection of Canada's aid recipients: the absolute need of the recipient country; Canada's experience with the country as an aid partner; the compatibility of the country's development priorities with those of Canada; the demonstrated capacity of the recipient to use aid wisely in ways that promote human resource development and are of direct benefit to the poor; and the respect shown for human rights in the broadest sense. The 1994 review of Canadian foreign policy (*Canada in the World 1995*, p. 45) reaffirmed the government's commitment to focusing development programs on a limited number of countries, while maintaining programs in other countries through low-cost and administratively simple delivery mechanisms.

**United Kingdom** (total ODA in 1995 US\$3.16 billion): The UK aid program has declined in the total resources available for country programs at the same time as there was a sizeable increase in the number of aid recipients, from 137 in 1989 to 163 in 1993–94. As the *Overseas Development Administration: Fundamental Expenditure Review* (FER) noted, ‘...it is hard to believe that ODA is or can remain a serious player in so many countries in terms of achieving developmental impact and enhancing UK influence’ (ODA 1995a, p. 99). The FER recommended that graduation strategies should be evolved for many recipients, and a greater concentration ratio should be pursued, i.e. 85 per cent of UK bilateral aid funds should be directed to its 20 largest recipients. The FER noted that ‘a fairly ruthless approach’ would be needed, and that criteria for making choices should be: the relative need for aid; ODA’s past effectiveness; and its expectations as to its future performance. It also noted that ‘political preferences will undoubtedly also play a part’.

## Geographic scope and regional focus

### Public views about geographic priorities

Australia’s geographic position has influenced the aid program to focus on the developing countries in our region. The terms of reference for this review also make it clear that ‘Australia’s aid program will continue to focus on the Asia-Pacific region’. There was a high degree of support for this view in submissions to the Committee. Most went on to outline their particular understanding of the limits of this region in terms of: Australian national interest, of commercial opportunity, or of where poverty is greatest. The majority of submissions also endorsed a poverty focus. In other words, within this regional scope, a strong view was expressed that aid should be used to assist the poorest groups and provinces in those countries. Many also noted a need to increase funding to South Asia and Africa.

#### Box 5.2 Geographic priorities: excerpts from submissions

‘Considering the limited funds available, the ending of aid programs in fast developing Asian countries...should be achieved more quickly than in the past. This would free resources to focus on countries of greater need. The number of countries in which Australia has sought to deliver substantial programs of aid has been very large relative to the size of the aid program. The fixed costs associated with effective aid make this an unnecessarily wasteful process. A reduction in the number of countries with official country program status would therefore help to reduce costs and improve efficiency.’ *Professor Dean Forbes, Flinders University of South Australia*

‘Our current focus is still our near neighbours in the Asia Pacific region. This is sensible policy and should remain.’ *Terry Quinlan*

‘...distribution of scarce aid resources should be based on the following criteria: where poverty is greatest or growing (such as some of the countries of the African region); where Australia has historical and cultural ties, or is a particularly important donor (such as PNG and some of the countries of the Commonwealth); where foreign policy priorities lie (such as some of the countries in this region); where Australia has special or relevant expertise (such as in dryland farming technologies); and where private capital does not flow, or has served to further marginalise the people (again it is the countries of the African region which have not benefited from private flows).’ *Australian Council for Overseas Aid*

‘By concentrating greater resources in fewer countries, Australia will maximise its ability to encourage institutional reform in recipient countries, thereby making aid more effective and increasing opportunities for private capital. However, it is recognised that the political and foreign policy consequences of taking some countries off the program may be too great. The most effective way of concentrating resources within a smaller number of countries is to ensure that countries currently in receipt of Australian aid are promptly “graduated” at the appropriate time.’ *Department of Manufacturing Industry, Small Business and Regional Development, Government of South Australia*

‘Australian bilateral aid loses impact by being spread too thinly over too many countries. Our logical base is our neighbourhood—the Pacific, South East Asia and the Indian Ocean. But for political, trade and humanitarian reasons we get pushed into Africa, and into the huge countries of Southern and East Asia. Our multilateral and humanitarian contributions should meet these obligations.’ *Dr Bob Dun, Secretary-General, South Pacific Commission*

### Key criteria for geographic focus

As discussed in chapter 4, the Committee shares the view that the geographic allocation of Australian aid must reflect Australia’s long-term foreign policy interests and our primary responsibilities to countries in our own region. The priority focus of the program should therefore be in the Asia-Pacific region.

However, other criteria should also be used to shape the geographic allocation of the aid program, based on the objective—the reduction of poverty through sustainable development—and informed by an assessment of how Australia can most effectively combat poverty. These criteria provide a new framework for deciding the

These criteria provide a new framework for deciding the allocation of Australian aid, both within and beyond our immediate region.

allocation of Australian aid, both within and beyond our immediate region. They are:

- **Relative need** Where are the greatest concentrations of poverty, both on a country basis and, within that, in which regions or provinces? Which countries have not yet established a pattern of robust economic growth and improving social indicators? Which countries have only limited access to private capital?
- **Effectiveness** Where is the potential greatest for effective impact on poverty? A major factor will be the extent to which the recipient government has sound economic and social policies that increase the likelihood of aid interventions being effective. Another factor is the nature, scope and depth of Australia's relationship with the recipient country, and the extent to which Australia has influence on policy issues. The capacity of the recipient country to absorb aid has to be considered as well.
- **Efficiency** Where can a bilateral aid intervention from Australia be most cost-effective? Factors for consideration include familiarity with the country or region and its problems, proximity, volume of aid, and economies of scale in AusAID's operations.
- **Other donor involvement** This involves questions of 'burden-sharing'. Which regions are already well served by other donor nations, and which regions are considered to be Australia's 'patch' by the international community?

In terms of the regions in greatest need, the largest concentrations of poverty<sup>5</sup> are South Asia, China and Sub-Saharan Africa, as shown in table 5.1.

**Table 5.1 Poverty in selected developing regions**

Region	Number of poor people (1993)	Poor as a percentage of the population in each region (1993)
South Asia	515 million	43 per cent
China	372 million	31 per cent
Sub-Saharan Africa	219 million	39 per cent

*Source: World Bank (1996c, p. 4).*

In addition, Cambodia, Laos and Vietnam have a high incidence of absolute poverty. Pockets of absolute poverty also exist in countries which have relatively high per capita incomes such as Indonesia and the Philippines. A broader definition of needs, which incorporates crucial social indicators of development, strengthens the case for assistance to other countries, including PNG and some Pacific island nations.

<sup>5</sup> Defined by the World Bank (1996c) as those with a per-capita income of less than US\$1 per day.

Some of the countries which have high concentrations of poverty are now achieving rapid economic growth and have very substantial private capital inflows. Of these, China, Indonesia and the Philippines are achieving impressive reductions in poverty, and stand out as potential graduates from the aid program within the next decade.<sup>6</sup> India, while achieving improved rates of economic growth and slowly opening up to foreign investment, is likely still to require substantial donor assistance to address critical needs in basic education, health and lack of essential infrastructure for many years to come.

Sub-Saharan Africa, despite receiving high levels of ODA, is experiencing an increase in the numbers of people in absolute poverty. This reflects in part the impact of poor governance and political instability in many African countries, which has acted as a deterrent to foreign private investment and is inhibiting development.

Further detail on relative needs can be found in table 4 in appendix C which contains some of the key economic and social development indicators. Also, further detail on the geographic distribution of DAC donors' ODA can be found in figure 3 in the same appendix.

**Recommendation 5.2** The geographic focus of the Australian aid program should reflect Australia's long-term national interests and regional responsibilities. Geographic allocation should therefore begin with a priority focus in the Asia-Pacific region, but should also be shaped by other criteria reflecting the objective—the reduction of poverty through sustainable development. These criteria are: relative need; effectiveness; efficiency; and the involvement of other donors.

### Regional focus

These priorities take into account the expectation among other donors and developing countries, that Australia will give priority to countries in its own region, and are consistent with Australia's broad strategic, or national, interest.

Applying the key criteria outlined above will always be something of an inexact science, not least because the various criteria can pull in different directions. But taken together, and applied pragmatically, the Committee considers that the new focus or concentration of the aid program should be as set out below. These priorities take into account the expectation among other donors and developing countries, that Australia will give priority to countries in its own region, and are consistent with the community's understanding of Australia's broad strategic, or national, interest.

<sup>6</sup> For example, in 1995 China had foreign reserves totalling US\$80.3 billion (World Bank 1997), which some economists believe the Chinese Government should use to improve development performance and reduce poverty more quickly.

**1. PNG and the Pacific:**<sup>7</sup> This priority reflects the special relationship that Australia has with PNG as a neighbour and former colonial power. The Pacific, particularly the south-west Pacific, is also a region of particular importance to Australia because of proximity. It is regarded by the international community as being of special concern to Australia. While per capita incomes are generally higher than in most other developing regions, the countries of the Pacific have the particular development problems of small island states and some have very low social development indicators, indicating the need for continued assistance.

**2. East Asia:** The focus should be on Cambodia, Laos, Vietnam, China, Indonesia and the Philippines. For the latter three, the focus within these countries should be clearly on assisting the poorest regions or provinces, and the development of graduation strategies for each of the three countries should begin. As countries in East Asia graduate from the aid program, resources should be released for reallocation to South Asia and Africa. Should the political situation in Burma improve, funds would also need to be reallocated to meet the pressing needs in that country.

There is no scope in this report for a detailed assessment of the changing needs in the region and how the Australian program should be adjusted to match these developments. However, AusAID should prepare a regional strategy to map out the aid program's response to the recommendations contained in this report. In particular, such a strategy should focus on how graduation should be handled, and how aid funding should consequently be reallocated to regions and countries of greatest need.

**3. South Asia and Africa:** In South Asia, the resources available under the aid program have been too limited for Australia to be a significant player in a country as large as India. This is despite the proximity of India and our common heritage, in terms of language and legal and political institutions, which suggest that an effective and efficient intervention could be made. While it still has the largest population in absolute poverty, India also has a growing middle class, is slowly attracting private capital inflows and has achieved encouraging rates of economic growth. Unless significant aid funds are allocated for the country program to India—substantially above the current level of some \$20 million—support should be restricted to regional or multilateral channels. Country programs to the smaller South Asian countries, where Australia can have an appreciable impact, should continue.

The needs of the African continent are immense, and it is beyond the capacity of the Australian aid program to make an effective impact in more than a few countries, given the modest size of the aid budget

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<sup>7</sup> See more detailed analysis in the next chapter.

and AusAID staffing. The number of countries to which Australia provides bilaterally programmed assistance should be substantially reduced, from the 20 or more currently supported, to fewer than 10 countries. This should allow for a greater concentration of resources on larger individual country programs. Decisions about which countries to support should be guided by the criteria listed above, leading to a focus on poorer countries showing positive development prospects. Other countries will continue to receive assistance indirectly, through Australia's support for regional and multilateral agencies active in Africa.

AusAID should prepare a regional strategy, setting out how Australian assistance to Africa will be adjusted in response to this report, with particular attention to focusing aid on a narrower range of countries. Africa includes such a large number of countries that the strategy would have to nominate a sub-region, or regions, where Australia could focus its efforts on a limited number of countries in close proximity to one another. For example, southern Africa or the Horn region, which in turn might generate greater growth opportunities for neighbouring countries and regions.

**4. Rest of the world:** Australia should not undertake any bilateral aid intervention in regions such as the Middle East, Eastern Europe, the Central Asian Republics or the Indian Ocean island states. These countries tend to have relatively high per capita incomes and a low incidence of poverty. Many are already well served by other donors and, with the exception of the island states, are beyond Australia's immediate region.

While the Committee believes that the above priorities are appropriate now and for the medium term, they will not, and should not, remain static. The criteria should be applied, and as situations change in terms of improved stages of development and graduation or changes in the flow of other donors' aid or in access to private capital, then so should the regional focus for Australia's aid program also change.

**Recommendation 5.3** The order of geographic priorities for the Australian aid program should be: (1) PNG and the Pacific island nations; (2) East Asia: Cambodia, Laos, Vietnam, China, Indonesia, and the Philippines—focused on the poorest regions or provinces in the latter three countries, and with a view to their graduation; (3) South Asia and Africa—focused on the poorer countries which have positive development prospects.

## Graduation

The ultimate purpose of development cooperation programs is to assist countries to reach the point where aid is no longer necessary to ensure sustainable growth and poverty reduction. The term 'graduation' is used to describe the process by which aid to a developing country is either phased out, or the level of concessionality of financial assistance is gradually reduced until eventually it is equivalent to commercial terms. The graduation of some countries frees resources to devote to those countries where needs remain relatively high. In this sense, aid graduation is a key process in applying the principles of geographic focus.

Implicit in the concept of graduation is that once past a certain point, economic development becomes self-sustaining. At that point countries should be able to attract private capital flows and re-allocate funds from within their own resources to support further growth, as well as to help their own disadvantaged communities. While on the face of it a fairly simple concept, graduation has not proven to be straightforward in practice. Part of the difficulty lies in determining what kind of threshold should exist beyond which countries should no longer be receiving Australian aid, and how this should be measured.

Measures of development are difficult to agree on. There is no perfect measure. Development is the result of complex economic, social and political processes. It involves a widening of a country's capacity to meet the material needs of its citizens with equity, especially progress in the reduction of poverty. Income per head provides the best single guide to country living standards, and is the most readily used indicator of development status. However, there is increasing acceptance that this must be considered in conjunction with relevant social indicators, including income distribution, health and educational status. The UNDP's Human Development Index (briefly outlined in chapter 3) provides a useful composite measure of development progress.

Box 5.3 provides a brief survey of some approaches to graduation. There is no simple or agreed benchmark beyond which countries are deemed to have 'graduated'. To the extent that threshold figures exist, they are generally used as guides rather than automatic triggers.

For bilateral donors, sensitivity to political factors, including foreign policy, security or trade interests, can be more acute than for the multilateral development banks, and often come into play when considering graduation.

Given this sensitivity, it is all the more important that graduation is handled in a planned and predictable way. Graduation strategies should be developed, discussed and agreed with partner developing country governments *well in advance* of graduation occurring.

Graduation is...the process by which aid to a developing country is phased out

...it is important that graduation is handled in a planned and predictable way.



### **Box 5.3 Some selected approaches to graduation**

**The World Bank** The World Bank has the most formalised system of graduation. IDA<sup>8</sup> credits are directed to the poorest and least creditworthy countries. Although each country's policy performance and implementation record are also taken into account, countries are generally eligible for IDA credits if their annual per capita income is below US\$905. Exceptions are made for certain small island countries; or for countries that are undertaking major adjustment efforts but are not creditworthy for IBRD lending.<sup>9</sup> There is no formal graduation policy for the IBRD. However, a GNP per capita benchmark of US\$5 295 currently applies to act as a trigger for a review of a country's overall development, and the formulation of a program to phase down, and ultimately end, lending by the Bank.

**The Asian Development Bank** A draft formal graduation policy is expected to be considered by the ADB Board of Directors within the next year. At present, the Bank has three categories of developing countries: those receiving soft loan support from the ADF<sup>10</sup> (countries with GNP per capita below US\$610); those receiving a blend of soft and hard loans (GNP per capita up to US\$1 420); and those which get hard loans only (GNP per capita over US\$1 420). Other factors which influence the level of lending are creditworthiness, population, absorptive capacity and performance.

**Development Assistance Committee** The DAC List of Aid Recipients provides the basis for gathering data and comparing the aid performance of DAC donors. The List is reproduced at appendix D. The List is also of relevance to graduation issues, since only aid to countries on Part 1 of the List is formally counted as ODA. The List is periodically reviewed, and countries which have a per capita GNP above the 'high income' threshold of US\$9 385 for three years graduate from Part 1 of the List. DAC members have also agreed to concentrate their assistance on recipients below the World Bank lending threshold (US\$5 295) and have agreed that countries with a per capita income above this threshold for three years may also be considered for graduation to Part 2 of the List.

<sup>8</sup> International Development Association, the World Bank's soft loan facility. IDA loans have a 10-year grace period and must be repaid in 30–40 years, according to the borrowing country's creditworthiness.

<sup>9</sup> International Bank for Reconstruction and Development, the part of the World Bank Group which conducts market-based lending operations.

<sup>10</sup> Asian Development Fund, the concessional lending window of the ADB. Conditions applying are substantially the same as for IDA loans.

The long-term and government-to-government nature of ODA activities means that sudden and unplanned reductions, such as those driven by budget cuts, can severely undermine both the effectiveness of the development activity and the broader bilateral relationship.

### **Australia's current approach to graduation**

Australia does not have a formal policy on aid graduation. Some work has been done on likely overall future directions of the aid program (AusAID 1995c), but this has not been built on in a systematic way to develop a broad policy framework for graduation. However, some countries have, in effect, all but graduated from the program. Assistance in 1996–97 to Malaysia, for example, will amount to some \$7.7 million, compared with \$23 million in 1995–96. A quite specific graduation strategy for the evolution and eventual phase-out of the aid program was discussed and agreed with the Thai Government in 1995.

### **New focus on graduation**

There is a need to develop a more systematic approach to graduation strategies, particularly in view of the rapid growth which many of Australia's traditional aid recipients in East Asia are now enjoying. Such strategies will vary considerably in scope and timing, depending on the country concerned.

The Committee considers that there is a need for a trigger mechanism to *start* the process of considering graduation. For all the reasons associated with the difficulty of measuring development progress, such a trigger is not easy to find. The eligibility threshold adopted for the International Development Association (IDA) of the World Bank (currently US\$905 per capita income) would be a good place to start, but relevant social indicators also need to be considered. The graduation process needs to be over a sufficiently long period, planned and predictable, but also needs to allow for unforeseen changes in the development progress of the recipient country.

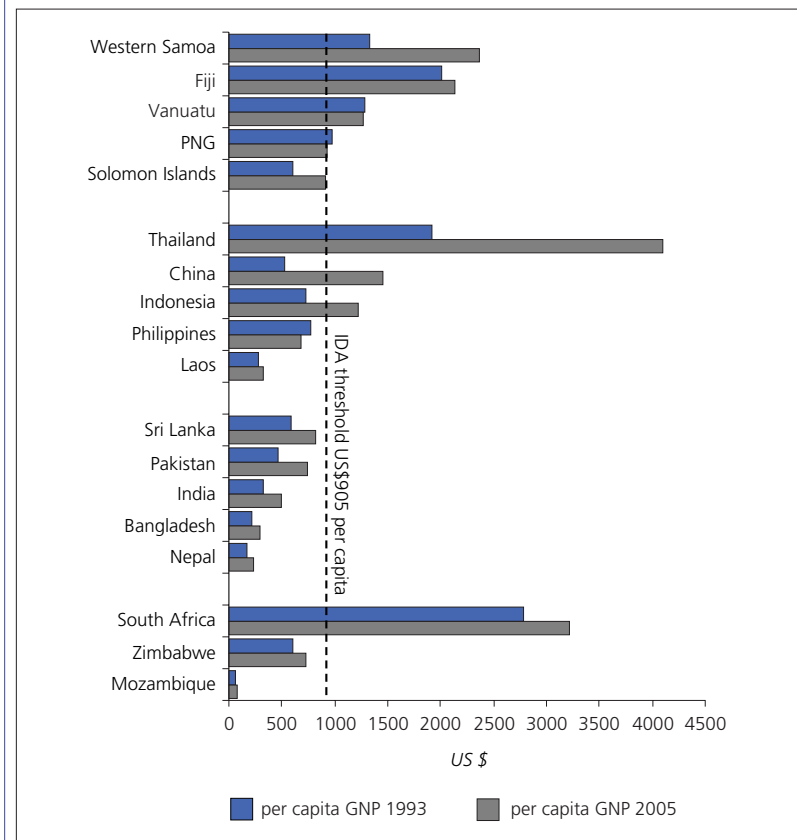
Predicting economic and population growth rates is a very difficult exercise because of the uncertainties involved. For this reason it is not easy to predict likely candidates for a graduation strategy. Figure 5.1 is an attempt at such a projection, but needs to be regarded with a good deal of caution since the figures can only be speculative. However, *if* economic and population growth patterns are sustained, there are some clear potential candidates to graduate from the aid program in East Asia (China, Indonesia); in Africa (South Africa<sup>11</sup>); and, indeed, in the Pacific (Western Samoa and Fiji).

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<sup>11</sup> South Africa is a special case anyway with the likelihood of a limited term program during the immediate post-apartheid period only.

...there is a need for a trigger mechanism to start the process of considering graduation.

**Figure 5.1 Real GNP per capita for selected Australian aid recipient countries, 1993 and 2005 (projection)**



Source: AusAID (1995c).

The process of developing graduation strategies needs to be tempered with practical common sense.

The process of developing graduation strategies clearly needs to be tempered with practical common sense. The strict and mechanistic application of economic or social indicators removes valuable room for flexibility. In developing graduation strategies, increased focus should be given to good government policies on the redistribution of wealth within the recipient country and to the development of adequate social safety nets. Even countries with relatively high development indicators can have substantial pockets of people in poverty. Assisting such countries to cope effectively with this themselves should be an overall aim of all country programs, but is perhaps most relevant to countries where graduation from the aid program is foreseeable.

Various options should be pursued in the transition stage also to align forms of assistance with the changing needs and growing sophistication of the graduating country. Loans are a good means of introducing graduation. But even if a loans program is not introduced,

a graduation policy for grants is still possible in terms of reducing the volume, the percentage of project costs financed and the eligibility of sectors. Greater use of co-financing with the international financing institutions could also be pursued as another way of hardening terms. Using NGOs to reach remaining areas of poverty may be cost-effective.

As countries graduate from the need for aid, so the geographic focus of the aid program should alter in clear and predictable ways. The opportunity cost of not developing meaningful graduation strategies is too high, given the needs elsewhere and, not least in importance, the need to retain public support for the aid program by maintaining a clear focus on reducing poverty.

**Recommendation 5.4** Clear and predictable graduation strategies need to be developed for fast-growing middle-income countries. A 'trigger' to start the process of negotiating graduation strategies with relevant recipients should be developed by AusAID.

## CHAPTER 6: PAPUA NEW GUINEA AND THE PACIFIC ISLANDS

*Papua New Guinea and the Pacific islands are of considerable importance to Australia. They have unique and, in many cases, pressing development needs, and Australia has particular national interests in their stable and sustainable development. Because Australian aid has a significant impact in PNG and the Pacific, the policy significance of what Australia does is greater than in other regions. In particular, there is a strong need to continue efforts to support good governance, especially through economic reforms and sustainable resource management. To achieve this, AusAID may need to develop additional Pacific expertise.*

### Introduction

Papua New Guinea (PNG) and the Pacific island countries comprise a region of great diversity and development needs that few other donors are as familiar with, or as interested in, as Australia. The region is of great national importance to Australia and is one where our assistance can potentially make a significant difference. It is perhaps for these reasons that the terms of reference for this report specifically require a consideration of ‘the nature of the future aid relationship with PNG and the South Pacific Island states’.

While both aid and GNP per capita tend to be relatively high in much of the region, there are some strikingly poor indicators of social development as can be seen in table 6.1. Development progress is also fragile, being frequently built on a small resource base and a narrow range of products, and is therefore vulnerable to major external climatic and economic shocks. Substantial needs range from redressing some of the world’s highest rates of infant and maternal mortality in Melanesia, to achieving income generation and waste management in tiny, isolated atoll states with fast-growing populations. The island countries of the Pacific are by no means homogeneous. Their development prospects differ considerably, and therefore Australia, and other donors, must take a differentiated approach.

The relationship between Australia and the Pacific island nations has particular significance for both the islands and Australia. Geographic proximity, strong historical ties and continuing links give us a shared interest in the stable and sustainable development and prosperity of the region. The continuing priority that the region has been accorded in the Australian aid program reflects this. The Committee heard little argument that the geographic starting point for Australian aid activities

The region is one where our assistance can potentially make a significant difference.

AusAID must continue to focus on important governance issues. Continuing high levels of aid cannot be taken for granted.

should be other than the developing countries in our own neighbourhood—PNG and the Pacific islands (as well as Indonesia).

While recognising the special nature of Australia's relations with Pacific island countries, the Committee is strongly of the view that AusAID must continue to focus on important governance issues. Continuing high levels of aid cannot, and should not, be taken for granted. While the extent of development needs should be the starting point for allocating assistance within the region, aid effectiveness is also a key criterion for determining the focus of the aid program (discussed in chapter 5) and should be equally applied to the Pacific islands. Development effectiveness is fundamentally dependent on the application of good economic and social policies. There are limits, however, to how much a donor can and should try to impose its preferences. The sovereignty of nations must be respected. Strong conditionality can militate against local ownership and commitment. The ultimate response to poor policies, after policy dialogue and capacity building options have been exhausted, should be a redirection of aid to countries where it can be better used, rather than attempts to make it highly conditional.

**Table 6.1 Selected economic and social indicators for PNG and the Pacific (South Pacific Forum members)**

Forum Island Country	Pop. (000)	Pop. Growth (%)	Adult Literacy (%)	Maternal Mortality (per 100 000 live births)	Access to safe water (%)	GNP per capita (\$US)	Total Aid/GDP (%)
Cook Islands	19.1	1.1	99	46	99	4 160	na
Federated States of Micronesia	105.9	3.0	81	83	30	na	35.8
Fiji	777.7	2.0	87	68	92	2 140	2.3
Kiribati	78.3	2.3	93	127	65	710	47.0
Nauru	10.6	2.9	na	na	na	na	na
Niue	2.1	-2.4	99	na	100	na	na
Palau	16.5	2.2	98	na	88	na	na
PNG	3 900.0	2.3	53	930	28	1 120	7.4
Marshall Islands	54.7	4.2	91	109	50	na	37.9
Solomon Islands	367.4	3.4	23	549	61	750	14.3
Tonga	98.3	0.5	99	70–80	100	1 610	22.8
Tuvalu	9.5	1.7	99	191	100	na	na
Vanuatu	164.1	2.8	64	92–138	87	1 230	19.2
Western Samoa	163.5	0.5	98	50	70	980	28.6
All developing countries (average)		2.2	61	384	70	970	na

Sources: World Bank (1996c), UNICEF (1995), DAC (1997b), ADB (1996), and other South Pacific Commission data.

Note: na – not available

## Papua New Guinea

The substantial level of Australian aid to PNG, which amounts to over \$300 million a year, recognises PNG's development needs and also the depth, breadth and critical importance of the overall relationship. PNG is ranked 126 out of 174 countries in human development terms (UNDP 1996, p. 136). This in itself justifies considerable Australian support. Unique historical links, current Treaty obligations, a relative lack of support from other donors, and the immediate geographic proximity of the country, also help to explain why over 20 per cent of all Australian aid is provided to PNG. As the Australian Prime Minister observed recently, 'If we are concerned about the stability of [PNG] and if we have concerns about its immediate future in current circumstances, we can only imagine what might be the case if that country had not, over the years been provided with significant levels of aid by Australia' (Howard 1997).

The GNP per capita of Papua New Guinea is relatively high. In 1993 it was estimated to be US\$1 120, ranking PNG as a middle-income country. This is, however, quite deceptive. Most of the country's income comes from enclave mining and logging, with the benefits and the costs of these activities being quite concentrated. Consequently some of PNG's social indicators such as adult literacy and access to safe water are comparable with some of the poorest countries of the world. Infant mortality is ten times the Australian rate, maternal mortality is nearly three hundred times as high and life expectancy is 26 years less. Of every 100 children who start primary school, only one remains at year 11. These are stark indicators of the extent of development needs in PNG.

Over 80 per cent of the people of PNG live in rural areas and rely on subsistence agriculture. It is difficult to provide the fragmented population with essential services and to link them together in a national economy because the transport and communications infrastructure is poorly developed and maintained. There is significant social dislocation resulting from urbanisation. This has caused the growth of large squatter settlements and high levels of violence and crime. In addition, the conflict on Bougainville has caused great suffering to the local population and has added considerably to the country's budget strains. The Panguna mine on Bougainville supplied over 35 per cent of PNG's export earnings and 12 per cent of government revenue until its closure in 1989. Since then military expenditure has increased, exacerbating the conflict's serious fiscal impact.

Perhaps the biggest development challenge facing PNG, however, revolves around questions of governance and institutional capacity. PNG has extensive resources and a relatively small, though fast growing population. It is vital that PNG makes the best possible use of these assets for national development. This requires government leadership, and integrity and transparency in decision-making. It

PNG is ranked 126 out of 174 countries in human development terms. This in itself justifies considerable Australian support.

Perhaps the biggest development challenge revolves around governance and institutional capacity.

requires the rigorous prioritisation of public investment. And it also requires a skilled, efficient and incorruptible public service. For much of the post-independence period PNG managed its economy well and achieved development progress. In the 1990s however, PNG has been much less successful, as successive governments struggled to deal with growing economic and development problems. PNG already has some strengths in the area of good governance with a free press, independent judiciary and lively parliamentary democracy. These foundations need to be strengthened and built upon.

### **Budget support, program aid and the Treaty**

Australia has provided a total of over \$11 billion (in current prices) in aid to PNG since independence in 1975, 85 per cent of which has been in the form of unconditional budget support. While Australian aid to PNG remains very high, PNG's dependence on that assistance has declined significantly. Australian aid per capita is now less than half what it was in 1975 and a rapidly declining proportion of it is provided in budget support.

A growing recognition that directly financing the PNG budget offered inadequate accountability to Australian taxpayers and was not fully effective in development terms led to an agreement in the Treaty on Development Cooperation (1989) that it would be progressively replaced with programmed assistance according to a fixed timetable. This process commenced in 1992–93 and is to be completed by 2000, with the second formal review of the phase-out due in 1998. Figure 6.1 illustrates the agreed staged phase-out of budget support.

There is broad and strong support in both PNG and Australia for the change from budget support to programmed aid.

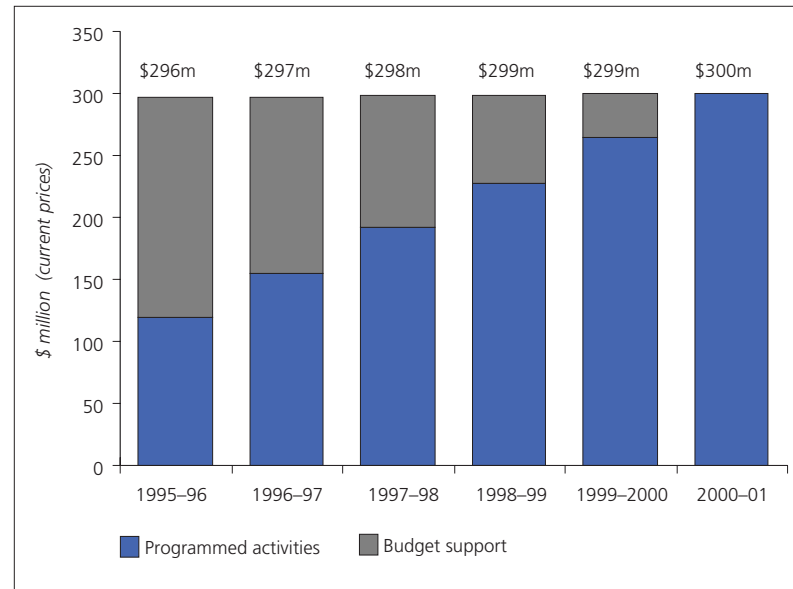
There is broad and strong support in both PNG and Australia for the change from budget support to programmed aid. This was made clear at many levels in the range of meetings and discussions that the Committee undertook during its visit to PNG as well as from consultations in Australia. The common reason for supporting the shift to program aid is a belief that budget support was not well used and that programmed Australian aid can be more effective in the restoration of services and the building of capacity.

Some concern was expressed that the results of program aid are too slow in arriving—'We believe that the aid relationship, thus far, has been characterised by an excess of learned report writing, consultancies and negotiations, and very real frustration in actually getting things done.'<sup>1</sup> While the Committee encourages methods to achieve quick results, it also acknowledges that sound analysis is crucial to well focused programs that will deliver sustainable results (see box 6.1). There was support from several quarters for *accelerating* the move to program aid, but the Committee does not believe that this is possible. The speed of change, which requires the conversion of

<sup>1</sup> Australia-Papua New Guinea Business Council



**Figure 6.1 Phase out of budget support from Australia to PNG, 1995–96 to 2000–01 (\$ million, current prices)**



Source: AusAID.

Note: This graph represents budget support and core bilateral programmed activities only. It excludes disaster relief and expenditure by other Commonwealth agencies, including retirement payments to former PNG administrators.

\$36 million of budget support to program aid each year, is already presenting considerable challenges for both PNG and Australia. In PNG, constraints arise from the country's capacity to absorb aid. And the development of new and innovative ways of delivering aid, and ensuring that they are effective, is a demanding task for Australia.

The Committee strongly endorses the move away from budget support, and encourages the focus in the aid program on capacity building. Even on a short visit to Port Moresby and some of the provinces, the absence of sufficient planning and management capacity in government departments, and schools and hospitals was all too evident. As the submission to the review from the Chancellor and Vice-Chancellor of the University of Papua New Guinea noted: 'The size and complexity of the country and its natural wealth are of limited value given the poor institutional capacity to distribute its benefits...Observers do not realise just how thin is the layer of managerial and technical expertise and how difficult it is to fill responsible senior positions with suitably qualified Papua New Guineans'.

The Committee strongly endorses the move away from budget support, and encourages the focus in the aid program on capacity building.

Keeping the reform program on track is essential.

### Economic reform

Papua New Guinea experienced a major economic crisis in 1994 as a result of losing control of government finances. This caused significant capital flight and an exhaustion of foreign reserves, forcing PNG to seek stabilisation and structural adjustment support from the International Monetary Fund (IMF) and the World Bank. The ensuing Economic Reform Program negotiated by PNG is notable for its emphasis on guaranteed shares of public expenditure for basic health and education and road maintenance, as well as the more traditional focus on macro-economic stability. The reform program also puts great importance on the sustainable management of PNG's natural resources, particularly its forests. Australia has strongly supported the program with a \$70 million government-to-government non-concessional loan from the Treasury and through tailoring program aid to support the reforms, especially improving service delivery in rural areas. Keeping the reform program on track has been demanding for all concerned, but it is essential. The program provides the sort of financial and development framework PNG desperately needs to maximise its development.

#### Box 6.1 Program aid to PNG

The term program aid was chosen to describe AusAID's non-budget aid in PNG to differentiate it from project aid. While it can involve projects, technical assistance and other forms of assistance, much program aid is intended to be delivered through PNG agencies. The Committee endorses the intention to reduce absorptive capacity problems for PNG and the possible lack of ownership that could arise from Australia delivering very large amounts of project assistance. PNG needs to strengthen its capacity to deliver basic services and to keep those services going in the interim. This needs to be a focus for Australian aid. Program aid offers opportunities to achieve both of these goals without overtaxing the PNG system.

There are three jointly determined priority sectors for Australian program aid: education, health and infrastructure. Assistance is also provided in the areas of law and justice, renewable resources and private sector development. There are special programs of assistance for Bougainville and Rabaul. In each sector, studies were conducted under the leadership of PNG officials to assemble base-line data and determine the best development strategies. Work in the education sector, for example, clarified PNG priorities and helped to make possible major reform of basic education: increased school retention, and higher quality teaching and elementary education. This sort of comprehensive analytical work and continuous policy dialogue is essential if

Australia is to have the confidence to work through PNG institutions. Performance benchmarks were introduced during the 1995 Treaty Review to help provide the necessary accountability for program funds. They specify 'realistic, achievable, and assessable' benchmarks that both PNG and Australia must meet, with the level and shape of funding linked to performance against them.

AusAID has come closest to the program approach in rolling programs of road maintenance that are largely implemented by PNG contractors, and has also planned rolling programs of health assistance working through PNG systems. The advantages include a strengthening of local ownership, fast disbursement and the building of capacity through the delivery of services. Special measures, however, need to be taken to ensure sustainability, effectiveness and accountability. There is also some doubt about whether the program approach has been completely implemented. A large number of individual projects that may severely tax PNG's administrative capacity appear to coexist with programmed activities.

It is too early to reach conclusions about the medium to longer term success of AusAID's PNG program activities but the approach may have much greater application throughout the entire aid program. In addition to the advantages above, program aid may encourage greater concentration and specialisation within countries and sectors, leading to assistance that is both more visible and more assessable. The effective delivery of program aid is, however, a resource-intensive process requiring different skills than standard project administration. To the degree that it is extended to other areas of the aid program, it will have significant implications for AusAID's staffing structure.

## Future directions

### *Development Cooperation Treaty*

The *Australia–PNG Development Cooperation Treaty* was established to make the aid relationship more predictable, following a substantial cut in aid to PNG in 1986 as part of an overall reduction in the aid program. The Treaty has been a successful mechanism for giving PNG a breathing space between heavy reliance on Australian funding and much greater self-reliance. It has also helped to introduce much needed change in the nature of the aid relationship. However, the Committee considers that after current Treaty obligations are met, the need for it will have passed. The relationship is one between two independent countries: no Treaty guaranteeing aid levels exists with any other partner developing country in the aid program. As the PNG economy grows, and aid becomes a less significant component of

...the Committee considers that after current Treaty obligations are met, the need for it will have passed.

PNG's budget and GNP, there should no longer be the need for such a guarantee, nor should there be the need to provide such a high level of aid. Guarantees of this sort can lead to unrealistic long-term expectations, exacerbate aid-dependency, and impose a counterproductive imperative to spend even when it is not effective to do so. It may also lead to expectations that, regardless of progress against benchmarks, aid expenditure targets will be met because they are underwritten by Treaty obligations.

Provision of Australian aid beyond 2000 should be based on a careful assessment of PNG's continuing development needs, a demonstrated commitment by PNG to good governance and to sound economic and resource management, and progress against performance benchmarks as well as other considerations, such as the overall balance in the program and the legitimate claims on Australian aid money elsewhere.

**Recommendation 6.1** A Treaty-based guarantee of the volume of aid is not the most appropriate framework for the Australia-PNG aid program in the longer term. The Treaty should not be renewed after it expires in 2000. Progress against benchmarks and effective policy dialogue on essential reforms should be the main determinants of future aid levels and program focus.

#### *Performance benchmarks*

...progress against the benchmarks should be a major factor in determining the nature and extent of future assistance to PNG.

The Committee agrees that progress against the benchmarks should be a major factor in determining the nature and extent of future assistance to PNG. Although all are based on PNG's own reform priorities, there is considerable variation in the nature and form of the current benchmarks. Some are unambiguous and action-orientated, for example, 'Privatisation of the distribution of pharmaceuticals', others are more nebulous and difficult to assess, for example, 'A new interim structure for the office of Civil Aviation as a step towards the planned establishment of a Civil Aviation Authority'. The Committee encourages greater consistency in the development of more outcome-orientated benchmarks. This will allow progress to be more clearly measured and the relative roles and responsibilities for achieving that progress made clearer. The Committee also believes that with almost 25 benchmarks in operation there is a danger of introducing too much complexity and prescription. It might be preferable to have different tiers of benchmarks, with the future shape and funding of the program linked to a smaller number of highly focused benchmarks.

**Recommendation 6.2** The development of a smaller number of outcome-orientated benchmarks related to the effectiveness of the PNG aid program should be a major focus of the 1998 Treaty Review.

### *Good governance*

Continued efforts to encourage good governance are strongly supported. To this end the Committee believes that there would be value in seeking to alter the current sectoral focus to make good governance a discrete priority area of the program. The Committee is aware that governance issues, including capacity building, are being dealt with in each of the sectors, but believes a heightened focus on these issues is warranted. At the country level this might include providing, on a co-financing basis with the PNG Government, significant additional support to the office of the PNG Ombudsman and Auditor General. Australia might also be able to provide assistance with the establishment of additional mechanisms to detect, deal with, and discourage corrupt conduct, since several Australian governments have had to establish anti-corruption units over the last decade in the face of the misuse of state powers and finances.

A complementary approach would involve the establishment of special short courses in public administration and accountability to meet the high need in this area in PNG and, indeed, elsewhere in the Pacific. Such courses should be aimed at inculcating the basics in priority setting, planning and ethical conduct. These courses should be run in the region, possibly at both the University of the South Pacific and the University of Papua New Guinea. The greatest long-term assistance to good governance and capacity building will come through persisting with efforts to improve primary and secondary education and so create a constituency for better governance. In addition, new methods for encouraging greater people-to-people and institutional links should be explored. This would have the effect of helping to develop civil society, broadening the base for good governance and encouraging wider local participation in development cooperation activities.

**Recommendation 6.3** Education and capacity building are fundamental to the long-term development of PNG. Management and administrative capacity are very scarce in all sectors. This is an area that Australia should focus on by developing specific, short-term public administration courses, located in the region.

### *Economic reform*

An ongoing focus on economic management is essential to PNG's sustainable development. The Committee considers that it is vital that Australia keeps working with PNG and the World Bank on these issues, and that the World Bank and other donors stay engaged with PNG. The Committee encourages AusAID not only to maintain a

...alter the current sectoral focus to make good governance a discrete priority area of the program.

vigorous policy dialogue with PNG but also to support efforts to put in place better systems for national and provincial financial management. The Committee understands that this is a complex and long-term task requiring PNG commitment. Australia should seek to foster and support that commitment as much as possible.

**Recommendation 6.4** The focus on good governance and sound economic and social policies in the PNG program must be maintained and strengthened. This should include making good governance a discrete priority area for assistance. Continuing support for independent institutions of governance and encouragement for the long-term engagement of the World Bank are crucial.

...per capita incomes in many island countries are static or declining. Social indicators, on the other hand, tend to be relatively high

## Pacific island countries

It is common to refer to the Pacific region as if it were a homogeneous entity, but this is misleading. While the small island nations of the Pacific share many of the same development constraints, there are also major differences, especially in their capacities to achieve sustainable development. Shared constraints include distance from markets and suppliers, limited land and resource bases, and vulnerability to natural disasters and environmental threats such as coastal erosion and pollution. They also share communal systems of land tenure which provide a social safety net but can make investment more difficult. Economic growth in the region tends to be volatile and not consistently high enough to outstrip high levels of population growth. Consequently, per capita incomes in many island countries are static or declining. Social indicators, on the other hand, tend to be relatively high, with the exception of the Solomon Islands and Vanuatu.

Until recently, many of the countries in the region were characterised by unsustainable budget deficits, highly restricted trade and investment regimes and a plethora of loss-making government institutions. Economic resources—natural, human and capital—have generally not been well managed. In some Melanesian countries, unsustainable logging practices continue, and island countries have not combined to maximise the return on the sustainable use of their fishing resources. Just as importantly, educational standards in some countries are not as high as they could be, restricting the ability of countries to create their own development solutions. The pursuit of the kind of economic reform and improved resource management measures that South Pacific Forum<sup>2</sup> members agreed to at the last

<sup>2</sup> The South Pacific Forum includes the 14 independent island nations of the Pacific, Australia and New Zealand.

three heads of government meetings is vital to the long-term sustainable development of the region. It should be recognised that some countries, in particular, Tonga, Western Samoa and more recently Vanuatu, have moved determinedly towards reform. Others, such as Tuvalu have managed their very limited resources prudently. Australia should continue to give high priority to initiatives that further the reform agenda. AusAID should also ensure that it has the expertise to contribute to the development and advancement of this agenda.

### International aid flows

Island governments are feeling the effects of changes in the global economy—in trading systems, foreign investment and in the volume and distribution of aid flows. While the statistics on aid flows up to 1995 do not yet show significant changes (see figure 6.2), ODA to the region will almost certainly decline in the near future. It is far from clear, for example, what, if any, arrangements will replace the current framework for the European Union's aid and trading relationship following the expiry of the Lomé Convention at the end of the decade.

The focus of the United States is now very narrow and is restricted almost entirely to budget support to the former US Trust Territories, Palau, the Federated States of Micronesia and the Republic of the Marshall Islands, under compact settlements with these countries. The settlement periods expire in 2001 for the Federated States of Micronesia and the Marshall Islands, with no guarantee of assistance beyond 2003. The compact with Palau was concluded only in 1994 and will run to 2010. Almost forty per cent of this US\$500 million agreement was paid immediately, explaining the large and temporary US aid flows in figure 6.2.

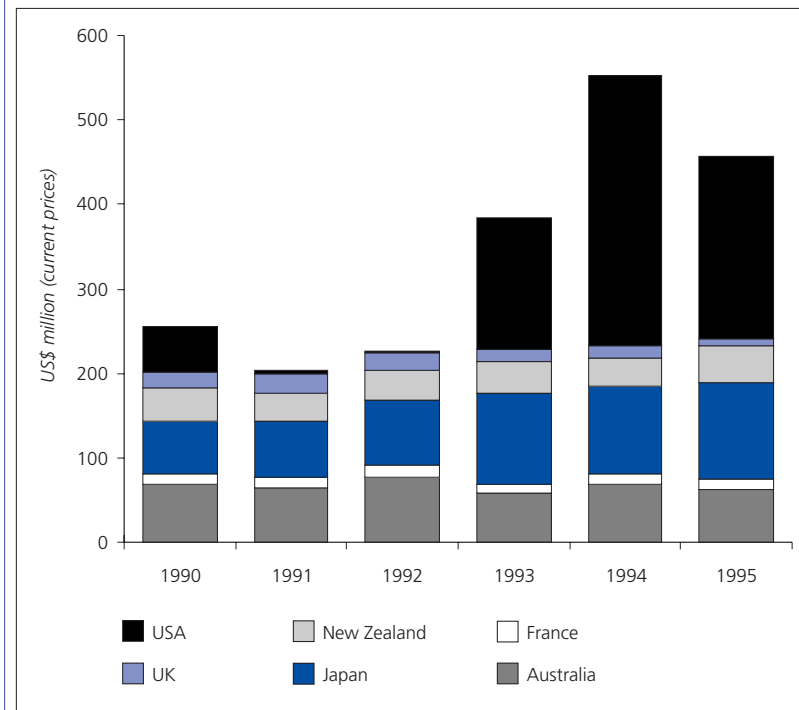
As figure 6.2 also shows, Britain has reduced its assistance from around US\$20 million in the early nineties to under US\$9 million in 1995. Japan, however, has increased its assistance in recent years and now provides more aid than Australia to the independent island countries, excluding PNG.

Some Pacific island nations are amongst the most aid-dependent countries in the world, with aid to GDP ratios as high as 47 per cent in Kiribati, 38 per cent in the Marshall Islands, and 29 per cent in Western Samoa. These countries are exceptionally vulnerable to declining aid flows. Even if other donors were not reducing their involvement in the Pacific, these countries and Australia should be concerned about such high levels of dependence. It can compromise national sovereignty, stifle local initiative and create problems of mendicancy. Some countries, particularly the micro-states, are likely to remain aid-dependent for the foreseeable future, but even these countries, and those who support them, should be looking for opportunities to increase their self-reliance. In the case of countries with more

ODA to the region will almost certainly decline in the near future.

Some Pacific island nations are amongst the most aid-dependent countries in the world

**Figure 6.2 ODA flows from major DAC donors to independent Pacific island countries (excluding PNG), 1990 to 1995 (US\$ million, current prices)**



Source: DAC (1997b).

Note: US aid flows consist almost entirely of budget support under compact settlements to the three former US trust territories: Federated States of Micronesia, Republic of the Marshall Islands and Palau.

significant resources bases, development partners should specifically aim to reduce aid reliance over time. As suggested below, Australia should encourage this process by moving to graduate wealthier Pacific island countries from Australian aid.

### **Australia's aid programs**

ODA from Australia to the Pacific (excluding PNG) will amount to some \$129 million in 1996–97 (table 6.2). About \$84 million or two-thirds of this is provided in bilateral aid to 16 recipients, although 90 per cent of it goes to the seven countries which form the core of the bilateral program: Fiji, Kiribati, Solomon Islands, Tonga, Tuvalu, Vanuatu and Western Samoa. A further \$9 million is allocated to the Policy and Management Reform program. The balance is about evenly divided between multi-country programs and support for the major regional organisations, such as the Forum Secretariat, the South Pacific Commission, and the University of the South Pacific.



**Table 6.2 Australian bilateral aid flows to Pacific island countries (excluding PNG)**

Country	Australian aid flows 1995 as a percentage of total aid flows (all sources)	Australian aid flows 1995–96 (\$m)	Australian aid flows 1996–97 outlook (\$m)
Cook Islands	10	1.9	1.7
Federated States of Micronesia	2	1.6	1.5
Fiji	32	20.1	19.1
French Polynesia	0	0.5	0.4
Kiribati	27	6.8	6.3
Marshall Islands	1	0.6	0.7
Nauru	72	2.9	3.0
New Caledonia	0	1.2	1.3
Niue	8	1.2	0.5
Palau	0	0.3	0.3
Solomon Islands	18	11.5	11.5
Tokelau	0	0.1	0.4
Tonga	21	11.6	10.4
Tuvalu	44	3.9	2.3
Vanuatu	24	14.8	12.8
Western Samoa	20	12.3	11.6

Sources: DAC (1997b) and AusAID.

There are obvious economies of scale to be gained from effective development-focused regional organisations and programs active in the Pacific. Australia is a major supporter of the regional framework of organisations and programs. This support complements Australia's bilateral aid programs to the region and can also provide a useful opportunity to enter into dialogue with island governments on economic reform and resource management issues.

The Policy and Management Reform program was established in 1995–96. This program is dedicated to helping island governments to implement essential economic and public sector management reforms. An example is a \$7 million, 5-year program to restructure and upgrade the Western Samoan Treasury. Funds are allocated competitively between island countries on the basis of demonstrated commitment to reform and are *additional* to the bilateral country allocation. This provides both an incentive for reform and the means to pursue it. The program was praised as a substantial and useful initiative during the Committee's discussions with the Asian Development Bank.

...there is a danger that the Australian aid program may be prevailed on to provide support for a larger range of island countries.

## Future directions

### *Program focus*

With the withdrawal of other donors from the Pacific there is a danger that the Australian aid program may be prevailed on to provide support for a larger range of island countries. This pressure should be resisted. If anything, the number of countries assisted should decrease as wealthier countries graduate. Support for multilateral and regional agencies is the most effective way in which we can assist countries outside the core group.

It is also important that Australia keep under constant review its membership of, and support for, regional bodies. The continuing role, viability, effectiveness, and relevance of the mandates of each organisation should not be assumed. Duplication of regional programs can occur easily and needs to be avoided.

**Recommendation 6.5** Australia should maintain the focus of its Pacific programs by restricting support for countries outside of the current core group to that provided through multilateral and regional organisations.

### *A differentiated approach*

The differences as well as the similarities between the island countries should be recognised and reflected in aid policies. For some, with reasonable resource bases and relatively high levels of income, such as Fiji, self-reliance is an achievable medium-term goal. Others, like Tonga and Western Samoa, while smaller and with narrower resource bases, already have relatively good social and economic indicators and the potential to continue to develop, largely under their own steam. In some Melanesian countries such as Vanuatu and the Solomon Islands there are good long-term prospects if they manage their resources well, but immense development difficulties in the short to medium term. For the very small atoll states with extremely limited resources, such as Kiribati and Tuvalu, complete self-reliance may never be possible.

...it may be appropriate to re-examine the quantum and nature of assistance to individual countries.

A differentiated approach to the development needs of the Pacific is therefore required. The approach needs to be based on: the level of income and incidence of poverty; their capacity for self-reliance; the extent to which the government can demonstrate a genuine commitment to sustainable development policies; and broader foreign policy interests. Broadly, such an approach has been pursued by Australia, but it may be appropriate to re-examine the quantum and nature of assistance to individual countries.

It is not surprising that Australian aid per capita is high in Kiribati and Tuvalu, given their low per capita income and the few opportunities there are for private enterprise (see table 6.3). It is more curious, however, that per capita Australian aid levels in Tonga, Western Samoa and the Cook Islands are as high as they are, given income per person, high levels of human development and the prospects of these countries being self-reliant. In some cases this is because the population is so small that any activity will be substantial on a per capita basis, but this is not the case in the countries with larger populations.

**Table 6.3 Australian aid per capita 1994 (selected Pacific island recipients)**

Country	Australian aid per capita \$A	GNP per capita US\$	Human Development Index no.
Cook Islands	89	4160	na
Fiji	24	2140	0.85
Kiribati	80	710	na
Solomon Islands	31	750	0.56
Tonga	105	1610	na
Tuvalu	242	760	na
Vanuatu	78	1230	0.56
Western Samoa	71	980	0.70

Sources: UNDP (1996) and tables 6.1 and 6.2 above.

The current allocation of resources may in part reflect the ongoing tension between seeking to deliver aid where it is most needed and where it can be most productively used. Tonga and Western Samoa have been among the most successful countries in achieving development. Their reform efforts have been recognised through the Policy and Management Reform program. It is natural that, as those reforms further improve development prospects, both Australia and the islands should plan for the time, in the foreseeable future, when they will be self-reliant. This should be a source of immense satisfaction for the islands and Australia and should help put paid to the excessively negative view of the region held in some quarters.

Fiji is also a clear candidate for graduation. It has a relatively high level of income per head and a level of human development (as measured by the human development index) that puts it in the top international category, but in 1996–97 it is expected to receive over \$19 million in Australian aid. It is recognised, however, that Fiji is facing problems in adjusting to the new international economic environment, partly because it has successfully built some export industries, garment manufacture for example, on the basis of preferential access to developed country markets. A graduation strategy for Fiji should focus the program on assisting the country deal with the adjustment to freer trade and investment.

The current allocation may reflect the ongoing tension between seeking to deliver aid where it is most needed and where it can be most productively used.

The Committee believes that AusAID should produce a comprehensive, forward-looking Pacific development strategy that clearly sets out its differentiated approach to development assistance in the island nations. This would complement country programs and allow them to be put in the context of regional and sub-regional development. The Pacific strategy should deal clearly with graduation issues. It should also be informed by analysis of the nature, scale and intractability of poverty and other development challenges in the Pacific.

**Recommendation 6.6** A Pacific islands development strategy should be devised to reflect the different circumstances and assistance required by different island countries and the regional and sub-regional strategic approaches AusAID intends to take. This should include the graduation of wealthier countries with good prospects for self-reliance.

AusAID's Policy and Management Reform program is an important and useful mechanism.

#### *Supporting reform*

The Committee considers that AusAID's Policy and Management Reform program is an important and useful mechanism. Used well, PMR will substantially increase the effectiveness of Australia's policy dialogue with the island countries, but only if it remains a positive incentive. PMR funds should be used only for activities that focus on significant reform and nothing else. The larger the fund becomes the more danger there is that activities of marginal reform value will be relabelled to allow the allocation to be spent. This would undermine the whole basis of the scheme. Where there are not sufficient reform proposals worthy of support, the allocation should remain unspent. An alternative in such instances would be to provide support to the reform-focused work being undertaken in the region by the ADB. Consideration could also be given to extending the PMR approach to PNG.

The incentive approach to reform is clearly to be preferred, but Australia should also be prepared to reduce aid where governments give little indication that they are committed to good governance or to implementing necessary reforms. While this involves a risk to our relationships with some recipient countries, this is a risk the Committee believes Australia must take. The alternatives are long-term dependency for recipients, and dubious value for Australian taxpayers, both of which may undermine support for aid outlays. The December 1995 cancellation of \$2 million of activities in the Solomon Islands, in the face of government failure to confront unsustainable logging and transfer pricing, was unprecedented.

**Recommendation 6.7** The positive incentive to reform efforts resulting from additional funding being available to Pacific island nations through the Policy and Management Reform program should be continued. Australia should also not resile from reducing aid funds where there is little commitment to good governance or essential economic and resource management reforms and where efforts to build capacity and support reform have been ineffective.

### *Coordination and cooperation*

Donor coordination is a major issue in the Pacific. The kind of capacity constraints suffered in PNG are also evident in many of the Pacific islands. Very limited administrative capacities can become rapidly overloaded in dealing with many donors, each with different requirements and ways of doing things. Effective donor coordination is critical in ensuring the best use of scarce aid funds, but also in the pursuit of economic reform it is important that donors send the same messages. Australia should continue to make concerted efforts to improve the in-country coordination capacity of island governments. Coordination between the major Pacific regional bodies is important, as it is for the Asian Development Bank and the World Bank to effectively coordinate their regional activities and policies.

AusAID has attached a high priority to collaboration with other donors in the Pacific, particularly with the Japanese. While this has not proved to be easy to achieve because of the differences in procedures, Australia and Japan are now co-financing a significant health promotion project in Fiji. The Committee considers that there are obvious benefits to the region if more closely coordinated and collaborative activities of this kind are supported.

### *Possible new approaches*

For the very small island states whose paucity of resources would appear to militate against achieving self-reliance, innovative approaches are needed. For example, the possibility of further trust fund arrangements should be pursued. Such arrangements in the form of the Tuvalu Trust Fund and the Kiribati Revenue Equalisation Reserve Fund appear to have worked quite well. In both cases the capital of the trust funds has been preserved and added to, in marked contrast to the Nauru Phosphate Royalties Trust Fund. However, the Committee was concerned to learn, while visiting the Pacific, that the management of the Tuvalu Trust Fund in particular is possibly too conservative, in that the funding of necessary repair and maintenance programs has apparently been resisted.

Where trust arrangements exist, or are developed, it should be made clear that the contributors to the trusts are committed to

...in the pursuit of economic reform it is important that donors send the same messages.

The central intent of trust arrangements must be to create income streams that are more predictable and manageable, not to give countries a channel to 'double-dip'.

withdrawing from other forms of assistance, and are prepared to work to prevent other potential donor countries from inadvertently undermining the intent of the trust arrangements. The central intent of trust arrangements must be to create income streams that are more predictable and manageable, not to give countries a channel to 'double-dip'. Should any other trust fund arrangements be established it would be imperative for major donors to be represented on the board of trustees.

A related idea submitted to the Committee was a proposal for a 'Pacific Islands Investment Development Fund'.<sup>3</sup> The proposal involves devoting up to 50 per cent of Australian bilateral aid into a regional fund, which it is intended would also be supported by other donors and island countries. The fund would allocate money as loans and grants from the income stream generated by its investment 'in accordance with the principles of good economic management, responsible resource development and good governance'. In the longer term, it is mooted as a means of reducing direct Australian aid to the Pacific region.

The Committee does not necessarily believe that it would be practical or desirable to administer a substantial proportion of Australian aid to the region in this way. It is stated that key advantages of the fund include increasing Pacific island sovereignty and financial management capacity, but it is not clear that it would achieve either end. The proposal involves making both the fund and Australia's bilateral assistance heavily conditional, yet does not appear to involve any means of increasing the capacity of countries to achieve 'good economic management' where it is poor. While we believe Australian aid should support good development policies and be redirected where government decisions are clearly inimical to development, a discretionary approach is required as seems to be embodied in AusAID's Policy Management and Reform program.

A further, and vexed, issue that the Committee urges should be reconsidered is the option of migration for islanders from the smaller Pacific atoll states where there is little or no chance of self-reliance. This approach may prove to be more cost-effective than continuing high levels of aid in perpetuity. Limited access to Australia, either on a temporary or permanent basis, has been argued for as an effective way to assist the very small states whose only export is labour services (Appleyard and Stahl 1995). It must be acknowledged, however, that there may not be widespread support for such a move in Australia, given high unemployment and a desire to protect the integrity of Australia's largely non-discriminatory immigration policy.

<sup>3</sup> Submission by Mr Stephen Henningham and Ms Janaline Oh.

**Recommendation 6.8** The possibility of establishing, in association with other donors, further individual trust fund arrangements for small Pacific island states should be explored where these will provide an income stream and can be effectively managed and safeguarded.

*Strategic and administrative approaches*

The size and impact of Australia's aid programs to PNG and the Pacific make it critical that we work closely with the recipient governments to make the best possible judgments about development effectiveness. AusAID's strategic planning, its knowledge of local conditions, its activity selection and evaluation processes need to be of the highest order, because Australia can affect national development outcomes if the policies and practices pursued are right. In particular, heightened attention needs to be given to the preparation of Country Strategies and to quantitative and qualitative decision-making, especially for large activities. This is discussed in chapter 9.

AusAID also needs to create a pool of staff with wide and deep experience and knowledge of the Pacific. AusAID requires access to the best available expertise on development matters relevant to the specific countries in the region. In this regard, the organisational review proposed in chapter 20 should consider whether Pacific programs have adequate resources to allow staff to make the best development judgments, small country programs notwithstanding. The organisational review might also consider the case for more AusAID officers to be posted to the region. There are at present 8 Australia-based AusAID officers in 6 countries (excluding PNG), supported by 15 locally engaged staff. Only Suva has more than one AusAID officer. The issues associated with decentralisation are discussed in chapter 20, and it is in pursuing this overall issue that staffing in the Pacific should be addressed. Particularly in the Pacific, the need for familiarity with the region, close engagement on the economic reform and resource management issues, and the constant need for good coordination with other donors appear to point to the need for more staff in the region.

**Recommendation 6.9** Special attention should be given to Australia's aid relations with PNG and the Pacific because of the relative size and impact of Australian aid in the region, our potential to help achieve development, and our national interests. This is likely to require additional resources to be devoted to analysis, strategic planning, aid design and delivery, and may also require the posting of more staff to the region.

AusAID also needs to create a pool of staff with wide and deep experience and knowledge of the Pacific.

## CHAPTER 7: SECTORAL EXPERTISE AND FOCUS

*There is a strong case on development grounds for focusing on health, education, infrastructure and rural development, and within these sectors, on building the capacity to deliver services, especially to the poor. These conclusions should be used as a guide rather than as a prescription for allocating fixed proportions of the program to particular sectors. Sectoral choices and policies need to be complemented by close attention to economic management and good governance since both are crucial determinants of development success. AusAID's value as an organisation comes from being an authority on development rather than being expert in specific sectors. For that reason, and because the organisation is country focused, there is an increased onus on AusAID to ensure that its systems for considering sectoral issues and its access to specialist policy and project advice are excellent. Currently they are not. The solutions may include amalgamating existing sectoral units, and forging stronger links with centres of sectoral expertise throughout Australia.*

### Introduction

Development cooperation partners constantly have to make choices about what sort of activities they are going to support. These decisions should be made on the basis of developmental effectiveness. It is not possible to identify and rank every potential activity and therefore donors need means of narrowing the field to those activities that are most likely to produce strong development and poverty reduction results.

### Sectoral expertise

Having access to and using expert technical knowledge is essential to making the best choices about the sectors and sub-sectors in which aid is provided, as well as to the specific choice of interventions and their design and evaluation. AusAID has a country rather than a sectoral focus, and this should not change. However, it is one of the reasons why AusAID does not have a large number of staff with *technical* skills relevant to development. It is all the more important, therefore, that AusAID has access to, and makes full use of, sound sectoral advice and technical knowledge. AusAID officers need to know when and how to request, interpret, test and use information supplied by specialists. The Committee believes this requires improvements in each of the following areas:

Having access to and using expert technical knowledge is essential to making the best choices.



There is scope for the...rationalisation of the sectoral expertise available to AusAID to improve program and project quality.

- ready access to expert sectoral advice;
- the capacity to use that advice effectively; and
- enhancement of the technical skills base of the organisation.

Currently, the systems for gaining access to expertise for specific activities and projects include AusAID's Sectoral Policy and Review Branch, technical experts on long-term contract to AusAID in two specialist groups (the Pacific Regional Team [PRT] and Advisory Services Group—Asia and Africa [ASG]), period contracts of experts available for short term assignments, and expertise for specific activities and project design acquired by tender. There is scope for the rationalisation of the sectoral expertise available to AusAID to improve program and project quality.

The Committee doubts that value is added by having different layers of sectoral advice with a lack of clarity about the precise roles and responsibilities of each. The role of the Sectoral Policy and Review Branch appears to be particularly ambiguous. In addition, the bodies contracted to provide AusAID with specialist advice (PRT and ASG) are under-resourced, allotted too many activities and unproductively split into two groups. The Committee proposes the amalgamation of PRT, ASG and internal sectoral units (including the gender and environment sub-sections), together with an expansion and upgrading of the specialist expert 'service' generally, to form a body of expertise better able to provide expert sectoral advice and to develop more effective links with professional bodies and institutions.

AusAID might also consider whether it would be useful to create more sector advisory bodies such as the Advisory Group on Health (AGH). This body exists to help AusAID target its health assistance and provides the organisation with access to significant health expertise. There is potential for this model to be adopted in other areas. Where this occurs, the emphasis should be on gaining access to the best and most relevant expertise to meet the needs of the aid program, not on creating a forum of representatives of all the major interest groups in the field. As well, networks should be established with strong centres of excellence in key sectors of relevance.

AusAID should also re-examine its policy of recruiting generalists in favour of identifying key areas where it would be desirable to have professional expertise.

AusAID should also re-examine its policy of recruiting generalists in favour of identifying key areas where it would be desirable to have professional expertise at the desk level in order to have an informed audience for professional advice. This includes each of the priority sectors mentioned in this chapter, but also economic and social development expertise. It may not always be easy to recruit and retain such people, but reforms to public service personnel practices should make it easier for AusAID to do so. In addition, improved training needs to be provided to existing and new AusAID staff to develop a better basis for their use of expert advice. New methods also need to

be found to keep staff up to date about AusAID and international sectoral performance and innovation.

**Recommendation 7.1** AusAID should amalgamate the Pacific Regional Team, the Advisory Services Group—Asia and Africa, and its sectoral policy units, as part of a strategy to upgrade and expand specialist advisory services. Consideration should be given to the formation of advisory groups for each major sectoral area, drawing on the best available sources of relevant expertise. AusAID should seek to recruit staff with specific and relevant development skills and provide more training for new and existing staff in sectoral issues.

## Sectoral composition of Australian aid

Sectors are merely areas of activity grouped according to some common element. The Committee has adopted the sectoral definitions of the Development Assistance Committee (DAC) of the OECD—for example, water supply and sanitation, transport and communications, and health and population. As table 7.1 shows, Australia's sectoral allocation differs from the average of most other donors in some significant respects. In 1994, Australia spent proportionally more than the DAC average on education, health and transport and communications, and less than the average on energy, agriculture and industry, mining and construction. A major area of difference was spending on program assistance<sup>1</sup> (20.5 per cent compared with an average of 4.9 per cent) which is largely explained by Australia's budget support for Papua New Guinea. The remaining 14 per cent of AusAID expenditure is spread over other sectors compared with an average of more than 35 per cent for the DAC group as a whole.<sup>2</sup> This suggests that Australia's aid program is already more concentrated than the average of other donors and will become even more so as the shift to program aid in PNG leads to greater spending on health, education and transport and communications.

## Sectoral focus

The purpose of having a sectoral focus is to maximise development effectiveness. This is because concentrating resources and expertise can deliver advantages of scale and specialisation. It is also because some

<sup>1</sup> Defined by the DAC as contributions for general development purposes without sector allocation. Among other things, it includes structural adjustment financing, food security programs, balance of payment and budget support.

<sup>2</sup> The 'other' category includes debt relief, emergency assistance, program support for NGOs and administrative costs.

...concentrating resources and expertise can deliver advantages of scale and specialisation.

**Table 7.1 Bilateral aid by sectoral allocation, Australia and DAC average 1994<sup>a</sup>**

	Australia (per cent)	Total DAC average (per cent)
<b>Social/administrative infrastructure</b>	<b>34.5</b>	<b>27.3</b>
a) Education (of which) Basic ed.	14.1 (1.9)	10.7 (0.6)
b) Health and population (of which) Basic health	7.4 (4.5)	4.9 (0.5)
c) Planning/public admin.	3.7	2.8
d) Water supply/sanitation	3.2	4.9
e) Other	6.1	4.0
<b>Economic infrastructure</b>	<b>22.8</b>	<b>21.2</b>
a) Transport and communications	19.6	10.9
b) Energy	3.0	7.8
c) Other	0.2	2.6
<b>Production</b>	<b>7.8</b>	<b>11.0</b>
a) Agriculture	6.6	7.5
b) Industry/mining/construction	0.5	1.7
c) Trade/banking/tourism	0.7	1.6
d) Other	-	0.2
<b>Program Assistance</b>	<b>20.5</b>	<b>4.9</b>
<b>Other</b>	<b>14.4</b>	<b>35.6</b>
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Source: DAC (1997a).

<sup>a</sup> The data in table 7.1 differ from that presented in table 2.5 in chapter 2 because AusAID has traditionally included multilateral assistance, which cannot be desegregated by sector, in the 'other' category. The data in table 7.1 relates to bilateral assistance only as the Committee believes they present a truer picture of AusAID's sectoral allocations. 1994 is the last year for which DAC data are available.

sectors are more important than others in contributing to development. Aid agencies need to have a good understanding of the relative development impact of particular types of activities. This can be influenced partly by a donor's aid design and delivery capacity, but should be based mainly on knowledge of where aid can be most effective. Pointers to those areas come from development theory, the development record of individual countries, and evaluations of the effectiveness of donor sectoral interventions.

### Comparative advantage and sectoral expertise

From at least the time of the Jackson Review (1984), it has been argued that Australian aid should be concentrated on areas where Australia has particular strengths or where it enjoys 'comparative advantage'. It

It is very difficult to measure the degree of advantage or expertise within an industry or sector.

is very difficult to measure the degree of advantage or expertise within an industry or sector of relevance to the aid program. The economic concept of comparative advantage relates to *traded* goods and services and does not necessarily provide a good guide to those areas where Australia is 'best' at development assistance. Strong sectoral lobbies exist in the aid field, all of which argue that their industry is not only world class and internationally competitive, but also of the utmost development importance. Industry claims need to be scrutinised carefully and continuously by AusAID staff who are competent to make sound judgments, using common and transparent criteria.

Consideration of Australia's aid delivery strengths requires more than analysis of technical capacity, thorough as this should be. It also requires assessment of design and implementation capacity, including the availability of qualified staff. An experienced Australian development consultant (Shaw 1996, p. 27) noted recently that:

'Generally technical capacity alone has been used by AusAID to define Australia's sectoral "comparative advantage". However, there are many examples of technically competent sectors whose aid project design and management skills are weak. Technical capacity alone does not ensure a good aid project'.

This reinforces the point that AusAID must conduct on-going and serious assessment of sectoral capacity, rather than relying on industry claims or superficial judgment. Although some studies of sectoral capacity have been undertaken, for example in the health field, they need to be conducted routinely in all major areas.

While a careful consideration of sectoral capacity should be factored into the provision of Australian aid, there is a danger that if it is given major influence it will distort the aid program, making it based on our strengths rather than on developing country needs and sectoral investment returns. For this reason, the results of the assessment of Australian capacity should only be taken into account *after* developing country needs and jointly agreed priorities are considered. As chapter 10 recommends, the tying of Australian aid should also be relaxed to reduce the risks of donor-driven supply. The Committee, however, has not recommended the untying of all Australian aid and therefore there remain strong reasons for assessing Australian capacity.

**Recommendation 7.2** AusAID should establish a system for regularly and objectively assessing the aid design and delivery capacity of Australian companies, organisations and individuals within the major sectors relevant to the aid program.

## Sectoral impacts on poverty reduction

In considering where aid has the most impact, donors need to have regard both to theory and to practice. As discussed in chapter 4, detailed and careful analysis by a range of organisations, especially the World Bank and UNDP, has led to a significant consensus about development processes and how poverty can best be addressed. The World Bank's 1990 *World Development Report* which focused on poverty was particularly influential in making the case for a multifaceted approach to poverty reduction, based on the pursuit of sustainable growth and accompanied by measures to ensure that the poor are its beneficiaries. This is the approach the Committee adopted in chapter 4. In accordance with the programming priorities established to promote poverty reduction, AusAID should make significant investments in assisting human resource development, as well as in increasing and improving physical and organisational infrastructure. Good governance and private sector development are both crucial for the promotion of broad-based growth and are discussed in chapters 13 and 8 respectively.

...the DAC concluded that development had been most advanced by activities in the areas of health, family planning, water supply and sanitation, infrastructure, agricultural research and good governance.

Applying this strategic approach does not provide a fixed list of sectors to concentrate on, but it points to the relative importance of several areas. In May 1996, the Development Assistance Committee (DAC) of the OECD looked back at the lessons of four decades of development cooperation and concluded that development had been most advanced by activities in the areas of health, family planning, water supply and sanitation, infrastructure, agricultural research and good governance (DAC 1996d, pp. 7–8). Similarly, the UNDP focused on basic education, primary health care, family planning and water and sanitation as priorities for social development as part of its 20:20 compact (UNDP 1994, p. 77).<sup>3</sup> The compact was adopted as a voluntary framework by the World Summit on Social Development. The International Monetary Fund and the World Bank have narrowed this focus further, observing in 1994 that: 'In prioritising public expenditure there are two areas that stand out in terms of their impact on development and their contribution to the effective use of aid. The first is the provision of basic social services (primary education and health) and the second is in the provision of basic infrastructure. Research has found that the returns to basic education (particularly of girls) and to expenditure on basic health are high.' (World Bank and IMF 1994, pp. 6–7)

<sup>3</sup> The 20:20 compact involves developing countries agreeing to allocate at least 20 per cent of their public spending, and donors agreeing to provide at least 20 per cent of their assistance to sectors important to social development. These include primary health, basic education and water supply and sanitation, though there has been argument about the specific sorts of activities that should be counted as eligible expenditures

From the above evidence the Committee has concluded that properly targeted and designed activities in the fields of health, education, infrastructure and rural development can directly benefit the poorest people of developing countries while also building a broader base for economic growth and social development.

- **Health**—In most developing countries, particularly the poorest, improving the health of the population is fundamental to development and poverty reduction. An unhealthy population tends to have low productivity and requires remedial health treatment. By lifting productivity and performance at school, work and home, well-targeted primary health investments can contribute to social and economic development.
- **Education**—Basic education, in particular, equips people for life and work. It helps people improve their health and adds to a country's stock of human capital. It gives individuals the tools they need to participate in cultural and political affairs.
- **Infrastructure**—Transport and communications systems and other physical infrastructure is fundamental to both economic and social development. It is vital to allowing people access to essential services and to the movement of people and goods. Large infrastructure projects in the transport and energy areas typically yield high economic rates of return, but are often able to be financed privately. Water and sanitation stands out as a sub-sector essential to poverty reduction and one in which immense needs remain.
- **Rural development**—Helping to deliver services to remote areas and widening rural income-earning opportunities reaches the poor directly and provides a basis for greater growth and wider development. Rural development also reduces incentives for migration to urban areas. As Robert Cassen has noted, 'The importance of agriculture to the economies of many developing countries, and particularly the poorer ones, can hardly be overstated' (Cassen 1993, p. 96). Likewise the World Bank has noted that 'growth that raises agricultural productivity and the return to farm labour ought to be particularly effective in reducing poverty' (World Bank 1990, p. 49).

**Recommendation 7.3** Within the context of country programming, the Australian aid program should give priority to education, health, infrastructure and rural development in recognition of the critical importance of these sectors to poverty reduction through sustainable development.

## Sectoral policy issues

Some specific sectoral policy issues are discussed below. Before these are considered, a number of points should be stressed:

(1) In making recommendations for more or less support for particular activities, the Committee is *not* suggesting that this override or compromise country programming. The recommendations are strategic advice to country program managers to consider the implications of sectoral analysis in the unique circumstances of particular developing countries. To the extent that the recommendations suggest overall changes in levels of sectoral allocations it is because the Committee believes that factors other than effectiveness have created imbalances which should be redressed.

(2) Just because particular sectors have been identified as priorities for poverty reduction through sustainable development, this does *not* mean that all activities within these sectors make an equal contribution to poverty reduction, nor that activities in other sectors are to be avoided. Careful analysis is required to discriminate in favour of those interventions which will yield the best long-term results. Often these will not be direct interventions. They will involve policy and management reforms, institutional strengthening and capacity building so that countries are better equipped to provide essential services on a sustainable basis.

(3) AusAID needs to analyse carefully its own sectoral performance and use the results to improve the effectiveness of its sectoral policies and sub-sectoral choices. AusAID has not completed detailed sectoral reviews for several years. The Office of Independent Evaluation, recommended in chapter 9, should be given the explicit task of doing so in conjunction with AusAID's sectoral experts.

**Recommendation 7.4** Ongoing sectoral evaluations of AusAID's activities should be undertaken and the results used to help determine sectoral policies and the activities within the priority sectors which have the highest rates of return in terms of development impact.

## Health and population

...an area where aid can be seen to have worked very successfully.

As noted in chapter 2, health has been the sector in which some of the most significant development progress has been made, with dramatic improvements in life expectancy over recent decades. It is also an area where aid can be seen to have worked very successfully, helping to cut infant mortality in half through the eradication of measles and smallpox, the control of polio and the development of effective treatments for infant diarrhoea. There is however, what the World

Health Organization has described as an ‘unfinished agenda’ in the primary health care field. Preventable infectious diseases still kill over 17 million people each year and half a million women die from pregnancy-related complications.

There are new challenges too. HIV/AIDS is perhaps the best recognised because of its rising incidence in many rich countries as well as poor. But a resurgence in other communicable diseases is also occurring, including resistant strains of malaria and tuberculosis and new strains of hepatitis, evident in Australia’s own region. In addition there is a significant change under way in the nature of health needs in developing countries. In 1990, communicable diseases made up about half of the disease burden in developing countries with non-communicable diseases amounting to little over a third. By 2020 the share of communicable diseases is predicted to have been halved, with non-communicable diseases, including pollution related illness, cancer, heart disease and mental illness, making up nearly 60 per cent of the disease burden in developing countries, with particularly notable increases in China and India (WHO 1996a, p. xxxi).

### Health priorities for AusAID

Health and population spending has increased from just over 1 per cent of Australian aid in 1985–86 to 6.5 per cent in 1994–95. Over 60 per cent of this is in basic health, particularly targeted at women and children (see table 7.1). AusAID’s existing health policy is soundly based, but needs updating to reflect the changing health environment discussed above. The Committee reaffirms the policy’s guiding principles of local participation, capacity building and primary health care, but would like to see priorities more clearly established for *health activities*. Having examined the diagnosis of health needs in the World Health Organization report *Investing in Health Research and Development* (WHO 1996a), the Review Committee believes that there are two sets of priority interventions for AusAID that accord with the development and poverty reduction strategies set out in chapter 4.

1) *Immunisation, infrastructure and education to deal with the ‘unfinished agenda’ of childhood infectious diseases and maternal health, which afflict almost entirely the very poor. It costs less than one dollar to immunise a child against six prevalent diseases and a similar amount per head to provide preventive health education, offering highly cost-effective interventions. The further development and use of ‘packages’ of health interventions (e.g. for the care of the sick child, immunisation and family planning) should be supported. It has been estimated that such packages could cut the total disease burden in developing countries by one third for an annual cost of about US \$12 per person (WHO 1996b).*

*Immunisation, infrastructure and education to deal with the ‘unfinished agenda’ of childhood infectious diseases and maternal health.*



*Health sector management and reform assistance to equip developing countries with better means of managing health resources.*

2) *Health sector management and reform assistance* to equip developing countries with better means of managing health resources to maximise their impact on poverty reduction. This entails assistance in evaluating health-system performance, devising and using health indicators and management tools and quantifying the impact of economic and other activity on people's health. Within this category there is a role for greater applied research. In many countries there is inadequate knowledge of disease burdens, modes of disease transmission, risk factors and the likely success of different types of interventions. Applied policy research can help to make the most of existing treatments, technologies and management systems in specific country circumstances.

The Committee believes that there is also a need for greater relevant in-house expertise, and the development of strong linkages with experts and groups in universities and elsewhere to ensure improved program and project selection, design and implementation. It may be useful, for example, for AusAID to have discussions with the National Health and Medical Research Council and other relevant bodies about ways of giving a higher priority to health research relevant to developing countries, especially in the Asia-Pacific region.

**Recommendation 7.5** AusAID should develop a new health policy giving clear priority to primary health care—particularly preventable infectious diseases and infant and maternal mortality—and to health sector management and reform. Discussions should also be held with the National Health and Medical Research Council and other relevant bodies with a view to giving a higher priority to health research relevant to developing countries, especially in the Asia-Pacific region.

*...access to voluntary family planning is in the health and human rights interests of people in developing countries.*

## **Population**

The Committee received a number of submissions both for and against family planning activities in the aid program. The Committee does not wish to revisit in detail debates that are too often characterised by entrenched ideological positions. It has concluded that the links between population growth and development are complex. It has also concluded that considerable care needs to be taken to avoid human rights violations arising from both compulsion and coercion, and also from the deliberate denial of access to family planning. The Committee's main finding is that access to voluntary family planning is in the health and human rights interests of people in developing countries.

In coming to this view, the Review Committee listened to the arguments of the protagonists and concluded that the Report of the Australian Independent Inquiry into Population and Development (*Population and Development* 1994) provides the best basis for

considering the future of family planning activities in the aid program. The Population Inquiry report was completed by independent experts and was quoted in the submissions of both pro- and anti-natalists in defence of their positions. It seems appropriate, therefore, to restate its ultimate conclusion:

‘Slowing population growth from high current levels, especially in poor agrarian societies facing pressure on land and resources, is advantageous to economic development, health, food availability, housing, poverty, the environment, and possibly education. In several of these areas, for example poverty, we do not know the size of the effect. And in some sectors where we do have estimates of individual outcomes, the impacts are relatively small. These small effects, however, are likely to be synergistic and cumulative. While other economic and social policies may affect one or a few of these outcomes more directly, few, if any, are likely to have the breadth of impact of family planning, where the direct costs are relatively modest.’

This conclusion more than justifies the substantial expansion of population assistance embarked upon in 1993. That four-year initiative expires in 1997. An equivalent or greater level of funding should be made available for population activities in the future. It should also be complemented by programs aimed specifically at improving the access of women and girls to education and health services.

**Recommendation 7.6** Funding for population activities, including voluntary family planning, should be at least maintained and possibly increased in real terms in the interests of advancing health, human rights and development objectives. These activities should be part of wider efforts to improve the health and education of women.

The Committee has examined AusAID’s population policy statement and guidelines which stress the importance of voluntarism and quality of care in family planning services. These are useful for identifying activities which might not accord fully with AusAID’s emphasis on the fundamental principle of free choice. Additional guidance might be given to AusAID staff and contractors on what constitutes coercion. Governments the world over use incentives and disincentives to encourage, reward, support and penalise particular types of activity believed to be in the public interest. These policies are not inherently coercive. They can, however, become oppressive if taken to the extreme, even if compulsion is absent. Without seeking to prescribe every case, it would be useful for AusAID to prepare a strategy paper setting out how Australia means to promote and encourage voluntarism and quality of care in all of its population

...the importance of voluntarism and quality of care in family planning services.

activities and delineating those practices which are broadly acceptable from those which might amount to coercion.

The Committee understands the arguments in the specific debate about whether family planning activities should be conducted in countries which have population policies which do not meet Australian standards of voluntarism. It is too early to conclude whether the potential encouragement of voluntary methods in Australian-supported programs in these countries outweighs the possibility of unintentionally lending moral support to broader policies with which Australia disagrees. These cases should be closely monitored and subject to independent assessment not sooner than five years after the commencement of substantial Australian assistance, by which time better judgments may be able to be made.

**Recommendation 7.7** AusAID should formulate a strategy for further advancing voluntarism and quality of care in its population activities. The development of such a strategy should be guided by an assessment of what constitutes coercion in this context.

## Education

...studies have consistently shown the greatest social returns to primary education and basic literacy.

In the education sector, World Bank studies have consistently shown the greatest social returns<sup>4</sup> to primary education and basic literacy. The latest data are summarised in table 7.2 showing that the poorer the region, the greater the returns to basic education. Social returns to primary education are more than twice those to higher education in Sub-Saharan Africa and more than 70 per cent higher in Asia. The World Bank has also concluded that 'Primary education is the largest single contributor to the economic growth rates of the high-performing Asian economies' (World Bank 1995b, p. 23). That does not mean, of course, that developing countries and aid donors should cease tertiary training, as it can also play an important role in development. It does, however, require donors and developing countries to consider carefully relative investments in various forms of education.

...there has been substantial under-investment in basic education which donors can help redress.

Primary education is an area that developing country governments tend to take most responsibility for, partly because much of it takes place at the community level and is conducted in local languages. In addition, the number of students is often very large (over 30 million in Indonesia) making it impossible to provide direct assistance with widespread impact. These points are often cited by donors, including Australia, as reasons why they are not involved in basic education. The

<sup>4</sup> Social rates of return are based on calculations of the total return to society of a particular development investment as a percentage of the total costs and should include externalities, difficult as these are to measure.

**Table 7.2 Social rates of return<sup>a</sup> to education in low and middle income countries**

	Primary	Secondary	Higher
Sub-Saharan Africa	24.3	18.2	11.2
Asia	19.9	13.3	11.7
Europe/Middle East/North Africa	15.5	11.2	10.6
Latin America and the Caribbean	17.9	12.8	12.3

*Source: World Bank (1995b).*

<sup>a</sup> Social rates of return are based on calculations of the total return to society of a particular development investment as a percentage of the total costs and should include externalities, difficult as these are to measure.

Committee believes these are fairly weak rationalisations. The evidence suggests that there has been substantial under-investment in basic education which donors can help redress. They do not need to do so directly, but through policy dialogue and by providing assistance in areas such as improved teacher training, curriculum design, and asset maintenance.

### **Composition of Australian education aid**

As table 7.3 shows, Australia's education expenditure is overwhelmingly concentrated on the tertiary sector, with assistance in higher education making up 76 per cent of total expenditure in 1994–95.<sup>5</sup> Over the last decade, over 26 000 student scholarships have been provided to students from developing countries and a further \$300 million was provided (until 1994–95) in subsidies to non-scholarship students from developing countries. A mere six per cent of Australia's education assistance was directed to primary and secondary schooling combined in 1994–95. What is more, the share of total expenditure going to primary and secondary schooling has fallen during the 1990s.

A 1991 evaluation of education and training aid noted the high returns from basic education. It then set out reasons why 'any major shift in the portfolio balance away from higher education is not realistic in the short or medium term'. A major reason it noted, was that '[Tertiary] programs have strong historical roots and are directly compatible with the interests of domestic educational institutions and the aspirations of Australia as an exporter of educational services' (AIDAB 1991a, p. 46). It is clear to the Committee that commercial and foreign policy concerns drove the provision of scholarships in Australia as part of the aid program to an unwarranted extent. Recent reforms, discussed below, may lead to a fundamental and welcome change in the provision of Australian assistance in the education field.

<sup>5</sup> DAC education sector definitions changed in 1995 resulting in the data for 1995–96 and beyond not being directly comparable with earlier data.

**Table 7.3 Australian educational assistance percentage of total education expenditure by level, 1990–91 to 1994–95**

Year	Primary & Secondary	Tertiary	Vocational & Technical	Other
1990–91	10	73	7	10
1991–92	7	71	10	12
1992–93	7	68	14	11
1993–94	8	75	8	9
1994–95	6	76	9	9

Source: AusAID (data unavailable prior to 1990–91).

### Australian tertiary scholarships

Most aid-supported tertiary students are in Australia under one of two scholarship schemes: Australian Development Cooperation Scholarships (ADCOS) and Australian Sponsored Training Scholarships (ASTAS). ASTAS involved the nomination of students by developing country governments based on their ability to contribute to development. ASTAS students are usually government employees. ADCOS scholarships, by contrast, were awarded on the basis of merit and equity and students were able to nominate themselves. A decision was taken to amalgamate ADCOS and ASTAS in a single scheme, Australian Development Scholarships, in November 1996.

Scholarships for study in Australia can play a useful human resource development role...but also carry major drawbacks.

Scholarships for study in Australia can play a useful human resource development role by providing priority training in fields where developing countries do not have capacity. This is especially true in countries which lack a large cadre of highly educated policy makers. For example, a small group of foreign-trained economists was crucial to the adoption of market-orientated economic policies in Indonesia, which have resulted in the reduction of poverty from 60 per cent in the 1960s to around 15 per cent today. Scholarships also have major benefits for Australian institutions and for developing links with the countries from which students come. But the provision of tertiary assistance via overseas scholarships also carries major drawbacks. The first is cost. Bringing students, and sometimes family members, to Australia for full fee-paying study is expensive, at an average of over \$100 000 per completed undergraduate course. This involves a very high opportunity cost in terms of other types of education forgone. In addition, students are attracted away from local and regional universities, decreasing the incentives to ensure quality in developing country institutions.

The immediate gains from tertiary education in Australia accrue primarily to individuals who are often among the more affluent members of their communities. Eligible students have already gone through many years of education, often at considerable cost to their

families in forgone income. It is frequently very difficult, or impossible, for poor families to meet these costs. In addition, ASTAS scholarships are provided for government officials who usually have secure, relatively well paid jobs. If these officials can make a major contribution to development then the personal investment in them may be worthwhile, but this requires selection of the most academically qualified students and their return to their countries of origin. If students emigrate, as many do on the basis of their higher qualifications, their skills are lost to their home countries. The Committee noted with concern, for example, studies which showed rates of emigration by Australian-trained students as high as 50 per cent in several Pacific countries in the early 1990s. This, combined with high failure rates is a lingering concern, notwithstanding remedial action taken to improve performance.<sup>6</sup> Greater attention needs to be paid to the regular preparation of tracer studies to help determine the impact of the provision of Australian scholarships.

### Revised scholarship scheme

The decision to amalgamate ADCOS and ASTAS was taken in order to simplify administration and combine the best of both schemes. That has largely been achieved. The best feature of the new scheme is that scholarships have been brought within country programs.<sup>7</sup> Australian scholarships will now be prioritised against all other feasible activities. Currently, scholarships are widely distributed to around 60 countries. Often they were provided for foreign policy reasons, rather than in the context of country programming. In such circumstances they are unlikely to be highly effective developmentally.

**Recommendation 7.8** In the interests of development effectiveness and a tighter geographic focus, scholarships should not be offered to countries for which there is no formal country program.

Another positive feature of the new scholarship scheme is that scholarships are to be considered as part of overall training strategies. This is a major advance that should allow scholarships to be viewed as just one education option. The training strategies devised for individual countries must help to increase the capacity of countries and regions to meet their own training needs. Scholarships in Australia should mainly be regarded as an interim measure while other means are taken to build human resource-development capacity

<sup>6</sup> The 1996 ADCOS review reveals significant failure rates in the period 1990–95 for students from several Pacific countries and China.

<sup>7</sup> Some of the essential elements of country programming, especially the development of country strategies, are discussed in chapter 9.

...scholarships have been brought within country programs.

...training strategies must help to increase the capacity of countries and regions to meet their own training needs.

There are some potentially negative consequences of the amalgamation of the two scholarship schemes.

in recipient countries. The advantages of promoting the free flow of ideas and high-quality tertiary education can be promoted through more cost-effective alternatives, including the strengthening of developing country and regional institutions, as well as through distance education.

There are some potentially negative consequences of the amalgamation of the two scholarship schemes which should be addressed. While two scholarship streams, open access and public sector, will exist, there is no requirement for a balance between the two. It is possible that many governments will opt to allow very few students to self-nominate, especially since the funds for scholarships have now been moved within country programs and come at a cost to other activities. While it would be mechanistic to require equal numbers in each stream, there is a danger of equity and merit considerations being watered down. Foreign study can sometimes be offered to the wrong people for the wrong reasons. It may be provided to friends or relatives of senior officials or as a reward for services rendered. AusAID has recognised many of these problems and is endeavouring to devise flexible solutions to them. The Committee hopes that this will result in clear and consistent procedures to ensure that students under both streams are subject to independent selection on the basis of academic merit. Equity considerations should also be applied to both categories. As a general principle, aid-scholarships should not be provided to people who could afford to meet their own education costs.

**Recommendation 7.9** Selection procedures for Australian Development Scholarships should ensure that awards in both the public sector and open categories are made on the basis of academic merit and equity.

The top priority, both to help reduce poverty and to stimulate economic growth, should be to ensure that basic education systems provide widespread quality schooling.

### **New education policy**

A new education and training policy was launched in 1996 and is a distinct improvement on the previous policy of apparently almost universal preference for education in Australia. The most important advance is the explicit recognition of the importance of basic education and the widening of the possibilities for education assistance. The one weakness of the policy is that by nominating five priority areas that cover almost all education and training possibilities, it does not send a clear enough message about policy choices. Ultimately these must be made in the developing country in question, as the policy states, but the evidence is unambiguously in favour of getting basic education right. The top priority, therefore, for Australian assistance, both to help reduce poverty and to stimulate economic growth, should be to ensure that basic education systems provide widespread quality schooling.

On at least two occasions in the past, in 1992 and 1994, initiatives were undertaken to increase substantially assistance to basic education. Both floundered, with assistance falling by a third between 1990–91 and 1994–95. It is essential therefore that new mechanisms are devised, implemented and evaluated to ensure that the same fate does not meet this new policy. It is too early to know the extent to which the new initiative will lead to enduring changes in the provision of Australian educational assistance. Moves were made to reduce scholarship spending in the 1996–97 budget, but while expenditure on basic education does appear to be growing, the reduction in scholarship spending has reportedly been less than expected, reinforcing the need to ensure that the expressed intent of the new education policy is achieved.

**Recommendation 7.10** AusAID should devise means to give effect to, monitor and evaluate, a substantial and sustained shift in AusAID-supported human resource development towards basic and other in-country education. AusAID staff should be required to give priority in country education and training strategies to a consideration of basic education needs.

## Infrastructure

Too much of the debate about infrastructure's role in development is ideological. Some people see it as virtually the only development resource, while at the other end of the spectrum there are those who believe that virtually all large infrastructure projects are inimical to the interests of the poor. A more considered view was put to the Committee by ACFOA:

'The building of roads, bridges, port and shipping facilities, construction of water and sanitation supplies, flood and irrigation management, telecommunications and power are basic to growth and development. They are also essential to enable the provision of basic needs to the population such as health services, education and training, and secure food supplies...While acknowledging the need for basic infrastructure, NGO concerns rest with the overall balance of country programs. One large infrastructure project may well showcase Australian expertise, but may also be at the expense of other smaller poverty focused projects which would benefit many of the poorer sectors of society, and may contribute far more to the overall development in that country'.

The key tests for the appropriate provision of infrastructure are those that should be applied to all activities, especially effectiveness, equity and sustainability. These tests do not equate neatly with the size of

Too much of the debate about infrastructure's role in development is ideological.



infrastructure projects. There is no reason why one large project might not yield greater total benefits, including for the poor, than a range of smaller projects. That said, in the case of large infrastructure activities, particular care needs to be taken with appraisal. As in any field, overly optimistic assessment of development returns can result in the wrong choices being made. The consequences are obviously greatest when the activities are largest. These are also the very activities likely to be subject to most commercial and foreign policy distortions because of their size and visibility. In addition, infrastructure activities, particularly those projected to deliver large returns, lend themselves well to private funding.

The Committee notes, for example that the feasibility study for the My Thuan bridge in Vietnam anticipates very high economic returns on the bridge and concluded that 'the borrowing capacity of the bridge operated on a toll basis and in Dong is very strong'. Financial projections included in the study suggest that under the most favourable conditions tolls could be sufficient to repay the Vietnamese Government's 30 per cent share of the project in as few as six years. That raised in the Committee's mind a question that does not seem to have been addressed in the study, namely whether the whole bridge could have been funded with international private capital. Vietnamese policy would seem to preclude such an arrangement. Aid however, should not be used for activities that can be financed privately, nor to step into the breach if countries choose not to use such funds. The Committee is unable to determine whether this was the case in this instance, but believes that this crucial question ought to have been asked before the decision to build the bridge was taken.

Where similar rates of return can be achieved, preference should be given to infrastructure activities which contribute more directly to poverty reduction.

Where similar rates of return can be achieved, preference should be given to infrastructure activities which contribute more directly to poverty reduction. These include rural feeder roads, power supply to poorer regions and water and sanitation. The provision of water and sanitation services is a particularly high priority because of the difference they can make to the lives of the poor and because they involve so many cross-sectoral linkages. Water is clearly essential to life, health and welfare. It is used in industry and agriculture and sustains plants and animals, as well as humans. Perhaps as many as 1.7 billion people lack access to safe water and sanitation and it has been estimated that in some countries women spend up to 85 per cent of their energy on fetching water. Water's multiple uses are putting immense pressure on the resource, resulting in growing water scarcity. The challenges for developing countries and donors are to extend services and make them accessible, and to manage water use in sustainable ways. This requires a complex range of inputs from infrastructure and management expertise, to technical assistance with the design of water policies that facilitate widespread affordable access to water and sanitation.

There has been considerable discussion of infrastructure needs in Asia following the World Bank estimation of total infrastructure demand at \$1.5 trillion between 1995 and 2004. It is true that infrastructure bottlenecks may impede rapid development in the region. That said, there are other large, if less well quantified development needs in Asia, and of course, in other parts of the world. Decisions about infrastructure funding should not be looked at in isolation. Most of Asia's infrastructure needs will be met by the private sector. Chapter 9 considers the role for aid in assisting such flows. The loans mechanism recommended in chapter 11 would provide a new tool for infrastructure funding, but in a country program context, subject to competing expenditure claims. Private funds will not however meet all of the region's needs. Rapid urbanisation in Asia will also require a public sector response focused on assisting marginalised urban populations to gain access to basic services, especially water and sanitation. Aid may be of considerable assistance in these areas.

**Recommendation 7.11** Infrastructure investments can make a substantial contribution to development, but large projects should be appraised very thoroughly, with explicit consideration of their distributional implications and the capacity for the private sector to fund them in whole or in part. Infrastructure assistance should be especially targeted at helping to increase the access of the most marginalised populations to essential services. Particular priority should be given to assistance with the provision of water and sanitation, and of transport and communications.

## Rural development

The bulk of people in most developing countries live in rural areas and draw their incomes from agriculture. This is especially true in the poorest countries. As noted in chapter 3, approximately a billion people lack a minimum amount of nutritious food. Helping to meet this need in a sustainable way is a key task for the aid program. Assisting agriculture and rural development is not just about making a direct impact on poverty, it is also about laying the foundations for growth. Agriculture provides the surpluses and savings essential to development and was crucial to East Asia's transformation (World Bank 1993, p. 32). Sustainable rural development is also vital to arresting land degradation, deforestation and other environmental problems.

Like other donors, AusAID has experienced more difficulties in achieving successful agricultural projects (as a proportion of those undertaken) than in other sectors. World Bank agricultural activities also have amongst the lowest rates of return. The Committee suspects

Agriculture provides the surpluses and savings essential to development and was crucial to East Asia's transformation.

...the most productive approach is to get the enabling environment right, assist agricultural markets to work, and provide limited direct assistance to farmers.

that this is for two major reasons: (1) because rural areas are usually the poorest regions where development is hardest; and (2) because the conventional aid approach has often been cost-ineffective, requiring large inputs for relatively meagre returns. In the past, agricultural assistance tended to be very ambitious with integrated area development schemes that required an enormous volume and range of inputs. Problems of coordination and lack of flexibility often led to failure. Other models of agricultural assistance used by AusAID have also tended to be heavily reliant on costly inputs by Australian consultants. In many cases, rural development projects have operated in very poor policy environments that almost inevitably precluded success.

The development record and World Bank research suggest that the most productive approach is to get the enabling environment right, assist agricultural markets to work, and provide limited direct assistance to farmers. The most important ingredient is to create a farmer-friendly policy environment, particularly by allowing free markets and uncontrolled agricultural prices. Since agricultural markets were liberalised in China in the late seventies, agricultural production has trebled. More recently in Tanzania, production of cashews more than doubled in the five years to 1993–94 and export volumes grew six-fold following market liberalisation (World Bank 1996a, pp. 4–7). Well-maintained rural roads and other transport and communications infrastructure are key government inputs which allow farmers to market their products. Farmers also need access to finance, extension services, irrigation and the products of agricultural research. Many of these can and should be provided by the private sector, and certainly where possible according to principles of cost recovery and sustainability, but developing country governments need to devise frameworks in which this can occur. Donors can help them to do so. The Committee suggests that renewed emphasis should be given to assisting in agricultural policy reform and to ensuring that beneficiaries are involved in the identification, design and implementation of targeted rural development initiatives.

The ability of farmers to respond to supportive policy environments is partly governed by land tenure. The World Bank has noted that land reform was important to the success of agriculture in many regional countries, especially Korea, Taiwan and China (World Bank 1993, p. 32). Insecurity of title, oppressive share-cropping regimes and heavily concentrated land ownership can work strongly against agricultural development. These issues can be highly sensitive and call for a sophisticated understanding of local conditions, cultures and politics. If, however, it is judged that land ownership is a major impediment to development, donors must work constructively with their developing country partners to address the issue.

**Recommendation 7.12** AusAID should reassess its approach to agricultural and rural development activities with a view to increasing the proportion of overall support for effective aid activities in this sector in view of the importance of such activities to sustainable poverty reduction.

### International agricultural research

International agricultural research has been the scene of some of the greatest development triumphs over the last three decades. The products devised by this research, in particular high-yielding varieties of wheat and rice, have significantly increased food production especially in Asia, reducing famine and poverty and creating opportunities for growing rural prosperity. There are now increasing calls for a second 'green revolution' to ensure food security for the world's rapidly growing population. It has been put to the Committee that Australia has unique expertise in this field as a result of sharing agricultural conditions with many tropical and subtropical countries and because of the relatively large proportion of agricultural products in its GDP and exports. The fact that four of sixteen International Agricultural Research Centres have recently been headed by Australians is one indication that Australia has particular expertise in this field.

### The Australian Centre for International Agricultural Research (ACIAR)

ACIAR is an independent, aid-funded, statutory body within the foreign affairs portfolio. It has responsibility for commissioning and funding collaborative research and training to improve agricultural productivity in developing countries with mutual benefits for Australia. It also manages Australia's relations with and support for the International Agricultural Research Centres, including the International Rice Research Institute (IRRI), the International Centre for Living Aquatic Resources Management (ICLARM) and the International Maize and Wheat Improvement Centre (CIMMYT).

In 1995–96, ACIAR had an Australian staff of around sixty, a quarter of whom are employed overseas, and a budget of about \$40 million, almost \$10 million of which was provided to support the International Agricultural Research Centres if the Consultative Group for International Agricultural Research (CGIAR). ACIAR also has a high-profile advisory board made up of national and international experts in agricultural development. Since its inception, ACIAR has commissioned over 300 research projects. It has been particularly successful in fruit fly control research; biological control of pest and weeds in the Pacific islands and Asia; sustainable land management

International agricultural research has been the scene of some of the greatest development triumphs over the last three decades.

ACIAR has demonstrated success in economic policymaking for agricultural development in a number of Asian countries.

practices in the tropics; and the matching of Australian trees and shrubs to the fuelwood, agroforestry and rehabilitation needs of countries in Africa and Asia. It has also demonstrated success in economic policymaking for agricultural development in a number of Asian countries.

ACIAR works on a partnership basis, both with Australian institutions which are taking the lead in research projects and with developing country research bodies with whom joint work is conducted. This gives it a vital capacity-building role which is extended by specific training activities. Participating Australian institutions contribute around 40 per cent of project costs. This, the fact that research leads to technologies that can be applied in a variety of places, and the fact that Australia shares tropical and subtropical agricultural conditions with many developing countries, allow ACIAR to pursue mutual benefits without detriment to development.

ACIAR has an extensive evaluation program which suggests that its work results in very considerable returns. Average estimations of rates of return on completed activities range from 29 per cent (estimated by ACIAR across 19 projects) to 54 per cent (estimated by external consultants across 20 projects). These rates of return are calculated on the basis of projections of the likely impacts of the application of new technologies and practices. ACIAR has not been in existence long enough to allow a large number of re-estimates of rates of return in the light of the actual outcomes of the adoption of new technologies and so the evidence is still somewhat tentative. However, ACIAR's projected results are broadly consistent with studies from overseas and suggest that there is a high return on its work over the medium to long term. For this reason the Committee believes that support for ACIAR should be at least maintained in real terms.

The Committee suggests that ACIAR re-examine its current focus in the light of this report to ensure that it continues to match the new aid program objective, with its particular emphasis on poverty reduction. This may have implications for its geographic focus and the types of activity it selects. The Committee, for example, sees research to meet the food needs of the poor as a particular priority.

Despite a good working relationship between the Director General of AusAID and the Director of ACIAR, the Committee believes that there is potential for greater interaction and synergy between the two organisations. The Committee would like to see greater translation of ACIAR research into AusAID-supported agricultural activities, where they are demonstrated to meet high priority needs, and it would also like to see a greater research contribution from ACIAR into the potential pitfalls in designing and implementing rural development programs and projects. One of ACIAR's areas of success is in agricultural policy reform, a key area nominated for further aid

The Committee would like to see a greater research contribution from ACIAR into the potential pitfalls in designing and implementing rural development programs and projects.

support. The Committee therefore recommends the direct and consistent involvement of ACIAR staff in the planning of AusAID agricultural strategies and policies, including at the country level. In turn, greater dialogue with AusAID might be useful to ACIAR to help it focus its research and gain access to general development expertise. Both organisations should work closely with the agricultural advisers currently contracted to AusAID through the ASG and PRT.

Given the need to increase food production substantially to feed a global population that may be almost twice its present size within fifty years, there is also a good case for continuing strong support for CGIAR centres. Global resources devoted to the work of the CGIAR centres have declined slightly in real terms since 1987. Australian support for the CGIARs has increased by more than a quarter over the same period and this trend should continue, but it requires a renewed effort to persuade other donors of the necessity of increasing the resources for international agricultural research.

**Recommendation 7.13** In recognition of the returns to international agricultural research, funding for the Australian Centre for International Agricultural Research should be at least maintained in real terms. ACIAR should examine the focus of its activities, in the light of this report, to ensure that it continues to give priority to poverty reduction through sustainable development and to the application of its research through extension activities. ACIAR staff should be more directly and consistently involved in agricultural aid policy formation and strong links should be developed between ACIAR, AusAID and the agricultural advisers contracted to the aid program.

...a renewed effort to persuade other donors of the necessity of increasing the resources for international agricultural research.

## CHAPTER 8: THE ROLE OF AID AND THE PRIVATE SECTOR

*Private sector development is crucial to sustainable economic and social development. In most developing countries, and in all countries that are developing rapidly, the private sector is the major engine of growth, the generator of jobs, and the source of taxation revenue for social investment. In addition, international foreign investment and lending are playing a growing role in private sector development and development financing more broadly. Creating a strong enabling environment for private sector development and foreign investment is a key task for developing country governments and aid donors. In seeking to facilitate private sector development, Australia has to be particularly careful to avoid direct industry assistance, carrying risks the private sector will not accept, and the use of aid to finance activities that are capable of being funded privately. In seeking to support private sector development, there remain important roles for governments, supported by development assistance, in redressing market failure, directly pursuing social development, and making public investments that are essential to economic and social development.*

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### Introduction

Development strategies which rely on the indefinite provision of aid and/or substantial direct government economic activity are inherently unsustainable. In the light of the global downsizing of government, the increase in international private investment and the relative decline in ODA, it is now more important than ever that developing countries create an enabling environment for private sector development. This involves getting policy frameworks in place that are conducive to private sector development and providing basic services. It also involves maintaining appropriate market regulation, and widening opportunities for the poor to participate in growth. For a middle-level donor such as Australia, the best approach in most circumstances will be to work with developing countries to get fundamental policies right, make the most productive development investments and allow multilateral donors and private sector to do the rest.

### Importance of private sector development

The post-war development record is unambiguous in demonstrating that private sector development is crucial to growth. That period has seen not only the most rapid and sustained growth ever achieved in

...the private sector, is the source of most of the resources for social investment.

the market economies of East Asia, but also the collapse of the Soviet Union and other states which have insisted on maintaining government-dominated economies. Economic liberalisation in China, Vietnam and Laos has not only delivered significant economic results, but has allowed political regimes to avoid the Soviet fate.

The key economic advantage of the private sector is the ability of thousands of individuals and businesses to create and respond quickly and flexibly to commercial opportunities. In open, competitive private sectors there are incentives which encourage the efficient use of resources, with competition between firms exerting pressure for cost reductions and innovation. In the process, the private sector generates new jobs, develops new products, expands trade and national income. An underrated part of this dynamic process is the development of new technologies, including new ways of doing things, and the spread of new ideas between and within countries. Not only are the tools, technologies and products developed by the private sector frequently vital to social development, but the sector is the source of most of the resources for social investment. Taxation revenue provided directly by companies, and by their employees, is the mainstay of government financing. This is a dual process with much public investment, particularly in human resource development and infrastructure, which lays the foundations for sustained private sector growth.

### **Growth in international private finance**

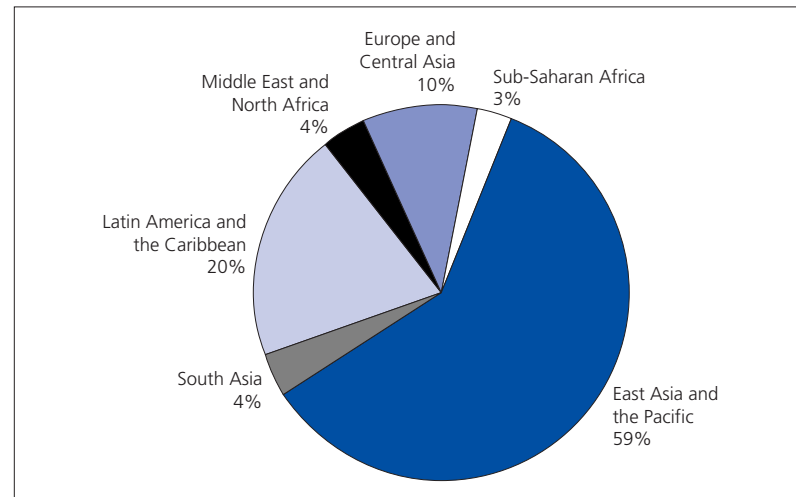
In 1995 the private sector supplied two-thirds of all international development capital. As outlined in chapter 3, the relative and absolute growth in private flows is likely to continue. This implies a change in the ground rules for attracting development resources. Capital markets funnel resources to where they can be used most profitably. On the positive side, this puts heightened emphasis on sound economic policies. However, it penalises not only instability and capriciousness, but also incapacity, poor infrastructure and poverty.

Heavy reliance on private flows alone risks reinforcing existing global inequalities.

Heavy reliance on private flows alone risks reinforcing existing global inequalities. Figure 8.1 demonstrates that in 1995 East Asia received nearly 60 per cent of all international private capital flows to developing countries, up from 46 per cent in 1990. Of the US\$98.1 billion that went to East Asia in 1995, almost half (US\$44.7 billion) went to just one country: China. In contrast, Sub-Saharan Africa received only 3 per cent of private flows. Private flows are also heavily concentrated within countries (as for example, in China's fast-growing eastern seaboard rather than its much poorer western provinces) and by sector, particularly in power generation, telecommunications and transport. As the World Bank has noted, 'Private capital is not a substitute for official assistance targeted at



**Figure 8.1 Regional distribution of private flows<sup>a</sup> to developing countries<sup>b</sup>, 1995**



Source: World Bank (1996d, p. 10).

<sup>a</sup> Includes portfolio and foreign direct investment, commercial lending and bond issues.

<sup>b</sup> See table A2 in appendix C for a list of the countries included in regional categories.

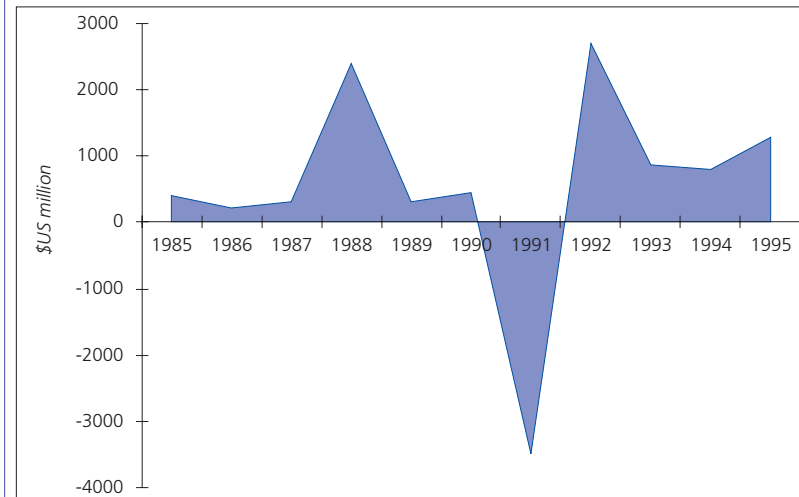
programmes which promote better health, education and environments' (World Bank 1997).

Australian foreign investment is also highly concentrated with more than 60 per cent going to Britain, the US and New Zealand. Australian private flows to developing countries are directed mainly to PNG, Indonesia and China. As figure 8.2 shows, Australian private flows to developing countries are volatile and did not grow strongly and consistently in the 1990s, as was the pattern of global private flows (figure 3.2). For most of the 1990s, Australian private flows to developing countries were less than official development assistance. In the recession of the early 1990s, a very large amount of private capital was repatriated to Australia to meet domestic commitments. This followed the substantial growth in foreign investment in the 1980s in the wake of financial deregulation and contrasts with the experience of most other developed countries, where a lack of profitable domestic opportunities during the recession drove investment out of the country.

Australian private flows make an important contribution to the developing countries in receipt of them, but because of their scale, geographic and sectoral concentration, and their volatility, they have not displaced the need for ODA. It should be noted that Australian private flows are a very small fraction of total private finance from all sources, which is growing strongly.

Australian private flows have not displaced the need for ODA.

**Figure 8.2 Australian private flows to developing countries, 1985–1995 (US\$ million—current prices)**



Source: DAC (1997) and DAC reports from earlier years.

### Challenges for aid agencies

The international growth of private finance provides several challenges for aid agencies.

- The first is to help to maintain private flows to developing countries and to broaden their country, regional and sectoral distribution.
- The second is to take the opportunity to change direction in developing countries which receive large private flows, towards helping them to broaden the benefits of growth and to redistribute income.
- The third is to redirect aid resources to those countries which receive little private finance, where there are good prospects of that assistance being used effectively. This often requires creating a more fertile environment for development investment, financed domestically or internationally, by the government or the private sector.

Private flows will continue to go overwhelmingly to where the net returns are greatest. It will take decades of stability and sound management to attract significant flows to many of the poorest parts of the world. In the interim at least, ODA will remain vitally important.

### Pre-conditions for private sector development

Until recently, many developing countries, often aided and supported by developed countries, tended to frustrate private sector growth, discourage foreign investment and ultimately retard development by giving the state a direct and leading role in economic development

instead of a complementary and supportive one. This was characterised by the establishment of inefficient, loss-making state enterprises which through their cost to the budget, pushed up taxes and charges, government borrowings, and interest rates. Many developing countries have also been particularly prone to protectionism and have compounded the negative effects of anti-competitive policy with over-regulation, including control of food prices and exchange rates, creating disincentives for agricultural development in particular.

East Asia's rapid and sustained export-led growth provides lessons about the conditions for private sector development. Most commentators have concluded that the East Asian experience suggests that the most important task for governments is to create an enabling environment for private sector development. This involves:

- delivering economic and social stability and national solidarity;
- fostering high rates of national saving with the proceeds devoted to high yield development investments, especially in education, health and infrastructure; and
- the development of an export culture.

There is disagreement, however, about the extent to which governments 'led the market' and whether interventions played a positive or negative role. Government intervention in the fast growing countries of East Asia has ranged from Hong Kong's almost completely free markets to large-scale government involvement in Korea and Taiwan, but it has involved considerable and systematic intervention in most countries. The World Bank's conclusion is that all of the fast growing countries got the fundamentals, as noted above, right and that their successful interventions were flexible; performance-based; redressed market failure; required highly competent and impartial public servants to design and administer; and were limited by economic affordability. In short, in regard to direct market interventions, they found that 'the prerequisites for success were so rigorous that policy makers seeking to follow similar paths in other developing economies have often met with failure' (World Bank 1993, p. 6). As a result, the Bank recommended 'pragmatic adherence to the fundamentals'. The Committee believes this maxim should also guide the attempts of aid donors to assist private sector development.

## General principles for assisting private sector development

Renewed understanding of the importance of private sector development has caused donors to want to assist the process directly. The US, Germany, France, the UK, and Japan have all recently given priority to private sector development. The Committee believes that

...the most important task for governments is to create an enabling environment for private sector development.

Australia should generally resist the impulse to make direct interventions in support of the private sector

Australia should generally resist the impulse to make *direct* interventions in support of the private sector, because it is so hard to get them right and because there is considerable potential for the misdirection of aid, as AusAID's Nanjing wool warehouse project illustrates (box 8.1).

#### **Box 8.1 The Nanjing wool warehouse project**

In 1987, following representations from Austrade, the Department of Primary Industries and the Australian Wool Corporation (AWC), AusAID provided over \$1.2 million for the construction of a bonded warehouse in Nanjing, China. The store was jointly funded by the AWC, which also provided \$1.2 million towards the project. Reflecting the strong commercial emphasis of the China program at that time, the aims of the project were 'to widen the range of Australian wool types used in China, to promote and increase the exports of Australian wool to China, and to raise the efficiency of management in the receipt, storage, handling and distribution of Australian wool in China'. The development rationale was that this assistance would also help China to continue to develop its textile clothing industries. AusAID assistance was conditional on Chinese Government agreement that the warehouse would be used to store only Australian wool.

If it were not for the strong commercial pressures then influencing the China program, it is unlikely that this project would have been supported, for two reasons:

- such projects are clearly suitable for commercial investment, and would be more appropriately funded by the private sector; and
- the project was not a high priority for promoting poverty reduction, since Nanjing is in one of the more developed areas of China, and the store was purpose-built for imported wool, not wool produced in the poor regions of western China.

In the event, not only were the developmental objectives of the aid program compromised, but the commercial objectives were also poorly served by this project, since the warehouse was used to store wool from many other countries, as well as Australia.

The greatest role that donors can play is in helping to get macro-economic policy settings right, building policy and administrative capacity in key national institutions and in contributing to the foundations of growth and development: human resource development and basic infrastructure. Where the policy environment is unfriendly to private sector development, donor support for the

private sector, and development more broadly, should be limited. In such circumstances efforts should be directed towards improving the policy environment, including through policy dialogue, capacity building and training. Aid must not be used to compensate for bad policies, otherwise it risks prolonging them.

The basic test that the Review Committee has proposed for all aid activities should be applied vigorously in regard to private sector development, namely that activities make the maximum contribution to development and poverty reduction. A second and vital test is that aid support is essential to the activity proceeding. The activities it supports must be *additional* to that which would have occurred in its absence, otherwise it becomes a subsidy to industry. Furthermore, if aid is used to finance activities that could have attracted private funding and management, it will displace private sector activities, undermining the purpose of the assistance. The question of whether projects could be financed privately should be considered formally and thoroughly during project appraisals.

In seeking to increase private investment and lending, Australian bilateral funds should not be directly used to assume risks that the private sector is unwilling to bear. While multilateral institutions may have the ability to differentiate between real and overestimated risks of private sector ventures, and to carry significant liabilities, the Australian aid program does not. Support for mechanisms which reduce and/or spread risks across a range of activities, such as the World Bank's Multilateral Insurance Guarantee Agency which Australia joined last year, are worthy of consideration for support.

Aid must not be used to compensate for bad policies, otherwise it risks prolonging them.

**Recommendation 8.1** The following principles should guide AusAID's private sector development assistance:

- AusAID should concentrate on helping to create an enabling environment for private sector development and, where policy settings are poor, assistance should be focused on trying to improve them.
- Assistance with access to international trade and investment should be targeted at countries and regions which do not currently benefit from private flows.
- Aid should not be used in support of activities which could be financed privately: this requires formal analysis of financing alternatives during project appraisal.

## Specific private sector development approaches

### Improving the enabling environment

A sound enabling environment has physical, human, organisational and policy dimensions. Basic transport and communications infrastructure is needed to allow the marketing of produce and the flow of information. A healthy population with basic skills is a prerequisite for productivity growth and the attraction of foreign investment. Consistently applied, good public policy requires institutional capacity, particularly in national and provincial finance ministries, line departments and among the independent institutions that promote good governance. A legal system that enforces property rights and dispenses justice fairly and transparently is a key ingredient in safeguarding material security. These are the areas where Australia should concentrate its aid efforts and where, by and large, it does.

### Supporting sound economic policies

#### *Macro-economic management*

...giving businesses the confidence to expand.

Macro-economic stability is essential to making investment returns more predictable and giving businesses the confidence to expand. Large budget deficits are unsustainable and create a climate of instability and economic apprehension. They also increase the call of the government on scarce local or international savings, thus pushing up interest rates and business costs. The Committee commends and encourages efforts to strengthen the economic management capacity of central and regional finance ministries, such as AusAID's involvement in strengthening the Western Samoan Treasury. Assistance in this field must include training in the prioritisation of development expenditures to ensure the highest returns from public investment.

#### *Policy dialogue*

The Committee proposes a greater preparedness to deliver strong messages

Sound policy frameworks can be advanced through policy dialogue as well as through institutional strengthening and capacity building. This involves high-level government-to-government discussions aimed at maintaining political commitment to macro-economic stability and reform. To be effective, private sector development requires donors to be united both in the messages they send and the action they take in response to policy reform, or the lack of it. There is a tendency among aid agencies and foreign affairs officials to want to avoid 'rocking the boat'. This can operate against aid effectiveness. The Committee proposes a greater preparedness on Australia's part to deliver strong messages, when appropriate, and to reduce aid activities in countries where the policy environment undermines aid effectiveness.

### *Making room for the private sector*

There is no universally correct size for government as a proportion of the total economy. The prescription of automatic government downsizing is therefore simplistic. In some of the small island states of the Pacific, for example, it is unrealistic to expect a thriving private sector to drive export-led growth. The relative size of government in such cases will tend to be larger than elsewhere. That said, government activity can easily crowd out the private sector and push up costs for businesses and consumers. Especially where the extent of private sector activity is likely to be limited, efficiency gains can often be made by corporatising or privatising activities that are not core government business. In the Philippines, for example, power blackouts disrupted industry and commerce at the beginning of the 1990s. The public sector did not have the resources to fix the problems, but by fast-tracking private power-generation through Build-Operate-Transfer (BOT) arrangements, power supplies were more than doubled and the consistency of supply was assured. Aid can play a useful role in building local capacity to restructure government enterprises, through technical advice on how to package and arrange activities for private sector involvement. In doing so, attention needs to be paid to questions of access to and the affordability of services. While maintaining state ownership is often an expensive and inefficient way of achieving these goals, compensatory mechanisms are usually required to ensure that the poor are not disadvantaged by privatisation.

### **Facilitating international trade and investment**

#### *Trade promotion*

Australia has been reasonably active in facilitating trade and investment in the past—with mixed success. Like almost all developed countries, Australia participated in the Generalised System of Preferences which allowed developing country products access to OECD markets at concessional rates of duty. A specific and more advantageous scheme, the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), operated for Pacific island countries. With the reduction in trade barriers these margins of preference are being eroded. Fiji in particular has sought a replacement form of assistance for its export industries. This would be inconsistent with the direction of world trade and is not a productive avenue for future assistance. A recently agreed activity to strengthen the administrative and revenue collection capacity of the Fiji customs service is an example of a more productive, sustainable approach.

AusAID supports trade and investment liberalisation in several bilateral programs, and in most cases activities are based on training. The China economic and foreign trade training project, for example, is

...government activity  
can easily crowd out  
the private sector and  
push up costs

a major activity involving trade policy and economic training, and research into the benefits and costs of trade liberalisation and protectionism. Another project has involved building up the economic policy capacity of the new South African government. The Committee encourages these sorts of activity for other countries where they can be shown to be developmentally effective.

#### *ASEAN-Australia Economic Cooperation Program*

The ASEAN-Australia Economic Cooperation Program (AAECP) attempts to foster commercial linkages between ASEAN and Australian companies. The Committee believes for several reasons that it is poorly focused. The program is equally open to all of the countries of ASEAN and therefore involves aid, albeit in small amounts, being provided to countries with a higher GNP per capita than Australia (Brunei and Singapore) and to countries such as Malaysia which are graduating from Australian aid. In addition, ASEAN-Australia and inter-ASEAN trade are generally well established. There would seem to be much better grounds, though fewer immediate commercial prospects, for assisting technology transfer and trade links with developing countries with much less experience in international trade. It might be desirable to continue with a trade-related development cooperation scheme under the ASEAN umbrella, but only if it is focused on the less developed members of ASEAN.

#### *APEC*

AusAID's APEC Support Program is the flagship of the Agency's efforts to enable developing countries in the Asia Pacific Economic Cooperation group to benefit from trade liberalisation. The scheme was set up as a grant program to manage an increasing number of ad hoc requests from other government departments and, as a result, does not have a sharp strategic focus.

APEC...a bridge between developed and developing countries.

APEC is unique in containing a large range of developed and developing countries with equal status within the group. The Committee believes there is virtue in making greater use of this uniqueness as a bridge between developed and developing countries. As the Foundation for Development Cooperation (FDC) proposed in its submission, 'such development cooperation could occur with particular reference to creating regional public goods which could support trade liberalisation, address regional infrastructure deficiencies and their financing and remedy negative externalities resulting from economic growth in the region'. The Committee is conscious of a fear that APEC's trade liberalisation objectives may be weakened if other matters intrude on its agenda. We believe this fear mistakes development cooperation for welfare and trade liberalisation as an end in itself, rather than a means of attaining higher living standards. The Committee believes, however, that it would be



undesirable for APEC to be seen as a potential source of new aid funds, or for APEC to take on new activities which are peripheral to its main agenda.

#### *A strategic approach to trade and investment liberalisation*

The Committee understands that AusAID has explored a more comprehensive and targeted response to trade and investment liberalisation. We recommend that priority be given to reactivating this work with a view to providing greater assistance to those developing countries in the Australian aid program which are least integrated into the world economy. It should proceed from the basis that it is not simply a lack of technical skills that is holding back the participation of the poorest countries in world trade. International assistance should include providing help to meet the adjustment costs of moving to freer world trade and investment. The purpose of a more strategic approach is to define the sorts of assistance believed to deliver the best development results. Consideration should also be given to supporting the APEC trade and investment liberalisation agenda through targeted assistance to poorer countries which do not benefit from private flows.

**Recommendation 8.2** AusAID should devote more resources to a strategic approach to trade and investment liberalisation that recognises its considerable benefits, but also takes account of adjustment costs. The possibility and desirability of making greater use of APEC to link targeted development cooperation and economic liberalisation should be further explored. The ASEAN-Australia Economic Cooperation Program should cease, in its current form, as it is inconsistent with the principle of assisting poorer countries which do not benefit from private trade and investment flows.

#### **Leveraging private funds**

There is a good case for using new and existing tools to leverage and direct private flows where this will have a clear, high-priority development impact, particularly on poorer groups and regions.

The creation of an Australian concessional loans mechanism, as proposed in chapter 11, is a direct way to achieve this. Another is to help developing countries to package projects for private funding. Australia is already doing this indirectly through support for the World Bank's International Finance Corporation which works with developing country investment promotion agencies and private companies.

The Committee does not believe that Australia should *directly* support the packaging and preparation of activities for investment, but believes

...target assistance to poorer countries which do not benefit from private flows.

...build the capacity of countries to prepare 'bankable projects'

there is scope for further efforts to build the capacity of countries to prepare 'bankable projects', as is occurring through AusAID's support for Papua New Guinea's Investment Promotion Authority.

#### *Private Sector Linkages Program*

The Private Sector Linkages Program (PSLP) has been AusAID's principal tool for encouraging joint ventures between Australian companies and those in developing countries since its creation in 1992. It is a small, but highly symbolic program providing matching grants of up to \$250 000 to Australian companies for feasibility studies, technological demonstration, training and staff exchanges. It is designed to help transfer technology to developing countries and facilitate private sector development.

A recent review of the PSLP by AusAID (1996f) explained the origins of the scheme in the context of a growing donor desire to assist private sector development and the relative difficulty of doing so. It concluded that 'there is a strong relationship between commercial linkages and country development'. The Committee agrees, but this does not mean that it is desirable to use aid to stimulate private investment directly. Nor does the fact that this practice is quite widespread among other donors who want to assist private sector development make it sound. Direct assistance to industry involves trying to pick winners. If governments have difficulty picking winners at home, they are likely to have even more difficulty abroad. AusAID tries to maximise the chances of development success by requiring that PSLP activities are commercially viable. But this involves an inherent contradiction since such activities ought to be self-financing. Information provided by company beneficiaries to the PSLP review suggests that in more than half of all cases, the activity would have occurred without aid funding, albeit in a scaled-down version or at a later date. This provides strong evidence of subsidisation.

PSLP...needs to be  
predicated on redressing  
market failure

If the Private Sector Linkages Program is to be retained, it needs to be predicated on redressing market failure, i.e. a failure of the market to finance activities that are commercially as well as developmentally sustainable. AusAID would then need to test for this in assessing applications. The resources required to do this might make the scheme non-cost-effective. However, without such an assessment, AusAID can not have confidence that PSLP represents a good use of aid.

**Recommendation 8.3** The Private Sector Linkages Program should be recast to redress specifically market failure in the formation of business links with developing countries. If this is not possible, or cost-effective, the program should cease.

### *Public/private co-financing*

Public/private co-financing schemes are outlined in box 8.2. The Committee believes that, in principle, some of these arrangements offer opportunities for increasing private investment in developing countries and for extending the development benefits of such investments. There is a practical problem. Justifying the use of aid funds for these activities calls for sophisticated analyses of demand and supply, price, risk, and the distribution of benefits to determine development impact, to establish whether there is additionality and to guard against subsidisation. As a small development agency, AusAID does not have the capacity to analyse these financial aspects. It is not able, therefore, to be sure that the poor will be the major beneficiaries of the activities it supports. The Committee considers that it would be better for AusAID to leave such arrangements to the multilateral banks.

Justifying the use of aid funds for these activities calls for sophisticated analyses of demand and supply, price, risk, and the distribution of benefits

#### **Box 8.2 New models of public/private partnership**

East Asia's huge infrastructure appetite is forging new private/public development partnerships. It has been estimated that Asia (excluding Japan) will require investment of US\$1.5 trillion in infrastructure over the ten years to 2004 (World Bank 1995a). As the combination of domestic and regional finance and overseas aid can meet only a fraction of this demand, attention has turned to attracting more private investment. Although East Asia is already attracting most of the global private investment in developing countries, it has the need and capacity for much more. As a result, some new methods have been devised to use aid to attract foreign investment to the region.

Japan, for example, has decided to provide concessional loans for private-sector-led infrastructure projects that would not proceed without aid support. The scheme involves co-financing with the private sector, with Japanese loans financing a particular component. One project, for example, involves Japan funding the transmission lines connecting a privately-financed power-station in Indonesia to electricity consumers. Another involves construction of a Bangkok subway with Japanese concessional funds, with rolling stock and machinery being supplied by the private sector operator.

Other schemes are built on the premise that excess capital in OECD countries, particularly the US and Japan, is not flowing to developing countries in the region in optimal amounts because of a tendency among the lenders to overestimate the risks and underestimate the rewards. Under this scenario, there is a role for aid in redressing market failure by assuming some of the overestimated risks. A new vehicle for doing this is 'mezzanine financing'. It involves the combination of private funds, aid and government

...helping to mobilise domestic savings by improving developing country finance markets.

finance to fund major projects. The partners bear different risks, with private sector lenders being repaid first. The Asian Development Bank believes mezzanine financing has the potential to increase private flows significantly and to generate returns to the Bank that can finance concessional lending.

While these methods may be successful in attracting more money to developing countries, especially in Asia, donors need to resolve some complex issues. In particular, the extent to which activities redress market failure, rather than subsidise industry; and whether using aid money to attract even more international investment into the world's fastest developing region is the best global development investment, or a misdirection of aid funds, given the extent of needs elsewhere.

### Leveraging domestic funds

Australia should look for opportunities to leverage domestic as well as international funds. This entails helping to mobilise domestic savings by improving developing country finance markets. Developing country financial systems are often among the most poorly functioning and corrupted markets. The level of government involvement is frequently high, commercial principles are often ignored and lending decisions are too often made for political reasons. Given the importance of access to finance, and the rapid growth in domestic savings in rapidly developing countries, reform in this area should be a priority. It is not only banking systems that might be assisted, but also the smooth operation of bond and stock markets, with appropriate provisions for accountability and insurance. Support should also be considered for micro-credit and micro-enterprise development as a cost-effective means of assisting private sector development and reducing poverty.

**Recommendation 8.4** Direct encouragement of private flows through co-financing and risk absorption involve highly complex issues and should be left to multilateral agencies. Australia should consider helping countries to build the capacity to package projects for international investment and should give increased attention to strengthening domestic capital markets, particularly where they work least well.

### Micro-finance and micro-enterprise development

Micro-finance involves providing very small amounts of money, often US\$100 or less, to people to whom conventional banks will not lend because the amounts are too small, the costs too high and collateral

often non-existent. Micro-finance schemes get around these obstacles by dispensing with fixed infrastructure, employing local knowledge and using community responsibility to achieve repayment rates that are often the envy of conventional banks. For these reasons, micro-credit is also a labour intensive business. Micro-enterprise development involves the linking of micro-credit with training in business management and marketing. It is a more resource-intensive process that generally targets a slightly wealthier segment of the community than micro-finance.

Micro-finance agencies, such as the Grameen Bank in Bangladesh and ACCION International which is focused on Central and South America, have been highly successful in extending credit to the poor as well as in operating as viable and sustainable institutions. The larger institutions now operate largely independently of donor funding and are able to attract private sector financial support. Apart from providing very small loans to the poor, micro-finance groups can play an important role in encouraging saving. Not only does this supplement domestic capital accumulation, it can provide a powerful model for self improvement.

Micro-finance institutions are currently estimated to serve a mere 2 per cent of the potential market. This fact, and the success of leading micro-finance institutions has caused a donor and NGO rush to support micro-finance. A highly ambitious global program of micro-finance expansion was launched by the World Bank in 1995, aiming to provide US\$100 million in micro-finance lending over ten years. Enthusiasts need to be very careful that they do not inadvertently support poorly-conceived credit programs. As the Foundation for Development Cooperation argued in its submission to this review, sustainability is the key.

To ensure sustainability, interest rates need to be high enough to cover costs, and that is frequently very high, though much lower than local money-lenders charge. Community conditions must also be conducive to high repayment rates, otherwise the capital of the fund will be eroded. The supply of funds for lending by donors is generally at odds with the sustainability principle and can undermine the whole basis of repayments. It should therefore be restricted to the earliest stages of new lending schemes. Service providers need to be experienced in micro-finance design and delivery and can frequently gain most from additional training and capacity building.

It is the potential for the formal banking system to link up with micro-finance providers which will make micro-financing a sustainable tool for poverty reduction. Banks can offer wholesale funds to reputable micro-credit providers, and provide additional training and capacity building to the mutual benefit of all parties. Australian banks that operate in developing countries should be

...repayment rates that are often the envy of conventional banks.

...sustainability is the key.

...the potential for the formal banking system to link up with micro-finance providers

encouraged to form links with micro-finance service providers. By providing the poor with access to credit at market rates of interest, micro-finance organisations can help eliminate the debt-bonded labour and landless tenant status of large numbers of people who are trapped in poverty.

**Recommendation 8.5** Australian aid support for micro-finance activities should be encouraged, within clear and consistently applied guidelines which emphasise sustainability.

Markets alone are not the answer to every development problem.

### Supporting and supplementing markets

Markets alone are not the answer to every development problem. While allocating resources efficiently, they can marginalise the poor and intensify inequality, leave major gaps in the provision of basic necessities and social services, and produce environmentally damaging outcomes. Those who believe in the virtues of markets have a keen interest in seeing them work well, ameliorating their negative impacts and building public support for systems that make widespread use of them through the simultaneous pursuit of social solidarity. This provides a clear rationale for aid donors to:

- support the provision of public goods, particularly to poor communities;
- help to establish systems of social support and social insurance;
- support affordable, enforceable and market-friendly corporate regulation; and
- assist in the development of national strategies for poverty reduction.

Fast-growing countries in particular need to be encouraged to develop sound taxation regimes to provide resources for internal redistribution and service provision. To achieve these goals, the public sector has to be focused and efficient. AusAID's program of public sector reform in South Africa (helping the Government to identify and respond to health, housing and education needs) is a good example of how good governance, social and private sector development can be simultaneously advanced.

### Private sector development cooperation

The major contribution of business to development comes through the investments it makes, the jobs it creates, the foreign exchange it earns, and the taxes it pays which help to finance both developing country public expenditure and ODA. As the principal deliverer of Australian

aid on behalf of the Australian government, i.e. as contractors to AusAID, the private sector also brings its expertise into the vast majority of development cooperation activities. Many businesses also support small-scale poverty reduction efforts directly for reasons of corporate good citizenship or self-interest. There is some scope for increasing these activities, although they are always likely to remain small in scale and impact. While businesses should be expected to observe the law and be socially responsible, they are not, and should not be expected to be, philanthropic organisations.

Direct company contributions to development take several forms. A handful of companies, such as CAA Trading, have been created specifically to generate additional resources for international development. A second group provides support to particular groups as part of corporate marketing. For example, Kleenex gives a proportion of the proceeds of some products to World Vision, and advertises accordingly. This is known as 'cause-related marketing'. Yet another group, foreign investors, particularly mining companies, works with local communities in developing countries, as part of efforts to encourage support for their operations. The Australian Rice Growers Co-operative, through its PNG subsidiary Rice Industries, falls into this latter category, having embarked on a major program to assist the PNG Government with agricultural development.

Even companies that have traditionally not fallen into any of the above categories are now under consumer pressure to behave in ways that are socially responsible. Changes in consumer purchasing now happen more quickly and in less orchestrated ways than when a concerted international campaign was required to force infant-milk formula makers to stop discouraging breast feeding in developing countries in the 1980s. This means there are likely to be increased rewards arising from direct private sector contributions to development activities and increased penalties arising from ethically dubious practices. This climate is conducive to greater private sector aid contributions.

Private companies can gain in other ways, too, from association with NGOs, including through access to information and contacts in developing countries. But there are many obstacles to greater cooperation between businesses and NGOs. Some of them, including lack of knowledge, can be relatively easily dealt with. Others such as different values and objectives are more difficult to bridge. There is a set of conditions that needs to be fulfilled for successful partnerships. These include recognition that:

- activities need to be mutually beneficial;
- expectations have to be realistic;

While businesses should be expected to observe the law and be socially responsible, they are not... philanthropic organisations.

...there are likely to be increased rewards arising from direct private sector contributions to development activities and increased penalties arising from ethically dubious practices.

- both partners need to have confidence in the integrity and effectiveness of the other; and
- a clear, if not contractual, relationship needs to exist between them.

The best opportunity for mutual advantage and shared understanding comes from linking organisations that already have something in common, for example by encouraging banks to assist micro-finance providers. To the extent that new partnerships can be forged, they will depend on the energy, enthusiasm and innovativeness of the various partners.

AusAID could investigate other ways to make fuller use of existing and potential private sector development cooperation activities. For example, in very remote areas of Papua New Guinea, where the national Government finds it difficult to deliver basic health and education services, the private sector often takes on this role. The PNG Government encourages this through allowing up to 0.75 per cent of assessable company income spent on approved infrastructure and social services as a tax credit. It would be worthwhile to explore opportunities to add value to these sorts of private sector activity. While the direct funding of companies to deliver services is problematic for reasons ranging from the need to tender to a blurring of the distinctions between the Australian Government and commercial interests, there may be opportunities for AusAID to work in tandem with companies. At the very least, in such cases there should be a process of dialogue with these companies and learning from each other's experiences.

There may also be scope for AusAID to prepare information about development issues for Australian businesses which intend to invest overseas, with the aim of helping them to put their activities in a broader development and cultural context, and to encourage them to consider contributing to local development efforts. This could be part of AusAID's development education program.



## CHAPTER 9: AID EFFECTIVENESS

*Improving the development effectiveness of Australian aid is central to this review. Assessing development outcomes, anticipated and actual, is crucial both to improved performance and to public accountability. This requires a rigorous approach to measuring aid effectiveness, despite the difficulties this involves. While aid is inherently risky, and innovation is to be encouraged, the chances of failure are unnecessarily increased by failing to heed the lessons of the past. There is now a broad consensus on the essentials for program and project effectiveness. AusAID appears to have a good grasp of these principles at a policy level but, due to a range of constraints, has found it difficult to adhere to some in practice. AusAID's country programming approach, activity selection, evaluation and feedback systems all require strengthening.*

### Introduction

The issue of effectiveness is about whether aid achieves its objective, and ultimately about whether it achieves results that make it worthwhile. To begin to resolve those issues, aid administrators need to be clear about what they are trying to achieve and what constitutes success. In these respects AusAID has suffered a serious handicap. With three objectives—commercial, foreign policy and development—there can be no common measure of success. There are no criteria for determining whether a project that achieves a little development and some commercial gains is as good or better than an activity which generates more development, but no immediate trade gains; or whether aid that advances Australia's foreign policy interests, but leaves little lasting impact on the developing country, was a success or a failure. It is understandable that there are weaknesses in AusAID's approach to measuring development benefits. Careful assessment of development impacts in some cases would simply highlight the development costs of pursuing short-term commercial and foreign policy objectives.

AusAID has faced other constraints too, not least the clash between its requirement for extensive expertise and inflexible public-service staffing practices. This, and concerns to minimise running costs, have led to an organisational culture dominated by generalists. As a result, the internal capacity to generate and use more sophisticated appraisal and evaluation systems is limited. The remedies suggested here, and in other parts of the report, have significant resource implications.

AusAID has suffered a serious handicap. With three objectives—commercial, foreign policy and development—there can be no common measure of success.

The most significant difficulty faced by AusAID and other aid donors in pursuing development effectiveness is that development is a risky business. Failure to understand this can create unrealistic expectations, especially where development cooperation programs are judged, as the Committee believes they ultimately should be, against development outcomes. By definition, the development constraints in poorer countries, which include lack of human resources, institutional capacity and infrastructure, are severe. Development cooperation takes place largely at a distance where there are often large logistical and cultural difficulties. It operates in environments that the private sector considers too risky or unprofitable. Well planned activities can also fail because of factors outside the planners' control. That said, there is much that aid donors can do to increase the chances of success.

## Program Effectiveness

### What makes aid programs effective?

This report has set out to establish the kinds of aid interventions that will maximise the reduction of poverty through sustainable development. In chapter 4, for example, programming priorities were identified, establishing the broad types of activity the Committee believes will achieve this objective. These provide performance benchmarks for *what* Australia should be doing. Several major studies have come to similar conclusions about *how* aid programs should be designed and delivered to make the assistance most effective. Perhaps the best known is *Does Aid Work?* by Robert Cassen and Associates (1994). Others include the World Bank's *Strengthening the Effectiveness of Aid* (1995c) and the still highly relevant 1985 OECD review, *Twenty-five Years of Development Cooperation* (DAC 1985). The Committee has considered the findings of these studies, and its own experiences, and has come to the view that the prospects of maximising development effectiveness will be enhanced by observing the conditions listed below.

#### *Local ownership and participation*

Development cooperation must be a partnership built on developing country priorities.

Development cooperation must be a partnership built on developing country priorities. Where donors are intent on providing particular assistance regardless of the needs and desires of the country, the prospects for success are minimal. It is essential that in country programming, aid agencies start from the development conditions in the country in question, and the country's strategies for dealing with them. In countries where Australia is a major development partner, we must be particularly careful not to disenfranchise governments and displace local initiative.

Participation must be wider than the government level. Central governments are only one actor in the development process. Local private sectors must be engaged as should regional administrations and, most importantly, local communities. This is a time consuming process, but essential to sustainability. The temptation to cut corners by dispensing with participatory design has to be resisted. Many aid activities have proved to be unsustainable through lack of community support, often because they did not consider community needs in the first place.

### *Good governance*

Good governance, including the adoption of economic and social policies aimed at maximising development, greatly enhances the prospects for the effective use of all development resources whether aid, public investment funds or private finance. Governments must therefore create a favourable environment for development. Among the biggest contributions they can make is to leave room for other players, particularly the private sector and NGOs. Governments must also use their resources productively, ensuring that they are well targeted at high-yield development investments. This entails high standards of public administration, accountability to the community and transparency in government decision-making. These attributes can be developed through training, capacity building and policy discourse. Popular participation in a strong civil society is vital to sustain progress and ensure government accountability.

Good governance can also be promoted through the creation of checks and balances on administrative power, including assistance to the judiciary, the media and independent watchdogs. Assistance in delivering high-quality basic education and literacy is also an essential component in good governance, as it widens the pool of talent for public administration and creates a constituency for sound management. Good governance is discussed in more detail in chapter 13.

### *Institutional capacity*

Lack of administrative capacity and institutional weakness are perhaps *the* major development bottlenecks and explain much poor governance. Developing countries frequently have a very thin layer of competent officials, coupled with antiquated and inefficient government systems bequeathed to them by foreign powers. Laid on top of creaky structures, there is often a multiplicity of aid donors, all with their own plans and procedures. All of this conspires against good governance, local ownership and effective aid.

To date, capacity building has been among the least successful of all types of aid intervention.<sup>1</sup> The process is complex, long term and

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<sup>1</sup> In a review of over 1 100 of its institution-strengthening projects, the World Bank found 71 per cent had only partial or negligible achievements (World Bank 1993).

Many aid activities have proved to be unsustainable through lack of community support

Good governance entails high standards of public administration, accountability to the community and transparency in government decision-making.

Donors have traditionally fallen back on training individuals and have given insufficient attention to changing the cultures in which they work.

difficult to assess. In its 'four pillars for capacity building', the UNDP makes clear that successful capacity building involves the difficult process of institutional strengthening (World Bank and IMF 1994, p. 5). Donors have traditionally fallen back on training individuals and have given insufficient attention to changing the cultures in which they work. Overseas training is often particularly inappropriate, removing key personnel for long periods and providing skills that are not well suited to local conditions. Capacity building based on foreign consultants and advisers is often both expensive and unsustainable. Successful capacity building calls for much more creative responses from donor and developing country. It often involves major reform of government structures, including decentralisation of decision-making and service delivery.

#### *Donor coordination*

Improved partnerships between donor nations are essential. Lack of donor coordination puts considerable administrative pressure on developing countries. It can result in duplication, waste, the supply of incompatible equipment and unproductive squabbles over high profile projects. In addition, developing countries use donor competitiveness to their short-term advantage, playing one off against the other. This occurs most frequently when one donor has rejected a particular activity as developmentally unsound, or is attempting to introduce some measure of conditionality.

#### *Best donor practice*

Donors have to be clearly focused on achieving poverty reduction through development. They have to adopt a different approach for each developing country, starting from its unique circumstances and needs. They must put local ownership and commitment ahead of the need to spend budgetary allocations. They must be prepared to pursue maximum development effectiveness even when that means implementing important, but low-profile activities, or adopting multilateral, rather than bilateral approaches. Procurement rules must not promote donor driven supply, or the provision of overpriced goods and technical assistance that subsidise domestic industry. Ideally, this involves the untying of assistance so that procurement can take place wherever it is most efficient and cost effective, especially from developing countries.

#### **Strengthening policy implementation and monitoring**

AusAID has a good understanding of what makes aid effective.

From what the Committee has seen in terms of AusAID policy statements, the speeches of members of the senior executive, and public information documents, AusAID has a good understanding of what makes aid effective. The largely positive assessment of the Australian aid program by the DAC in 1996 tends to confirm this. The

Committee is less confident, however, that the necessary mechanisms are in place to ensure that this high-level policy understanding is consistently translated into the design and implementation of aid programs and projects. The Committee has already noted AusAID's difficulty in implementing its policy for poverty reduction (see chapter 4). Other chapters note similar difficulties in regard to gender, education, and activities that could be funded by the private sector.

The Committee believes that part of the problem in ensuring that these overarching policies and practices are implemented is that they are not subject to high-level monitoring and reporting across the aid program as a whole. That, in turn, may suggest to country program managers that these policies are, at the best, guidance to be observed where possible, and at the worst, entirely discretionary. The first step in increasing the Australian aid program's development effectiveness is to make sure that the introduction of the new, singular objective for the aid program, the conditions for aid effectiveness discussed earlier and the revamped sectoral and cross-sectoral policies discussed in chapter 7 are integrated explicitly into corporate planning and executive responsibilities. Members of AusAID's senior executive should be responsible for performance against each of these priorities. The Committee has not attempted to determine exactly how this should occur. This should be resolved in the context of a complete restructuring of AusAID's evaluation and performance monitoring activities as recommended below.

**Recommendation 9.1** Members of AusAID's senior executive should be given explicit responsibility for monitoring the performance of the Australian aid program against programming priorities, and sectoral and cross-sectoral policies established to maximise the development effectiveness of the overall program.

### **Reinvigorating country programming**

Country programming should be the primary way in which AusAID brings together knowledge of what makes aid effective, strategic approaches to poverty reduction and sectoral and cross-sectoral policies. This integration and application of knowledge at the country level is a difficult and demanding process. At its heart is the Country Strategy Paper. It exists to ensure that Australia's aid is coordinated and targeted on the basis of the best available information about the recipient country's development status, its priorities and its plans. It is a fundamentally important document in that its function is to identify the most effective interventions and overall approaches.

...country strategies are not receiving the priority they deserve.

The Committee is concerned that the preparation, application and review of country strategies are not receiving the priority they deserve. AusAID appears to have only two current, completed and published Country Strategy Papers—for Cambodia and Laos. Several, including those for Vietnam, Indonesia, Western Samoa, PNG and South Africa, are reportedly in the final stages of development, but the Committee was advised that for 11 of AusAID's 22 largest country programs no current strategy paper exists or is being prepared. If aid is to be effective it must be carefully targeted — country strategies cannot be allowed to lapse. The Committee was advised that many country program managers are currently planning activities on the basis of outcomes of high-level consultations between AusAID and recipient authorities and, by following Australian government policies. While clearly providing some basis for decision-making, this lacks the rigour that country strategies should have. Part of the problem appears to be that no operational area or senior member of the executive has clear responsibility for monitoring the production of strategy papers and for assuring their quality.

The belief that small country programs do not require country strategies is misplaced.

Although the task calls for considerable resources, country strategy papers should be prepared for all countries to which Australia provides bilaterally programmed assistance, including small programs. The belief that small country programs do not require country strategies is misplaced. Where Australia is providing only small amounts of development cooperation it is crucial that activities are well thought out and make a strategic contribution to development, otherwise their impact is likely to be negligible. The Committee believes that if the size of the program does not justify such analysis, or Australia lacks the local knowledge to undertake it, bilateral aid probably should not be provided to the country in question.

It is crucial that the status of country strategies as planning tools rather than public relations documents is reaffirmed. The papers should be available to the public, but they must be working documents to guide decision-making, not to promote the aid program. The quality of Country Strategy Papers seems to have varied considerably in the past, with too few demonstrating a sophisticated understanding of individual country development. There is also a tendency in the strategies to give too much emphasis to what AusAID *is* doing rather than *what it might do*. These plans need to be strategic, not descriptive. The weakness of Country Strategy Papers is perhaps not surprising, given that the AusAID Procedures and Operations Guide (APOG) is almost entirely silent on how staff should go about the complex task of integrating country analysis with sectoral and cross-sectoral policies.

Poverty reduction through sustainable development must become *the* focus of decision-making at the country program level, and thus the country strategies must be a blueprint for how this is to be achieved in specific circumstances. This will require the replacement of the existing requirement that country strategies should consider explicitly the direct advancement of Australian commercial interests with a more single-minded concentration on strategies for maximum poverty reduction. Strategy papers must also be formally reviewed on a regular and predictable basis. It is vital, to ensure the highest quality, that the processes of their preparation and review involve not only AusAID officers, but also people with high-level relevant country expertise from outside the agency.

Given the importance of country strategies in ensuring aid effectiveness, and AusAID's mixed record in producing quality strategies, detailed guidance and specific training will be required in the production of a new generation of strategies.

**Recommendation 9.2** Country strategies aimed at maximising poverty reduction through sustainable development should be prepared for all countries to which Australia provides bilateral aid. They should be based on the best available information and analysis, and should represent a jointly-owned blueprint for Australian assistance. Country strategies should be the basis of all bilateral development cooperation decision-making and should be reviewed regularly and formally to ensure they remain relevant.

### **Contestability of ideas, policies and practices**

An effective aid program requires a constant critique of existing policies and procedures and an ongoing search for best practice. Orthodoxy must be able to be challenged and innovation promoted. The Committee believes that Australia's aid effectiveness would be much enhanced if there was more cross-fertilisation of ideas involving a wide range of players. The Committee believes AusAID would benefit from increased staff interchange with other development agencies, the private sector and NGOs. The Committee also believes that AusAID should have its own permanent representative at the Development Assistance Committee of the OECD and should participate more actively in the international development debate.

This would be complemented by the creation of more forums in which aid professionals can constructively and openly challenge AusAID's existing custom and practice. To a limited extent this role is already played by conferences organised by development studies centres. There is also dialogue at a range of levels with NGOs and this should be encouraged, as should organised interaction with the

Orthodoxy must be able to be challenged and innovation promoted.

consulting community. There also need to be clear opportunities to contest ideas at each level of AusAID's operations. This may require a less hierarchical approach to policy development and the reorganisation and reorientation of staff meetings to reduce the emphasis on the movement of information towards the sharing of ideas and the development and analysis of policy.

**Recommendation 9.3** To promote best practice and encourage the contestability of ideas, a wider program of staff exchanges should be instituted with other bilateral donors, multilateral agencies, private consulting firms, NGOs and the Australian Council for Overseas Aid. An officer should be posted to the Development Assistance Committee to provide AusAID with greater access to the experiences and insights of other donors and to ensure that AusAID engages in policy debate in the DAC. New opportunities for debating development issues should be created particularly within AusAID, and staff should be encouraged to engage in peer review.

## Project effectiveness

### Principles for successful activities

Virtually any aid-supported activity in a developing country is likely to bring about *some* development benefit, but this does not mean that all aid projects are equally successful. Without consistent and rigorous appraisal and evaluation, the tests applied for development success may be quite undemanding and standards may be inconsistently applied. The *DAC Principles for Effective Aid* (DAC 1992), reflect common understanding among donors of how to assess aid activities. The following core criteria for assessing project success set useful benchmarks for aid management which AusAID could use as a starting point in strengthening its activity analysis:

- **Relevance** of project objectives to development needs in-country, and to the goals of the aid program.
- **Effectiveness** in achieving the objectives of the project.
- **Efficiency** of inputs related to outputs. Were the given development benefits achieved at least cost, and were they worth the cost?
- **Impact** at the broader development level. Did the achievement of the immediate project objectives have the desired developmental impact at the broader level? Were there other, unforeseen or unplanned development impacts which also need to be considered?
- **Sustainability** or durability of development benefits, in financial, economic, social, institutional and environmental terms. Is there sufficient recipient commitment to the activity to sustain it?



These criteria have been shaped in the context of project evaluation, and to some extent such assessments can only be fully conducted once the project has been completed and all the data are available. However, the same criteria are relevant to the appraisal stage of project planning. Appraisal is essentially a predictive analysis of the *likely* relevance, effectiveness, efficiency, impact and sustainability of a proposed project. As stated in the DAC Principles, appraisal should include thorough technical, financial, economic, institutional, social and environmental assessments to provide the information necessary to assess the proposal against the above five criteria of project success.

In addition to the core criteria listed above, a further essential test for project appraisal is to consider whether the project in question could have been financed by the private sector. Even if a project is found to be relevant, effective, efficient and sustainable, if it could be financed by the private sector, it would be inappropriate to support it with scarce aid funds. This issue is discussed in chapter 8.

### Measurement of costs and benefits

Included in the DAC criteria of 'efficiency' is the comparison of activity costs and benefits to assess whether the activity yields sufficient net benefit to make it worth while. There has been much criticism of cost-benefit analysis on the grounds that it is simply not possible to quantify and value the benefits of many development projects. While the technique cannot be applied easily to all projects, it should be applied wherever possible. The discipline of trying to apply it as fully and formally as possible is an important one. In cases where cost data are readily available, but benefits are difficult to evaluate, cost-effectiveness analysis is a useful aid to project design and decision-making.<sup>2</sup> Cost-effectiveness analysis seems to have been largely overlooked in AusAID's project-preparation processes.

Although both cost-effectiveness and cost-benefit analyses rely on uncertain projections and estimates, this is the very nature of project appraisal, with or without quantitative analysis. The advantage of such techniques is that they force decision-makers to clarify assumptions, work out interrelationships and confront uncertainty in a rigorous way. In the absence of the use of such techniques, decisions are made on an even more slender information base and with unnecessarily limited intellectual rigour.

### Social analysis and community participation

The Committee is also concerned that attention to the issues of local participation, the social soundness of proposed projects, and in some

<sup>2</sup> Cost-effectiveness analysis is used to compare the relative costs of alternative project designs which seek to achieve similar outputs. For example, comparisons can be made on the basis of the cost per hospital bed established, the cost per child immunised, or the cost per tonne of food aid delivered.

cost-effectiveness and cost-benefit analyses... force decision-makers to clarify assumptions, and confront uncertainty in a rigorous way

cases, gender considerations, has been patchy in AusAID's project preparation processes. Predicting the likely community acceptance and social impact of project interventions is not a straightforward task. However, a large body of experience has been developed by the international community in this field and a range of analytical approaches has been developed. The application of these techniques, however, requires specialist skills and, as is the case in many other fields, AusAID does not appear to have built up a body of in-house expertise in this field.

One of the strongest lessons emerging from the international literature has been the importance of local participation and local ownership to the success and sustainability of development projects. One of the weaknesses of the current AusAID approach to project development is the short period allowed for project design in the country concerned. One of the difficulties this causes is that it does not allow sufficient time for investigating local perceptions of development constraints and building projects in ways which incorporate local community initiatives. The risk is that this can result in imposed solutions with little or no local commitment or ownership.

...the spread of costs and benefits should be one of the determinants of activity selection.

There also appears to be little or no analysis in the project preparation path of the distributional impact of project proposals. Even where formal cost-benefit analyses are prepared, AusAID does not appear to request any analysis of the likely distribution of project benefits among different economic groups within the recipient country. If the aid program is to develop a sharper focus on the reduction of poverty, such analyses must become a regular element of AusAID's project development and appraisal. Knowledge about the spread of costs and benefits should be an integral part of the appraisal process and should be one of the determinants of activity selection.

All of these project analysis techniques are resource-intensive if done properly and require those who are using the analytical product to understand its applications and limitations. The necessary investment in staff skills and in more in-depth analysis is worth making to deliver greater effectiveness. Development is already a risky business: there is no reason to make it riskier still by choosing not to use available analytical tools.

**Recommendation 9.4** Greater and more consistent use should be made of rigorous project analysis techniques, including both cost-benefit and cost-effectiveness analysis. This should include the identification of the distribution of project costs and benefits. Approaches which test both social soundness and the capacity to engender and sustain greater local participation and commitment to aid-supported development projects should be especially explored and used.

## Evaluation

The two major goals of evaluation are improved performance and enhanced accountability. Aid activities largely take place away from the day-to-day scrutiny of the Australian media, the public at large and the Parliament. In addition, people in developing countries have few direct ways of making their preferences known and having their views heard. This means that there are fewer external forces promoting quality assurance. Increased weight must therefore be placed on evaluation systems to provide accurate and independent aid assessments.

AusAID's Evaluation Section conducts a range of project and program evaluations each year. This is in addition to numerous reviews of on-going projects and programs conducted by the program areas of the Agency. The Committee, nevertheless, is concerned about the quality, credibility and impact of this large body of evaluation work. A number of submissions argued for more robust and independent evaluation of AusAID programs, pointing to deficiencies in the Agency's current approach to performance assessment (see box 9.1).

The two major goals of evaluation are improved performance and enhanced accountability.

### Box 9.1 Evaluation and the aid program: excerpts from submissions

'The Australian Chamber of Commerce and Industry believes all of Australia's overseas aid programs should be subject to objective and rigorous assessment, against transparent criteria, with reports being made public through appropriate processes.' *ACCI*

'There appears to be no formal "lessons learned", or knowledge sharing, procedure between AusAID and its contractors. AusAID should be encouraged to devote more resources to developing a data bank of knowledge about particular situations, countries and sectors. This information should also be made freely available to the public.' *Coffey MPW Ltd*

'Recommendation 22: [S]trengthen the evaluation work of AusAID and ensure that it measures the basic human needs focus of the aid program. This would involve a review of the methodologies of evaluation, a more public reporting on evaluations, and a process so the lessons learned from evaluations can be incorporated into future programming.' *Community Aid Abroad*

'I am hopeful that the Review Committee will have the courage to challenge AusAID to identify, specify and articulate a set of criteria directed at lasting poverty reduction, and to call for a program of independent evaluations that will ensure that the criteria are appropriately applied in all areas of its mandate, not

just selected areas of the bilateral program.' *Professor Joseph Remenyi, Deakin University*

'Australia's bilateral aid program should be encouraged to focus on more effective evaluation and to adopt similar techniques and standards (to those of the World Bank) that allow greater comparability of results. This is particularly desirable in terms of justifying the continued provision of aid resources in an environment where all areas of public expenditure are being required to demonstrate their value.' *Commonwealth Department of the Treasury*

### **Evaluation benchmarks**

One useful set of benchmarks against which AusAID's evaluation activities might be assessed is the *Principles for Evaluation of Development Assistance* adopted by the DAC (1991). The Principles set out the objectives, definitions and operating principles for effective aid evaluation. They are an agreed yardstick of donor best practice in this field.

When the principles were adopted, DAC members, including Australia, agreed to 'review their evaluation policies and procedures against the principles and to adjust them where necessary' (DAC 1992, p. 138). The Committee notes that AusAID has made progress in some areas governed by the principles. However, a 1996 review by the DAC (1996c) shows that AusAID lags behind other donor organisations in developing its evaluation program so that it is consistent with the principles.

### **Independence**

The DAC Principles suggest that 'the evaluation process should be impartial and independent in its function from the process concerned with policy-making, the delivery and the management of development assistance'. The 1996 DAC Review found that the overwhelming majority of donor agencies had adopted structural and reporting arrangements which reflected this principle, with 'almost all' of the principal evaluation officers reporting directly to the heads of their respective agencies, or to a governing board. However, the head of AusAID's Evaluation Section still reports through a Branch and Divisional structure to the AusAID Executive and the Director General. Evaluation reports themselves are subject to editing and clearance by senior AusAID officers. Neither the evaluation team leaders nor the head of the Evaluation Section effectively has final authority to determine the content of evaluation reports (or of the evaluation work program), which leads to doubts about their independence and objectivity.

## Transparency and accountability

The DAC Principles also sought to improve both the transparency and the accountability of evaluation processes. Even though AusAID revisited the formal objectives for its evaluation program during 1996, the re-statement of objectives includes no reference to accountability. This reflects the historical view of evaluation in AusAID that it should essentially take the form of an 'internal evaluation' function. This is also reflected in AusAID's record on the publication of evaluation results. A handful of program evaluation reports has been published in recent years (including reviews of the DIFF, PSLP and NGO programs), which have made a useful contribution to public discussion and debate. However, of 24 project evaluations which have been conducted by AusAID since 1993, only five have been made available to the public.

In May 1996, the AusAID Executive decided that from that time, evaluation reports should be prepared 'on the assumption that they would be publicly available or accessible'. Project evaluation reports prepared since that time have been available to the public on request and AusAID is currently examining those prepared over previous years, to see if they can also be released. However, all reports must still be submitted to AusAID's Executive, which must be satisfied as to their 'quality' before they become publicly available. While this is a change in the right direction, there also appear to have been some internal difficulties in implementing this move to more open public access to evaluation findings, which we believe, reflect the difficulty in changing AusAID's corporate culture on this issue. In the Committee's view, a change to the institutional arrangements for evaluation is required in order to establish a credible and fully objective evaluation regime for the Australian aid program.

Unless the evaluation function is considerably strengthened, the effectiveness of the organisation and its public credibility will continue to be affected. In the absence of freely available, independent and rigorous assessments of aid activities, the public is unable to judge whether it receives value for money from its aid program. There are, of course, genuine risks in introducing a more independent and transparent evaluation policy. The media and political interest groups are not averse to misrepresenting evaluation findings to suit their own purposes. The reputation and budget support for the aid program could suffer in such instances. However, there are greater long-term dangers in maintaining a culture in which project failure is hidden from view and in which lessons are not adequately transmitted to those who could learn and benefit from them.

## Quality decision-making

The Committee is also concerned about whether AusAID management has sufficient reliable information on the effectiveness of its programs

a change to the institutional arrangements for evaluation is required

AusAID will need to give greater priority to performance monitoring, accountability and the promotion of a learning culture

to inform its policy or decision-making roles. Although AusAID has a range of quality control mechanisms, including detailed project preparation and monitoring systems, there is inadequate independent and objective assessment of the *results* of the hundreds of aid projects supported under the program. The development of the Lessons Learned Database has been stalled and apparently is not being used by AusAID staff. The problem is further compounded by the absence of an effective system for monitoring program performance through the aggregation of evaluation results.

Weak performance monitoring and evaluation systems impose serious limitations on an organisation. Senior management has an inadequate information base on which to guide and direct its programs. If no accurate record is kept of successes and failures, the organisation is condemned to repeat mistakes and to fail to capitalise on successes.

Recognising this weakness, AusAID introduced in 1996 a system of 'project monitoring briefs', based on a common rating system which is intended to allow for aggregation of results across country programs. However, the system will need many years of support before it beds down properly and will need to be coupled to an independent verification system and to the evaluation program in order to ensure the integrity and reliability of the data. In order to achieve this, AusAID will need to give greater priority to performance monitoring, accountability and the promotion of a learning culture within the Agency.

### **A new evaluation structure**

The Committee believes that AusAID's performance monitoring and evaluation requires major improvements if the Agency is to live up to its stated corporate goals of being a 'leading international development organisation' and delivering the 'highest quality program of development cooperation' (AusAID 1995a).

AusAID's senior management is aware that there are problems with evaluation, and has made the changes already mentioned, but in the Committee's view will not be able to deal with the problems adequately *within* the current institutional structure. The Committee believes that there is a need for an independent Office of Evaluation to be established within AusAID. It should be headed by a senior statutory officer, reporting directly to the Minister, but also simultaneously to the Director General and to the proposed Development Cooperation Advisory Board (see chapter 20). This is similar to the arrangements adopted for the Office of Evaluation and Audit within the Aboriginal and Torres Strait Islander Commission.<sup>3</sup>

<sup>3</sup> The Office of Evaluation and Audit (OEA) was established under the *Aboriginal and Torres Strait Islander Commission Act* of 1989. The OEA Director is appointed under contract for a three-year term by the Minister for Aboriginal and Torres Strait Islander Affairs, after consultation with the ATSIC Board. The Director has full authority for determining the content of Audit and Evaluation reports, which are transmitted simultaneously to both the Minister and to the Board.

The Office of Evaluation should be given full authority to determine independently the content and findings of evaluation reports. All evaluation reports should be made available to the public, including through the Internet.

This approach reflects the arrangements of lead donor organisations in the field of evaluation, such as the World Bank and the Inter-American Development Bank. The Review Committee was also impressed by the independence and openness of the evaluation system in DANIDA, the Danish aid agency. One of the Committee members was able to meet with the Head of the Danish Evaluation Unit, and found there were valuable lessons from DANIDA's experience. While there had been understandable fears that their recent move to such arrangements might lead to endless public criticism about poorly performing projects, in reality the changes had the effect of defusing public suspicion and stimulated more constructive public debate about overseas aid.

**Recommendation 9.5** An independent Office of Evaluation should be established within AusAID, headed by a senior statutory officer, reporting directly to the Minister and also to the Director General and the proposed Development Cooperation Advisory Board.

One of the roles of the Office of Evaluation should be to develop, explain and implement the use of new assessment and performance measures for Australian aid. This should be regarded as an on-going process involving liaison with other donors, many of whom are also seeking better performance measures.

The fundamental challenge for AusAID is to move to a more outcomes-orientated culture, particularly at the program and project level. This will require more emphasis on analysis and evaluation as well as learning from successes and failures. This represents a significant cultural change. A number of additional methods to improve the focus and strengthen the effectiveness of the aid program as a whole are discussed in chapter 20.

### **Project or program assessment?**

Most aid agencies do not attempt to measure development effectiveness of their country programs in terms of overall impact on national development indicators. Aid rarely meets more than a small proportion of a country's development financing needs. The prospect of individual activities having a discernible, let alone decisive, impact on development at the country level is often small. Consequently it is

...the Office of Evaluation should develop, explain and implement the use of new assessment and performance measures for Australian aid.

The aim of the aid program is development, not just good projects.

usually argued that aggregating project results provides the only reliable information about an entire program's contribution to development.

While measuring project success is important in itself, the Committee believes that it is insufficient in total. The aim of the aid program is development, not just good projects. The rationale for country programming is that aid activities should not be disconnected interventions but conceived, designed and implemented to be mutually reinforcing, in support of development. Over the last two decades, the desire for aid to play a catalytic role in development has led to progressively greater attempts to use aid strategically to effect change in key institutions and to leverage policies and private finances. These trends need to have a performance-measurement corollary.

The international donor community is in the early stages of working out how this can be done. USAID has tried a highly specific approach for its own activities but has run into difficulties, given the complexities involved. Econometricians have tried modelling the macro-economic effects of aid on savings and investment in particular, but the results are much disputed. Canada is implementing a results-based management system to measure effectiveness across portfolios. Currently, many bilateral donors, including the Netherlands and Britain, are also grappling with the need to evaluate the effectiveness of increasing amounts of non-project assistance, provided in support of reform programs and as balance of payments assistance. The fact that methodologies are currently at an early stage of evolution does not mean that Australia should restrict its effectiveness analysis to the project level. At the very least, it should be part of the search for new and improved methods of assessing effectiveness at the country level.

### **Joint assessment**

At present, the best way of linking national development outcomes to combined developing and donor country efforts is through encouraging and extending the existing process of Joint Evaluation Missions coordinated by multilateral agencies. Australia has participated in specific purpose joint evaluations, such as that which assessed the adequacy of the international response to the Rwanda crisis. To a limited extent, joint evaluation of country development already occurs through the country analyses produced by the multilateral development banks (MDBs), although these are not explicitly focused on judging the effectiveness of donor and developing country policies and activities. The Committee sees merit in encouraging the MDBs, the DAC and donors to work together to develop and use better methodologies for assessment of collective efforts to promote development.



## Bilateral assessment

At the *individual* donor level, it is only where aid makes up a significant proportion of a country's development resources, and where it has a genuine ability to influence policies, that it makes sense to attempt to judge aid activities against overall development performance. Even in these cases—and there are no more than a handful in the Australian aid program, nearly all in the South Pacific region—the relationship between the provision of aid and the country's development will be highly complex. It would be naive to expect a simple relationship such that a certain level of aid should result in a particular level of development. But a process of careful country analysis should provide greater evidence, broad and qualified as it should be, about the contribution of aid to long-term sustainable development at the national level.

In countries where Australian aid is less significant, it is still important to go beyond individual project-level assessment. The first stage should involve aggregation of project results across sectors within the country and an examination of relevant sector outcomes. For example, where programs have been designed to strengthen a department of health, part of the assessment might involve measuring immunisation or infant mortality rates, perhaps in particular provinces. To the extent that activities cannot even be linked to these sorts of indicator, it may be that our assistance is too dispersed.

## Country effectiveness reviews

AusAID already has a mechanism to assess the effectiveness of its country programs: the Country Effectiveness Review (CER). The purpose of the CER should be to evaluate the extent to which AusAID's policies for effectiveness have been implemented, given the unique circumstances of the developing country. This is not currently the case. Only eight CERs have been finalised by AusAID over the last five years and their quality is very mixed, with several being almost entirely project-focused. AusAID itself has concluded that they have not always been relevant or properly used and is introducing changes to how they are prepared. The preparation of country effectiveness reviews is to be devolved to country desks to create greater ownership by program managers and ensure links to country strategies.

Involving program staff is essential, but giving them prime responsibility for evaluation of their own activities invites inconsistency and over-optimistic assessments. While AusAID has prepared guidance on the nature and purpose of the reviews, little advice, barring suggestions about information sources, has been provided to date on *how* country effectiveness should be judged. As with Country Strategy Papers, specific training and detailed guidance will be required. While the objective of feeding country evaluation

...it is important to go beyond individual project-level assessment.

findings into country strategies is to be commended, incorporating CERs directly into Country Strategy Papers, as AusAID currently proposes, runs the risk that they will lack detail and rigour and that both documents will be devalued in the process.

**Recommendation 9.6** The effectiveness of Australian aid should be judged against development outcomes with a higher level of aggregation and degree of sophistication than is involved in separately evaluating the impacts of specific projects. While Country Effectiveness Reviews have the potential to provide the vehicle for more holistic evaluations, current processes for preparing them need fundamental review to improve the quality and rigour of the reviews.

**PART C—SELECTED PROGRAMMING  
AND POLICY ISSUES**

## CHAPTER 10: TIED AID

*Most studies indicate that tying aid to goods and services supplied exclusively by donor country businesses or agencies diminishes development effectiveness. Tied aid increases the cost of the assistance and can encourage donors to focus more on the commercial advancement of their companies than on what developing countries need. Australia does not have to tie its program to be confident of large and durable commercial returns from it. These come from maximising development in the region, which increases the markets for Australian products and from the involvement of truly internationally competitive companies. Restricting competition through tying may deliver some short-term benefits to Australian industry, but it carries long-term economic costs, by reducing the pressure for innovation, lower prices and quality improvements. This is recognised in most other areas of government policy. The Australian identity of Australian aid is regarded as important by many, and makes complete untying unlikely in the short term. Given this, Australia should move towards greater untying of its aid in a gradual way, encouraging other donors to do the same.*

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### Introduction

As aid budgets have come under increasing pressure over the last ten years, there has been an international trend towards delivering increased, direct and immediate returns to donor country companies in an attempt to bolster domestic support for the continuation of aid activities. There are many ways in which aid can be tailored to pursue direct commercial objectives. One of the most pervasive is through insisting on the purchase of donor-country products. To some people tying aid to goods and services supplied exclusively by the donor country is merely good sense. It is the strategic use of aid to promote Australian business and exports. Supporters contend that commercial interests can be pursued without detriment to the quality and effectiveness of Australian aid. Opponents disagree, seeing an inherent tension between maximising development on the one hand, and achieving short-term results for Australian businesses on the other.

Apart from economic and development arguments, there is a strong community preference for Australian aid being recognisably Australian. This comes partly from a desire to get credit for the assistance, but it is also because aid is more than an economic transaction. It is a reflection of Australian values and the preparedness of Australians to cooperate at a personal level with the people of developing countries. It is part of the building of 'people-to-people'

links. Decisions about the procurement of goods and services under the aid program therefore need to consider the Australian identity of Australian aid, how tying aid affects developing countries and how it impacts on the Australian economy.

## Extent of aid tying in the Australian program

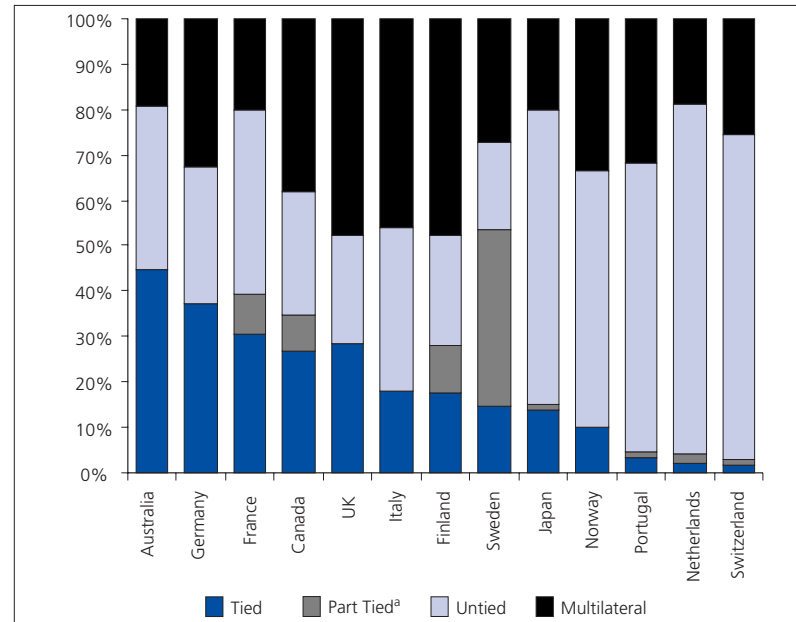
The major components of the Australian aid program which are tied include the purchase of consultancy services; the provision of most food aid; aid-funded Australian tertiary scholarships; and, until its abolition in July 1996, the Development Import Finance Facility. In 1994, the last year for which data is available from the DAC, these amounted to 44.8 per cent of Australia's total aid.

Budget support for PNG, the purchase of most goods, contributions to multilateral agencies, small grants schemes, and emergency relief are all untied forms of assistance and make up the remaining 55.2 per cent of total ODA. Although goods are in theory, untied (and reported as such), in practice procurement is largely tied. The present and former governments as well as senior AusAID officials have expressed a firm preference for Australian products (*A Confident Australia* 1996, p. 29; AIDAB 1993c). In addition, obtaining information on contract opportunities from overseas is very difficult and procurement agents are often encouraged to 'buy Australian', for example, when purchasing project-related goods. The Commodities Assistance Program is technically untied, but the AusAID guide describes it as enabling developing countries to 'procure manufactured goods and raw materials from Australia and New Zealand'. It is, however, subject to government purchasing guidelines which require value for money but do not mandate local purchase.

Australia stands out as tying a higher proportion of its aid than any other country

Figure 10.1 shows the proportion of aid spending by OECD countries that is tied. Australia stands out as tying a higher proportion of its aid than any other country: 44.8 per cent compared with the DAC average of 22.1 per cent. Sweden, however, ties more than Australia if partial tying (i.e. allowing purchase from developing countries as well as the donor country) is included. Data such as that contained in figure 10.1 needs to be treated with caution. Firstly, much aid is 'lumpy', leading to large annual variations in the proportion which is tied. Secondly, the tied category picks up only what is explicitly tied and what countries report to the DAC. There is no mechanism to verify reported tied-aid levels. The veracity of reporting depends on how DAC definitions are interpreted, the integrity of individual agencies' data collection processes and how forthright they are prepared to be. New Zealand, for example, reported all of its aid as untied in 1993, but its policy documents state that 'New Zealand and Australian goods and services will be used wherever these are cost-effective and compatible with the principal purpose of NZODA'

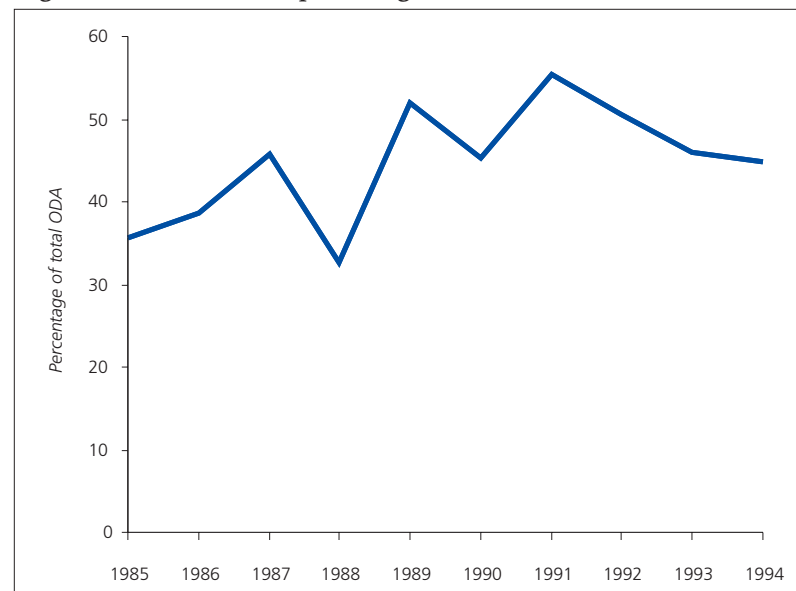
**Figure 10.1 Tying status of total ODA of selected DAC countries, 1994**



Source: DAC (1997a, p. A50).

<sup>a</sup> Under DAC definitions, procurement permitted from the donor and 'substantially all developing countries'.

**Figure 10.2 Tied aid as a percentage of Australia's ODA, 1985–1994**



Source: DAC (1997a) and earlier DAC Development Cooperation reports.

Note: There is an anomaly in the figures for 1988 and 1989 due to the bringing forward of (untied) multilateral development bank payments from 1989 to 1988.

(Ministry of Foreign Affairs and Trade, NZ 1996, p. 5). As noted above, Australia is also ambiguous about the tying status of some of its programs. Despite difficulties in interpreting data for individual years, figure 10.2 demonstrates that Australia tied more than 40 per cent of its total aid for seven of the ten years between 1985 and 1994.

Many believe that tying aid to Australian procurement improves Australia's export performance, creates business and jobs

### **Economic advantages of tying aid**

Many businesses and policymakers believe that tying aid to Australian procurement improves Australia's export performance, creates business for local companies and jobs for Australian citizens. It is said to do so in several ways: through direct purchases of goods and services, through building a preference for Australian products which leads to flow-on commercial orders, and by showcasing our expertise in growing markets, widening perceptions of what Australia can produce. It is also said to play a vital role in helping firms to internationalise, allowing companies that have not worked abroad to get international experience in aid contracts, assisted and supported by aid and foreign affairs infrastructure and expertise. The advocates of tying argue that we should seek to get the maximum economic return from the program by only supplying Australian products. It is often argued that we can do this without compromising aid quality, but, by definition, in tying our aid we are not putting that claim to an international test.

### **Australian identity and public support**

Development cooperation is much more than the donation of goods and services to developing countries. To work properly, it has to involve a partnership between people in developed and developing countries. The transfer and application of technology and training is a people-centred business, which promotes broader international understanding. It has been argued (Rollason 1996) that this necessitates the close involvement of Australians in the aid program:

'To achieve these broader objectives, Australians need to be involved in the delivery of Australian aid. The aid program should draw on the experiences and skills of Australians in fields where Australia has recognised expertise or capacity. Poor countries not only need access to resources, they also need access to technology and practical know how.'

Australian aid is also often portrayed as an expression of Australian values, including concern for the less fortunate, a belief in democracy, and a feeling that people deserve a 'fair go' from powerful individuals and institutions. In a recent survey on aid and development issues conducted for AusAID, 81 per cent of respondents reported that it was either fairly important (22 per cent) or very important (59 per cent) that

'Australian foreign aid should promote the employment of Australians and the use of Australian made goods' (AIDAB 1994c, p. 14).

In discussing aid issues before the Development Assistance Committee (DAC) of the OECD, most donor countries have argued that the need to maintain the national identity of aid programs and demonstrate commercial returns is crucial to maintaining public support. Japan, which has progressively untied its assistance since the late 1970s, has reported a loss of aid visibility and waning public support, particularly from the private sector (AusAID 1996d, pp. 31–32). Its response has been to encourage other donors to untie their programs.

While there is a community preference for our aid to be identifiably Australian, there is also a clear desire that it should be as effective as possible. Tying our aid undermines the achievement of this goal. It represents a focus on inputs rather than outcomes.

### Reduced aid value

Tying aid restricts the range of goods and services supplied to those that can be produced by the donor country's domestic market. This reduced competition may result in the goods and services being supplied at higher than international prices or at lower standards of quality. This is a particular problem in a small economy like Australia which, in some areas, has neither the range of expertise that other countries have, nor the number of suppliers to create highly competitive marketplaces.

The market for Australian aid business is concentrated. In 1995–96, there were over \$1 billion worth of contracts current between AusAID and Australian businesses. These were shared between 363 firms, but nearly half of these were for less than \$75 000. At the other end of the scale, sixty-five companies held \$950 million worth of business. The top ten contractors, with an average of 14 contracts each, shared \$718.6 million worth of business (AusAID 1996a). A relatively small number of companies, therefore, dominates the provision of Australian aid. In such circumstances, higher than international prices are likely.

It is claimed that the risks of limited competition arising from the small Australian market can be avoided if Australian aid is concentrated on areas where Australia is internationally competitive. The more that argument is used, the less it can be claimed that advantage is secured through tying. Indeed some of the arguments advanced in favour of tying, such as that it allows Australian firms to internationalise their operations, seem to be based on the companies being internationally uncompetitive, or at least inexperienced in international business. The fact that other countries use aid to support their industries does not necessarily make it sensible for us to do so and as figure 10.1 shows, they do so less than Australia in any case.

While there is a community preference for our aid to be identifiably Australian, there is also a clear desire that it should be as effective as possible.



### **Box 10.1 Tied aid: excerpts from submissions**

'Aid involves a transfer of wealth from Australia to the recipient country. No matter how the goods and services are procured, consumption and investment in Australia must fall if the resource transfer occurs, whether it be in the form of financial resources or physical resources...The Australian firms that are contracted to supply gain at the expense of firms in the rest of the economy from whom resources are bid away so that the firm can meet the aid-created demand. There is no net commercial benefit; the main effect would be the Australian "packaging and labelling effect".'

*Centre for International Economics*

'At the end of the day, the "tied vs untied" debate tends to overlook the hard reality that most aid is either explicitly or implicitly "tied" aid: in the latter case, the recipient country would be well aware its better interests in the medium to longer term, especially for further aid, would be best served by spending the aid funds on products or services from the donor country, to the latter's commercial and economic benefit.'

*Australian Chamber of Commerce and Industry*

'Delivery of projects should, as much as possible and where capacity exists, be done by PNG contractors, including national companies, thereby supporting the application of skills acquired as a result of Australia's support for education and training... Consideration should be given to establishing a minimum local content of, say no less than 80 per cent, where this is possible and relevant.'

*Australia-Papua New Guinea Business Council*

'Most of Australia's bilateral aid is tied to the purchase of Australian goods and services by the recipient. In theory, such a policy will limit the effectiveness and efficiency with which aid is delivered because it is not necessarily assured that Australia can provide the best product at the best price. If the overarching objective of the aid program is to improve the well being of people in developing countries then there is a strong case for offering untied aid. However the South Australian Government supports the tying of aid in most instances as it minimises the cost of the aid program for Australia at a likely small cost to the effectiveness of the aid program to the recipient country.'

*Department of Manufacturing Industry, Small Business and Regional Development, Government of South Australia*

'Aid should help develop private sector growth. In this regard, procurement of project inputs should only be done externally if the requirements can not be met internally. Instances have transpired whereby damaged material inputs from donor countries which do not exist locally require substantial replacement costs that are

usually not affordable, this makes projects unsustainable in the long term.’ *Government of Fiji*

‘ACFOA is strongly against the tying of aid. Tying can result in unnecessarily high costs as well as inhibiting innovative measures which may improve the effectiveness and sustainability of Australian assistance. By utilising local supplies, local service providers and local resource people when appropriate and available, the project is likely to be more cost effective and bring more development benefits to the local region.’ *ACFOA*

A recent study of the effects of the tying of British aid (ODA 1996) discovered relatively few prices above international levels for consultancy services, but excess costs in three out of four of the major categories of goods bought for the aid program. It found prices up to 47 per cent higher than the cheapest alternative for some heavy vehicles and agricultural tools.<sup>1</sup> When averaged across all categories, it found that the prices of tied aid goods were over 20 per cent higher than the lowest available international prices. It should also be noted that Britain has a much larger economy than Australia and therefore its companies face wider competition. They must also be competitive with those from other European Union countries. This higher level of ambient competition is likely to make the cost impact of tying *less* than it would be in a smaller economy such as Australia.

The British findings about the excess cost of tied aid goods are largely consistent with other studies. The OECD has looked at the evidence across several studies and has concluded that tying aid reduces its value by an average of 10–15 per cent (DAC 1993b, paras 51 and 53). Across all donor countries the OECD calculates that this amounts to US\$868 million per annum. If Australian tied aid carried an average 10 per cent price premium, the cost of this to developing countries in 1995–96 would have been over \$70 million.<sup>2</sup> The evidence suggests that a cost penalty of this order of magnitude could be expected. As far as the Review Committee is aware there have been no comprehensive and rigorous studies completed on the costs of tying Australian aid. The Committee recommends that this deficiency be redressed.

<sup>1</sup> The requirement to purchase British goods can be waived where the goods cannot be supplied ‘at a competitive price in the UK’. For the rules to be waived a specific application must be made and for larger contracts is subject to the approval of the Department of Trade and Industry. The ODA Review states that these rules keep cost excesses under 20 per cent. Australia has no such waiver.

<sup>2</sup> Calculated by applying the lower boundary of the OECD study (ten per cent cost) to the 44.8 per cent of the Australian aid program which was tied in 1994, the last year for which DAC data is available.

The OECD has concluded that tying aid reduces its value by an average of 10–15 per cent

**Recommendation 10.1** A thorough, independent study of the economic impact of tying Australian aid should be conducted. Such a study would determine:

- the extent of the cost premium being paid through the tying of Australian aid; and
- the net national economic benefit or cost to Australia of having a tied aid program.

Tied aid is often shaped by what donors can supply, rather than what developing countries need.

### Supplier driven aid

Tied aid is often shaped by what donors can supply, rather than what developing countries need. The supply of inappropriate or low priority goods and services under aid programs has long been recognised as a major problem. It has been the cause of some of Australia's most notorious cases of aid failure, fortunately relatively rare, including the Tonga Desiccated Coconut Factory. In this case the supplied technology was flawed and the factory was unviable. The problem is not just the opportunity cost of supplying low impact activities, but also the recurrent cost burden that these activities may impose on developing country budgets. They can also have the effect of locking in on-going imports, with negative impacts on developing country balance of payments and difficulties in obtaining foreign spare parts.

Trying to get around the problem by focusing Australian aid in areas where Australia has particular expertise assumes a perfect match between our claimed expertise and developing country needs. This is not often easy to achieve. AusAID currently has few ways of determining, with any degree of accuracy, in which areas Australia has genuine internationally competitive expertise. Unsupported assertions about our 'sectoral strengths' have been made since at least the time of the Jackson Report (1984). Like arguments about price, the best proof of sectoral strength would be untying the program and demonstrating that existing local procurement can be sustained under internationally competitive conditions. Sectoral expertise is discussed in chapter 7.

The Committee heard reports that in some key areas, AusAID has experienced shortages of appropriately skilled Australian personnel. This has potentially severe implications for project quality, timeliness and cost. The limited and ageing pool of qualified consultants for Australia's overseas development work resulted in a relaxation of eligibility rules in 1994. Even so, a recent independent study of the availability of health sector expertise to meet AusAID's needs (Bloom 1996) concluded that there is a 'critical blockage [in] the lack of Australian/NZ citizens who can meet the Terms of Reference for Team Leaders and other long-term advisers'.

The Committee received mixed advice from AusAID about whether the problem was serious, but it does seem to be so in at least

some areas, especially Papua New Guinea. A possible response might be to reduce the amount of health assistance provided under the aid program, but in many cases this would mean decreasing the effectiveness of our overall programs of assistance. A better response, and one proposed by some members of AusAID's Advisory Group on Health, is to make greater use of relevant developing country expertise, providing assistance and building capacity simultaneously. Tying our assistance is simply not consistent with always making the best development interventions.

### Costs, not benefits, for Australia

Tying aid carries costs for donors as well as developing countries. It generates jobs and exports for individual companies in the short term, but it does so by restricting international competition. Competition is essential to productivity improvements, to innovation and to better and cheaper products. Without it, in the longer term, Australian companies would produce little that the world wants to buy, but Australian consumers would be hungrier than ever for cheap state-of-the-art products from overseas. It is unfortunate that policy makers have not consistently reaffirmed that the best contribution that the aid program can make to Australia's economic and wider interests is in helping to promote development.

In considering how free trade and economic growth in developing countries impact on the welfare of people in developed countries such as Australia, the World Bank (1996b) recently made the following points:

'Contrary to fears of East Asian expansion hurting jobs in Detroit, Frankfurt or Mexico City [or in Melbourne or Adelaide] rapid East Asian growth is good for the rest of the world. When East Asia's exports grow, so do its imports. Although East Asia (outside Japan) accounts for only about 8 per cent of global GDP, it already attracts 17 per cent of world imports, and is expected to provide 20 per cent of world output growth and more than a quarter of the growth in global imports in the remainder of this decade. This helps skilled workers elsewhere most, but recent research indicates that on balance rising trade with East Asia helps, not hurts, unskilled workers as well... Restricting imports from East Asia would actually lower real wages in industrial countries because of the adverse effects on global growth.'

There are two major lessons for Australia from the above analysis. First, encouraging the development of poorer countries, especially in our region, is in our national economic interests. Second, restricting competition, be it through restricting imports or tying aid, is counterproductive.

...restricting competition, be it through restricting imports or tying aid, is counterproductive.

## Policy coherence—a whole of government approach

A belief that competition is generally in the public interest is a cornerstone of our system of economic organisation. There is on-going debate, though, about the extent to which competition should be encouraged or restricted in areas ranging from car manufacturing to newspaper delivery. Arguments against greater competition usually focus, quite legitimately, on who bears the cost of adjustment to freer trade. Internationally, a major concern is reciprocity. Undoubtedly, Australia will get the most benefit from free trade if all countries simultaneously open their markets, but that does not mean that if they fail to do so long term protection is a sensible policy. Both major political parties have recognised in government that Australia's history of high tariff protection contributed to high cost structures and reduced pressure for productivity and quality improvements. It also imposed major costs on producers and consumers, particularly on low income earners and exporters. An understanding of these negative impacts led to a political consensus in favour of trade liberalisation.

The extension of international competition into areas that have previously been shielded from it is a progressive activity, but as established in chapter 3, there is a very strong world-wide trend in this direction, particularly following the formation of the World Trade Organization. General government purchasing, for example, was liberalised in 1988. Although this was extended, in theory, to goods purchased for the aid program, in practice overseas competition has continued to be actively discouraged. It should be acknowledged, however, that AusAID did introduce a commendable set of reforms in 1994 aimed at increasing the extent of competition in the procurement of goods and services for the aid program. These involved introducing price as an element in contract selection and attempts to broaden the pool of consultants working on AusAID activities.

Tying the Australian aid program sits awkwardly with the trade liberalisation trend.

Tying the Australian aid program, directly or indirectly, to the exclusive provision of Australian goods and services, sits awkwardly with the trade liberalisation trend. There do not seem to be good economic or equity reasons for making aid a special case, though the question of Australian identity is another matter. If interventionism, protectionism and subsidies are generally bad economic policies, there is no reason to believe they become good policies when implemented under the aid program. On the contrary, industry assistance provided in this way is more likely to be bad policy because it is disguised, less open to scrutiny and available to a highly restricted range of companies.

An inconsistency exists not only with other areas of government policy and procurement but also between the development strategies advocated by AusAID and the tied aid practices it must observe.

AusAID's policies for developing countries extol the virtues of competition and free enterprise and yet developing country procurement is rarely encouraged, a recent exception being Papua New Guinea. This undermines local commitment and private sector development. The Committee believes there is particular irony in AusAID using tied aid to promote greater trade liberalisation through its APEC support program.

It is unlikely that these inconsistencies can last. Currently, aid is excluded from the World Trade Organization's Government Procurement Agreement (GPA) but this is being challenged in the DAC. Australia should begin to position itself now to avoid a more difficult transition to mandatory free procurement in the future.

### Multilateral moves towards greater untying

The Development Assistance Committee of the OECD has attempted over many years to reduce the incidence of aid tying, with limited success. The Netherlands and Japan are champions of increased untying and have recently been joined by Britain. The official response to the 1996 *Review of UK Aid Tying Policy* was that, 'The UK Government remains convinced that untied aid would be in the best interests of donors and developing countries. It will continue its efforts to encourage other donors to agree together to untie their aid' (ODA 1996, para 23). Given that multilateral aid untying may help diffuse criticism that Australia is opening its markets without getting anything in return, the Committee recommends that Australia respond to the challenge offered by Britain.

**Recommendation 10.2** Australia should work with the Netherlands, Britain, Japan and other like-minded donors in the DAC to encourage all donors to untie their aid.

### Unilateral untying

Australia should not wait until there is universal agreement in favour of untying before moving in this direction itself. The British study quoted above concluded that there would be 'small benefits'—*benefits*, not costs—to the UK economy from unilateral untying. This finding is in keeping with the Committee's view that, while the playing field may not be level, waiting until it is will just make us worse off. Nevertheless, the Review Committee concedes that a large number of people, not just those with vested interests, remain to be convinced. We therefore recommend the following approach to untying while better evidence is gathered about the specific effects of tying Australian aid and while multilateral efforts proceed in the DAC.

Australia should not wait until there is universal agreement in favour of untying before moving in this direction itself.

**Recommendation 10.3** To maximise the value of Australian development assistance, AusAID should move towards greater untying of the Australian aid program by:

- untying aid totally for the poorest countries; and
- partially untying bilateral programs elsewhere to allow procurement of goods and services from recipient country suppliers where this would be cost-effective.

These are relatively small first steps by Australia that will help encourage others in this positive direction. The poorest countries are those which can least afford the costs of tying. Australia should commence its untying with these countries. Australia provides substantial bilateral assistance to only seven countries in the poorest category of the UNDP's human development index classification system.<sup>3</sup> These countries, classified as having low human development, are Bangladesh, Cambodia, India, Laos, Mozambique, Nepal and Pakistan. PNG is on the cusp of this category and the special arrangements to increase PNG procurement under program aid should be encouraged. Allowing local purchase of goods and services elsewhere should help foster greater developing country participation, local ownership and private sector development—all prerequisites for aid effectiveness.

The Committee regards these recommendations as the minimum credible first steps in a process of the progressive untying of Australian aid. This should be seen as part of the ongoing internationalisation of the Australian economy. It will help project a new image of a confident, competitive Australia. It will also potentially secure Australia more, rather than less, foreign policy kudos by conveying a clear international message that Australian aid is aimed unambiguously at maximising the long-term sustainable development of partner countries.

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<sup>3</sup> Greater use of the human development index was recommended in chapter 3. This composite indicator reflects not only income per head, but also life expectancy and educational attainment.

## CHAPTER 11: GRANTS, LOANS AND MIXED CREDITS

*Grants and concessional loans each have a legitimate role to play as tools of development assistance, depending on the circumstances. Since the termination of the Development Import Finance Facility (DIFF) in July 1996, Australia has not had a concessional financing mechanism in the aid program. The Committee believes this is unduly restrictive. The Committee considers, however, that DIFF, as a tied aid mixed credit scheme initially established to help Australian companies compete in the face of aid-supported foreign competition, was irreversibly tarnished by its origins and history. Its abolition was desirable to clear the way for the design of a concessional loans instrument which, from its inception, is unquestionably an instrument of aid, not trade. The Committee proposes, therefore, that a new loan scheme be established under international competitive bidding rules to be used to fund a range of activities that fully accord with developing country public investment priorities.*

### Introduction

The role of grants and loans in financing development assistance has been the subject of much debate in Australia and globally. Loans offer developing countries access to larger amounts of development finance and may instil closer scrutiny of aid funded projects than grants. However, they come at a cost of debt accumulation and future repayment obligations. Sentiment and practice with regard to loans and grants have changed over time. In the post-colonial environment of the late 1960s and 1970s, grants were often portrayed by developing countries as maximising their independence, while loans were characterised as patronising and burdensome. Anti-loan sentiment hardened in the wake of the 'Third World debt crisis' of the early 1980s, which was brought on when imprudent lending by developed countries and poor public investment by developing countries met global recession. Many former large lenders and borrowers are still in the process of renegotiating debts from that period. The only substantial growth in bilateral concessional finance during the 1980s and early 1990s came from tied aid mixed credit schemes designed to promote donor country trade, and from growth in Japan's concessional lending program.

Loans offer developing countries access to larger amounts of development finance and may instil closer scrutiny of aid funded projects than grants.



## Types of concessional financing

For a loan to qualify as aid under OECD rules, it must have a level of concessionality of at least 25 per cent (35 per cent if tied to donor procurement), a maturity of over a year and be for the purpose of promoting economic development and welfare in a developing country. In practice, most loans are for much longer periods than this and have a higher level of concessionality.<sup>1</sup>

More than 60 per cent of ODA lending—nearly US\$7 billion in 1995—is provided by the various multilateral development banks

More than 60 per cent of ODA lending—nearly US\$7 billion in 1995—is provided by the various multilateral development banks (MDBs), including the World Bank, the Asian Development Bank and the African Development Bank. The banks provide assistance almost exclusively in the form of loans. Until recently, MDB loans were predominantly provided for infrastructure development, but, increasingly, the World Bank is lending for social sector activities and to underwrite structural adjustment and economic reform programs. The World Bank has two major funding arms: the International Development Association (IDA) which provides highly concessional credits for the poorest countries, and the International Bank for Reconstruction and Development which provides loans for more wealthy developing countries. The Asian Development Bank maintains three categories of borrowers based on per capita income. Different degrees of concessionality are extended to countries in the various categories through a blending of the ADB's Asian Development Fund and its Ordinary Capital Resources.

In 1995, bilateral lenders provided US\$4 444 billion in net loans.

In 1995, bilateral lenders provided US\$4 444 billion in net loans. Donor countries can be split into three groups: (1) those such as New Zealand, Switzerland and Ireland which have entirely grant programs; (2) a group of large lending countries, including Japan, Germany, France and Austria; and (3) countries such as Belgium, the Netherlands and Canada which have substantially reduced or phased out their loan programs over the last decade. The average terms offered by bilateral donors include a grace period of ten years, a maturity of about 25 years, and interest rates under 5 per cent. The level of concessionality, that is, the grant equivalent element, is usually around 60 per cent.

...about US\$5 billion was provided in the form of tied aid mixed credits in 1996

Tied aid mixed credits represent a further form of concessional finance. A total of about US\$5 billion was provided in the form of tied aid mixed credits in 1996, according to notifications to the Development Assistance Committee (DAC) of the OECD<sup>2</sup> (see figure 11.2). Tied aid mixed credits combine an aid grant and other sources of finance to create

<sup>1</sup> The level of concessionality is determined by the grace period before capital repayments start, the duration of the loan and the interest rate.

<sup>2</sup> 1995 is the last year for which data is available. The information comes from restricted OECD documents. The Committee experienced considerable difficulty in obtaining data on mixed credits, indicating the lack of transparency associated with this form of assistance.

a concessional loan. OECD guidelines require the concessional element to be at least 35 per cent for most recipient countries, and 50 per cent for the least developed countries. As argued below, the combination of aid and commercial finance can be particularly useful for financing large activities that would not normally attract private capital. Tied aid mixed credits, however, require purchase of products supplied exclusively by the donor country. They exist both to assist the industries of developed countries and to deliver development benefits in poorer countries. It is this dual purpose that has caused considerable controversy.

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### Australia's provision of grants and loans

Australia currently provides only grant aid, although it does indirectly finance lending through its support for the multilateral development banks. Between 1982 and 1996 it contributed to the provision of 'soft' (concessional) loans for developing countries through the Development Import Finance Facility—a tied aid mixed credit scheme. Australia experimented with directly providing soft loans in the early 1970s. Six loans were provided to PNG and Fiji as part of a pilot project that ended in 1975.

## Merits of grants and loans

### Concessionality

As they do not have to be repaid, grants clearly involve a higher degree of concessionality than loans and are sometimes favoured for this reason. It is sometimes argued that this makes grants intrinsically more valuable to developing countries. The value of any grant, however, can be provided as the concessional element of a larger loan. For example, \$5 million might be provided in grant form to fund scholarships or provided as the concessional element of a \$15 million loan to finance local education institution building. It may be more valuable to the developing country to receive the loan because it gets access to additional funds that must later be repaid but that can be used in the interim for more productive development activities.

The value of any grant... can be provided as the concessional element of a larger loan.

Loans are sometimes opposed because they involve repayments. It is argued that this makes loans a 'less pure' form of aid and that it sets up a future flow of resources from developing to developed countries. While it is true by definition that development cooperation loans involve repayments, this is not necessarily a bad thing. The Committee believes that loan repayments can instil greater activity appraisal than grants, especially by recipient countries, and more local commitment, leading to a higher probability of success in activities supported. One difficulty, however, is that the exact nature and amount of the resource transfer is less clear. Some analysts suggest that this makes it easier to disguise commercial subsidies, and under limited procurement this may well be the case.

If a country has the ability to service its existing debts and the loan will broaden its productive capacity further, lending should improve rather than jeopardise its economic and development prospects.

For the poorest countries, least able to repay borrowed funds, loans are not an appropriate form of assistance.

## Debt

A related argument against loans is that they add to indebtedness. Again, this is true by definition. Debt in itself, however, is neither intrinsically good nor bad—it depends on what the debt is used for and the capacity of the country to repay it. If a country has the ability to service its existing debts and the loan will broaden its productive capacity further, lending should improve rather than jeopardise its economic and development prospects. Over 85 per cent of new world debt is currently accumulating in Asia. Very little is attributable to the low income countries most likely to experience debt repayment problems. Forty per cent is short-term bank lending, mainly being used to expand trade and in turn contribute to growth and development. As a result, indicators of the capacity to service debt for many Asian countries have actually improved, even as their level of debt has risen.

It is true, however, that one of the greatest problems associated with loan financing is the risk of debt rescheduling and default. When countries experience loan repayment difficulties, as many African and Latin American countries did in the early 1980s, complex and protracted negotiations have to be conducted, taxing the resources of both the developed and developing countries.<sup>3</sup> The possibility of loan repayment default leading to large liabilities for aid programs is a major concern. Debt forgiveness rose from 3.4 per cent of global ODA in 1989 to nearly 15 per cent by 1992, before falling back to around 10 per cent in 1993. Over this period, debt forgiveness amounted to over US\$25 billion. This was largely due to donors taking a more realistic attitude to the possibility of recouping bad debts. The risk of default and debt rescheduling costs can be ameliorated by lending to those countries where the risk is small and through the use of various insurance mechanisms.

The decision about whether a country is able to meet debt servicing costs is ultimately for developing and donor countries to decide. Ruling out loans entirely is too extreme a way of trying to prevent debt problems. For the poorest countries, however, least able to repay borrowed funds, loans are not an appropriate form of assistance. This is particularly true of the severely indebted low income countries which include much of Africa, but also Cambodia, Laos and Vietnam,

<sup>3</sup> Almost 15 years of effort has been spent dealing with the 1982 debt crisis, starting with the 1984 Baker Plan measures that boosted developing country liquidity, through those such as the 1988 Brady Plan which swapped commercial debt for MDB debt. Neither of these plans, nor the 'Toronto terms' of the early 1990s, significantly reduced the stock of developing country debt. The 1994 'Naples terms' represented the first substantial attempt to deal with debt stock reduction, but it fell short of a sustainable solution. Agreement was reached in 1996 on a World Bank-led, Heavily Indebted Poor Countries initiative involving bilateral and multilateral debt relief of up to US\$7.7 billion in return for sound economic performance for six years.

all of which have debt stocks greater than their entire gross national products.

### **Sectoral application**

As the Development Assistance Committee of the OECD has noted: 'Loans and grants tend to go to different sectors. More than one third of new grant commitments in 1993 went to social infrastructure and services—including education, health and water supply...By contrast aid loans are concentrated on economic infrastructure' (DAC 1996a, p. 93). It is sometimes feared that the introduction of loans into the Australian program would lead to the redirection of assistance from health and education towards infrastructure. However, if decision making is focused on maximising development outcomes, as this review strongly advocates, then funding mechanisms will be a consequence not a cause of sector and activity selection. In this regard, it is essential for AusAID not to set levels for forms of aid—be they scholarships, technical cooperation or loans—but allow these to be the cumulative consequence of choices made on development effectiveness grounds in particular developing country contexts. A much broader range of activities can be funded with loans than has been to date. There is no reason why countries with strengthening economies and healthy public sector revenue growth should not use loans to accelerate their capacity to provide social as well as physical infrastructure.

### **Graduation and private flows**

There are other good reasons for considering the introduction of loans. First, they would allow continuing engagement with rapidly growing developing countries in the region on harder terms before their graduation from Australia's development cooperation program. These countries are generally experienced in, and can make very good use of, loans, and few of them have major debt servicing problems. If used as part of a graduation strategy, the grant component of the loans, i.e. their concessionality, should fall progressively over time. The resources saved should be redirected to the provision of additional grants for poorer countries, in keeping with the recommendations in chapter 5. Secondly, as discussed in chapter 8, loans can be designed to draw in private capital to areas where it would not otherwise go. Limited aid funds can be combined with funds borrowed from private finance institutions to fund commercially non-viable, but developmentally significant, activities in poor regions and in sectors that are often unappealing to profit-seeking lenders. A loan program differs from those public/private co-financing arrangements which, as discussed in chapter 8, Australia should leave to the multilateral agencies, as the latter involve much more complex questions of joint infrastructure ownership and operation.

...loans would allow continuing engagement with rapidly growing developing countries in the region on harder terms before their graduation from Australia's development cooperation program. Secondly loans can be designed to draw in private capital to areas where it would not otherwise go.

### Box 11.1 The case for loans in the Australian aid program

Concessional loans would be a useful tool for AusAID because they:

- allow access to larger volumes of development finance to countries that can afford to service them;
- can be designed to direct private finance into high-priority development areas where it would not otherwise go;
- involve more risk sharing between development partners, leading to closer scrutiny and more careful prioritisation of loan supported activities; and
- can be used to harden progressively the terms on which aid is provided to countries progressively graduating from Australian aid.

## Trends in concessional financing

### Bilateral loans

...loans have been falling as a percentage of total bilateral assistance for much of the last two decades.

As figure 11.1 shows, loans have been falling as a percentage of total bilateral assistance for much of the last two decades. In 1981, loans made up over 27 per cent of all net bilateral ODA, but by 1995 this had been more than halved to 11 per cent. The decline was largely caused by the ongoing fallout from the debt crisis. Donors and recipients have been involved in protracted and complex bilateral and multilateral rescheduling and debt forgiveness. This has had the effect of raising the financial and administrative costs of lending and has therefore discouraged it.

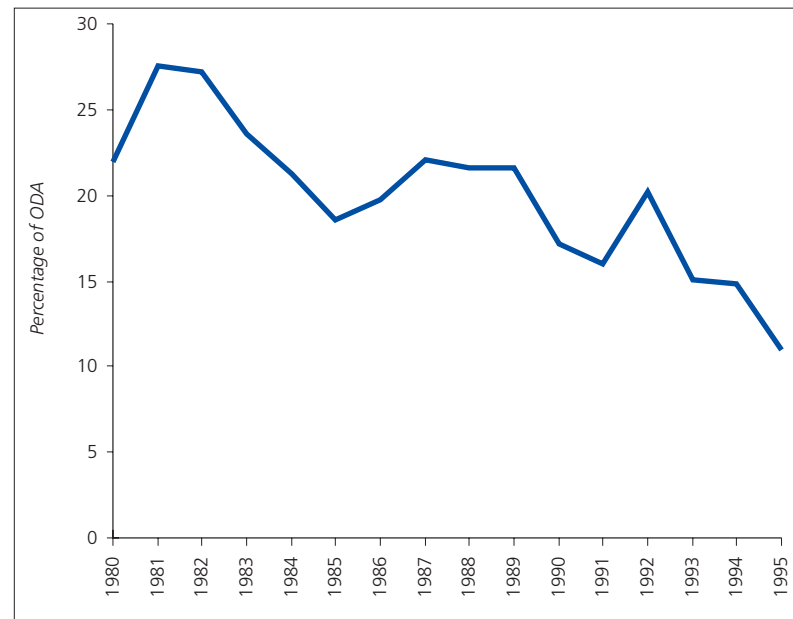
### Tied aid mixed credits

...tied aid mixed credits boomed in the 1980s and early 1990s—diverting resources from untied to tied lending.

An obvious exception to the trend away from loans has been in the area of tied aid mixed credits. The provision of these credits boomed in the 1980s and early 1990s—diverting resources from untied to tied lending. This growth was mainly driven by developed countries using aid to position their companies to meet growing demand for infrastructure in Asia. In response, in 1992 the DAC introduced the 'Helsinki Guidelines' which were designed to thwart aid-disguised trade subsidisation and restrain the growth of tied aid mixed credits. In doing so, the rules also improved development outcomes by preventing the use of tied aid credits to support commercially viable projects capable of being financed privately.

Figure 11.2 suggests that the Helsinki Guidelines may be having their desired effect, with notifications to the DAC of tied aid mixed credits covered by the guidelines falling in volume from over 6.8 billion

**Figure 11.1 Average share of net loans<sup>a</sup> in DAC members' bilateral aid, 1980 to 1995 (percentage of ODA)**



Source: various OECD data.

<sup>a</sup> Net lending is calculated by deducting repayments from new lending. Figures do not include tied aid mixed credits.

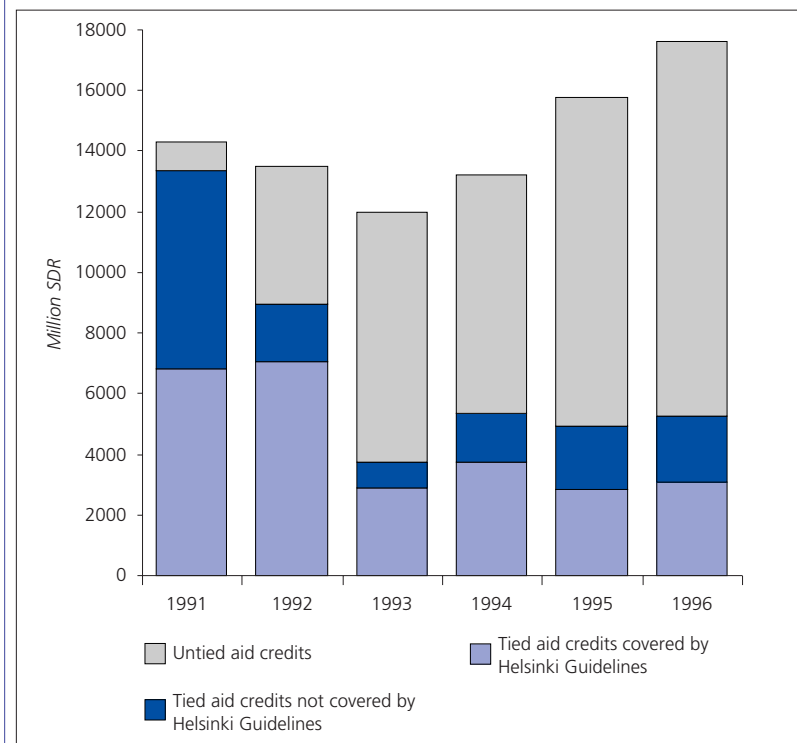
SDRs<sup>4</sup> in 1991 to just over 3 billion in 1996. There was also in 1991 a very significant increase in untied credit from about 1 billion SDRs to over 12 billion in 1996. The growth in untied credit is attributable both to the impact of the Helsinki guidelines and the progressive untying of Japanese loans. The apparent trend away from tied aid mixed credits has been accelerated by a recent decision of the United States—which has been, with Australia, one of the four biggest providers of tied aid mixed credits—to cease providing this form of assistance. As Australia has also withdrawn from the provision of mixed credits, with the 1996 abolition of DIFF, there is some hope of phasing them out entirely if countries join a renewed push to this end in the DAC.

The Helsinki Guidelines exempt projects under 2 million SDRs (approximately A\$3.6 million). Many donors, including Australia, have taken advantage of this loophole to fund projects that could attract private finance. Amongst other things, this has involved artificially breaking up projects into components under 2 million SDRs so that they are not subject to the commercial viability test. This involves a misdirection of aid and is inconsistent with the spirit of the Helsinki Guidelines that Australia has strongly supported. Australia should not be party to this practice.

<sup>4</sup> SDRs are Special Drawing Rights—an international monetary unit equal to about A\$1.8

The apparent trend away from tied aid mixed credits has been accelerated by a recent decision of the United States...to cease providing this form of assistance...there is some hope of phasing them out entirely

**Figure 11.2 Tied aid mixed credits (as notified to the DAC), 1991–1996 (million SDR)**



Source: OECD (1997).

Notes: Tied aid mixed credits not covered by the Helsinki guidelines include those provided to the poorest countries (LLDCs), those with high levels of concessionality (above 80 per cent) and those under 2 million SDRs in value.

## The Development Import Finance Facility

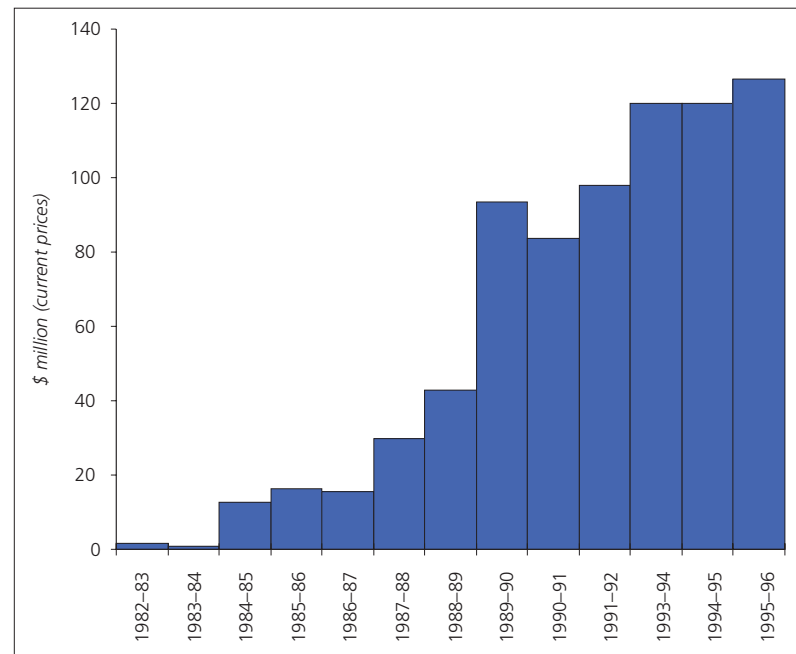
Though it was progressively reformed over time, DIFF's standing as a development assistance tool was irretrievably tarnished by its origins and much of its history.

Australia created a tied aid mixed credit scheme, the Development Import Finance Facility (DIFF), in 1982 because it was becoming difficult for Australian suppliers to win contracts in some Asian countries without aid support. The fundamental reason, therefore, for the scheme's creation was to assist industry in the face of aid-supported foreign competition. Though it was progressively reformed over time, DIFF's standing as a development assistance tool was irretrievably tarnished by its origins and much of its history.

Figure 11.3 illustrates how rapidly DIFF grew. In 1988–89 just over \$40 million was spent on DIFF grants, four years later this had grown to \$120 million. In pursuit of trade objectives, the previous Australian Government even extended DIFF to Vietnam in 1992. This broke a cardinal development rule that severely indebted low income countries should not be encouraged to increase their debt. By 1994,

Australia was the fourth largest provider of tied aid credits—the third largest as a proportion of its aid program. This made it difficult to continue to argue that Australia was a reluctant participant in the tied aid mixed credit business.

**Figure 11.3 Annual DIFF expenditure, 1982–83 to 1995–96 (\$ million, current prices)**



Source: AusAID.

DIFF went through many changes during its 14 year history. Its evolution is well recounted elsewhere, including in the *DIFF Effectiveness Review* (AusAID 1996b) and in the Senate Inquiry into the Development Import Finance Facility (SFADTRC 1996). At the time of its termination, in July 1996, 35 per cent of DIFF project finance was provided by AusAID, with the balance raised commercially by the Export Finance and Insurance Corporation (EFIC). An overall DIFF allocation was made in the budget and was administered outside AusAID's country program strategic frameworks. Increasingly, projects were initiated by developing country governments, but even at the time of its termination, supplier-initiated activities accounted for at least 15 per cent of all projects. Suppliers also provided feasibility studies for AusAID appraisal.

It is not hard to see why DIFF was popular with successful Australian suppliers. It allowed them to match aid-supported competition from other developed countries and secure business as a result. It enabled

By 1994, Australia was the fourth largest provider of tied aid credits—the third largest as a proportion of its aid program.



...in trying to pursue two frequently competing objectives, DIFF was inherently flawed.

...there are many reasons to be cautious about some of the benefits claimed for DIFF...an alternative loans program could deliver greater development impact.

them to expand their international operations. It exposed the products of Australian companies to potential foreign customers and enabled some to break into new overseas markets. It led to flow-on orders on full commercial terms. From the point of view of this Committee, however, the question is not whether it helped individual companies, as it clearly did, but whether it represented the best possible development assistance. A further question, from a national economic perspective, is whether it was good industry assistance. The Committee is not confident on either front. We believe that in trying to pursue two frequently competing objectives, DIFF was inherently flawed.

A 1996 Senate inquiry into DIFF came to the opposite conclusion. It found that DIFF was able to promote Australian exports without compromising development objectives: 'DIFF has generated major development benefits for the recipient countries, it has also delivered commercial benefits for individual companies and for Australia...The commercial benefits flowing from Australian companies' involvement with DIFF have not distorted the development objectives and achievements of the scheme' (SFADTRC 1996, pp. 19–21). However, the Inquiry's two major sources were Australian companies that benefited from the scheme and the 1995 AusAID *DIFF Effectiveness Review* which also relied heavily on company assessments. The conclusions of both reports must be regarded as tentative since neither was the result of independent assessment, nor a consideration of DIFF's national net economic impacts. In recognising some of these methodological problems, the Minority Report of the Senate Inquiry (SFADTRC 1996) recommended that this Review Committee report in considerable detail on the economic multipliers and development benefits of the scheme. The Committee judged that it was not feasible for a broad-ranging, long-term review to look in such detail at one aspect of the aid program. We believe, however, that there are many reasons to be cautious about some of the benefits claimed for DIFF and that an alternative loans program could deliver greater development impact.

#### **Box 11.2 Mixed credits: excerpts from submissions**

'The submission contends that an export credit sub-program would be of mutual benefit to both the recipient country and Australia and would provide a necessary balance in Australia's aid program, which will otherwise consist largely of personnel based technical assistance, cash grants, commodities and scholarships.' *GEC Alsthom*

'DIFF type concessional finance facilities provide a real aid benefit to the recipient nations by helping them to construct crucial infrastructure which they could not otherwise afford. It enables Australian companies to bid for projects for which the recipient governments demand—and receive from competing countries—concessional terms.' *MM Cable Communications Products*

‘Mixed credit and soft loans also bestow a number of benefits on Australian industry...These include: providing Australian firms with exposure to international markets; [and] providing some benefits for the Australian people in terms of additional employment due to the tied nature of the scheme.’ *Department of Manufacturing Industry, Small Business and Regional Development, Government of South Australia*

‘In many countries in Australia’s region, the highest priority for development is to provide rural infrastructure and employment, to counter urban drift. As it attracted two dollars for every aid dollar spent, DIFF enabled Australia to become involved in much larger projects to help meet this need than would otherwise be the case.’ *Metal Trades Industry Association*

‘There are immense opportunities at present within regional countries whose economies are developing very rapidly, and which still need outside assistance in that process. Australia is very well placed to provide such assistance in many cases, but the reality is that without direct Government support, through international representations and the provision of concessional funding, Australian companies have virtually no opportunity to access that market. Once established, of course, the project can become a show-case for Australian products and capabilities.’ *Labax International Pty Ltd*

‘It is a reality that Australia competes with countries that have similar programs. However, since DIFF has a major trade development focus, we believe it should not be funded by the Australian aid program, as this inevitably compromises the humanitarian focus of this assistance.’ *Hassall and Associates Pty Ltd*

‘Simply because other countries provide similar assistance does not mean Australia should follow suit—it is Australia which bears the greatest economic cost of doing so. Emulating subsidies offered by others is likely to produce only a spiral of costly distortion.’ *Commonwealth Department of the Treasury*

‘The DIFF Scheme is poor policy in the sense that it attempts to achieve two objectives with one investment, i.e. to subsidise Australian firms to help them enter new markets, and to provide aid to developing countries.’ *National Centre for Development Studies, Australian National University*

‘[T]he DIFF Scheme exaggerated the undesirable aspects of tying aid because its leveraged nature meant that recipient countries’ funds were tied to Australian suppliers as well.’ *Centre for International Economics*

DIFF stood outside of country program frameworks and, as a result, DIFF projects were not weighed up against all other development priorities in the country in question.

### Development benefits

The criticisms of DIFF as an aid instrument are not that it delivered little or no development benefits. The point is that DIFF was not clearly designed in a way that supported the achievement of maximum developmental impact across Australia's entire bilateral aid program. DIFF stood outside of country program frameworks and, as a result, DIFF projects were not weighed up against all other development priorities in the country in question. That is not to suggest that they were funded without assessment of their development merit. In the 1990s fewer than one in ten DIFF applications for AusAID funding was successful, resulting in the selection of the best projects from a wide pool. For its supporters this was sufficient to guarantee quality; but the difference between the best development activities *within a highly specific field*, and the best development activities across all activities can be very great.

DIFF was subject to strong developing country criticism as recently as 1992. The *Indonesia Country Effectiveness Review* (AIDAB 1992b, pp. 28–29) presented criticisms from the Indonesian Government that DIFF was supplier driven and that in some projects up to 25 per cent of the equipment was unusable. Despite the fact that this forced changes to the scheme, the Committee is not confident that the potential for inappropriate supply was completely eliminated.

### Limited competition

In addition to the fact that DIFF projects were not ranked against all other potential development projects, most were not subject to tender and therefore there was also no clear competitive test of value for money. There was an ever present danger that companies were able to capture part or all of the DIFF grant as a subsidy, rather than as a transfer to the developing country. Concerns about the possibility of having to pay higher than international prices caused Thailand to resist concerted Australian attempts to encourage it to take on more DIFF projects during the early nineties.

The risk of higher than international prices was ameliorated to some degree by at least limited Australian competition for some projects and intense international export credit competition in some countries. However, a substantial proportion of DIFF projects involved just one Australian bidder, which put suppliers in a commanding position. In addition, many developing countries manage mixed credit competition by allocating projects on a country basis rather than by price and quality. This makes the whole process so untransparent that, in the words of development economist Peter Bauer,<sup>5</sup> 'when tied aid and subsidised loans are linked, as they often are in practice, it becomes quite impossible to determine who gets how much and from

<sup>5</sup> Cited in the submission from the National Centre for Development Studies, p. 19.

whom; that is whether and to what extent the taxpayers of the donor countries subsidise the aid recipient governments, rather than interests in their own countries’.

### **National economic impacts**

Industry, however, argues that many countries use aid to assist their exporters and that this is a win–win arrangement. While the Committee does not believe that the aid program should be used as a form of industry assistance, if it were particularly good industry assistance at least the cost to development could result in a demonstrable national economic benefit to Australia. In DIFF’s case that is doubtful. The Committee believes that the 1990 Bureau of Industry Economics Report on DIFF which found that tied aid mixed credits provide selective, distortionary and inefficient industry assistance is still largely valid. DIFF was accessible only to a limited range of industries—particularly in the capital goods sector and, within that sector, to a small number of firms making products with some development application. In addition, the trade gains claimed for DIFF were returns to individual companies. These firms secured more business and as a result employed more people and equipment; but given the need for specialist expertise and technology these resources would have been attracted away from other industries. That is, they are likely to have been employed in DIFF-supported activities in preference to something else. It is quite possible, and in some cases highly likely, that these resources would have been more productively used in alternative activities that carried no risk of subsidisation.

### **Future place of tied aid mixed credits**

The financial cost of subsidies, their distortionary effects and potential efficiency losses explain why Australia has chosen to stay out of most other international subsidy wars, particularly in agriculture. This raises the question of why we would want to provide subsidies through the aid program while being reluctant to do so more transparently in other parts of the economy.

Some of the many problems associated with DIFF arguably could be addressed in a redesigned scheme—as was proposed by AusAID in its submission to the Senate Inquiry and by several companies that made submissions to this Review. But these changes had not been introduced by AusAID before DIFF’s termination and appear to have been a post-hoc effort to improve the scheme’s development effectiveness. This is in keeping with the pattern of DIFF’s evolution where most of the significant changes that improved its development effectiveness came about as a result of external pressure, for example, as a result of the Helsinki Guidelines. In the Committee’s view, further reform of DIFF had not been undertaken earlier because DIFF had never been unambiguously aimed at achieving the best development

...tied aid mixed credits provide selective, distortionary and inefficient industry assistance

outcomes. The best way of avoiding a recurrence of that problem is to *separate* aid-funded concessional finance and export promotion.

For all of the above reasons, the Committee recommends against the re-creation of a tied aid mixed credit scheme. The Committee also explicitly rejects proposals to resurrect DIFF, or any other tied aid concessional finance scheme—under the management of another agency such as the Department of Industry, Science and Technology or Austrade. As the grant or concessional element would be counted as ODA regardless of who administered it, locating it outside AusAID would only further blur its development focus.

**Recommendation 11.1** A tied aid mixed credit scheme such as DIFF should not be reintroduced into the Australian aid program.

**Recommendation 11.2** Policy responsibility for any future ODA-eligible concessional financing mechanism for developing countries, no matter what form it takes, should reside with AusAID.

## A new soft loans scheme

While the Committee does not believe that DIFF—or any tied aid mixed credit scheme—should be revived, a new, untied concessional loans scheme should be considered.

While the Committee does not believe that DIFF—or any tied aid mixed credit scheme—should be revived, a new, untied concessional loans scheme should be considered. This would allow the financing of larger activities than can be undertaken with grants; could draw in and use private funds in combination with aid; and could be used to harden the terms on which assistance is provided to countries graduating from the Australian aid program. A key requirement would be to integrate it into country programs.

Over the last decade, many donors have scaled back or phased out concessional lending because of heavy exposure to poorly performing loans, particularly in Africa. Although there are countries that are seriously indebted in Asia, there are also many others that have rapidly growing economies, manageable debt profiles and both the need for, and experience of managing, loan funds. In chapter 5 it was recommended that these countries be graduated from the Australian aid program. Loans provide one means of hardening the terms of assistance to these countries as part of graduation.

Given that AusAID does not have recent experience in providing loans, the Committee recommends that the loan program outlined below commence as a pilot scheme in a small number of countries. For the same reason, it should be managed by the commercial banking

sector, subject to AusAID policy guidance. The Committee acknowledges that the cost and logistics of establishing and running a long-term concessional loan scheme for a small number of countries may be prohibitive. Negotiations with finance providers will clarify this.

**Recommendation 11.3** A new, untied soft loans scheme should be created, subject to the outcome of discussions with the commercial finance sector, for discretionary use within the country programs of rapidly developing nations.

The Committee believes an Australian concessional loans scheme should be :

- discretionary;
- located within country program frameworks;
- available only to countries not likely to experience debt management problems; and
- based on internationally open competitive bidding to select suppliers.

Additional parameters of the scheme are set out in box 11.3.

**Box 11.3 Design parameters for a new soft loans scheme**

*Loan targeting*

- Loans should only be provided within the framework of country program strategies so that activities are subject to thorough opportunity cost analysis. No overall target level of lending should be set for the scheme as this would be inconsistent with the country programming approach.
- Since loans involve harder terms and greater administrative complexity than grants, they should be provided only to higher income developing countries with a demonstrated need for, and capacity to manage, loan funds. Loans should not be made to countries experiencing or likely to experience debt repayment problems, especially the severely indebted low income countries.
- Loans should be considered as part of the strategies for countries graduating from the Australian aid program.
- Loans should not displace private investment nor be a substitute for it by financing activities that could attract commercial funding.

The Committee acknowledges that the cost and logistics of establishing and running a long-term concessional loan scheme for a small number of countries may be prohibitive.

- The program should be able to fund a wide range of activities, not just infrastructure construction and capital goods supply. All activities, however, should be part of previously published public investment plans, national sector strategies or their equivalents, to ensure they have been properly prioritised and are not the result of special deals.

#### *Sources of funds*

- AusAID should take advantage of leveraging opportunities by mixing a grant element with commercial finance. This will help redirect private investment flows to areas that they otherwise would not go, especially into the social sectors and into poorer regions in fast growing developing countries. Sourcing loan funds from the aid program would forgo this opportunity and limit total lending to a much smaller amount.
- Various radical options for financing loans were put to the Committee including accessing cheap international funds from the US and Japan. AusAID and the commercial banking sector should examine options for the cheapest reliable sourcing of funds to give developing countries the best possible deal while also allowing reasonable returns to lenders.

#### *Loan program management*

- Highly specific expertise is required when dealing with international lending. As a relatively small donor with no current experience of administering loans, AusAID should not attempt to manage the loan program internally. This function should be contracted out to the commercial banking sector with AusAID providing policy guidance and determining activities to be funded.
- The Review Committee is aware that in the past the Australian banking sector has not been enthusiastic about participating in long-term concessional lending to developing countries. Discussions will need to examine potential packaging options that are attractive to commercial financing institutions.
- The Export Finance and Insurance Corporation, which managed the packaging and administration of DIFF/export credit loans, is an inappropriate organisation to manage the new program given its charter to boost Australian exports. If its charter were altered it should be allowed to bid for management of the program, in competition with other potential managers.

### *Risk management*

- Means of ensuring that AusAID does not assume a growing liability for bad debts must be considered. Given the difficulty of insuring privately against political and sovereign risk, the liability may have to be carried on the national account. Risks will be minimised, but not eliminated, by lending to higher income countries with experience in loan management and which have acceptable debt profiles. If cost-effective and manageable risk options cannot be found, the proposal for a loans scheme should not proceed.

### *Loan terms and conditions*

- These should be worked out in the context of discussions with financial institutions. Basic conditions, however—including interest rates, repayment schedules and grace periods—will need to be broadly comparable with loans offered by other donors. If possible, a small number of different packages should be available to suit different country circumstances.

### *Procurement*

- Australian aid supported concessional loans should use international competitive bidding to ensure high quality and best value for money. Grant funded procurement of goods under the Australian aid program is theoretically untied. There is no justification for restricting competition when activities are funded through loans. On the contrary, since a large proportion of the value of a loan must be repaid by the developing country there is an even stronger case than usual for untying procurement so that the developing country can make best use of both its own money and aid. As was discussed in chapter 10, far from disadvantaging Australian industry, in contributing to an internationally competitive culture, open procurement will help ensure that Australian industry is truly world class.
- Tender processes should be fully transparent and accord with international best practice. Accountability provisions need to be of the highest order but should not be used as an excuse to restrict procurement.



## CHAPTER 12: MULTILATERAL ASSISTANCE

*There are strong arguments in favour of a middle-level donor like Australia being an active supporter of the key multilateral development agencies. These agencies can mobilise resources on a large scale, coordinate donor responses to development problems that are of global proportions, and provide impartial, and sometimes sensitive, policy advice to developing countries. The main criterion for support should always be the relevance to Australia's development objective of the mandate of the particular international organisation. Burden-sharing issues between donors are also important, and so are assessments of the efficiency and effectiveness of the various multilateral bodies, together with efforts to achieve needed reform.*

### Introduction

Many of the major international (or multilateral) development organisations were established after World War II. The United Nations and many of the specialised UN agencies were created then, as were the World Bank group and the International Monetary Fund (IMF). The latter two were set up initially to finance the rebuilding of war ravaged Europe and it was not until the 1950s that they turned their attention to the needs of developing countries.

The growth in the number of multilateral institutions over the past three decades provides some evidence of the continued demand for what they offer, as is the fact that donors continue to see merit in directing a substantial proportion of ODA budgets to support their work. Capitalising on the comparative strengths of multilateral aid can bolster considerably the overall effectiveness of a donor's aid effort.

However, a paradox now seems to be confronting the multilateral system. The global or regional nature of many problems is becoming more and more significant (see the discussion of health, environmental, and security issues in chapter 3). Most of these issues can only really be effectively addressed through concerted effort on the part of the international community. Yet, at the same time, there is evidence of reduced donor commitment and support for the multilateral institutions charged with addressing these transnational issues.

The importance of sustaining a viable and effective multilateral system is such that there are grounds for arguing for a greater engagement and commitment from Australia—both financially and in terms of active participation in the policy debates in the international multilateral forums. There are equally strong arguments for continued pressure and vigilance regarding the efficiency, effectiveness and

Capitalising on the comparative strengths of multilateral aid can bolster considerably the overall effectiveness of a donor's aid effort.

The importance of sustaining a viable and effective multilateral system is such that there are grounds for arguing for a greater engagement and commitment from Australia

pursuit of reforms needed in many of those multilateral bodies whose mandates are sufficiently important to justify the investment.

## Nature of the multilateral organisations

There are three main groups: the international financial institutions, the UN agencies, and Commonwealth and regional organisations.

There are three main groups of multilateral development organisations: the international financial institutions (the multilateral development banks (MDBs), and the IMF, whose mandate is at least partly developmental); the UN agencies (UN funds and programs as well as the specialised agencies); and Commonwealth and regional organisations.

The largest of these are the development banks, including the World Bank, Asian Development Bank, African Development Bank, Inter-American Development Bank and the European Bank for Reconstruction and Development. These institutions apply significant levels of resources, often through heavily concessional financing arrangements, to support economic and social infrastructure development and structural reform in developing countries. They are influential in policy development at the international and national levels. In 1995, ODA from DAC donors to the development banks in the form of grants and capital subscriptions totalled US\$7.2 billion.

The United Nations agencies are the next most significant group. There is a large number of them, including the UN Development Programme (UNDP), the World Food Programme (WFP), the UN High Commissioner for Refugees (UNHCR), the World Health Organization (WHO), and the UN Children's Fund (UNICEF). In 1995, ODA from DAC donors to the UN agencies amounted to US\$4.3 billion.

Other, smaller, multilateral organisations include the development bodies and funds of the Commonwealth (such as the Commonwealth Fund for Technical Cooperation and the Commonwealth Youth Program), and some international health and environment agencies (such as the International Planned Parenthood Federation and the International Union for the Conservation of Nature). In addition, there are significant regional organisations, such as the South Pacific Forum Secretariat and the South Pacific Commission.

Approximately 30 per cent of DAC members total aid flows are now directed through multilateral institutions.

In the late 1960s, the Pearson Commission, established by the World Bank, advocated the strengthening of the multilateral agencies, partly because of the proliferation of bilateral agencies and their lack of coordination. The recommendation was that donors should increase the multilateral share of their total ODA from 10 per cent (in 1967) to at least 20 per cent by 1975 (Pearson 1969). Approximately 30 per cent of DAC members total aid flows are now directed through multilateral institutions.

Major reasons for the expansion of multilateral organisations include the need to: 'make the inter-country allocation of aid more

balanced than it would be if left to the donors' unalloyed self-interest; to carry out policy dialogue on sensitive issues; to avoid duplication of effort in economic reporting and data collection; to assist the coordination of aid; to act as intermediaries between world capital markets and developing countries; and to carry out surveillance over the functioning of the world economy' (Cassen 1994, p. 245).

Funding for these bodies comes from assessed contributions as a consequence of membership; extra-budgetary contributions from donor nations over and above this; and, in the case of the development banks, from the interest from loans provided at near market rates and from donor grants made in the context of periodic replenishments of their concessional lending arms.

### Australian support of multilateral programs

Australia was among the founding members of the UN in 1945 and has been a member of the World Bank group since its inception. As set out in table 12.1, Australia's aggregate support for multilateral development organisations has remained fairly constant as a proportion of total aid through the 1990s—though its composition has changed, with the declining support for Commonwealth agencies particularly apparent. In 1995–96 support for multilateral organisations and programs totalled \$380.1 million, or 24.3 per cent of the aid program.

Contributions to the concessional lending arms of the World Bank and the Asian Development Bank<sup>1</sup> account for the greatest share of Australia's multilateral aid. They totalled \$189 million in 1995–96, or 54 per cent of Australia's multilateral assistance. Such donor contributions are agreed through often lengthy negotiations as to how the burden of a targeted replenishment total is to be equitably shared among contributors. It is in the context of such replenishments that discussions of issues of burden-sharing are most intense. But such issues also exist in some of the major UN bodies too.

Support for the major UN development organisations from AusAID amounted to some \$120 million in 1995–96, representing 34 per cent of AusAID's multilateral assistance. However, cuts to the contributions to UN bodies were made in the 1996–97 budget, in response to cuts required in the overall program. In particular, support to UNDP and to UNFPA was halved.

Support for the Commonwealth development agencies has also fallen, by over 50 per cent in real terms, from over \$16 million in 1989–90, to \$10.7 million in 1995–96. These cuts have been largely driven by budgetary reduction targets. However, Australia remains the third largest contributor to the Commonwealth agencies.

<sup>1</sup> The International Development Association (IDA) and the Asian Development Fund (ADF) respectively.

...the World Bank and the Asian Development Bank account for the greatest share of Australia's multilateral aid.

**Table 12.1 Australian ODA through international organisations, 1991–92 to 1995–96 (\$ million, 1995–96 constant prices)**

Agency	1991–92	1992–93	1993–94	1994–95	1995–96
AusAID contributions:					
Multilateral Development Banks <sup>a</sup>	173.2	158.7	148.1	159.6	188.6
UN Agencies	123.8	113.8	122.2	127.2	120.2
Commonwealth Agencies	16.6	14.9	12.5	10.7	10.6
Other <sup>b</sup>	27.3	26.4	31.3	41.5	39.1
Other Government Depts' contributions <sup>c</sup>	30.1	29.2	21.1	20.6	21.7
<b>Total</b>	<b>370.9</b>	<b>343.0</b>	<b>335.1</b>	<b>359.7</b>	<b>380.1</b>
Total as % of ODA	26.2%	23.5%	22.8%	23.6%	24.3%
Total ODA (constant prices)	1 416.7	1 459.7	1 469.3	1 524.1	1 564.5

<sup>a</sup> Contributions to the multilateral development banks are based on drawdown requests by the banks, which fluctuate from year to year.

<sup>b</sup> 'Other' includes contributions to regional organisations such as the South Pacific Commission and the Forum Secretariat; international health and environment programs such as the Global Environmental Facility and the Population Council; and international non-government organisations such as the International Committee of the Red Cross and the International Crisis Group.

<sup>c</sup> Includes contributions to UN and Commonwealth agencies, Treasury payments to the multilateral development banks and other contributions to international organisations.

Note: Figures for 1995–96 differ from those in figure 2.1 due to the method of calculation. This table shows all funding through international organisations. Some of this funding may have been expended through a bilateral or regional program and for this reason has been calculated as bilateral or regional aid for the purposes of figure 2.1.

Australia also engages with the multilateral development banks through co-financing projects.

Australia also engages with the multilateral development banks through co-financing<sup>2</sup> projects. Currently, AusAID supports a number of co-financed projects—forty-four with the World Bank and seven with the ADB—with support from Australia totalling some \$217 million. These activities are funded through the bilateral programs, not as direct contributions to the banks. Co-financing can prove quite difficult, slow and cumbersome in that there are at least three parties, and three sets of procedures, involved—the recipient and two donors. However, there are advantages in potentially greater aid effectiveness by extending the scope of country programs through associating Australia's aid program with large bank projects, and improvements in aid management in terms of being able to access the banks' aid delivery mechanisms. These advantages can be maximised, and the administrative burden on all parties minimised, by opting, where possible, for parallel rather than joint implementation of projects.

<sup>2</sup> Co-financing refers to a funding arrangement where two or more agencies combine to provide financial support to a project/program in a developing country. This can involve a variety of agencies, but in the Australian aid program usually means collaborative projects with the development banks.

The share of Australian ODA provided as multilateral aid is lower than the average for DAC donors—the most recent figure for which is 30 per cent of total ODA. However, there is considerable variation between individual DAC donors. For example, New Zealand directs 21 per cent of its ODA through multilateral agencies, the USA 24 per cent and Denmark 45 per cent. Those giving the highest proportions are Belgium and Italy—each providing 50 per cent of ODA to multilaterals.

While Australia is clearly at the lower end of the spectrum in terms of the proportion of ODA directed via the multilateral organisations, it has been argued that this is because of Australia's geographic location in a region of developing countries and Australia's close ties with PNG (which receives 22 per cent of total Australian aid). Multilateral development institutions have been seen as having a valuable, but essentially limited, role in Australia's aid program—a role limited and defined to a large extent by the perceived capacity of multilateral channels to complement bilateral aid.

## Rationale for multilateral support

There are considerable benefits to Australia from supporting the multilateral development system. One of the most important is that the multilateral institutions can have substantial positive influence on policy and economic reform in developing countries, and on the donor approach to aid conditionality. In PNG, the Pacific islands and Indonesia, for example, the multilateral development banks are playing a very important role in encouraging good governance through contributing to the macro-economic and sectoral policies necessary to attract investment and promote economic growth and trade. A bilateral donor cannot effectively do this alone.

## General policy basis for supporting multilateral programs

The strengths of multilateral aid, outlined below, can be very significant.

- *Foster effective policy dialogue.* There is considerable value in the 'arms length' nature of involvement via multilateral bodies. Such bodies can undertake negotiation over difficult policy issues in a more neutral context than is possible in a bilateral relationship. The MDBs can help member governments achieve policy changes and pursue development objectives that may be otherwise hard to reach. They can be, and be seen to be, impartial in the face of many pressures, with objectivity stemming from their public status and collective ownership. Also, because of the broad membership of many organisations, they are able to develop positions representing a global consensus on many issues.

The share of Australian ODA provided as multilateral aid is lower than the average for DAC donors.

...the multilateral institutions can have substantial positive influence on policy and economic reform in developing countries, and on the donor approach to aid conditionality.

- **Extend the reach of bilateral aid.** Multilateral and regional agencies can be effective channels for reaching regions, and also sectors, where the Australian bilateral aid program is *not* active. This has been part of the argument in support of Australia's contributions to IDA replenishments, since substantial flows go to Africa from IDA lending.
- **Global resource mobilisation and coordination.** Multilateral bodies can deal most effectively with the difficult cross-border issues (e.g. HIV/AIDS, environmental issues, refugees) through facilitating coordinated interventions by donors. The problems are too great for any one donor and a coordinated approach is critical, at both policy and practical levels. The role in coordinating donor consultative groups for individual developing countries is also valuable.
- **Critical mass and level of professional expertise.** Some multilateral bodies are highly specialised. They provide intellectual leadership on many development issues; statistical analysis and sophisticated economic reporting on developing economies (e.g. World Bank); a norm setting function (e.g. some UN specialised agencies); and a source of valuable advice and accumulated years of experience on development. Some organisations, particularly the MDBs, are also big enough to mobilise both money and expertise to have substantial influence over an entire sector.
- **Policy forums.** Some critical policy issues are debated in multilateral forums. To participate and have our views heard, Australia needs to be an active member. Contributions to multilateral development and emergency relief bodies buy a 'seat at the table', and lead to some influence and access to information in relation to development issues.
- **International 'good citizenship' and burden-sharing.** If the mandates of the organisations are sufficiently important in Australia's view, then we should be an active member, both financially and through contributing to policy development.
- **Access to procurement of goods and services by multilateral agencies.** The 'returns to Australia' arguments are made quite strongly by some in the consulting industry. However, this should be seen very much as a secondary benefit and should *not* drive membership or contributions.

The role played by the multilaterals in policy dialogue and aid coordination alone, is enough to warrant continued and substantial levels of assistance from Australia.

The assessment of the advantages of multilateral aid and the strengths of the multilateral system needs to be viewed against the advantages of other channels for aid delivery: bilateral, regional, or through national or local NGOs. On balance, the Committee considers that the multilateral development system, while not without its problems, has a crucial role to play in global development. The role played by the multilaterals in policy dialogue and aid coordination alone, is enough to warrant continued and substantial levels of assistance from Australia.

## Views on multilateral assistance

A large number of submissions to the Review Committee mentioned multilateral assistance and a mix of both critical and supportive comments were made. Only a small proportion of the multilateral agencies and programs receiving funding from the Australian aid program made submissions to the Committee. However, the Committee was also able to meet and talk with a number of staff from the agencies receiving support—including useful discussions with the ADB in Manila, the SPC Secretary General and a number of SPC staff, and the Forum Secretariat and USP in Fiji, and various regionally based, or visiting, UN and World Bank staff.

### **Box 12.1 The value of multilateral agencies: excerpts from submissions**

‘The new challenges to international security and prosperity require a multilateral approach through close international cooperation. Poverty, humanitarian disasters, environmental deterioration, and rapid population growth, for example, all call for a global effort in their solution, since they are problems which cross the borders of individual States.’ *United Nations Population Fund*

‘Multilateral programs offer opportunities for greater donor coordination: the impact of large, combined funds, increased policy dialogue capacity, access to countries without bilateral diplomatic relations with the donor, the capacity to address multilateral problems with multilateral solutions, and a greatly enhanced influence for the donor beyond its contribution value through active participation in the governance of the agency...Multilateral programs can provide a lower delivery cost through economies of scale.’ *World Food Programme*

‘The role of multilateral institutions is important, however their performance is mixed. This is due both to structural issues: they are slow to adapt to a changing world and in some cases have unwieldy bureaucracies; and as a result of policies they have been pursuing which are often in conflict with broader development objectives and Australia’s stated policies...Community Aid Abroad supports Australia’s active involvement in all multilateral institutions as they are the major mechanism by which a coordinated and internationalist approach is taken to world issues. Australia’s involvement should however not only involve increased financial support to these institutions but also involve taking a lead in their governance and reform.’ *Community Aid Abroad*

‘The Australian aid program cannot ignore the activities of other donors. However Australia should aim to remain as independent of these programs as possible. Multilateral donors such as the World Bank and Asian Development Bank often have different priorities and criteria for funding development projects. Often the sole criteria for funding (lending) is the Internal Rate of Return (IRR) of the project...We have grave concerns regarding the viability and suitability of many multilaterally funded projects. Our experience is that these projects are often poorly conceived, designed and managed...By comparison, direct Australian grant aid is transparent, and generally well conceived and focussed. In our judgement Australian aid dollars deliver much better benefits to the needy through our bilateral program than when channelled via the multilateral funding agencies.’ *ACIL Australia Pty Ltd*

...a continued commitment to multilateralism is essential to an effective and balanced development cooperation program, and is also in the interests of a middle-level donor like Australia.

## Future directions

The Committee considers that a continued commitment to multilateralism is essential to an effective and balanced development cooperation program, and is also in the interests of a middle-level donor like Australia. A strong and viable multilateral system is important given the increasing scale and global nature of some of the problems impacting on development. It is also in the broader Australian national interest to ensure there is an effective multilateral system which can act as a constraint to the exercise of undue influence by the major powers. Our support for the UN, for example, is part of this broader picture.

Successive Australian governments have been satisfied with approximately one-quarter of the aid program being directed through multilateral mechanisms. No targets, as such, have been set and the Committee sees no particular logic in an indicative target being set now. However, burden sharing considerations, combined with concern to see a viable multilateral aid system sustained, would indicate that current levels of around 20–25 per cent of the overall program should at least be maintained. Arguments can be mounted that a *higher* proportion of the program should be so directed, given the major global problems urgently requiring solutions and the rationale of why, in principle, a multilateral approach can be so effective in addressing them. But these arguments must be premised on an assessment of what the multilateral bodies can offer, and deliver, that cannot be done as well, or better, any other way—such as bilaterally, through NGOs, in concert with just one or two other bilateral donors, or through regional programs.



A careful *strategy* should be developed for ongoing assessment of the levels and focus of multilateral support. This strategy should include:

- determining which agencies Australia considers to be of the highest priority. Support should focus on those agencies whose mandates are judged to be the most important and relevant to Australia's development cooperation objective. What it is that can *best* be done by multilateral agencies is a key factor in this;
- assessing which agencies are the most effective and efficient; and
- analysing the burden sharing implications of support for the work of those agencies identified.

While generally attracted to the idea that Australia should raise its engagement with multilateral development bodies, the Committee considers that the case has to be made from first principles.

**Recommendation 12.1** Support for multilateral development agencies needs to be based on a clear strategy giving careful consideration, on a case by case basis, to the importance of the agency mandate to Australia's development cooperation objective, the effectiveness and efficiency of the agency, and Australia's share of the international financial burden of maintaining those agencies identified.

### Efficiency and effectiveness of multilateral organisations

The efficiency and effectiveness of the different multilateral organisations are variable. There have been some sustained criticisms of the UN system by member nations and calls for reform, as there have been of the World Bank. While the response to these criticisms on the part of different organisations has also been varied, the possibly deserved poor reputation of some organisations should not be allowed to stain the reputation of them all.

As discussed above, decisions on which of the many multilateral organisations to channel support through should be based on a strategy taking account of the relative importance of the mandate of that body to attainment of Australia's aid objective, *together with* the efficiency and effectiveness of the organisation. Such support should be carefully targeted and based on critical and ongoing analysis. There can be tensions where a high priority mandate is matched with a non-performing multilateral or regional agency.

The World Bank is engaged in a serious attempt at reform under its new head, James Wolfensohn, including efforts to refocus on the Bank's role as a source of development and social expertise, as well as a major lender. While there were valid criticisms that some of the Bank's earlier loans had negative social and environmental impacts,

A careful strategy should be developed for ongoing assessment of the levels and focus of multilateral support.

The efficiency and effectiveness of the different multilateral organisations are variable...the possibly deserved poor reputation of some organisations should not be allowed to stain the reputation of them all.

The large sums of money that Australia directs through multilateral bodies needs to be reflected in the effort and involvement that we are also prepared to put into our membership in ensuring the maximum effectiveness.

there is evidence that the Bank has taken steps to address these problems. Measurement of success in the Bank is no longer the level of money lent, but is gauged by the impact of a project on the people it is designed to serve.

The UN system has endured particular criticism for being inefficient and there are long-standing calls for reform. The UN is highly politicised and there are costs associated with the consensus approach to decision-making that characterises the UN. While these costs can sometimes be daunting, they are largely unavoidable. Australia should be actively and consistently involved in seeking reform, but, as a relatively modest contributor, we cannot expect to wield much influence on our own but may be able to achieve more by joining with other donors.

Efforts focused on reform need to continue on a number of fronts, and sufficient resources need to be made available to do this effectively. The large sums of money that Australia directs through multilateral bodies needs to be reflected in the effort and involvement that we are also prepared to put into our membership in ensuring the maximum effectiveness. Such ongoing effort should include:

- active participation in Executive Boards and governing council meetings of agencies, and working with 'like-minded' members on reform issues;
- enhanced and focused monitoring, including much greater use of officers at posts to monitor the activities of agencies in the field. This can be targeted, for example, on specific organisations or sectors; and
- evaluation exercises, either on our own or with other donors.

There is a constant need to monitor programs, and to work with the other members of the organisations—particularly, perhaps, the other donor members—towards greater efficiency. AusAID needs to devote more resources to monitoring multilateral organisations—to be well informed on their programs and to be in a position to participate actively in multi-donor review and evaluation efforts. Part of this includes monitoring and assessing the evaluation procedures and outcomes that each multilateral organisation has itself. There is also the need to encourage stronger inter-agency coordination and sharing of experience and evaluation. An important associated issue is the need to press for greater policy coherence between the various agencies, particularly the UN agencies.<sup>3</sup> The need to minimise overlap and the spread of mandates may eventually lead to some consolidation of agencies, or amalgamation of associated multilateral functions.

There is also scope to achieve faster reform by adopting more of a 'carrot and stick' approach, as long as this is based on careful and

<sup>3</sup> This was also a recommendation from a seminar on the aid program (JSCFADT 1996).

informed assessment. A closer relationship between funding levels and institutional performance and reform are emerging features of many donors aid policies—the most direct of which has been Denmark’s recently introduced policy of ‘active multilateralism’. In essence, this approach involves setting reform, policy and program goals for organisations and making funding decisions based on performance against these on a unilateral basis, or together with other like-minded donors.

In principle, this approach can provide a promising opportunity for concerted donor effort to force institutions to deliver more rapid reform, improve effectiveness and increase efficiency. But there are risks. Such approaches have to be pursued in close cooperation with other donors. Should donors, especially major donors, institute such policies solely on a unilateral basis they are likely to have damaging and dysfunctional effects on the operation of the multilateral agency. Other concerns are a lack of involvement of recipient countries, and the potential erosion of the principles of multilateralism—which are founded on international cooperation—and of the objective and impartial nature of the mandates and operations of multilateral agencies.

**Recommendation 12.2** High priority and sufficient resources should be devoted to working closely with other members of multilateral organisations on reform agendas aimed at achieving greater efficiency and effectiveness in targeted organisations. This should include ongoing monitoring, support for joint evaluations of multilateral programs, and support for a more conditional or ‘active multilateralism’ approach where this will speed needed reform.

The Committee considers that in justifying continued, and possibly increased levels of multilateral assistance, it is important that AusAID also avoids spreading multilateral support too thinly. This can probably be achieved if a more focused and strategic approach is taken regarding which agencies we decide to support. It would also then be easier to focus resources to more actively participate in associated reform and policy issues. Likewise, it is important to pursue greater policy coherence with other activities in the aid program, bilateral and regional, and also with other broader government policies and activities.

**Recommendation 12.3** Based on strategic assessment, AusAID should progressively narrow the focus of support to those multilateral agencies whose mandates are the most important to poverty reduction through sustainable development and which complement activities supported bilaterally and regionally.

A closer relationship between funding levels and institutional performance and reform are emerging features of many donors aid policies

...it is important that AusAID also avoids spreading multilateral support too thinly.

## CHAPTER 13: GOOD GOVERNANCE

*Good governance, including effective government policies and administration, respect for human rights, the rule of law and participatory development, is widely regarded as important for sustainable and equitable development. Activities seeking to build recipient capacities in these areas are a well-established and important part of the Australian aid program. Effective governance should also be one of the criteria used in deciding the allocation of Australian aid.*

### Links between good governance, development cooperation and poverty reduction

Good governance can be defined as ‘the effective management of a country’s social and economic resources in a manner that is open, transparent, accountable and equitable’ (AIDAB 1993a, p. 6). There is a range of views on how broadly this concept should be defined, but for the purpose of this chapter, a broad understanding is adopted, including not only government policies and administration, but related issues such as human rights, democratisation, the rule of law, civil society and participatory development.

This theme came to prominence in international development cooperation in the late 1980s, as a result of a growing realisation that the poor state of government policy and administrative systems in many developing countries were major constraints to sustainable development. The World Bank in particular, had conducted a series of studies seeking to explain the sharp contrast in growth performance between developing countries. On the basis of the findings from these studies, the Bank argued that governments must establish an appropriate enabling environment for private sector-led growth, and improve systems for public investments in development, before major gains in poverty reduction could occur.

This coincided with the end of the cold war and a growing pre-occupation in many countries with the need to promote democratisation and human rights, as a basis for accountable and equitable development. Increasingly, links were drawn between open political systems and individual freedoms and the requirements of open and efficient markets, as the preconditions for growth. As a result, these issues quickly became integrated into the good governance agenda. For example, at the 1990 meeting of the Development Assistance Committee (DAC 1995c, p. 5), ministers from donor countries agreed that:

Good governance can be defined as ‘the effective management of a country’s social and economic resources in a manner that is open, transparent, accountable and equitable’.

There is now widespread agreement among donors on some of the essential elements of good governance.

‘...there is a vital connection, now more appreciated, between open, democratic and accountable political systems, individual rights and the effective and equitable operation of economic systems with substantial reductions in poverty’

There has been much debate during the 1990s about what constitutes good governance, and substantial experience has been gained by developed and developing countries alike in how it might be promoted. There is now widespread agreement among donors on some of the essential elements of good governance. These include:

- **a capacity within government to establish appropriate policies and an efficient and accountable public administration to carry them out**
  - in particular, there is a need for responsible fiscal and economic policies which encourage open and efficient trading systems and private sector-led growth, as well as equitable distribution of the benefits of development (see also chapter 8), and an efficient, responsive and effective public service which is able to keep corruption in check
- **democratisation and participatory development**
  - there are many interpretations of the term ‘democracy’, but generally it is taken to mean a form of government whose legitimacy depends on the consent of the governed. This is also linked to the principle of participatory development in project planning and implementation, and the decentralisation of authority to local and regional centres where possible
- **respect for human rights and the rule of law**
  - to guarantee individual rights and establish the legal framework for economic and social activity, including impartial and effective law enforcement and an independent judiciary
  - protection of the right to free speech and the operation of a free media are also cornerstones of accountable government
  - the close linkages between civil and political, economic, social and cultural rights, have been expressed in the United Nations by recognition of the concept of the ‘right to development’

These interlinked elements are widely considered to provide an essential framework for sustainable economic and social development, and therefore poverty reduction. For this reason, these good governance aims are in part reflected in the first of the three ‘programming priorities’ recommended for the Australian aid program in chapter 4:

*'Establishing a framework for broad-based economic growth*

by encouraging sound national economic policies; by helping to develop efficient, accountable and equitable government administration; and by providing essential economic and social infrastructure, with particular attention to the needs of poor communities.'

**Box 13.1 Focus on good governance in the aid programs of selected donors**

Outlined here are steps taken by some other donors to integrate concerns about good governance, human rights and democratisation into their aid programs.

*Canada:* Canada considers respect for human rights, democratisation and good governance as integral to CIDA's purpose to promote sustainable development in developing countries in order to reduce poverty and to contribute to a more secure, equitable and prosperous world. 'With respect to the development cooperation program administered by CIDA, the Government's policy is to enhance the will and capacity of developing country societies to respect the rights of children, women and men, and to govern effectively and in a democratic manner.' (CIDA 1996, p. 3)

*United Kingdom:* The encouragement of sound development policies, efficient markets and good government is one of the United Kingdom's Overseas Development Administration's (ODA) key development objectives. Whilst tempered by other criteria, such as the UK's political and commercial interests, judgments on good governance, including human rights issues, influence how much aid a country receives.

*Germany:* Germany believes that development assistance can be effective only in countries in which an appropriate environment prevails. To this end, five criteria are applied in determining aid allocation: human rights; popular participation in the decision-making process; the provision of legal security; the creation of a market-orientated economy; and evidence of commitment to development on the part of the government.

## Good governance in the Australian aid program

### Current policy on good governance

AusAID's most recent (draft) policy document on *Human Rights, Democracy, Good Governance and the Aid Program* (AusAID 1997c) indicates that activities in support of good governance have already been accorded a significant role in the aid program:

'Australia considers that support for good governance is an important way of facilitating development and helping to create an environment in which human rights are respected. Transparent and responsible systems of government are needed to ensure protection of the rights of individuals, while economic rights require a sound enabling environment for sustainable economic growth and attention to its equitable distribution...Development assistance provides a logical means of reinforcing Australia's efforts to persuade partner countries to achieve better standards in human rights, democracy and good governance.'

The Australian aid program has initiated many activities in support of these objectives over recent years, and is currently undertaking preparatory work for the establishment of a 'Centre for Democratic Institutions' in Australia. The purpose of the Centre will be to assist in consolidating democratic institutions in developing countries where democratic structures are evolving.

### Human rights

Australia is party to a number of international human rights agreements which confer both rights and obligations. Aid activities undertaken by Australia must be conducted with respect for the human rights of recipients and be consistent with our international obligations.

Concern with human rights and aid is too often associated only with issues of negative conditionality and the threat of withdrawal of aid in cases of major abuses of civil and political rights. The role of human rights in the program, however, is far broader. If the broader range of rights is considered, nearly all activities supported under the aid program help to promote human rights in one way or another. In particular, improvements in economic, social and cultural rights are integral to the conduct of the aid program. In this context, it is appropriate for the aid program to focus on the links between poverty and human rights.

At times, there have been significant differences between developed countries, which traditionally focused their attention on civil and political rights, and a number of developing countries, which emphasised economic, social and cultural rights. However, at the 1993 United Nations World Conference on Human Rights in Vienna, broad agreement was reached that sustainable development required the

If the broader range of rights is considered, nearly all activities supported under the aid program help to promote human rights in one way or another.

advancement of all categories of human rights. This perspective is reflected in recent statements by the Australian Government, including the following excerpt from a speech by the Minister for Foreign Affairs (Downer 1996):

‘The first of the ways Australia promotes human rights is through its development cooperation program. Australia’s aid program not only promotes economic, social and cultural rights but also civil and political rights. The Australian Government recognises that the development of these rights must be safeguarded and nurtured by appropriate institutions and structures. Australia’s development cooperation program, through AusAID, will continue to support democratic development and human rights institution building in developing countries.’

The Australian Government should always reserve the right to withdraw or suspend aid in the event of severe human rights abuses, but the Committee acknowledges that such an event is the exception, and will be dealt with on a case-by-case basis as part of a broader government strategy.

### **Practical application of good governance policy**

There are three main ways in which the aid program might be used to help bring about improvements in governance, including the advancement of human rights, in developing countries:

- **directly**, by building the capacity of recipient political, administrative and legal institutions
  - examples include: improving the effectiveness of government departments and instrumentalities; strengthening law enforcement agencies and the judicial system; and assistance related to constitutional reform, electoral processes and combating corruption
- **indirectly**, by strengthening civil society and promoting participatory approaches to development
  - examples include: promoting community involvement in development planning, including through support to local NGOs and community groups; strengthening independent media; and supporting human rights advocacy
- by integrating **policy dialogue and conditionality** into the management of the aid program itself
  - policy dialogue can be incorporated into the aid program at a number of levels. Changes to policies or administrative practices necessary for effective implementation of a project are sometimes agreed during project preparation. Opportunities for broader policy dialogue include during high level consultations between AusAID and recipient officials, and during ministerial visits and major inter-governmental forums.



### Box 13.2 Good governance in Cambodia

Cambodia's development efforts have been severely hindered by years of conflict and the genocide of the Pol Pot era. The relative stability brought about by the 1991 Paris Peace Accords and the UNTAC peacekeeping operations require ongoing consolidation. Recognising this need, Australia has nominated assistance for good governance as a priority area for its bilateral aid program.

Following discussions with the Royal Government of Cambodia on human rights and good governance, and a follow-up fact finding mission, assistance to the criminal justice system has been identified as a priority. The Australian Government has recently approved a \$12.6 million three-year Criminal Justice Assistance Project. The objective of this project is to improve the operational, managerial, institutional and human rights conditions within the criminal justice system of Cambodia.

Analysis of the existing system showed that there were no formal operating procedures for police or prison institutions in Cambodia. Even in the case of the courts, where formal procedures did exist, their application was inconsistent. In such a situation there can be little prospect of adherence to human rights in the criminal justice system. The project is designed to provide practical support to improve these operating procedures and hence observance of human rights. Activities will include preparation of operating procedures and training in these procedures, as well as capital works to upgrade prisons and selected police stations and courts.

### Policy dialogue and conditionality

The concern to ensure that development cooperation expenditures are *effective* provides a clear justification for donor governments to involve themselves in issues which, at the end of the day, must be determined by developing countries themselves.

However, a key question concerns the extent to which Australia can or should use conditionality (the tying of aid to specific policy or administrative changes) to achieve its good governance objectives.

The reality is that in most countries, Australia's influence is very modest. Australia must therefore seek to promote good governance primarily through well-informed policy dialogue and persuasion rather than by inflexible conditionality. As a relatively small player, Australia must work in concert with other donors and multilateral organisations to encourage desirable change in human rights and governance standards. In particular, Australia should work with and support the World Bank in pursuing reform through dialogue relating to the Bank's structural adjustment programs.

Australia must seek to promote good governance primarily through well-informed policy dialogue and persuasion rather than by inflexible conditionality.

The Australian Government will often see the need for changes in recipient government policies and, from time to time, must respond to calls for the aid program to be used as a 'lever' to encourage such changes. However, it is important that the whole aid program to a country does not become hostage to conditionality relating to specific human rights or other issues, except in compelling cases. The aid program should seek to promote human rights through ongoing engagement, across the whole range of economic, social and cultural, as well as civil and political rights. Only in extreme cases of widespread and grave abuses of human rights should a threat to withdraw the aid program be considered, as part of a broader government strategy to influence events. Even in these cases, such strategies are likely to have an effect only if they are implemented in concert with the major international players, as they were, for example, in the case of South Africa.

However, if Australia is to play an active role in such discussions, AusAID staff will need to be well-informed on issues of governance and economic management in the countries concerned. This is another reason why it is important for the Australian aid program to concentrate on fewer countries. It is simply not possible for AusAID's staff to be well informed about the governance and reform agendas for the 108 or so countries which currently receive ODA from Australia.

In those countries where Australia does have some influence (primarily PNG and the Pacific), AusAID has a responsibility to be proactive in working with recipient governments on a regular basis through policy dialogue and strategic use of aid resources, to support improved governance. This will require AusAID to continue to build its specialist expertise on governance and macro-economic management in PNG and Pacific island countries.

A second question is: to what extent should the standard of governance or human rights practices in particular developing countries be a criterion in determining the allocation of aid funds? Given the complexities involved, it would be difficult and in the Committee's view, inappropriate, to apply human rights and good governance criteria mechanistically to regular budgetary decision-making across the whole of the aid program.

However, there are circumstances in which these issues should have a role in decision-making. For example, if, as the Committee recommends, the number of countries receiving Australian assistance is to be reduced, good governance should be one of the considerations in deciding which countries should be included in a more tightly focused program. It is simply unwise for the Australian aid program to fund activities in countries which continue to adhere to policies which are counterproductive in terms of sustainable development and poverty reduction. This principle is reflected in the 'effectiveness'

...it is important that the whole aid program to a country does not become hostage to conditionality relating to specific human rights or other issues, except in compelling cases.

...good governance should be one of the considerations in deciding which countries should be included in a more tightly focused program.

criterion recommended in chapter 5 for determining the geographic priorities of the aid program.

Budgetary allocations can also be used in a positive way to encourage improved governance, by establishing programs on a regional basis which offer additional aid resources to those countries seeking to cooperate on good governance projects. This approach has already been put into effect by AusAID in the Pacific (see chapter 6), and may be appropriate for other regions.

**Recommendation 13.1** Recognising the key links between good governance and sustainable development, AusAID should continue to give a high priority to activities within the country programming context that will bring about improvements in governance. Good policies and commitment to reform should be included in the criteria for determining the geographic allocation of Australian aid.

**Recommendation 13.2** AusAID should provide focused training courses for AusAID staff on good governance, the critical links with sustainable development and poverty reduction, and the types of aid interventions that can improve governance in developing countries.

## CHAPTER 14: ENVIRONMENT

*AusAID has been recognised as relatively advanced, among international donor organisations, in integrating concern for environmental issues into the aid program. However, there is scope for further clarifying environmental objectives and forging a greater coherence between environmental policies and program activities. In pursuing the objective of poverty reduction through sustainable development, the aid program should focus its attention particularly on the links between poverty and the environment. It should also be recognised that the aid program has limited scope to address global environmental issues and must remain focused on its core business.*

### Introduction

One of the more dramatic trends of the last decade has been the rise of environmental issues to the top of the international agenda. This has reflected the increasing awareness that environmental mismanagement at local and national levels can have serious regional and global ramifications, and is inconsistent with a sustainable approach to economic and social development.

While the global environmental agenda is of great concern to the developed world, it is a lower priority for many of our developing country partners. In many developing countries, longer-term environmental risks, such as climate change and the loss of biodiversity, are of less concern than urgent economic and social problems such as the requirement to service foreign debt or satisfy the needs of the poor. The developing world does, however, have more immediate environmental concerns, such as water pollution, access to irrigation and drinking water, soil erosion and desertification.

A full consideration of issues relating to development and the environment is beyond the scope of this report. The Committee has therefore focused on a few areas where there could be better integration of environmental concerns within the aid program. In particular, a key issue is to determine what the most appropriate role for aid is, within the wider environmental agenda.

### Evolution of AusAID's environmental policy

In the years following the release of the Jackson Report in 1984, the environment emerged as a major domestic political issue and as a cross-sectoral issue for consideration within the aid program. AusAID established environmental assessment and monitoring procedures, acknowledging the potentially negative impact some development activities could have on the environment.

From 1989–90 to 1994–95, \$80 million of additional funding was made available to AusAID’s budget for an Environment Assistance Program (EAP). This was used to support specific environmental activities, including through the Global Environment Facility (GEF) and contributions to multilateral organisations, funding for international agricultural research and NGO programs. The EAP was instrumental in generating an increased awareness of environmental issues within the aid program.

In 1991, AusAID published an *Interim Policy Statement on Ecologically Sustainable Development in International Development Cooperation* (AIDAB 1991b). The Statement reflected AusAID’s commitment to integrate ecologically sustainable development into all aspects of Australia’s ODA program.

A revised policy followed in 1994: *Towards a Sustainable Future—Ecologically Sustainable Development through Australia’s Development Cooperation Program* (AIDAB 1994b). It reflected the outcomes of the 1992 UN Conference on Environment and Development, *Agenda 21*, and the 1992 Australian National Strategy for Ecologically Sustainable Development.

In 1996, AusAID produced a guide to mechanisms for dealing with the environmental aspects of sustainable development: *Environmental Assessment Guidelines for Australia’s Aid Program* (AusAID 1996d). In the same year, a review of Australia’s aid program, by the Development Assistance Committee of the OECD, found that AusAID had introduced some innovative and practical approaches for integrating environmental concerns into aid activities which could provide a model for other DAC donors (DAC 1997c).

## Clarifying AusAID’s environmental objectives

### Links between poverty reduction and environmental objectives

In chapter 4, the Committee recommends that the objective of the aid program should be ‘to reduce poverty in developing countries through sustainable economic and social development’. The word ‘sustainable’ in this context incorporates, among other things, the concept of environmentally sustainable development (ESD), which should be a fundamental tenet of all activities undertaken through the aid program. The Committee’s use of this term in the recommended objective is consistent with the approach contained in *Towards a Sustainable Future* (AIDAB 1994b):

‘development is about building quality of life through the integration of economic, environmental and social objectives within a long term perspective...human beings are at the centre of concerns for sustainable development’.

This interpretation of sustainable development places human, rather than ecological concerns, at the heart of development efforts and provides a sound basis for an aid program with a strong poverty focus.

The challenge for AusAID, as for other donors, lies in determining how development assistance can tackle the interdependent goals of poverty reduction and sustainable natural resource management. AusAID has supported a range of cross-sectoral activities which address the linkages between poverty and the environment, such as: micro-enterprise schemes which recycle waste products; the provision of clean water and health services which improve the productive capacity of the poor; and community forestry projects which promote the sustainable management and utilisation of forest products for community enterprises.

The Committee believes that AusAID should continue to support activities like these, which promote environmentally sustainable development, but which are also compatible with the recommended programming priorities, and therefore have direct links with poverty reduction.

**Box 14.1 Examples of environmentally sustainable development activities supported by AusAID**

The Nepal-Australia Community Forestry Project is renowned for its success in establishing participatory forestry practices. In recent years, the project has shifted its emphasis away from plantation forestry and conservation, toward training and support to local 'forest user groups' in the sustainable utilisation of forest products for micro-enterprises in agriculture and timber production. The Committee visited the Overseas Service Bureau's Community Forestry Project in Vietnam which has similarly developed sustainable, and economically viable, agro-forestry systems for local communities.

AusAID's support to the Central Visayas Water and Sanitation Project in the Philippines, has also used participatory approaches to encourage local communities to manage water, sanitation and waste disposal sustainably, while focusing on poverty reduction, community health and the role of women.

The Water Hyacinth Control Project in Papua New Guinea aims to control the spread of this weed, particularly in the Sepik River, through the introduction of four biological control agents—three weevils and a moth. The infestation of waterways by the weed has severely disrupted the livelihoods of rural communities where people depend on the rivers for transport and fishing.

The challenge for AusAID lies in determining how development assistance can tackle the interdependent goals of poverty reduction and sustainable natural resource management.

There is a risk that the aid program can end up being diverted from its core focus by supporting too broad a range of environmental programs

### Global environmental issues

One of the subjects which the terms of reference for this review asked the Committee to address was ‘the role of the aid program in addressing global issues such as environmental degradation and climate change’. Many global environmental issues have been placed on the agenda for development cooperation agencies as a result of international conferences and conventions. For example, over recent years AusAID has provided assistance to meet Australia’s commitments to the:

- Framework Convention on Climate Change;
- Convention on Biological Diversity;
- Montreal Protocol on Substances that Deplete the Ozone Layer;
- International Convention to Combat Desertification; and
- *Ramsar* Convention for Wetlands.

AusAID’s contributions to some of these conventions have been considerable. For example, \$43 million has been committed to the Global Environment Facility (GEF)<sup>1</sup> over the three years from 1994 to 1997. Around 80 per cent of the projects approved for GEF funding have been in the areas of climate change and biodiversity.

These issues are of major international importance. There is, however, a risk that the aid program can end up being diverted from its core focus by supporting too broad a range of environmental programs and objectives. Some global environmental issues, such as desertification or water scarcity, are closely linked to poverty reduction in developing countries and would therefore rank highly in setting priorities for the allocation of aid program funds: others would not. For example, the Committee acknowledges the importance to Australia, and to the achievement of long-term development objectives, of preserving global biodiversity and addressing the threats posed by climate change. We are not convinced, however, that funding for international conventions on biodiversity and climate change should be considered a priority activity for an aid program seeking to maximise its impact on poverty reduction in developing countries. This is reflected in the poor fit between such activities and the programming priorities suggested in chapter 4. The benefits from these programs are spread globally, among rich as well as poor countries. Often, their links to poverty reduction are, at best, partial or indirect.

AusAID’s core business should be to support poverty reduction in developing countries through sustainable economic and social development. Since Australia’s contribution to many international environmental conventions is eligible for classification as ODA, there

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<sup>1</sup> The Global Environment Facility is a multilateral financial mechanism which provides grant and concessional funds to recipient countries for activities that aim to protect the global environment.

has been a perceived role for AusAID in managing, monitoring and reporting on how Australia's contributions are spent. The Committee believes that, in most cases, this role would be more appropriately performed by the relevant Commonwealth department, Environment Australia. Australia's support for many of these conventions is based primarily on national interest and global environmental concerns, which are a much higher priority in terms of the objectives of Environment Australia than the objectives and priorities we have proposed for the aid program. Environment Australia is also able to draw on greater internal environmental expertise and is better placed to benefit from the resulting policy dialogue and flow of information. AusAID should provide an advisory input from a development perspective to the management of these programs, but should not take prime carriage of them, or fund them from its own budget.

The Committee believes that the key test for inclusion in AusAID's programs in this context should not be whether they are ODA-eligible, but whether they correspond with AusAID's objectives and strategic priorities. AusAID's support for global environmental concerns should therefore be directed only to activities which have close links with poverty reduction in developing countries. Environmental programs which have broader global objectives, without such direct links to poverty reduction, should be supported through other government departments (if they are a priority in terms of their objectives), and not through AusAID.

**Recommendation 14.1** AusAID should rationalise its support for environmental activities to ensure that its funds are directed only to activities which have close links with poverty reduction in developing countries. Environmental programs which have broader global objectives, without such direct links to poverty reduction, should be funded and managed by other government organisations.

AusAID should, of course, maintain environmental screening procedures, to ensure that the projects it funds in developing countries do not *exacerbate* problems such as climate change and threats to biodiversity. It may also be possible to fund specific activities through country programs which contribute at the local level to overcoming these problems, but which also address the needs of the poor. Examples include projects which are able to integrate biodiversity conservation with community development and income-generating activities, and sea level monitoring for low-lying, small island states.

AusAID's support for global environmental concerns should be directed only to activities which have close links with poverty reduction in developing countries.



...the environment will continue to suffer unless economists become more fully involved in environmental analysis and policy issues.

## Valuing natural resources

The exploitation of the environment and the under-valuing of natural resources are economic constraints to sustainable development for many of Australia's development cooperation partners. Natural resource utilisation is often the most important sector in developing country economies and the management of natural resources has enormous potential to increase or reduce poverty, especially for rural communities. However, in many countries, the true value of a country's natural assets is not adequately reflected in prices, or in the way statistics and economic indicators are used. This can misrepresent the state of the economy, lead to serious distortions in the allocation of resources, exacerbate environmental exploitation and compromise the country's development efforts.

As a result, there is a global trend toward the more accurate recording of the value of natural resources in national accounts and development planning. In 1995, the OECD published a practical guide for *The Economic Appraisal of Environmental Projects and Policies* (DAC 1995a). The principal message of the guide was that the environment will continue to suffer unless economists become more fully involved in environmental analysis and policy issues. If environmental damage and depletion is not entered into national income accounts, governments, their citizens, and international agencies receive the wrong signals about an economy's true performance. The guide argues for the importance of environmental valuation in promoting sustainable development through:

- providing a truer account of the real costs and benefits of projects and policies by quantifying their environmental effects;
- furnishing the raw data for national resource accounting, which adjusts national accounts to allow for environmental depreciation; and
- providing help to environmental policy through 'green' pricing. By indicating the size of environmental costs and benefits, valuation provides guidance on the size of taxes, subsidies, user charges and other financial devices necessary to correct market and policy failures.

Australia's aid program should seek to encourage the use of methods for valuing natural resources in developing countries, to raise awareness of environmental destruction and calculate the real costs and benefits of development. AusAID should also strengthen its own abilities to integrate environmental values into cost-benefit analyses.

## Coordination

The Environment, Agriculture and Physical Infrastructure Section of AusAID is responsible for overseeing environmental screening and assessment of all activities administered by AusAID and for ensuring the Agency fulfils its obligations under the *Environment Protection (Impact of Proposals) Act 1974* (Cwlth). The Development Banks Section holds responsibility for international environmental conventions. Sectoral advice to AusAID's Country Programs is split between the Sectoral Policy and Review Branch, the Advisory Services Group for Asia and Africa, and the Pacific Regional Team.

The Committee considers that consistent assessment, monitoring and management of the integration of environmental considerations into the aid program, would be better served by greater centralisation of environmental policy functions within AusAID and closer coordination with environmental advisory functions. This would clarify the lines of responsibility and provide a basis for developing a critical mass of professional environmental expertise within the organisation to provide advice to program managers.

## Conclusion

Poverty reduction through sustainable development should remain the unifying theme across AusAID's policies and programs. However, AusAID's conception of sustainable development should be 'people-centred' and AusAID should pursue environmental objectives only where these are consistent with, or complementary to, poverty reduction strategies. AusAID does not have the resources or mandate to play a major role in all of Australia's commitments to international environmental conventions or to respond to all global environmental issues.

...the integration of environmental considerations into the aid program, would be better served by greater centralisation of environmental policy functions within AusAID

## CHAPTER 15: GENDER

*Ensuring that men and women have equal opportunity to participate in, and benefit from, development remains one of the most significant challenges facing donors and recipients. With poverty twice as prevalent amongst women as it is amongst men, consideration of gender and development issues is fundamental to addressing poverty reduction. Australia has been committed for over a decade to the full integration of gender concerns into its aid program and has produced policy statements that reflect this aim. Such a commitment, however, has not been matched by effective policy implementation, because of a lack of resources and insufficient priority being given to women's participation in development. The Committee supports the thrust of AusAID's gender and development policy, but recommends formalising strategies for its realisation, including the introduction of gender audits to provide feedback on program performance. Such strategies must be backed by sufficient resources, and clear lines of responsibility for ensuring their implementation.*

### Gender and development

Improvements in the living standards of the peoples of the developing world have not been shared evenly. Gender inequalities have marred and undermined the impact of development, and will continue to do so until a full and equal partnership between men and women is achieved.

Women constitute 70 per cent of the world's poor and two-thirds of the world's 900 million illiterate people. Women on average bear a 13 per cent higher workload than men; in rural areas it is 20 per cent higher (UNDP 1996, p. 52). Yet the majority of women's work remains unpaid and largely unrecognised. Three-quarters of men's work is in paid activities, compared with only one-third of women's work. The low economic status of women is often compounded by discrimination in access to schooling, by inadequate health care, by legal discrimination, and by the ongoing threat of violence. For example, the UNDP (1995, pp. 1–7) reports that:

- of the 130 million children who do not have access to schooling, 80 per cent are girls;
- each year at least half a million women die from complications due to pregnancy and, in most poor countries, pregnancy complications are the largest single cause of death among women in their reproductive years;

Women constitute  
70 per cent of the  
world's poor

- some 90 countries have not yet accepted all the tenets of legal equality for women and men set down in the 1979 Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW); and
- an estimated 100 million girls suffer genital mutilation.

For these reasons, ensuring that women are equitably involved in the development process, and receive a fair share of the benefits, should be key elements in AusAID's approach to poverty reduction. These aims are reflected in the programming priorities recommended in chapter 4.

#### **Box 15.1 Women and poverty reduction**

The pivotal role of women in tackling poverty is widely recognised:

*'Investing in women's capabilities and empowering them to exercise their choices is not only valuable in itself but is also the surest way to contribute to economic growth and development'*—United Nations Development Programme

*'While women are increasingly amongst those most affected by the problems of poverty, it is equally clear that women as economic actors are key to poverty reduction in societies'*—OECD Development Assistance Committee

*'Educating women and girls is perhaps the most important measure for improving the economic and living conditions of poor women, children and families'*—World Bank

...consideration must be given to the impact of all development activities on the lives of women, not just activities in those areas that are considered 'women's issues'.

Constraints on women's development will not be addressed effectively by looking at the position of women in isolation from their societies. In other words, an understanding of the position and roles of both men and women is crucial for effective and sustainable development. Policymakers must be prepared to address the structural and systemic constraints that produce uneven development and ongoing discrimination against women. In addition, consideration must be given to the impact of all development activities on the lives of women, not just activities in those areas that are considered 'women's issues'.

No society, in the developing or developed world, is free from gender inequality. Interventions by donor countries cannot be expected to provide all the solutions. Donors can, however, work with recipients to advance this goal, on the grounds of both equity and aid effectiveness.

Working in partnership with developing countries entails being sensitive to recipient governments' concerns and needs. Incorporating issues such as women's rights and improvements in women's status in aid programs can often lead to accusations of undue interference in the domestic affairs of recipient countries. Australia should not, however,

shy away from the opportunity to promote these issues. Indeed, most recipient countries have themselves made public commitments to these policy aims in international forums such as the 1995 Beijing Fourth World Conference on Women.

The Committee recognises that the Australian aid program must support gender equality as an essential requirement for achieving effective poverty reduction. Efforts to address gender disparities will require the integration of gender concerns in all aspects of the Australian aid program.

#### **Box 15.2 The Fiji Women's Crisis Centre**

One of the projects visited by the Committee in the course of the Review was the Fiji Women's Crisis Centre in Suva. Australia has supported the Centre since 1990.

A major objective of Australia's gender and development policy is to support community and institutional initiatives which address violence against women. The Centre assists women and children who are victims of violence, providing counselling and support services. It has developed close links with the police, the judiciary and the media in an effort to raise public awareness of the damage caused by violence and to lobby for laws that recognise and protect women's rights.

The strategies used by the Fiji Women's Crisis Centre to address violence against women have been shared amongst groups and individuals across the Pacific. A major activity undertaken by the Centre in 1996 was the Regional Meeting of Women Against Violence. The meeting brought together women from 12 countries across the Pacific to consider strategies to end violence against women as both a development and a human rights issue. Subsequently, the Centre has initiated a regional women's alert mechanism which will monitor and support actions on women's rights across the Pacific region.

### **AusAID's gender and development policy**

AusAID recently launched a new gender and development (GAD) policy (AusAID 1997b) which aims to promote equal opportunities for women and men as participants in, and beneficiaries of, development. The gender and development approach seeks to incorporate a gender perspective in all aid activities. The Committee welcomes the new policy and its emphasis on the equality of men and women as an important development goal.

...while increased attention had been paid to WID in project design and implementation, AusAID had been largely unsuccessful in implementing the strategies it had set for itself.

Fundamental to such an approach is the issue of ‘mainstreaming’: that is, incorporating gender concerns in all levels and stages of aid activities, including policy settings, programming (whether country, multilateral or NGOs), and in management practices. To date, AusAID has had mixed success at making gender a mainstream issue.

The Committee found that there was a lack of comprehensive and up-to-date information on AusAID’s performance on mainstreaming. The last major stocktake on women in development (WID) integration was conducted in 1994. The stocktake found that while increased attention had been paid to WID in project design and implementation, AusAID had been largely unsuccessful in implementing the strategies it had set for itself. This suggests a lack of corporate commitment to achieving integration and to fulfilling the policy objectives.

### **WID markers**

AusAID has established ‘WID markers’ as a key monitoring tool. The markers are built into AusAID’s computer-networked Activity Management System (AMS), ensuring that gender issues are addressed by AusAID officers in all individual project activities. They consist of eight questions concerning the role of women in activities, including their status as beneficiaries, their level of participation (including in leadership roles and consultations) and the use of gender expertise on the project. All responses are checked by the AusAID Social Sector and Gender Section (SSG).

Such a system should serve two purposes. Primarily, it should allow data to be collected to monitor AusAID’s gender and development performance, and secondly, it should provide a vital prompt for desk officers to assess their own activities. The Committee is not convinced, however, that the system is currently operating satisfactorily. The checks conducted by SSG have shown that many desk officers have failed to understand the WID questions, resulting in a high number of incorrect returns. Urgent attention must be paid to a system of quality assurance. Within current resources there is no opportunity for gender staff to check project documentation, or discuss marker entries with desk officers. The comments section on the marker questions, which could greatly increase the value of the checking system, is optional, and as a consequence very rarely used.

In addition, there are difficulties with the current reporting capacity of the AMS in relation to the WID markers. The reports collate information in dollar terms only (i.e. the total value of activities, by country), not in terms of the percentage of *yes/no* responses. In order to monitor WID integration it would be much more useful to know what proportion of activities have used gender expertise, identified obstacles to women’s participation or considered the consequences for women of the activity. For the WID markers to be of use, such

information should be collated regularly across the program and progress charted. This has not been the case, perhaps reflecting the deficiencies in the current reporting system.

The Committee supports the system, in principle, but believes action is needed to refine it. This would include provision for more useful reports from the AMS, adequate training of staff in the marker system's use, improved resources for conducting quality checks, and making comments on marker responses mandatory.

### Resources

Fulfilling AusAID's commitment to gender and development requires adequate resources, both within program areas and at the policy level.

With the new GAD policy's emphasis on mainstreaming and gender analysis, training of staff will be essential for the policy's success. The programs proposed for training in implementing the new policy and gender analysis are strongly supported by the Committee.

A high turnover of staff and inadequate staff numbers in the area of AusAID responsible for GAD, have hindered the implementation and ongoing development of gender policy. In 1992, the WID unit had two staff, in addition to two WID outposted officers who provided advice to the program areas. Staff resources were reduced when the WID unit was incorporated into the Gender, Education and Social Development Section (GEDS). In late 1996, the GEDS section was amalgamated with the Health and Population Section to form the Social Sector and Gender Section (SSG). Currently, there is only one senior officer and one administrative officer dedicated to gender policy and review.

The Committee considers that priority activities for the gender sub-section include: policy development and monitoring; monitoring of WID markers; facilitation of gender audits; staff training (gender policy, gender analysis, gender checklists and WID markers); corporate advice on gender; involvement in the DAC Expert Group on gender; and production of relevant publications for both in-house and public distribution. The Committee notes the need for increased staff resources to ensure that this essential work is pursued. In addition, clear lines of accountability for policy implementation must be established, and senior management commitment to gender issues made explicit.

The availability of expert advice to desk officers is another area of concern. At current staffing levels, expert advice will not be forthcoming from SSG. Period contracts will be an important source of expertise, as should the Pacific Regional Team (PRT) and the Advisory Services Group (ASG). Given the importance to AusAID of the PRT and the ASG as providers of specialist advice, the Committee was surprised that there are no gender advisers at either the PRT or the ASG.

With the new GAD policy's emphasis on mainstreaming and gender analysis, training of staff will be essential for the policy's success.

The proposed rationalisation of the provision of sectoral advice to AusAID set out in chapter 7, includes the amalgamation of the gender sub-section into the new sectoral grouping. This should serve to address the current lack of gender expertise within AusAID, by including the creation of gender adviser positions. It will be important that resources are provided for both the policy and review functions required in overseeing gender policy, and the technical or expert advice that is needed to implement policy at the program and project level.

...the Committee recommends the introduction of regular gender audits

### **Gender audits**

To enable effective monitoring and evaluation, the Committee recommends the introduction of regular gender audits, based on AusAID's environment audit model. Suggested features include the following:

- an initial comprehensive desk audit of gender issues to provide an assessment of AusAID's integration of gender issues in its activities;
- following the initial audit, a strategy for bi-annual audits focusing on issues such as AusAID's policy and procedures for implementing gender policy, levels of integration and project management (including a field audit of selected AusAID activities);
- an audit team comprised of independent members and an AusAID officer—support would be provided by AusAID; and
- publication of audit reports, and AusAID's responses.

### **Women in Development Fund**

The Women in Development Fund was created in 1984–85 in response to the Jackson Report recommendation that a special fund be created to stimulate activities that would assist women in developing countries. The scheme provided funds mainly through NGOs for innovative and catalytic WID projects, with a view to developing expertise that could contribute to the objectives of the WID policy in the aid program. This scheme was abolished in 1996 when its funds were absorbed into the AusAID–NGO Cooperation Program, on the grounds of encouraging the mainstreaming of women in development and in order to promote the administrative efficiency of NGO programs.

There was no evaluation of the scheme before the decision made in the 1996–97 budget, so the Committee is unable to comment on the effectiveness of the scheme against its stated objectives. An obvious concern to the Committee is the risk involved in abolishing such a scheme, if the expected progress on mainstreaming is not made. A number of submissions to the Review expressed concern regarding the abolition of this scheme (as well as the NGO Environment Initiative). ACFOA noted that the scheme provided an opportunity for smaller



NGOs to utilise their specialist expertise within the aid program, in ways that would not have been possible under a full cost-sharing program such as the ANCP.

In reviewing calls for the reinstatement of the WID Fund, the Committee has faced something of a dilemma. Whilst acknowledging that the scheme was able to support important interventions for the communities involved, the Committee was also concerned that the WID Fund had been used to deflect attention from the failure to make gender equity a mainstream component of project development in other parts of the program. Whilst a difficult decision to make, the Committee supports the broader mainstreaming goals implicit in the new GAD policy, and sees scope for achieving the objectives of the WID Fund effectively and more sustainably this way, rather than reinstating the scheme itself. This is an area where the corporate implementation of policy needs to be effectively monitored.

## Conclusion

The Committee supports the integration of gender concerns throughout the program. Acknowledging that this has been a longstanding, but only partly achieved, goal of the program, the Committee recommends that more attention be paid to implementing the policy, including establishing clear lines of accountability and providing adequate resources. Systematic gender audits of the program will provide a sound basis for evaluating the agency's performance against its goals, as will improvements to the current system of WID markers.

**Recommendation 15.1** AusAID should strengthen its approach to gender and development by:

- introducing regular gender audits, based on the environment audit model, including independent members on the audit team and publishing of the reports;
- urgently reassessing the WID marker system to achieve quality assurance, including staff training and resources for quality checks; and
- allocating greater staff resources to gender monitoring, policy and coordination work, staff training and the provision of expert advice.

## CHAPTER 16: FOOD AID AND FOOD SECURITY

*Food aid has been a major component of Australia's aid program for over 30 years. Although originally conceived as a practical way in which Australia's natural bounty could be applied directly to address the spectre of hunger in the developing world, there have been growing doubts about the effectiveness of such programs in meeting the food security needs of recipients. Australia's commitment under the international Food Aid Convention has become a distorting influence on the aid program, leading to many more food aid activities in the program than can be justified on efficiency and effectiveness grounds. The Committee recommends that Australia considerably reduce its FAC commitment and, in future, use food aid primarily for emergency relief.*

### Introduction

Food aid has played a major part in international development cooperation since the late 1950s, when the United States began donating large quantities of cereals to developing countries in order to reduce its enormous food surpluses and protect domestic farmers' incomes. The creation of the UN World Food Programme (WFP) in 1963 led to a more multilateral approach to food aid, which had a stronger focus on the development needs of recipient countries. Under the Food Aid Convention (FAC) of 1967, developed countries committed themselves to provide a minimum of 4.5 million tons of wheat each year, thereby guaranteeing stability of food aid supply, irrespective of the level of food prices and stocks.

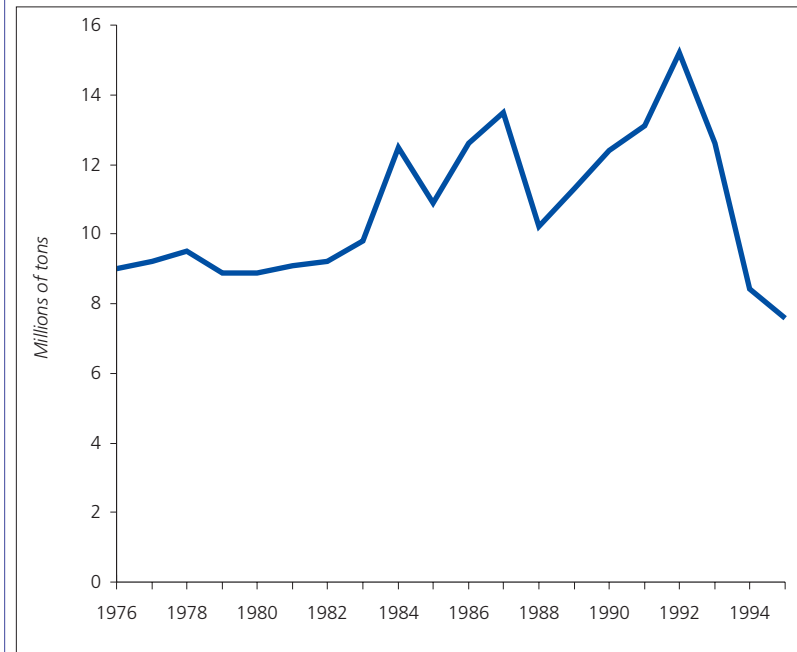
As figure 16.1 shows, there has been a marked decrease in global food aid since 1992, driven to a large extent by reduced agricultural subsidies and falling stockpiles in Europe and North America, but also by long-standing concerns among donors about the effectiveness of food aid programs.

### Food aid and food security

Although food aid programs were originally conceived as a way of addressing the immediate needs of the hungry, donors have increasingly approached the problem of hunger in terms of the broader concept of 'food security'. People are said to have food security when they have 'access at all times to safe and nutritious food to maintain a healthy and active life' (WFP 1996). This has led to an emphasis in

People have food security when they have 'access at all times to safe and nutritious food to maintain a healthy and active life'

Figure 16.1 Global food aid (cereals), 1976–1995 (millions of tons)



Source: World Food Programme (WFP 1996).

development thinking on the underlying causes of hunger, including a focus on the incidence of extreme poverty and on sustainable agricultural production, as well as the availability of food *per se*.

...Australia's contribution to global food security is much broader than just the food aid program.

In this context, Australia's contribution to global food security is much broader than just the food aid program. Within the aid program, contributions to agricultural and rural development schemes and all activities contributing to poverty reduction also have an impact on food security. Funding of agricultural research, through ACIAR and the international agricultural research centres, has also made a major contribution to global food security. This is discussed in chapter 7.

### Australian food aid

Australia has provided food aid to developing countries for many years but, unlike other countries, our food aid has not been based on the need to dispose of food surpluses. Rather, it has been based on our position as a competitive and high quality food grains producer. Australia first provided significant quantities of food aid in the early 1960s, when recipients included India, Pakistan, Sri Lanka and Indonesia. Australia has provided food aid primarily in the form of wheat and flour, but smaller quantities of rice, vegetable oil, coarse grains and high protein biscuits have also been provided.

The level of Australian food aid rose from around 200 000 tons (wheat equivalent<sup>1</sup>) per year in the 1960s and early 1970s, to around 300 000 tons after the food crisis of 1973–74. At that time, emergency assistance became an important component of the program, and African countries became significant recipients for the first time. In the early 1980s, Australia increased its commitment under the FAC to 400 000 tons and food aid expenditures rose to around 12 per cent of the aid budget. Food aid shipments declined after 1986 when the commitment was reduced again to the current level of 300 000 tons. By 1994–95, expenditure on food aid had declined to \$89 million, or 6 per cent of the total aid program. Australia's commitments to the FAC are to be renegotiated before the current agreement ends in June 1998.

There are three main channels for providing food aid under the Australian aid program:

- contributions under Australia's biennial pledge to the development work of the World Food Programme;
- bilateral development food aid—provided directly to recipient governments, either on a program basis for budgetary support, or to support specific development activities; and
- food aid for emergency and refugee relief activities.

Figure 16.2 shows the trend in allocation of Australian food aid between these three channels over the last ten years. It shows a major reduction in the amount of food aid being provided in the bilateral development food aid category and an increase of just over 20 per cent in allocations to the WFP. Food aid for emergency purposes has not altered markedly over the period, despite an increase in the number of major humanitarian crises over recent years.

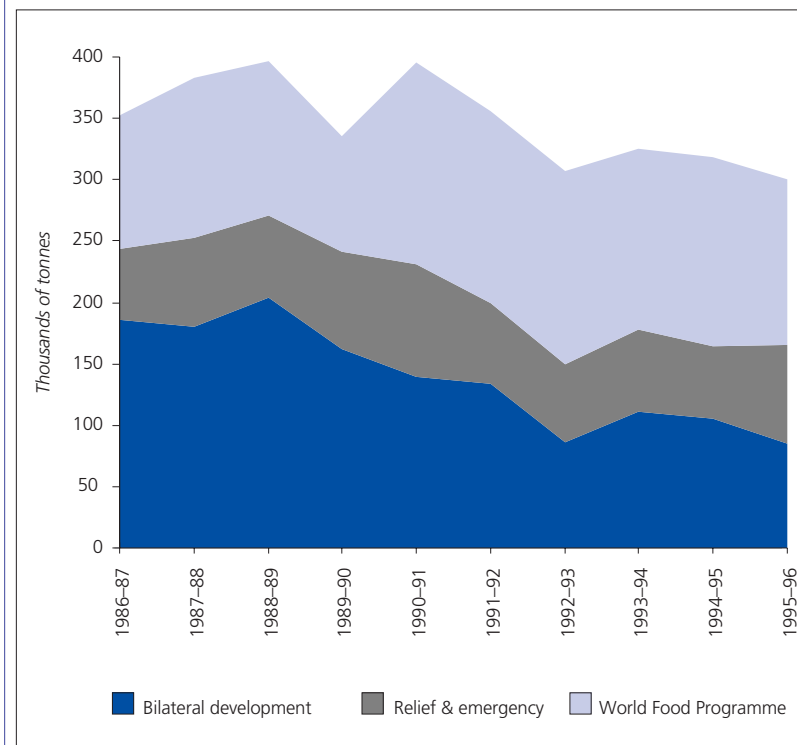
In the three years from 1992–93 to 1994–95, approximately 43 per cent of Australian food aid through the bilateral development and relief and emergency categories was allocated to countries in Africa. South Asian countries received 33 per cent, and 14 per cent was allocated to East Asia.

In 1996, AusAID conducted a major *Review of Australia's Food Aid Programs* (AusAID 1997d), examining all food aid activities supported by the Agency. The Committee has drawn on some of the research data from this review in the following outline of food aid issues.

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<sup>1</sup> Wheat equivalent is the international measure, adopted under the Food Aid Convention, which enables contributions of a range of food products to be compared.

**Figure 16.2 Key components of Australian food aid, 1986–87 to 1995–96 (thousands of tonnes, wheat equivalents)**



Source: AusAID.

## Efficiency and effectiveness of food aid programs

This section reviews international experience on the efficiency and effectiveness of providing food aid for the three main purposes for which it is used: as program food aid for budgetary support; food aid for development projects; and food aid for emergency and refugee relief activities.

### Program food aid as budgetary support

In the 1960s and 1970s, the bulk of Australia's food aid was donated in large quantities to recipient governments, often without being linked to any specific development projects. This form of assistance, which is often referred to as 'program' food aid, has been used mostly as a form of general budgetary and/or foreign exchange support for recipient governments. It is provided to countries with a need to import food, so that the food aid simply displaces commercial imports, thus saving the country scarce foreign exchange. One advantage of such programs is

their simplicity: major resource transfers can be made to recipients without the need for elaborate project designs, implementation contracts or detailed monitoring. Bulk grain shipments from Australia can be sold easily ('monetised') by the recipient government to generate funds for government programs.

However, there are many potential disadvantages of such arrangements. Unless the proceeds from the sale of food are linked to particular development activities in country, the donor has little control over how this form of assistance is used. In effect, the donor is providing general revenue support for all government programs, including military, internal security and political expenditures, not just development programs. Like all forms of general budget support, it can also have the effect of relieving the pressure on governments to press ahead with much needed policy or structural reforms.

Program food aid can also have a negative impact on a recipient country's food security. If large quantities of food aid are sold locally by recipient governments at less than the international price, this can depress local food prices and discourage local agriculture. The result can be reduced national food production, lower income for farmers, lower farm employment and increased national dependency on food aid and expensive food imports. The mounting international evidence of such impacts is one of the reasons why program food aid has been in decline for many years. Mozambique is the only country which currently receives this kind of assistance from Australia.

The Committee believes that AusAID is right to have limited the use of program food aid and that it would be best to discontinue this form of assistance altogether.

### **Food aid for development projects**

In order to ensure that the benefits of food aid programs reach those most in need, food has been used directly to support rehabilitation and development projects in recipient countries. Most of the assistance Australia provides through the World Food Programme has been allocated to development projects through food-for-work schemes. Similar food-for-work projects have been supported through AusAID's country programs (most recently in Bangladesh and Cambodia) and through the humanitarian relief programs in Ethiopia, Eritrea and other countries.

The provision of bulk food commodities can have some advantages over providing assistance in cash. Food is easier to monitor and is less susceptible to theft or corruption than cash. In countries suffering from high inflation, food commodities retain their value over time while cash reserves do not. Food can also be used where there is a need to improve the nutritional status of recipients. Food-for-work projects tend to be self-targeting on the poor and unemployed, since the terms of employment are often unattractive to those who are better off.

Unless the proceeds from the sale of food are linked to particular development activities in country, the donor has little control over how this form of assistance is used.

**Box 16.1 The role of food aid: excerpts from submissions**

'...NFF recognises that natural disaster and civil war will mean that many developing nations will require ongoing emergency assistance and we support an effective food aid program for these purposes. NFF is concerned about the long term reduction in the volume of Australian food aid and recommends that the Government ensure an effective contribution to the World Food Programme.' *National Farmers' Federation*

'I advocate a reduction in food aid, except in emergency relief situations, having regard to the potentially negative effect of food imports on the development of indigenous farming capacity.'  
*Professor Ross Humphreys*

'UNICEF Australia supports the need for food aid to remain an important component of Australia's aid budget. However, Australia's substantial obligation to provide food aid under the Food Aid Convention, poses some questions regarding effective delivery of aid during humanitarian crises. That is, effective non food aid emergency interventions such as health, education, water and sanitation, de-mining and disaster prevention, all of which contribute to long term stability, are marginalised in favour of food aid in order to meet Australia's commitment.' *UNICEF Australia*

'In 1994, Australia signed on to a commitment of 300 000 MT of grain per year...At the time CAA objected to the Government signing at this level as it distorted aid priorities by committing food aid ahead of other activities...In 1996 with substantially higher grain prices and a falling aid budget, the distortion the FAC creates in effective aid programming has intensified. The main area food aid can be used is in the humanitarian programs in which certain amounts of food aid are clearly required...Recommendation 7a: That the Australian Government seek to renegotiate its obligations under the FAC to reduce the amount and in time seek to phase out altogether from this international obligation based on shipments of food to one based on fixed levels of aid expenditure on direct food security programs.' *Community Aid Abroad*

...project food aid can act as a disincentive to local agricultural production.

However, project food aid can also act as a disincentive to local agricultural production. As is the case with program food aid, the injection of large quantities of imported food commodities over a period of years can suppress local produce prices and discourage investment in agriculture. This can lead to dependency and reduced, rather than increased, food security. These ill effects can be minimised by targeting the food inputs to those who are too poor to have purchased food in the absence of assistance, but this is an inexact

process and there are often leakages to the local food markets, with a consequent impact on prices.

Even in cases where providing food is the best option for project implementation, the costs involved in transporting it from Australia can be quite prohibitive: it can be cheaper to buy it either within the country or in another developing country in the region. This can be not only more cost effective, but also can have a more positive impact on agricultural production in these countries.

In other projects, AusAID has used food aid as an indirect way of raising funds in-country for development project expenditures. For example, a large shipment of Australian wheat would be sent to the recipient country and sold on local markets. The funds would then be used either for general project expenses or to buy a more appropriate form of food for use in food-for-work projects. Such monetisation or 'triangular swap' schemes are often an inefficient use of scarce aid resources, since the transportation and marketing costs usually result in losses against the original aid expenditures. It is less costly and much simpler to support such projects through direct financial contributions.

There are two reasons why food aid has been used in these inefficient ways in the aid program. Firstly, it can assist Australia to meet its commitment under the Food Aid Convention, and secondly, the use of food as a medium of exchange enables AusAID to tie the financing of projects to the purchase of Australian products. This practice of tying food aid to Australian supply means that AusAID is most likely missing opportunities for more cost-effective local or regional purchases.

### **Emergency food aid**

The case for emergency food aid is stronger than for other uses of food aid. In many of the situations where it is required, local agricultural production and marketing systems have ceased to function, either because of war, civil disturbance, mass migration, or natural disasters. In such cases, the only way in which large, hungry populations can be kept alive is to bring large quantities of food from other countries. Often, this is most cost-effective and timely if shipped from the large developed country producers, including Australia. Since local production and marketing are already disrupted, adverse effects on prices or agricultural production are minimal, at least in the short term.

However, providing assistance in the form of cash can be advantageous for emergency food aid programs, as it provides greater flexibility to the implementing agency (often the WFP) in choosing between suppliers. In some cases, it may be possible to procure food commodities more cost-effectively or with less delay in the region where the emergency is occurring, rather than shipping it from Australia.

The case for emergency food aid is stronger than for other uses of food aid.

In some cases, it may be possible to procure food commodities more cost-effectively or with less delay in the region where the emergency is occurring



Another area of concern with emergency food aid programs is the proper management of the transition to rehabilitation and development phases once an emergency has passed. Although adverse impacts on agriculture and food production may not be a major issue in the short term, agricultural and trading systems will normally be rebuilt quite quickly after an emergency, provided that international assistance programs do not discourage this. To avoid the potentially distorting effects on local economies, emergency food aid programs need to be carefully structured so that food dependency does not persist into the rehabilitation and development period. This is a difficult area however, and AusAID has mostly relied on the expertise of its implementing partners—UN agencies and NGOs—to deal with these issues.

**Recommendation 16.1** Food aid should be used primarily for emergency and refugee relief activities. It should be used for development projects only in cases where it is the most appropriate way to resource a project and there is no risk of adverse impact on local food production. Food aid should not be used for the purpose of general budgetary or foreign exchange support.

## Australian food aid—policy and management issues

### Supply driven distortions

AusAID's management of food aid programs has clearly been dominated by the requirement to meet Australia's commitment under the Food Aid Convention.

AusAID's management of food aid programs has clearly been dominated by the requirement to meet Australia's commitment under the Food Aid Convention. The Committee believes this has led to serious distortions in aid programming.

Under the FAC, Australia is required to supply a minimum of 300 000 tonnes of food aid every year. However, AusAID appears to have been struggling for many years to identify and manage sufficient food aid activities to meet this commitment, whilst also meeting efficiency and effectiveness criteria for good aid. These pressures have led AusAID to impose less scrutiny on food aid activities than on other forms of assistance. As a result, it is likely that projects have been supported which have been less than cost-effective and in some cases may have had adverse long-term impacts on the food security of recipient countries. In order to address these distortions, the Committee believes that the commitment to the FAC should be reduced as soon as possible.

One likely complication in the FAC renegotiation process is the implications of the Marakesh Agreement of the Uruguay Round on

trade and agriculture in 1994. At Marakesh, developed countries, including Australia, recognised that some developing countries could be adversely affected by the implementation of the Agreement. They committed themselves to 'review' the level of food aid under the Food Aid Convention in order to 'establish a level of food aid commitments sufficient to meet the legitimate needs of developing countries during the reform program'.<sup>2</sup> Although the wording is quite general, this could be used to argue against any reduction in Australia's commitments to the FAC.

In the Committee's view, the key issue here is food security rather than food aid, and as we have noted in the discussion above, the two are by no means synonymous. If Australia were to fund additional measures to compensate developing countries for the impact of the Uruguay Round, these should focus on assistance to food security and not food aid. This perspective is consistent with another section of the Marakesh Agreement, which committed developed countries to also 'give full consideration in the context of their aid programmes to requests for the provision of technical and financial assistance to least-developed and net food-importing countries to improve their agricultural productivity and infrastructure'.

**Recommendation 16.2** Australia should substantially reduce its commitment to the Food Aid Convention when the current agreement is renegotiated. Australia's commitments to compensate developing countries for the negative impact of the Uruguay Round Agreement should be met in the form of assistance to food security and not through increased food aid.

### Commercial objectives of food aid

Commercial pressures on the Australian aid program have also distorted food aid programs through the excessive emphasis on the purchase of food in Australia. There appears to be no clear policy on whether or not food aid is tied. Although goods procurement for the aid program as a whole is now, in principle, untied, and food aid procured overseas can also be counted under our FAC commitments, AusAID appears in practice to tie nearly all of its bilateral food aid purchases to Australian supply. This has been justified in part on practical grounds, but also by the benefits which accrue to Australian grain producers, both through direct purchases and market development overseas. This is the point of view expressed in the submission by the Department of Primary Industries and Energy:

<sup>2</sup> Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least Developed and Net Food-Importing Developing Countries, appendix to GATT (1994).

Commercial pressures on the Australian aid program have also distorted food aid programs through the excessive emphasis on the purchase of food in Australia.

‘...there are sound reasons for Australia to continue to maintain a food aid program:

- ...it helps to underpin Australia’s international efforts at further agricultural trade liberalisation and in containing the debate on food security by providing a mechanism towards meeting the food needs of food deficit developing countries...
- sales of grain and pulses to AusAID for food aid purposes provide a useful, if minor, outlet for Australia’s grains industry
- food aid can assist the development of commercial markets for Australian agricultural commodities...
- Australia has new obligations under the Uruguay Round outcome to address the special needs of net food importing developing countries...

‘There needs to be increased recognition of the commercial benefits to Australia from its food aid program. AusAID, in conjunction with other Government agencies and industry, will need to consider options for maximising the commercial benefits arising from food aid.’

...the direct commercial benefits from this tied procurement are, in reality, likely to be quite modest.

However, the Committee concurs with the analysis in the preliminary draft of AusAID’s *Review of Australia’s Food Aid Programs* (AusAID 1997d) and concludes that the direct commercial benefits from this tied procurement are, in reality, likely to be quite modest. Unlike some other major grain producing nations, Australia in most years does not maintain large surplus carry-over stocks. This means that if AusAID were to discontinue its domestic food aid purchases, in most years the food produced in Australia would still be sold on international markets.

In principle, it could be argued that the additional demand resulting from AusAID purchases might lead to some sort of price premium. However, AusAID’s food aid purchases account for only one to three per cent of wheat exports, and so are unlikely to have any significant impact on prices. Under these circumstances, food aid purchases can have little more than marginal impact on either Australia’s exports or the returns to Australia’s farmers.

As a secondary consideration, it was not clear to the Committee that AusAID has been getting full value for money for its purchases of major food aid commodities from the relevant Australian marketing authorities. AusAID’s purchases from the Australian Wheat Board, for example, are conducted on the basis of the Board’s average monthly pricing mechanism, or ‘card prices’, whereas other significant buyers are able to negotiate discounts on these standard prices. The Committee is not convinced that AusAID, with its mainstream public service culture, has sufficient market intelligence, commercial skills and experience to be able to negotiate competitive prices for such large and specialised purchases. There may be scope for AusAID to engage

specialist advice in conducting its negotiations with the Wheat Board and other marketing authorities for food aid purchases.

Tying food aid to Australian supply also has a bearing on purchasing arrangements. If food aid were not, in practice, tied, AusAID would not only be able to seek the most cost-effective supplier for food commodities on the international market, but also would be in a stronger position to negotiate competitive prices for food aid purchases from the respective Australian marketing authorities. However, the Committee believes that, in principle, Australian food aid should not be sourced from those European or North American countries which retain either implicit or explicit price support mechanisms for their grain exports. For this reason, food aid purchases should be untied only with respect to developing country producers.

As is noted in chapter 10, Australia's interests would be well served if other donor countries were to untie their aid procurement, and food aid is a good example of this. As a competitive supplier, Australia has much to gain from encouraging the donor community to untie its food aid purchases, and partially untying our own food aid program would be a positive step in encouraging such changes.

**Recommendation 16.3** The procurement of food aid should be partially untied, so that food commodities may be purchased either from developing countries or from Australia and New Zealand, whichever is the most cost-effective source.

### Cooperation with the World Food Programme and non-government organisations

Approximately one half of Australia's commitments to the Food Aid Convention are met through direct support for the UN World Food Programme (WFP), under a biennial pledge amounting to some \$50 million per year of expenditure. In addition, the WFP is an implementing partner for much of Australia's bilateral and emergency relief food aid activities. The WFP is widely regarded in international development circles as one of the more effective UN development organisations. It has a clear mandate and is responsive to the interests and requirements of donor countries. It has an acknowledged strength, through its global logistics capability, in supplying bulk food commodities, particularly in emergency situations. However, it is not without its weaknesses.

Other donors have encouraged the WFP to move away from its previous focus on development projects, which often had mixed results, and to concentrate the organisation's efforts in areas where it

...Australia has much to gain from encouraging the donor community to untie its food aid purchases, and partially untying our own food aid program would be a positive step in encouraging such changes.

The WFP is widely regarded as one of the more effective UN development organisations.

AusAID could do more to challenge the WFP on the effectiveness of its development projects and should reduce its financial support for them.

has a clearer specialist role, i.e., emergency and relief food aid. The drop in donor support for WFP's development activities is reflected in the share of donor contributions which is allocated to WFP's development projects. This has fallen from 50 per cent of their contributions in 1990 to 33 per cent in 1995. However, Australia has been slow to support this trend. All of Australia's biennial pledge is still allocated to the WFP's development programs. Australia's decision to channel all its programmed humanitarian relief food aid in 1996-97 (around \$30 million) through WFP's emergency and protracted relief operations will increase the share of Australia's support which is allocated to relief activities. However, it will remain lower than support for WFP development projects. Given the lingering concerns about the adverse effects of development projects which are driven by the need to provide assistance in the form of food, AusAID could do more to challenge the WFP on the effectiveness of its development projects and should reduce its financial support for them.

The WFP has argued that it needs to maintain a core of development project operations in order to maintain its global food transport and storage infrastructure. In order to supply its development programs, the WFP maintains stocks of food in many parts of the world, and at any one time has many shipments in transit. These stocks often become a valuable resource in times of humanitarian crisis. For this reason, although support should be reduced, Australia should not discontinue altogether its support for WFP's development programs.

A major multi-donor evaluation (Chr. Michelsen Institute 1993) was critical of the WFP's project design capacity and monitoring and evaluation processes, citing a lack of impact evaluations and of any assessments of the effectiveness of emergency relief projects. The WFP has subsequently initiated changes in these areas, but AusAID should continue, along with other donors, to push for further improvements in these critical areas.

In recent years, the WFP has made very sensible changes to clarify its role in relation to the UNHCR, and community delivery organisations such as NGOs, for emergency relief programs. WFP has adopted a wholesaler/retailer model, whereby it has concentrated its role around its strengths in large-scale food transport and storage. Food distribution at the community level has increasingly been passed to NGOs and recipient government institutions which have the community networks that make them more efficient at the task.

AusAID has recently decided to simplify its management of emergency food delivery by channelling all of this assistance for 1996-97 through the WFP, which will in turn contract individual NGOs for the distribution. This move has clear advantages in terms of simplified administration for AusAID, but some NGO submissions

suggested that channelling food aid directly through NGOs has advantages in terms of Australian identity and cost-effectiveness. AusAID should review the appropriateness of these new arrangements after the first year of implementation.

**Recommendation 16.4** Australia should continue to support the World Food Programme, particularly in its important role in emergency situations, but assistance for its development activities should be reduced.

The Committee believes food aid is a good example of how the undue influence of commercial imperatives on the aid program has come to distort aid priorities, at the expense of development effectiveness. These pressures have led not only to an over-reliance on commodities sourced from Australia, but also to a larger volume of food aid activities than could be supported on efficiency and effectiveness grounds alone.

There will be circumstances in which food aid will be the most appropriate mechanism for assistance, particularly in emergency situations, but AusAID's use of this form of assistance must be based on rigorous analysis of both the needs in country and the advantages of food aid over alternative mechanisms. Food commodities should be regarded as no more than one of the options available to AusAID, and food aid proposals must compete on their merits.

AusAID's use of this form of assistance must be based on rigorous analysis of both the needs in country and the advantages of food aid over alternative mechanisms.

## CHAPTER 17: NON-GOVERNMENT ORGANISATIONS

*Non-government organisations are more than convenient channels for official assistance. Clearer recognition should be given to their broader contributions to the development process. This includes representing community views on aid policy and program issues, their contribution to the development of civil society and their ability to mobilise voluntary community contributions. However, NGO claims to special advantages in areas such as cost-effectiveness and poverty impact must be tested through independent evaluation of their performance. Having considered the arguments for and against the wider application of cost-sharing arrangements in NGO programs, the Committee concludes that, on balance, the wider application of cost-sharing is not in the best interests of AusAID-NGO cooperation.*

### Introduction

Non-government organisations include a large and diverse range of community groups which have long played an important role, both internationally and in Australian society. The defining characteristics which bring this diverse group together have been described by Ball and Dunn (1994) as follows:

- they are formed voluntarily;
- they are independent of government;
- they are not for personal private profit or gain; and
- their principal aim is to improve the circumstances and prospects of disadvantaged people.

The Industry Commission has called these groups 'Community Social Welfare Organisations' and has estimated that between 10 000 and 11 000 of them receive government funding in Australia, employing about 100 000 paid staff and that they benefit from some 95 million hours of volunteer effort each year (Industry Commission 1995). Most are involved in some form of community development or social welfare function *within* Australia, receiving over \$2.6 billion in government support for this work in 1993–94.

Overseas development NGOs are a much smaller sub-group of these organisations, with around 120 currently operating in Australia. Even within this small group however, there is great diversity, ranging from very small to quite large, and from religious to secular. Some are local affiliates of large international organisations, while others are

...by 1995, they raised each year around \$170 million from the Australian community for overseas development.

wholly Australian. Some are operational from Australia, while others pass funds on to partner implementing NGOs in the field. NGOs also vary markedly in the types of activities they support and the level of direct support they receive from community donations. A small number of NGOs pioneered private overseas aid during the colonial period before World War II, before the advent of Official Development Assistance. Many more, however, were established in the post-war period, and by 1995, they raised each year around \$170 million from the Australian community for overseas development.

NGOs make a valuable contribution to the official aid program through a wide range of activities, including community development, volunteer placements, transfer of appropriate technologies, emergency and refugee relief assistance, environmental and women's development projects, food aid projects, policy dialogue and advocacy on development issues, and capacity building with indigenous organisations.

### **Growing cooperation between NGOs and AusAID**

In 1984, the Jackson Committee recommended that the then modest support schemes for NGOs be amalgamated into a single 'ADAB-Voluntary Agencies Program', which would be largely based on the principle of matched funding. It also recommended that Government funding for NGOs should be at least doubled from one per cent of total development assistance which was allocated for this purpose in the early 1980s.

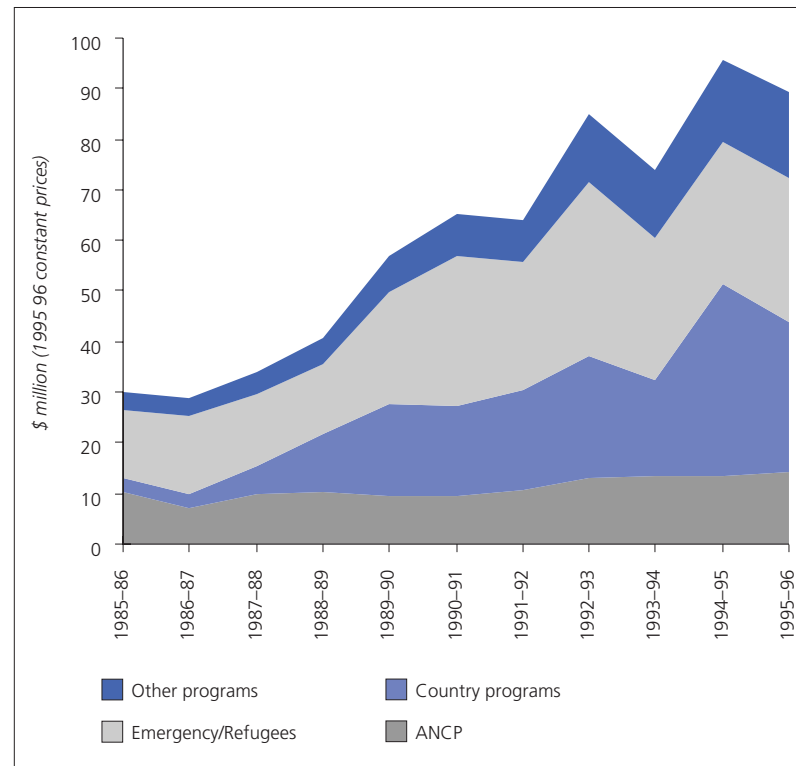
Official funding for NGOs has grown from \$20 million, or less than 2 per cent of the aid budget in 1985–86, to \$115 million or 7.4 per cent in 1995–96.

The single, amalgamated scheme did not eventuate. However, in the years following the Jackson Review, official funding for development NGOs did grow rapidly, following the trend established earlier in other donor countries. Official funding for NGOs has grown from \$20 million (in current dollars), or less than 2 per cent of the aid budget in 1985–86, to \$115 million or 7.4 per cent in 1995–96. Some \$89.3 million was channelled through Australian NGOs and the remaining \$25.3 million through non-Australian NGOs. Figure 17.1 shows how AusAID's support for the work of Australian NGOs has grown in real terms over the last decade.

Much of the growth in NGO funding has come from the establishment of a range of country-specific NGO programs or 'country windows'. This arose in part from the implementation of the Jackson recommendation that country programming become the primary organisational principle for AusAID's bilateral and regional assistance. In 1996, AusAID conducted 16 programs designed primarily or exclusively for access by NGOs, including eight windows within country programs. Box 17.1 describes the main AusAID programs supporting the work of NGOs.



**Figure 17.1 Official assistance channelled through Australian NGOs, 1985–86 to 1995–96 (\$ million, 1995–96 constant prices)**



Source: AusAID-NGO Cooperation Reports, various years.

#### Box 17.1 Key AusAID programs for Australian NGOs

**The AusAID-NGO Cooperation Program (ANCP):** The ANCP is the core of AusAID's NGO programs. Most ANCP agencies are given an indicative planning figure each year indicating how much ANCP money they are entitled to draw on. This is calculated as a share of the total ANCP budget, determined by the amount of funds raised from the community which each NGO spends overseas (Recognised Development Expenditure or RDE). For example, an agency which spends \$6 million of community funds overseas (about 7 per cent of the total RDE of all the NGOs), would be allocated around 7 per cent of the ANCP budget, or just over \$1 million. More capable agencies are accredited as *program agencies*, and supported on a *program* basis on a 3:1 subsidy ratio: they would match the \$1 million of AusAID funds with around \$330 000 of their own funds to support a program of activities.

Program agencies submit an annual program outline providing details of the projects to which the AusAID funds will be directed, but AusAID does not vet the projects. However, for agencies at the lower level of accreditation, a joint AusAID-NGO panel appraises individual project proposals and agencies are entitled to only a 1:1 subsidy. The ANCP had a budget of \$14.1 million in 1995-96.

*The country program NGO windows:* There are currently eight country or region specific NGO programs (for Bougainville, Burma, Cambodia, China, Laos, Philippines, southern Africa and Vietnam) for exclusive access by NGOs. AusAID normally provides 100 per cent of the operating cost of the projects, although NGOs usually cover project design and overhead costs. AusAID sets broad parameters for the type of activities to be supported, indicating which regions or sectors should be the focus in each country. Funding is provided for individual projects proposed by the NGOs but chosen through competitive selection processes. \$29.8 million was provided through Australian NGOs in the country windows in 1995-96.

*Funding for NGO emergency and relief activities:* In 1995-96, \$28.3 million was provided to Australian NGOs for rapid response in times of emergency or longer term refugee and relief operations. AusAID allocates the available funds between UN appeals and the various NGO proposals and provides up to 100 per cent of the cost of such NGOs projects. However, many NGOs provide some contribution of their own.

*Other support for Australian NGOs:* In addition to the above, in 1995-96, AusAID provided \$12 million to Australian agencies sending volunteers abroad, \$1.55 million for small projects under the NGO Environment initiative, \$1.3 million under the Women in Development Small Grants Scheme (both of these schemes were discontinued in 1996), and a further \$2.2 million for a range of smaller programs and activities, including a core grant for the Australian Council for Overseas Aid (ACFOA), the peak body for Australian development NGOs.

## Recent changes to AusAID's programs supporting NGOs

Over the last three years, AusAID and NGOs have participated in an intense and wide-ranging re-examination of their growing cooperation. This dialogue was stimulated by a number of things, including: an AusAID *Review of the Effectiveness of NGO Programs* (AusAID 1995d); an Industry Commission inquiry into charitable organisations in Australia

(Industry Commission 1995); the development in 1996 of a draft Code of Conduct for NGOs; and a study by the Australian National Audit Office of AusAID's NGO Programs (ANAO 1996).

This examination led to recommendations for changes to AusAID's NGO programs. A series of proposals to streamline administration and improve accountability and performance measurement were approved by the Minister for Foreign Affairs, Mr Downer, in July 1996 and are gradually being introduced. They include:

- standardisation of administrative procedures across all NGO schemes, including proposal, budget and reporting formats and selection procedures;
- new funding eligibility procedures whereby NGOs will be accredited, based on criteria relating to their constitution, their management and financial systems, and their capabilities as development organisations;
- changes to project monitoring whereby overseas posts will no longer regularly monitor NGO projects, and NGO project reporting will be reduced to once a year;
- a new performance monitoring system for all schemes to assess achievement against scheme objectives; and
- the incorporation of funds from the NGO Environment Initiative and the Women in Development Small Grant Scheme into the ANCP.

The Review Committee commends both AusAID and the NGO community for their constructive approach to this reform process. We believe it will lead to significant improvements in the administration of NGO programs, including reduced micro-management by AusAID and increased effectiveness and accountability.

However, the Committee notes that most of these changes will not apply to the fastest growing area of AusAID's NGO program—the funding of local NGOs in developing countries. Some NGO submissions to the Review pointed out this discrepancy in the level of scrutiny applied to the two sets of programs, expressing concern in particular about the lower accountability requirements for local funding programs. The Committee believes that this area should be reviewed by AusAID to ensure that the rigorous standards now required of Australian NGOs are in future also applied to their overseas counterparts.

**Recommendation 17.1** AusAID should re-examine the arrangements for funding of local NGOs in developing countries, to ensure that rigorous standards of effectiveness and accountability are applied to these programs.

A series of proposals to streamline administration and improve accountability and performance measurement are gradually being introduced.

...there has been no cohesive policy statement outlining the role of NGOs in the official program, or the objectives for Government support.

## Objectives for AusAID's cooperation with NGOs

While the administrative changes outlined above are being progressively implemented, the Minister has specifically asked the Review Committee to 'examine the broader principles of cooperation between AusAID and NGOs', including proposals for the greater application of cost-sharing arrangements in NGO programs.

The rapid growth in funding for NGOs over the last decade no doubt reflects many diverse aims and influences, but the Committee believes there has been a lack of clarity in AusAID's NGO policies. Although a wide range of special programs has evolved to support the work of NGOs, there has been no cohesive policy statement outlining the role of NGOs in the official program, or the objectives for Government support.

The Committee believes that NGOs have a special role to play in the official aid program and are a distinct kind of development partner because, unlike other potential implementing partners:

- NGOs are an expression of community interest in overseas development and bring to their cooperation with AusAID considerable public support and voluntary contributions;
- as community organisations, NGOs have a unique part to play in representing community views on the direction and management of the official aid program and in promoting community awareness about development issues;
- their independent, non-government status means they are able to make an important contribution to the growth of civil society in recipient countries, particularly by building the capacities of indigenous NGOs;
- NGOs often have long-established working partnerships with community groups in recipient countries, which enables AusAID to support small scale community level activities, and engender long term commitment by recipient communities to such projects; and
- as independent development organisations they can act as conduits for the provision of assistance in areas where direct government-to-government assistance may be difficult or inappropriate.

NGOs also often claim special skills which make them valuable partners in development programs in areas such as: designing and implementing projects which directly target the poor; participatory approaches to development; emergency assistance; micro-enterprise development; appropriate technology; and capacity building for community groups. NGOs also often have greater flexibility in their operations. They have been a major source of innovation in development cooperation programs.

The value of NGO contributions to the official aid program is reflected in the findings AusAID's 1995 *Review of the Effectiveness of NGO Programs*. The Review concluded that 90 per cent of the surveyed projects could be considered broadly successful in the achievement of their stated objectives, and that 'the Agency's NGO programs have made an effective contribution to the over-arching goal of sustainable social and economic advancement of the peoples in developing countries' (AusAID 1995d).

For these reasons, the Committee believes that NGOs are valuable partners for the official aid program. AusAID would maximise the effectiveness of NGO programs by shaping them around the particular strengths and advantages which NGOs offer as development partners. This would also help to reinforce those special qualities and to make more transparent the reasons for having NGO programs in the first place.

The Committee supports the proposal contained in the *Review of the Effectiveness of NGO Programs* that AusAID issue a formal statement of policy principles and objectives for the Agency's cooperation with NGOs, to guide the future development of the relationship.

**Recommendation 17.2** AusAID should develop a formal statement of policy principles and objectives for the Agency's cooperation with NGOs, based on the following objectives:

- to support the valuable work of NGOs in advocacy and the development of civil society, on the basis of their role as independent representatives of community interests in overseas development;
- to encourage the mobilisation of voluntary community contributions to overseas aid; and
- to provide assistance to areas where it may be inappropriate for AusAID to use other channels for assistance, including:
  - small scale, community-level development activities, drawing on long-term partnerships with overseas community organisations; and
  - areas of civil unrest, war or emergency, or in sectors or countries where there are sensitivities in working directly with recipient governments.

AusAID would maximise the effectiveness of NGO programs by shaping them around the particular strengths and advantages which NGOs offer as development partners.

## Accreditation, evaluation and NGO performance

While the Committee believes that NGOs have a special role in the official development cooperation program, and often have some of the special skills mentioned in the previous section, there is enormous variation in the capabilities of this diverse set of organisations. For this reason, AusAID cannot take all the claimed capabilities of NGOs for granted. The Committee believes that AusAID could do more to test and evaluate NGO capabilities, for example:

- by ensuring that the new NGO accreditation process is not treated simply as a formality, but is implemented with rigour: those NGOs which do not meet high standards should not be accredited;
- by developing a sound and consistently applied performance monitoring system for NGO programs, as agreed by the Minister in 1996;
- by conducting special thematic studies of NGO capabilities; and
- by encouraging NGOs themselves to undertake more frequent independent assessments of their performance.

NGOs often claim to be superior development partners, but AusAID should encourage NGOs to bolster these claims by commissioning independent and objective evaluations of their work

The last point has been, until fairly recently, a neglected area. In chapter 9 we argued that there were significant shortcomings in the evaluation arrangements for the official aid program: the situation with regard to NGO evaluation appears to be no better. Much of the evaluation material prepared by Australian NGOs is either for internal consumption, or is released publicly only in edited form in promotional material. NGOs often claim to be superior development partners, but AusAID should encourage NGOs to bolster these claims by commissioning independent and objective evaluations of their work and publishing these to enhance public accountability. Those NGOs that do so should have this recognised in AusAID's accreditation and selection procedures.

AusAID itself will also need to ensure that the new NGO performance monitoring arrangements approved under last year's package of administrative reforms are implemented thoroughly and consistently across all the NGO windows. The independent Office of Evaluation recommended in chapter 9 should be involved in the development of these new evaluation arrangements.

Part of the purpose of this enhanced attention to NGO performance will be to collect and analyse data on some of the generic advantages that are claimed for NGOs, in order to better inform the development of AusAID's NGO programs. In view of the renewed focus on poverty reduction in the aid program, it would be useful to have access to independent studies which assess whether NGOs really are more effective at making sustained improvements in the lives of the poor.

Another fertile area for evaluation is the issue of cost-effectiveness. During the course of the Review, NGOs claimed that they are cheaper than other delivery agents, and that this is sufficient of itself to justify special programs for NGOs. NGOs certainly have a reputation for cost-effective approaches to development, drawing in many cases on voluntary resources and operating at low overhead costs. Unfortunately, the evidence to support these widespread perceptions has not been documented.

The lack of evidence appears to reflect the difficulty of making fair comparisons between NGO projects and those implemented by other kinds of organisations—which often have very different goals, approaches, and scales of operation. However, the Committee believes that a study of the relative cost-effectiveness of NGOs and alternative delivery channels would provide useful information for AusAID policy development. This might involve identifying and analysing examples of comparable projects implemented by NGOs and by other implementing agents, such as consulting companies or UN development agencies.

**Recommendation 17.3** AusAID should commission, in cooperation with NGOs, an independent study of the relative cost-effectiveness of NGOs as a channel for development cooperation.

## Rationale for the country program NGO windows

The strongest growth in AusAID funding for Australian NGOs has come from the rapid development of a range of country or region specific ‘windows’ for the exclusive access of NGOs. The rationale for such country windows was questioned (ACIL submission) during Review consultations:

‘While project assistance implemented through NGOs is quarantined from competition, except amongst NGOs, it is in fact part of the continuum of project assistance at different levels of social and institutional structures...There appears to be no reason why assistance through NGOs should be artificially segregated from other project aid.’

The Committee considered the opening up of these country windows to competition from other service providers such as universities, professional bodies, government departments and private companies. This could be done, for instance, by reshaping the windows as *community development* programs, run along similar lines, but open to applications from other suppliers. All suppliers would be required to

The strongest growth in AusAID funding for Australian NGOs has come from the rapid development of a range of country or region specific ‘windows’ for the exclusive access of NGOs.

...the Committee believes that the country windows should not be opened up to alternative suppliers.

meet project identification, design and overhead costs, just as NGOs are under the current windows. Although opening up the windows would increase contestability, it does present some problems:

- In a few country windows, only NGOs would be able to participate, because of political or diplomatic difficulties. Often, only NGOs can operate in areas of civil unrest, or where the recipient government is not recognised by Australia.
- NGOs play a distinct role in community development which other suppliers are unlikely to be able to replicate. One of the strengths of NGO projects is that they are often based on long-term partnerships with indigenous community organisations, which has significant benefits in terms of reduced cost, enhanced community commitment and sustainability.
- The current country windows are conducted on the basis of a thorough pre-accreditation of the participating NGOs as effective not-for-profit development organisations, which then allows AusAID to devolve to participating agencies considerable responsibility for project implementation and monitoring. In order to allow other suppliers to participate, AusAID would have to abandon this accreditation regime, lower its pre-qualification requirements, and return to detailed project monitoring.

The Committee is convinced that AusAID's NGO windows have been developed to meet the specific needs of particular country programs by building on the special advantages of NGOs as development partners. In most cases, it is unlikely that these needs could be met by other types of organisations. The existing arrangements already provide for considerable contestability for these funds, as over 70 accredited NGOs are able to put forward proposals on a competitive basis. For these reasons, the Committee believes that the country windows should not be opened up to alternative suppliers.

It is important, nevertheless, that the NGO windows do not develop a life of their own—they should be opened and closed as the need for such activities in particular country programs waxes and wanes. They should be administered, as should other elements of country programs, in accordance with the programming priorities for poverty reduction outlined in chapter 4.

## Cost sharing

The *Review of the Effectiveness of NGO Programs* (AusAID 1995d) recommended that 'AusAID seek wherever possible in future to cooperate with NGOs on a cost-sharing basis'. Non-government organisations make a significant contribution to ANCP projects and often meet some of the costs of activities supported through AusAID's humanitarian relief programs. However, the country program NGO



windows operate on the basis that AusAID meets 100 per cent of the agreed project budgets, so the cost-sharing argument boils down mainly to whether it should be introduced to the country windows. This has been quite controversial and has stimulated a lively debate over the last two years, resulting in the Minister's request that it be examined by the Review Committee. This section outlines the Committee's understanding of the key arguments on this difficult issue.

### Joint ownership/partnership

The *Review of the Effectiveness of NGO Programs* (AusAID 1995d) argued that cost sharing would encourage a greater sense of joint ownership of AusAID supported NGO activities, with project risks more evenly shared between AusAID and the NGOs concerned. This, it was argued, would improve the nature of the partnership between AusAID and NGOs and would allow AusAID to reduce its level of oversight over NGO activities.

The Committee feels that the risk sharing argument has probably been overstated. In reality, AusAID usually has greater means at its disposal than do individual donors in the community to monitor whether NGOs are administering projects to acceptable standards. So long as AusAID maintains effective scrutiny of NGOs, there is no reason to believe NGOs would take less care with projects that are wholly funded by AusAID than those funded wholly with community contributions. This does depend however, on AusAID developing adequate performance monitoring and evaluation arrangements for NGO programs.

Sharing the costs of a project may improve the sense of partnership or joint ownership between NGOs and AusAID. However, NGOs have pointed out that, even under existing arrangements, AusAID is not responsible for the total cost of projects. NGOs demonstrate their commitment by meeting a range of overhead and in-kind costs.

In response to the cost-sharing proposals, ACFOA put forward (ACFOA submission) an alternative concept of *contribution sharing*, which is based on a fuller recognition of the contributions which NGOs already make to country window projects:

'NGOs accept the principle of *contribution sharing* (as distinct from cost sharing) where that is taken to include a range of contributions by the agency, *inter alia*:

- costs of establishment in a country, identification of effective partners, and preliminary work with partners;
- in many instances, costs of feasibility and design of projects;
- costs of the partner (local NGOs) and others contributed to the project;

...the cost-sharing argument has been quite controversial and has stimulated a lively debate over the last two years

The Committee feels that the risk sharing argument has probably been overstated.

Sharing the costs of a project may improve the sense of partnership or joint ownership between NGOs and AusAID.

- costs associated with publicity and development education in the Australian community based on project work;
- contributions of professional staff, free or at below full cost to the project;
- in some cases, costs of research and development associated with project technologies;
- voluntary contributions to project support work in Australia;
- agency expertise;
- agency overheads; and
- cash.'

Although these contributions are difficult to quantify and value, they are in essence an existing form of cost sharing. They help to ensure that there is a sense of joint ownership and commitment to the projects supported through the country windows. ACFOA has suggested that any move to greater cost or contribution sharing should include formal recognition of these voluntary (non-cash) contributions by allowing NGOs to count them as 10 per cent of total project costs.

### Financial independence

For the more than 90 NGOs which are members of ACFOA, the proportion of their overseas aid funds derived from AusAID rose from 30 per cent in 1990 to 49 per cent in 1995

For the more than 90 NGOs which are members of ACFOA, the proportion of their overseas aid funds derived from AusAID rose from 30 per cent in 1990 to 49 per cent in 1995 (ACFOA 1996). This has prompted some concern about the increasing reliance of NGOs on government funds—a vexed theme in AusAID's relationship with the NGO community. It has been argued that the wider application of cost sharing would help to ensure that NGOs do not become too reliant on AusAID funding for the conduct of their programs overseas, thus strengthening their independence from Government.

The Government has a legitimate interest in the independence question. Achieving the objectives for AusAID's interaction with NGOs (Recommendation 17.2) relies to a significant extent on the independent status of NGOs. The Committee found this a difficult issue to deal with as there is no way to determine whether this increasing reliance on government funding is having any impact on the independence of NGOs in a broader sense. ACFOA (ACFOA submission) certainly does not believe it has:

'There is no evidence to suggest that NGOs as organisations are becoming increasingly dependent on AusAID nor that they are in danger of losing their identity as NGOs...NGOs have maintained their critical tension with the Australian Government despite the increase in Government funding.'

The Committee recognises that individual NGOs face risks to their autonomy as they become more reliant on AusAID funding. Over time, they might increasingly shape their programs to suit AusAID's

requirements and priorities, rather than those of their original mandates. Their role in representing community views on the direction of the official aid program could also be affected. However, there is no reason why they should not be able to resist these influences so long as they maintain strong governing bodies, a firm commitment to their motivating values, and active links with the communities they represent.

### **Community fund raising**

NGOs have the ability to raise considerable funds directly from the public. This not only helps to increase Australia's total contribution to overseas development, it also serves to raise public awareness of development issues and engage members of the community directly in development cooperation. The direct financial support NGOs receive from the community endows them with a legitimate political voice. Fund raising is also important because NGO claims for government support for their overseas projects are strengthened by demonstrated financial support from the community for this work.

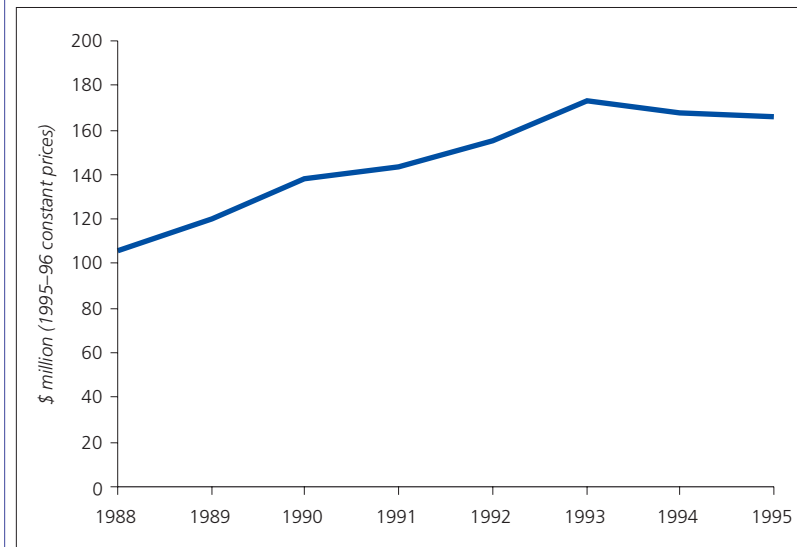
Concerns have been expressed that the rapid expansion of funding available for NGOs—largely through the country windows—might weaken their commitment to community fund raising. Requiring NGOs to meet a specified share of project costs might be one way to encourage them to continue their efforts in this area of their work and to maintain their community links.

Although starting from a low base, Australian NGOs have been quite successful in increasing the amount of funds they raise from the community. Annual surveys conducted by ACFOA show that funds raised by its members have increased from \$88 million (in current dollars) in 1988 to \$166.2 million in 1995: a 57 per cent increase in real terms. Over the same period however, government funding for Australian NGOs has increased by over 100 percent in real terms. Moreover, as figure 17.2 shows, fundraising appears to have reached a peak in 1993, and many NGOs are finding fund raising increasingly difficult. There is considerable uncertainty over the scope for increasing the amount of funds the community is willing to donate directly for overseas aid. The Committee believes that the Government could do more in the area of development education to help build community attitudes which encourage voluntary contributions to NGOs (see also chapter 19).

In their submissions to the Review Committee, some NGOs expressed concern that the wider application of cost sharing would force greater competition in the shrinking fund raising market. This would lead to distortions, including excessive marketing expenditure, and inappropriate reliance on child sponsorship and emergency assistance appeals. However, the increasing difficulty of fund raising

This not only helps to increase Australia's total contribution to overseas development, it also serves to raise public awareness and engage members of the community directly in development cooperation.

**Figure 17.2 ACFOA agencies' community fundraising, 1988–1995**  
(\$ million, 1995–96 constant prices)



Source: ACFOA Annual Reports, various years.

in Australia also increases the risk that generous AusAID funding may reduce the incentive for NGOs to continue the difficult and expensive work of raising money for their activities.

The Committee is concerned that while introducing cost sharing into the country windows would help to shore up the need for community fund raising, it may also effectively restrict the scope of AusAID's cooperation with NGOs. Some NGOs might be unable to generate sufficient funds to maintain their current level of cooperation with AusAID, if cost-sharing requirements were introduced to the country windows.

### **Accountability to the public**

Some NGOs have argued that in order to be fully accountable to their public donors, they must have complete control over the expenditure of community funds. It is argued that this is not possible in country window projects because they are essentially government-to-government programs. The Committee believes that this argument is unnecessarily restrictive. There is no fundamental difficulty with joint accountability, so long as NGOs have a fair say in how the projects are managed. NGOs can be accountable to both AusAID and the community, for the use of development funds.

### Adverse impact on NGOs

The most persuasive argument against the cost-sharing proposal is the likely impact on the NGO community. There is little doubt that the introduction of cost sharing would adversely affect many NGOs currently engaged in the official program. The agencies which would be most affected are likely to be the smaller ones which do not raise significant funds from the public. Several of these are specialised agencies providing valuable expertise in areas such as HIV/AIDS, family planning, women's development and the environment. These agencies would most likely have to greatly reduce the scope of their activities and some might find it difficult to continue operating. AusAID might find that it has a less diverse range of NGOs with which to cooperate.

The agencies which would be most affected are likely to be the smaller ones which do not raise significant funds from the public.

#### Box 17.2 NGO cost sharing: excerpts from submissions

'The assumption that if NGOs put more of their own cash into projects that AusAID will get greater "value for money", or that NGOs will somehow take greater care with the management of such projects as compared to projects which are largely AusAID funded, is false...Project managers, aware that their reputation with AusAID is their major asset when seeking further funding, are exceedingly careful in their management of projects which are AusAID funded.' *ACFOA*

'If cost sharing rather than contribution sharing is introduced, all agencies will be forced to devote more resources to fundraising from the Australian public...It is much easier to raise funds for short term emergencies involving children than for long term development involving adults. Many agencies will be forced to concentrate on emergency relief programs rather than on long term development programs' *APHEDA*

'CARE Australia believes that in order to facilitate a true partnership between AusAID and NGOs that the principle of contribution sharing should be extended to NGO windows within Country Programs. NGOs would then be bringing greater resources to individual projects effectively increasing the value of the Australian aid program.' *CARE Australia*

'UNICEF Australia is supportive of the principle of cost sharing between NGOs and AusAID, in relation to programs funded through the NGO windows. In an environment in which Australian Government funds for NGOs are limited and competitively sought, the ability to cost share is a competitive advantage and as such UNICEF Australia welcomes such an initiative.' *UNICEF Australia*

‘We recommend that the NGO Effectiveness Review recommendation on cost sharing be rejected. Australian NGOs simply do not, and could not, raise enough public funds to implement 3:1—much less 1:1 cost sharing—across their funding from AusAID, and this committee should reject this suggestion totally.’ *World Vision Australia*

...we are not convinced that the wider application of cost sharing is in the best interests of AusAID-NGO cooperation.

### Conclusions on cost sharing

The Committee found this debate one of the most difficult areas covered by the Review. After considering all of the arguments we are not convinced that the wider application of cost sharing is in the best interests of AusAID-NGO cooperation. While the Committee acknowledges that the rapid growth in funding under current arrangements does contain risks in terms of reducing the independence of NGOs and the incentives for fund raising, there is no hard evidence to indicate whether or not these fears are likely valid.

On the other hand, the adverse impact on NGOs from cost sharing is more predictable. It is likely that the introduction of cost-sharing requirements into the country windows would significantly reduce the number of NGOs able to engage in these programs and the diversity of organisations AusAID is able to work with. A significant proportion of NGOs would have to scale down their operations and some could face the prospect of closing down. Agencies which are less reliant on AusAID funding would be more resilient, but even they would face significant restructuring. It is not clear to the Committee that it is worth imposing these costs on NGOs in order to reinforce the foundations for independence and community fund raising.

As ACFOA has pointed out, under the current arrangements in the country windows, NGOs already make substantial non-cash contributions to the projects. The Committee believes that the requirement for NGOs to meet project design, overhead and other costs already helps to promote the benefits cited for the wider application of cost sharing: to a limited extent, they require NGOs to raise community support for their programs; and they give NGOs a direct financial stake in the projects. This in turn provides a basis for joint ownership and joint management of the activities supported in the windows.

One way in which the ethos of partnership might be strengthened would be to give more formal recognition to these ‘hidden’ contributions which NGOs already make to the projects. Joint management principles should be extended, where possible, to the establishment of joint selection panels and formal mechanisms for NGO advisory inputs to these programs.

**Recommendation 17.4** NGOs make a significant contribution to the costs of projects supported through the country program windows, including costs relating to project design and overheads. These should remain the responsibility of NGOs, but proposals for the wider application of cost-sharing arrangements should not be adopted. However, the requirements for accreditation, competitive selection and performance assessment within these windows should be rigorously applied.

While this debate about cost-sharing was needed, it has inevitably distracted both NGOs and AusAID from other equally important issues in their relationship. The Committee hopes that NGOs and AusAID can now move to a more productive discussion about building a relationship based on shared understandings of both the strengths and the weaknesses of NGO involvement in the official aid program.

## CHAPTER 18: REFUGEE AND EMERGENCY RELIEF

*The capacity to respond quickly and flexibly to crises in developing countries is important, but should not detract from the longer-term objective of reducing poverty through sustainable development. Emergency aid should always be orientated to moving on from the immediate crisis as soon as possible; and should also ensure that the critical issue of effective coordination is taken into account. While immediate relief aid is essentially a reactive element of the overall aid program, longer-term rehabilitation support does lend itself to programming, critical assessment and evaluation—much like any other aid program activity—and should be managed in this way. The priority for responding to sudden emergencies should be focused on our own region; and for protracted emergencies, priority should be given to those countries where country programs are already in place.*

### Introduction

Emergency assistance is the part of the overseas aid program that has the most visibility and receives the most public attention. There is a popular belief that aid should, above all, be used to alleviate the immediate suffering of people in developing countries caused by disasters of natural or human origin. This is borne out by the often generous response from the Australian public to NGO appeals—such as that following the crisis in Rwanda in 1994.

Some emergencies are relatively short term and assistance from the donor community is needed only until levels of normality can be restored—for example, following earthquake, flood or cyclone damage. Others are far more complex and protracted, and it is sometimes difficult to see an end to the need for ongoing relief to sustain life.

The aid program needs to retain the flexibility to respond to emergency situations, particularly in the wake of high levels of media, public and political concern. The program should also continue critically needed longer-term support, for example, for refugee rehabilitation. However, the main focus of Australian aid should remain on efforts to support longer-term sustainable development. This is in recognition of the fact that such development is the best way that aid can help developing countries, over time, attain the capacity and resources to cope with emergency situations themselves.

There is a popular belief that aid should, above all, be used to alleviate immediate suffering

The aid program needs to retain the flexibility to respond to emergency situations



The level of overall support that should be devoted to emergency aid and refugee rehabilitation is difficult to determine. Clearly it will depend on the number and nature of emergencies, and the need for the international donor community to respond. The geographic focus also has to remain flexible to some extent, given the reactive nature of this part of the program. But, as with development activities, there is a valid expectation that Australia will give highest priority to the needs of developing countries in the regions closest to us—the Pacific, and South and East Asia.

### International context—need and response

There has been a rapid growth over the last two decades in global demand for emergency relief, and for the longer-term help needed for refugee rehabilitation. Since the 1960s, the frequency, complexity and duration of emergencies have increased quite dramatically. Estimates put the global figure for the number of refugees and displaced people at a total of some 46.6 million in 1995–96. Historically, by far the greater numbers of refugees and displaced persons have been in Africa (estimated at some 17 million in 1995).

The upsurge in crises in developing countries has led to a substantial increase in the levels of emergency aid from the international donor community.

The upsurge in crises in developing countries has led to a substantial increase in the levels of emergency aid from the international donor community. The increased demand and response has been such that there was concern that a diversion of support for aid activities focused on longer-term development may result. DAC donors' bilateral expenditure on (non-military) emergency and refugee relief soared from around \$US1 billion in 1990 to over \$US3.4 billion in 1993. However, this appears to have peaked in 1994. Expenditure on (military) peacekeeping activities also surged in recent years, to over \$US3 billion in the UN peacekeeping budget alone by 1994. This expenditure does not count as ODA (DAC 1997a, pp. 97–100 and table A2 of the statistical annex).

The need for emergency assistance should not detract from longer-term efforts at building capacity in developing countries. In any particular crisis, the sooner the main focus can shift to longer-term sustainable development, the better. However, in the case of protracted and complex emergencies, there is not likely to be a quick or clear transition. Some kind of emergency/rehabilitation relief is likely to be needed *at the same time* as efforts to support longer-term sustainable development activities.

## Australian program

Support through the Australian aid program for emergency and refugee relief programs totalled \$84 million in 1995–96. This represented a considerable increase from the previous years total of \$71 million. This reflects, in part, the response to the findings of an internal AusAID review of this aspect of the aid program (AIDAB 1994a), which noted that the proportion of ODA going as assistance for refugee support and for emergency relief programs: ‘whilst being at or above the DAC average from 1988 to 1990, has not followed the rapid increase of other donors in 1991 and 1992. As a result, by 1992 Australia was well below the DAC average of 10.2 per cent (unweighted) or 7.3 per cent (weighted)’. The same review noted the strong case for Australia to increase the volume of its refugee and relief assistance in response to the substantial global need, the humanitarian imperative to respond and the national interest in doing so, and principles of fair burden sharing.

The percentage of the aid program devoted to refugee and relief programs was 5.4 per cent in 1995–96, and is an estimated 5.6 per cent in 1996–97—still quite low compared with the DAC average. A proportion of that allocation (about 13 per cent in 1996–97) is reserved to provide flexibility through the year to respond to acute emergencies. The balance is made as core contributions to the major UN agencies and international NGOs active in this area, is given in response to special UN appeals, or is directed through Australian and local NGOs for both immediate response and for support in more protracted emergencies.

The percentage of the aid program devoted to refugee and relief programs is still quite low compared with the DAC average.

**Table 18.1 Australian refugee and emergency relief by delivery channel, 1991–92 to 1995–96 (\$ million, current prices)**

	Expenditure				
	1991–92	1992–93	1993–94	1994–95	1995–96
Australian NGOs <sup>a</sup>	22.7	31.3	25.3	26.1	27.5
International NGOs	3.2	3.3	3.4	3.8	5.5
UN Agencies	31.9	25.9	36.2	37.0	48.0
<i>(of which UNHCR)</i>	<i>(11.1)</i>	<i>(10.7)</i>	<i>(13.3)</i>	<i>(16.1)</i>	<i>(18.8)</i>
<i>(WFP)</i>	<i>(16.1)</i>	<i>(9.8)</i>	<i>(17.1)</i>	<i>(17.4)</i>	<i>(19.6)</i>
Emergency Food Aid <sup>b</sup>	4.7	4.0	1.2	2.5	0.8
Other <sup>c</sup>	3.5	1.9	2.7	1.3	2.3
<b>Total</b>	<b>66.0</b>	<b>66.4</b>	<b>68.9</b>	<b>70.8</b>	<b>84.0</b>
<b>As a percentage of ODA</b>	<b>5.0</b>	<b>4.8</b>	<b>4.9</b>	<b>4.8</b>	<b>5.4</b>

<sup>a</sup> Includes some contributions made to Australian NGOs for multilateral programs.

<sup>b</sup> Includes payments to the Food Security Working Group, Federation of Australian Wheat Growers, Australian Wheat Board and Rice Growers Cooperative.

<sup>c</sup> Includes payments to Australian contractors, local NGOs and direct aid to recipient governments.

Source: AusAID.

The choice of delivery channel must finally depend on the nature of the emergency and the kind of response that is being sought.

Table 18.1 shows the distribution of emergency and refugee relief, by delivery channel, over the last 5 years. A substantial proportion (\$18.8 million, or 22 per cent, in 1995–96) is directed to the UN High Commissioner for Refugees (UNHCR) in recognition of the lead role that this agency plays in dealing with both complex emergencies and protracted refugee situations. The proportion of funds channelled through UN agencies is 57 per cent, and around 40 per cent supports the work of NGOs in this area.

The shift in favour of the UN agencies reflects a recognition that the specialised multilateral agencies are often better placed to respond to large-scale emergencies, can have lower cost delivery as a result of economies of scale, and have a critically important role to play in the coordination of the many different players involved in responding to a large-scale emergency. The 1994 AusAID review also recommended that, while cost-effectiveness must remain the key consideration in the choice of delivery channel, there needs to be a judicious balance between multilateral and NGO channels. Both have much to contribute. The choice of delivery channel must finally depend on the nature of the emergency and the kind of response that is being sought.

Although a large number of countries and regions has been assisted (some 33 in 1995–96), a high proportion of Australia's refugee and emergency relief aid has been directed to Africa (see table 18.2 and figure 18.1). Given the ongoing conflicts and resulting refugee situations in that continent, the expectation is that Africa is likely to remain a major recipient of such assistance from the donor community in the medium term—including from Australia.

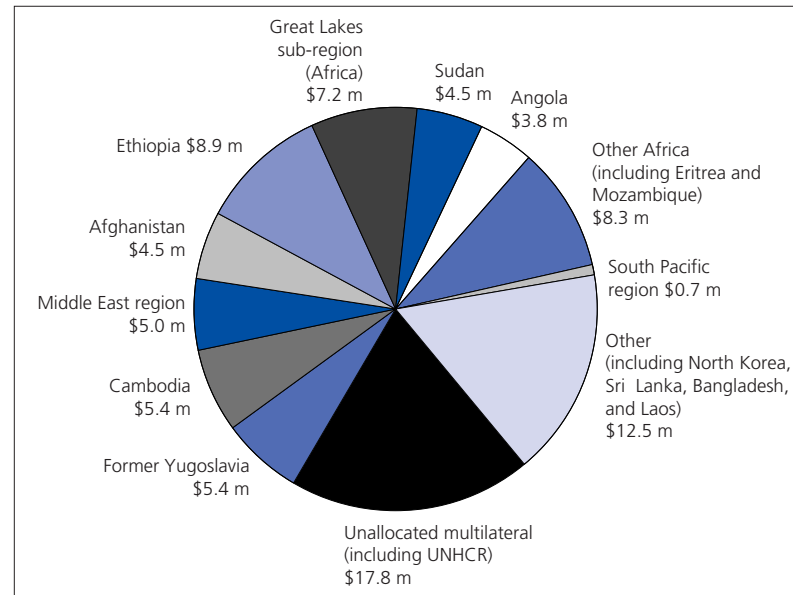
**Table 18.2 Australian refugee and emergency relief, by region, 1991–92 to 1995–96 (\$ million, current prices)**

	Expenditure				
	1991–92	1992–93	1993–94	1994–95	1995–96
Africa	30.9	37.9	34.7	39.5	32.7
Europe	0.8	1.0	1.5	1.0	5.4
East Asia and Pacific	12.9	9.0	11.4	9.9	13.8
South and Central Asia	7.0	5.0	7.1	6.0	9.4
Middle East	4.9	3.5	4.5	3.5	5.0
Unallocated Multilateral <sup>a</sup>	9.5	10.1	9.5	10.8	17.8
<b>Total</b>	<b>66.0</b>	<b>66.4</b>	<b>68.8</b>	<b>70.8</b>	<b>84.0</b>

<sup>a</sup> Includes small amount of assistance to other regions including Latin America, and in 1995–96 a substantial contribution to UNHCR.

Source: AusAID.

**Figure 18.1 Geographic allocation of Australia's refugee and emergency relief assistance, 1995–96 (\$84 million)**



Source: AusAID.

The *basis* for making decisions on the allocation of emergency aid was considered in the 1994 AusAID review. A statement of guiding principles was proposed to assist in determining what the Australian aid program should try to achieve against a background of increasing need. It was clear that there needed to be some criteria to assist in decision-making as Australia does not have the capacity to respond to all situations in all developing countries. Australia is a small donor, contributing around one per cent of global refugee and relief assistance in 1994. The principles that were adopted are summarised in box 18.1. Deciding what should be the level of contribution to a particular emergency is an inexact science—but the principles below are factored into decisions on level of support, priority destination for support, and channels of delivery. The Committee considers that these principles are realistic.

Deciding what should be the level of contribution to a particular emergency is an inexact science

**Box 18.1 Principles underlying the Australian humanitarian relief program**

1. The prime rationale for humanitarian relief is need; priority of response has to be based on assessment of the degree of relative need.
2. Within the concept above, assistance should complement and support Australia's broader strategic and political interests.

3. Priority should be given to the countries in our own region (Pacific, East Asia); however, attention to situations outside this region is also likely in recognition of the first principle.
4. Flexibility to respond to particular cases in the wake of high levels of media, public and political concern must be maintained.
5. Issues of fair burden-sharing must also be a factor in determining levels of support, both in overall responses to particular situations and in determining levels of contributions through major relevant multilateral channels.
6. Australia's capacity to deliver a cost-effective response must be considered, as must the cost-effectiveness of various possible channels for delivery.
7. Rehabilitation and long-term development needs and objectives must be considered at the earliest opportunity in an emergency response.
8. Disaster preparedness and mitigation activities should be given priority.
9. Relief assistance should be closely linked with efforts to build and maintain international security. Where early warning scenarios warrant it, potential for early proactive assistance should be examined.

*Source: AusAID.*

#### **Box 18.2 Rwanda 1994: Australia's response to the emergency**

The massacre of up to one million Rwandans in 1994 shocked the world. More than two million people fled to refugee camps in neighbouring countries, generating the need for a massive emergency relief operation. The countries of the Great Lakes sub-region of Africa, of which Rwanda is one, are not traditional recipients of Australian aid. However, in response to broad community concern, the Australian government responded to the crisis.

Over \$25 million was provided for the placement of two Australian Defence Force medical contingents to support the UN peacekeeping forces. These units also provided invaluable medical assistance to the local population and restored the Kigali Central Hospital. A further \$13 million was provided through multilateral agencies and Australian NGOs for relief programs in 1994–95. Some \$30 million for Rwanda was also raised by NGOs directly from the Australian community.

In 1995–96, a further \$7.2 million was provided for relief programs in Rwanda, including: \$5 million for a package of health assistance; \$2 million to help unaccompanied children and for water supply projects; and \$200 000 for human rights monitoring. Again, in 1996–97, in response to the massive repatriation of Rwandan refugees, Australia provided \$4.6 million through the UN Department of Humanitarian Affairs (DHA) and for human rights monitors to help Rwanda—illustrating the difficulty of ending involvement in a complex emergency situation. The point where ‘normal’ development can take over again is not easy to reach.

Australia participated in the multi-donor Joint Evaluation of Emergency Assistance to Rwanda which followed the crisis. A key finding was that coordination amongst the multitude of humanitarian agencies wishing to provide assistance was poor, resulting in confusion and delays. On the basis of this finding, AusAID has supported the role of the UN DHA in coordinating humanitarian responses to complex emergencies such as Rwanda. Funds have been provided for DHA’s Integrated Regional Information Network (IRIN) which disseminates information on the crisis in the Great Lakes sub-region. A criterion for AusAID funding of agencies wishing to work in the Great Lakes sub-region also now includes that such agencies must operate under the umbrella of the overall UN operation.

AusAID recognises the dangers of putting aid resources into situations of armed conflict and the importance of ensuring that emergency relief resources reach their intended beneficiaries. The international donor community has been concerned about the refugee camps harbouring and supporting soldiers and perpetrators of genocide. As the prolonged Rwandan crisis has illustrated, refugees in camps are vulnerable to political and military exploitation.

Since 1995–96, AusAID has directed its funding not toward the camps but toward the repatriation and rehabilitation of refugees back to their homes in Rwanda. Aid donors have learned many lessons from the Rwandan crisis. In particular, the UNHCR has moved to address the issues of donor coordination, refugee leadership and security when setting up camps and distributing emergency relief supplies.

### **Box 18.3 Cambodia: an integrated response from Australia**

Years of war, civil unrest and political instability have hampered development in Cambodia. Food shortages, large movements of internally displaced persons, landless returnees and the threat of landmines are features of the national profile. Natural disasters and the risk of epidemics exacerbate an already precarious situation.

In seeking to bring stability and development to Cambodia, Australia adopted a comprehensive approach to the complex emergency. Australia was a driving force in brokering a peace settlement and was a major supporter of the United Nations Transitional Authority in Cambodia. Humanitarian assistance through AusAID reinforced broader Australian policy and security initiatives and continues to do so. Refugees have been successfully repatriated with help to assist the reintegration of returnees.

Natural disasters, and the denial of access by farmers to arable land because of landmines, have created national food deficits. Australian food aid has relieved food shortages and reduced hunger. Longer-term food-for-work programs have built dykes, ponds, canals and roads. Feeding programs for schools, hospitals, orphanages and beggars have improved the nutritional status of some of the most disadvantaged.

Since 1992–93, assistance totalling more than \$23 million has been provided to Cambodia from emergency and refugee relief programs. A further \$6.1 million will be provided in 1996–97. Additional funds for landmine clearing and food aid have been provided from the bilateral country program.

## **Views on refugee and emergency relief program**

The Review Committee was not able to examine in depth the many issues impacting on ‘complex emergencies’, or to visit the regions in the world where such emergencies are having the most profound effect—apart from a visit to the Dadaab refugee camp on the Kenya/Somalia border during a brief visit to Kenya. A number of the submissions to the review raised issues associated with emergency assistance or rehabilitation aid.

**Box 18.4 Emergency and refugee relief assistance: excerpts from submissions**

‘The main issue in developing this area of assistance is to provide response mechanisms which are relatively prompt, accountable, provide for sustainable programs which foster longer-term development outcomes, and are supportive of international efforts for disaster prevention and peace and reconciliation. Both NGOs and the UN system are important mechanisms in addressing humanitarian crises.’ *Community Aid Abroad*

‘To ensure Australian aid can be delivered in a timely manner CARE recommends that AusAID establish pre-agreements with Australian NGOs able to directly implement emergency assistance. A similar system has been established by the Overseas Development Administration in the UK, enabling NGOs to have funding requests for emergencies approved within 24 hours of submission. Within AusAID, approval for humanitarian relief funding has in the past taken several months to be approved; within an emergency context, this is unacceptable.’ *CARE Australia*

‘While it is hard to resist pleas for emergency aid, which has been increasing as a share of total aid in recent years, again it has to be considered that the aid sometimes supports governments which are implementing policies leading to the emergency situation. For example, the famines which occurred in east Africa during the 1980s took place in those countries which had the most discriminatory policies against agriculture. As a result, farmers were very reluctant to invest in their farms so that when dry weather came they had little buffer against it. Generally, therefore, we have to identify situations where aid is creating a ‘moral hazard’ problem—providing support for undesirable actions.’ *National Centre for Development Studies, Australian National University*

## Future directions

The global need for emergency and refugee relief assistance is so great that trying to meet it could absorb the entire Australian aid program many times over. The Committee agrees with the conclusion of the 1994 AusAID review that a higher proportion of funding in the Australian aid program can be justified on the basis of need, the strong public interest in an effective response to emergency relief needs, and in recognition of donor burden sharing responsibilities in this area. The dilemma is that such an increase should *not* be at the expense of funds available for longer-term activities in support of poverty reduction through sustainable development. Such development is important in peace-building strategies, and in trying to reduce the

The global need for emergency and refugee relief assistance could absorb the entire Australian aid program many times over.



...for countries where AusAID does not have ongoing country programs support for longer-term rehabilitation relief should be limited.

vulnerability of developing countries to natural disasters and human catastrophes in the first place.

While it is sometimes difficult to gauge when to cease emergency assistance, for countries where AusAID does not have ongoing country programs support for longer-term rehabilitation relief should be limited. Likewise, pre-conflict resolution and peace-building activities in post-conflict reconstruction phases (in, for example, Eritrea, Ethiopia, Somalia) are useful, but Australia should avoid ad hoc support in these areas and should concentrate on those countries where there is already a country program focus. A more structured approach is likely to be far more effective, and should be more closely linked with the longer-term development activities being supported.

Emergency aid should continue to focus on the regions where there is the greatest need. A key criterion has to be the sheer magnitude of the emergency, and judgments regarding relative need between competing emergency appeals. Sufficient flexibility should continue to be retained to respond to unforeseen emergencies that might arise—particularly those in Australia’s own region, such as in response to a cyclone in the Pacific, or an earthquake in Indonesia.

Reduction of Australia’s commitments to the Food Aid Convention, as recommended in chapter 16, would reduce the imperative that has to some extent distorted the emergency and refugee relief programs. That is, the predetermined requirement to use food has reduced the flexibility of response. While food aid is needed in some emergencies, it is not always the best form of assistance. The FAC commitment has meant that the capacity to fully assess the needs of each situation before deciding on the best response is eroded significantly.

...there is scope to program, and bring into sharper focus, the assistance Australia gives to help in the longer-term protracted situations.

Emergency relief is reactive to a large extent, both to the emergency occurring and to the level of public concern that may follow it. Nevertheless, there is considerable scope to program, and bring into sharper focus, the assistance Australia gives to help in the *longer-term* protracted situations. AusAID moves to become more systematic in its approach to such cases are strongly supported, including multi-year programming where this is warranted.

The idea of ‘pre-agreements’, with suitably qualified Australian NGOs as delivery agents for emergency aid, has been raised as a way of speeding the response and reducing the level of administrative oversight necessary. This could be achieved by some kind of pre-qualification or accreditation process, but this would have to ensure that the NGO *did* have the essential *in-country experience and contacts*. However, the Committee is not attracted to the idea because it is not easy to know in advance where an emergency situation is going to be, so the essential judgments could not be made.

Fuller appraisal, in order to increase the effectiveness of support for the *protracted* refugee and emergency situations, should be undertaken, as should much greater field monitoring and evaluation of such support. For example, the kind of monitoring study that AusAID did recently of five NGO projects in Zimbabwe, which were part of a \$2 million drought relief package for southern Africa in 1995–96, drew some useful lessons for any future such assistance.

The best channel of delivery depends very largely on the nature of the emergency and the kind of response needed. However, there should be greater scrutiny of the agencies involved (UN specialised agencies, NGOs), to ensure that better-informed decisions are made. In the case of the multilateral bodies, an effective way to approach this would be through joint reviews with other donors. The effective coordination and cooperation of the varied and many agencies involved in emergency relief is a critical issue, and AusAID should continue to do all it can to promote effective coordination—including a conditional approach on such cooperation, where this would have results.

Given the complexity of the context in which emergency support is given, and the particularly short time-frames associated with this type of assistance, AusAID should increase the specialisation of staff in emergency relief and rehabilitation aid. Seconding staff to work with some of the key operational relief agencies would be one way of achieving this. An enhanced specialisation of officers in this area would help in appraisal, monitoring, review and evaluation of support given. AusAID should not attempt to replicate the capacity of the multilaterals and NGOs to deliver this kind of aid. However, in order to make informed judgments, and to have the basis for accountability, there needs to be a better understanding of the existing delivery systems and their successes and shortcomings. In short, a more evaluative approach should be pursued. It is recognised that here, as elsewhere in the aid program, such an approach is more resource intensive.

**Recommendation 18.1** AusAID should base decisions on channels of delivery for refugee and emergency relief aid on a closer assessment of their relative effectiveness. Assessments of multi-lateral channels could be undertaken in association with other donors.

**Recommendation 18.2** Support for protracted emergency situations should be given, as a first priority, to those countries where Australia has an ongoing country program. Efforts to support conflict prevention or peace-building activities also need to be more structured, planned and focused in order to be effective, and should be closely linked with the country program longer-term development activities.

...AusAID should increase the specialisation of staff in emergency relief and rehabilitation aid.

**Recommendation 18.3** Greater attention should be given to field monitoring and evaluation of emergency and rehabilitation aid, particularly in view of the complexity, speed and confusion that attach to emergency situations. Cost-effective mechanisms for doing this should be explored, including in association with other donors.

## CHAPTER 19: PUBLIC PERCEPTIONS, DEVELOPMENT EDUCATION AND DEVELOPMENT RESEARCH

*Research indicates that overseas aid has broad but shallow support in the Australian community. The aid program needs a public information regime that is based on accountability and openness. The Committee favours a greater level of support for development education and for research on aid and development issues than has been the case to date. Increased awareness of development issues should lead to greater community understanding of, and engagement with, the official aid program—and a better program as a result.*

### Introduction

The government plays an important role in raising community awareness of development issues, supporting development research, and improving the quality of debate on aid and development in Australia. The official aid program is unlike most other government services in that it occurs largely overseas, where Australians have few opportunities to see it in action. This helps explain why the public, by and large, has only limited knowledge about the program, and therefore only limited capacity to engage in public debate about its direction and effectiveness. The Committee believes that the government has an obligation to inform the Australian community on how aid funds are spent, but there need to be a clear understanding of the purpose of such information programs.

On the other side of the information ledger, the government also needs to have a clear perception of the views of the Australian public on the aid program and overseas development. Information on the level of public understanding about aid, the reasons why Australians support aid and what forms of aid are most favoured, is important to ensure that the aid program reflects community interests and expectations.

AusAID also has a need for research on development issues relating to the development cooperation program. A balance needs to be struck between providing long-term support for development research institutions and more flexible arrangements for commissioning discrete research projects as the needs arise.

Overseas aid is approved of by a majority (66–75 per cent) of Australian adults and this level of support has been maintained for over two decades

## Public perceptions of overseas aid

It is difficult to gauge directly public attitudes to overseas aid. AusAID has, from time to time, commissioned research seeking to identify trends in public perceptions and opinions on overseas aid, and the larger NGOs regularly research public attitudes. The most recent survey (AIDAB 1994c) showed that the approval of Australia providing overseas aid to developing countries was high overall (72 per cent). This finding has also been generally supported by less extensive surveys conducted by NGOs.

Recently, AusAID commissioned an analysis of the various surveys that have been conducted on this issue since the early 1970s (Elliott 1997). After reviewing some 25 surveys, Elliott concluded (p. 5) that:

‘Overseas aid is approved of by a majority (66–75 per cent) of Australian adults and this level of support has been maintained for over two decades as has been the case in most developed countries when examined over time. There is no evidence of any decline in support. Where perturbations occur they are likely to be a reflection of different survey techniques.’

However, while approval of overseas aid is widespread, it is not deep-seated: ‘Overseas aid is something most Australians tend not to think about or think about very seriously... Other more pressing domestic issues are likely to be more salient’ (Elliott 1997, p. 6). This is also the view expressed by the Hon. Bob McMullan (1996), a previous minister in the Foreign Affairs and Trade portfolio, at a recent seminar:

‘While there is broad support for aid, there is no deep support for it... all the research I’ve seen, when you ask people to rank the expenditures of the Government in terms of their priorities, aid always comes last. It’s no good kidding ourselves.’

While support for overseas aid in general appears to have remained fairly consistent over time, public support for the overseas aid activities of Australian NGOs appears to have grown considerably over recent years. ACFOA’s submission to the review notes that contributions from private donors to Australian NGOs have increased steadily, from \$89 million in 1988 to \$165 million in 1995 and that an estimated 2.5 million Australian families donate to overseas aid organisations. NGOs have a much higher community profile than does the official aid program, and this is no doubt a major factor in the level of public support they receive.

The lack of knowledge about the official aid program shows up in much of the public opinion research conducted to date. However, this research also indicates that those surveyed often expressed interest in knowing more. Survey results summarised by Elliott (1997) include the following conclusions:

- 'With respect to aid being given by Australia, the public is perceived as being very uninformed (42%) or fairly uninformed (45%). Most (89%) believed the Government should undertake a program to keep the public informed.'<sup>1</sup>
- '...just over half (51%) were dissatisfied with the amount of information available on Third World Issues. The type of extra information required indicated a great diversity of responses, including:
  - fate of aid moneys
  - conditions in these countries
  - better quality factual information, not propaganda
  - practical ways to help
  - what programs work best...
 'Eight out of ten felt that Australian children should learn more at school about Third World Issues'.<sup>2</sup>

On the basis of his analysis of the 25 surveys, Elliott (1997) concludes that people not only do not know much about the aid program, but 'blame the government for not informing them' (p. 85) and that 'Certainly there is a widespread view amongst the Australian public that the government should provide more information about Australia's overseas aid program' (p. 100).

It is against this background that AusAID has increased its expenditure over recent years on public information and development education.

## Public information and development education activities

AusAID funds a set of interrelated public information and development education activities, with expenditure of \$1.88 million on these programs in 1995–96. Approximately \$400 000 of this was for publications about the aid program, including *Focus*, a quarterly magazine. The remainder was allocated to a range of development education and information programs, including: core funding for five Development Education Resource Centres in major capital cities (\$250 000); the Global Education Scheme (\$500 000), which provides small grants for community initiatives in development education; a fund to support film and video production on development-related themes (\$350 000); and support for the development of curriculum materials for schools (\$350 000).

<sup>1</sup> Pilgrim/ACFOA survey cited in Elliott (1997).

<sup>2</sup> Australian Catholic Relief survey cited in Elliott (1997).

...there is a widespread view amongst the Australian public that the government should provide more information about Australia's overseas aid program

Public information activities are primarily concerned with providing information about the official aid program, while development education has a broader objective extending beyond development cooperation. The Development Assistance Committee of the OECD (DAC 1990) provides the following definition of development education:

‘Development education includes all activities which provide people with a clearer understanding of the theory and reality of development, interdependence and development cooperation, as well as the cultures and ways of life of other people, international economic relations and related issues.’

The *AusAID Corporate Plan 1994 to 1996* (AusAID 1995a) sets out the objectives for these programs in terms of ‘promoting greater understanding of development issues and awareness of Australia’s development cooperation program among the Australian community... (and) encouraging increased dialogue and consultation with the Australian community’. However, such programs could be used to serve other objectives. From one perspective, the purpose of AusAID’s public information and development education programs can be seen as essentially self-serving—that is, they are funded in order to promote a positive image of the organisation and to build greater public support for the official aid program. If this were the case, then clearly there is the potential for a significant conflict of interest. On what basis can government organisations use government funds on campaigns to build support for their own budgets?

The Committee believes there *are* good reasons for AusAID expenditure on public information and development education activities, so long as they are firmly harnessed to the following objectives:

- *accountability*: to ensure that accurate information is made available to the public on the use of public funds under the aid program. This should include not only information on what AusAID *does*, but also full and frank reporting of evaluation and other findings on the *results* of aid activities. This would reflect the interest of the public in more and better quality information, as expressed in the survey conclusions quoted earlier;
- *public engagement*: to raise awareness in the community and to encourage debate about development issues in order to promote the active engagement of the public in overseas aid; and
- *broad national interest benefits*: to improve community understanding about Australia’s relations with developing countries and the importance of sustainable development in those countries to Australia’s future prosperity and security.

### Public information activities

Clearly, the mandate for public information activities lies in the *accountability* function. The Committee believes it is not only *legitimate* for public funds to be used to inform the public about the aid program, but AusAID has a *responsibility* to do so. The public has a right to know how its taxes are spent, and to what effect. AusAID's public information activities are only one mechanism for fulfilling this responsibility. Among other things, the Minister and AusAID officials appear before parliamentary committees, participate in seminars and make many public statements about the aid program.

However, to ensure their legitimacy, public information programs must be driven very clearly by the accountability objective. The critical test of this is whether such activities are intended to *inform*, by providing the public with open access to a full range of information about the aid program, or whether they are more selective, seeking to *persuade* the public of the merits of AusAID and its activities. Although the line between these two is not always easy to determine, the former performs an accountability function, and the latter does not, falling rather, within the realm of the conflict of interest problem mentioned above.

It is not clear that AusAID has always kept this distinction in mind in managing its public information program. For example, it is widely acknowledged that development cooperation by its very nature is a high risk business, and that many activities do not produce the anticipated results. Yet, there appears to be very little open discussion of such issues, or critical analysis of the lessons learned from project experience in AusAID's publications. As discussed in chapter 9, this approach has also been evident in AusAID's evaluation program, which appears to have been very selective in what findings and reports are released to the public.

AusAID needs to adopt a more open and transparent approach to the public information function and ensure that it is guided by the requirements of public accountability. The Committee acknowledges that this may be asking of AusAID a higher standard of public accountability than is practised by many other public sector organisations, but believes that this will provide the basis for engaging the public in a more constructive discussion of aid and development issues.

**Recommendation 19.1** AusAID should adopt a more open and transparent approach to public information and ensure that its information activities are guided by the objective of public accountability.

...it is not only legitimate for public funds to be used to inform the public about the aid program, but AusAID has a responsibility to do so.

However...public information programs must be driven very clearly by the accountability objective.



...development education can play an important role in educating the community about the realities and challenges of life in neighbouring countries.

### Development education activities

The rationale for AusAID expenditure on development education activities is based primarily on the 'public engagement' and 'broader national interest' objectives cited earlier. Development education seeks to enable people to make informed judgments about development issues and Australia's relations with the developing world. The more people have access to such information, the more the community is able to play a constructive role in the development of overseas aid.

In a country like Australia, which is located within a region of developing countries, development education can play an important role in educating the community about the realities and challenges of life in neighbouring countries. Development education therefore helps not only to explain why we conduct an aid program, but also helps Australians to understand how we can best make our way in an increasingly interdependent world.

Australia is a signatory to several international conventions and treaties which specify obligations to undertake development education.<sup>3</sup> Since AusAID is the main government instrumentality concerned with overseas development, it has a special responsibility to promote increased awareness and debate on development issues. As the country's largest development assistance agency, AusAID also has access to a significant body of information on which many development education materials are based.

#### Box 19.1 Development education: excerpts from submissions

'The aid program should address the need to educate Australians about global development issues and their resolution by contributing 2% of the aid budget to projects and activities which would contribute to explaining development issues and development co-operation to the public, the media, the government and the parliament; this should be phased in over the next five years.' *Australian Council for Overseas Aid*

'Informing and to some extent changing community perceptions of international issues in general and development issues in particular is a part of the responsibility of the aid program.' *Community Aid Abroad*

<sup>3</sup> The UN Conference on Environment and Development; the 1994 International Conference on Population and Development; the UN Convention on Rights of the Child; the Convention on the Elimination of Discrimination against Women; the Universal Declaration on Human Rights; and the General Agreement on Tariffs and Trade.

'Global education is essentially about educating Australians about global development issues. In particular, it aims to enhance understanding among Australians about the causes and solutions to the problems experienced by developing countries (especially in the Asia-Pacific region) and Australia's role in the process of development...In such a multicultural and diverse society as Australia, global education enhances this country's own well-being by educating people about ecological sustainability, appreciation and understanding of other cultures and non-violent means of conflict resolution...At a purely factual level, Australians need to understand that their tax has been successful in alleviating poverty in the world and enhancing development internationally, that is, that aid does work.' *National Association of Development Education Centres*

'During the past decade the public profile of both AusAID and the aid program has increased enormously, with considerable benefits in terms of public understanding of aid issues and the quality of the media debate. During the past year or two SMEC has formed the impression that public affairs activities are being downgraded again. We feel that this would be most unfortunate and we encourage the participation of AusAID in ensuring that developmental issues broadly defined are widely discussed in the Australian community.' *Snowy Mountains Engineering Corporation*

AusAID's approach to development education has changed over time from supporting education resource centres and the development education work of NGOs, towards a focus on the formal education sector. Although AusAID should continue to support a diversity of approaches, assistance to the formal education sector, through curriculum development and teacher support at primary and secondary levels, is likely to have the most significant impact in the long term. The internet is likely to become a major vehicle for this work and AusAID is currently developing a Global Education Home Page, which is designed to provide teachers with an on-line resource base.

The Jackson Committee concluded in 1984 that 'Australia's efforts in development education and information have been poor by international standards. Australia should allocate more to development education and public information, with an initial allocation of \$A1 million a year' (Jackson 1984, p. 112). Although it took some years to do so, this recommendation was eventually implemented, and in real terms, the 1995-96 allocation of approximately \$1.4 million is only slightly less than the level of expenditure recommended by Jackson.

On a per capita basis, donors spend on average \$US0.38 per annum on development education, while Australia spends just US\$ 0.08 per annum.

However, an analysis recently conducted by AusAID (1997a), shows that this is still much less than the level of expenditure by other OECD donor nations on development education. On a per capita basis, donors spend on average \$US0.38 per annum on development education, while Australia spends just US\$ 0.08 per annum. The Committee believes there is scope for further increases in development education expenditures, but this should be based on a review of the lessons learned to date from the program.

**Recommendation 19.2** AusAID should evaluate its development education activities to date and examine options for an expansion of the program.

### Researching community views of overseas aid

AusAID needs to keep abreast of community attitudes towards aid and overseas development for two reasons:

- it helps to identify information gaps and misconceptions in the community about overseas aid, which can then be addressed in public information and development education activities; and
- it also provides AusAID with a mechanism for gauging public opinion, so that aid policy and program development can be informed by community views.

As mentioned earlier in this chapter, some research on public perceptions has been conducted from time to time in Australia. However, Australia is, reportedly, almost unique amongst DAC donors in *not* regularly monitoring public support for aid and aid expenditure (Elliott 1997, p. 7). Japan, for example, has conducted a public opinion survey every year since at least 1979 (Ministry of Foreign Affairs 1996).

For an information, or development education, program to be most effective, it is essential that its design and evaluation are based on an informed and *ongoing* assessment of community attitudes. Annual tracking surveys, for example, can be conducted relatively cost-effectively by including a small number of questions in a larger national omnibus survey.

Greater coherence and coordination of public attitudes research could yield significant benefits.

Greater coherence and coordination of public attitudes research in this area could also yield significant benefits. While the larger NGOs conduct very specific market-related research, most also engage in broader research into community attitudes, as does AusAID. There would appear to be common benefits in coordinating efforts in community attitudes research. Savings would result, best practice could be adopted and problems associated with conflicting data due to varying measurement techniques would be avoided.

**Recommendation 19.3** The possibility of AusAID conducting coordinated public attitudes research into overseas aid and development should be explored with Australian NGOs. Cost-effective options to commence a jointly-funded annual tracking survey should be developed, to establish a sound basis for public information and development education programs.

## Development research

A modest element of the official aid program is allocated to support for development research, both through ACIAR and the international agricultural research centres, and through AusAID's academic and research programs. These activities are supported in order to further two main objectives:

- to generate appropriate technologies and knowledge of development processes which can be used to improve the situation in developing countries; and
- to help the Australian community and AusAID improve their understanding of development issues, by improving the quality of academic and public debate and feeding the outcomes of research into better aid and development policies.

Support for ACIAR and international agricultural research is mainly intended to contribute to the first of these objectives. These activities are discussed in chapter 7.

The remainder of this chapter deals with development research which is intended mainly to support the second objective, but some of which also makes a contribution to the first. Like AusAID's support for development education, these activities also seek to improve the level of understanding and debate within Australia on aid and development issues. Over \$2 million is allocated each year from within AusAID's budget to foster excellence in academic research on aid and development issues. The various elements of this are set out below.

AusAID has provided core funding for the National Centre for Development Studies (NCDS) at the Australian National University since 1985. Some \$800 000 has been allocated for this purpose for each of the last three years. This has been used to support the management of the Centre, the development and demography programs, the Australian Development Studies Network, the Islands/ Australia Program and a publications program.

In addition to core support, the NCDS is implementing the following specific activities with funding from a range of AusAID program areas: the Pacific 2010 Project; the NCDS Economic Seminars Project; the NCDS South Pacific Economic and Social Database (SPESD); and publication of the *Asia Pacific Economic Literature* journal.

...development research activities seek to improve the level of understanding and debate within Australia on aid and development issues.

Other activities funded through the development research allocation are:

- The *AusAID Initiated Research Program (AIRP)*, which provides grants for research projects on a competitive basis to Australian universities to undertake specific development research activities. The objectives of the scheme have included: to broaden the sources of research-based policy advice; and to strengthen the institutional capacity of Australian universities in the development related research field.
- Since 1977, *AusAID's International Seminar Support Scheme (ISSS)* has provided assistance to enable participants from developing countries to attend international seminars which make a direct and practical contribution to development in their countries.
- The *Centre for Migration and Development Studies (CMDS)* at the University of Western Australia has received a small amount of funding annually from AusAID since 1985. While assistance was initially provided through the NCDS, in the last two years AusAID has funded the CMDS directly.
- AusAID is also funding a three-year research program with the *Australian South Asia Research Centre (ASARC)* of the Australian National University, to study the economic development and political economies of South Asia.

#### **AusAID coordination of development research programs**

The Committee is struck by the dispersion of responsibility and apparent lack of coordination of these activities in AusAID. There is no central coordination of support for, or commissioning of academic research by the Agency. For reasons which are not clear, the Public Affairs Section runs the ISSS, whilst the United Nations and International Programs Section is responsible for the AIRP and core support to the NCDS and the CMDS. Other research is commissioned by the Sectoral Policy and Review Branch or by individual sections such as the South Asia and Middle East Section for the ASARC program and the Pacific Multilateral and Regional Section for the Pacific 2010 project. Surprisingly, the area of AusAID with central responsibility for policy development and keeping abreast of development issues—the Development Issues and Corporate Policy Branch—does not manage any of these activities.

...central coordination would lead to better quality control and establish a base for a more strategic approach to research and policy development within AusAID.

The Committee believes it would be better if these programs were coordinated by a single area of AusAID, which could then be given prime responsibility for maintaining regular liaison with the academic community, and feeding the outcomes of development research into policy development within the Agency. Such an arrangement would help to increase contestability for these funds and improve the consistency of processes by which they are allocated. Flexibility must be retained for various sections within AusAID to be able to initiate, and

have prime carriage, where necessary, of research projects, but stronger central coordination would lead to better quality control overall. Improved coordination would also establish a base for a more strategic approach to research and policy development within AusAID.

**Recommendation 19.4** A coordination and oversight role in relation to all official support for academic and development research activities should be given to a single section in AusAID. This section should act as a contact point for other areas of AusAID seeking to commission development research and for organisations seeking research funding from AusAID.

### Core support for academic institutions

The Committee appreciates that fostering research excellence relies to some extent on security of funding, which may not be achievable if funds are continuously subject to open competition. Nevertheless, indefinite core funding of academic institutions may not be the most effective way to promote academic excellence unless there is some form of regular and effective peer review. Some concern was also expressed in submissions that the core funding for the NCDS in particular, represents an unnecessary concentration of support on just one institution.

‘As NCDS is heavily funded by AusAID, its future role and status as a *National* Centre should be re-examined by the Review. The question needs to be asked whether there is any justification for the special relationship that the ANU, through NCDS, has with AusAID.’<sup>4</sup>

AusAID’s support for the NCDS was established at a time when development studies was in its infancy in Australia. Since that time, other development studies centres have been established in most of Australia’s capital cities, but are poorly funded. Professor Jayasuria also expressed concern that the NCDS has quite a narrow disciplinary focus—on economics and demography, environmental management and development administration—while a broader range of disciplines adopted by the other development studies centres are comparatively neglected.

The Committee believes that AusAID’s support for development studies should be restructured, so that broader access to research funds is facilitated, through competitive processes. A peer selection and review process would need to be established, in the form of a development research advisory council, with AusAID involvement, to ensure the most effective allocation of these funds. Grants would be

...indefinite core funding of academic institutions may not be the most effective way to promote academic excellence unless there is some form of regular and effective peer review.

AusAID’s support for development studies should be restructured, so that broader access to research funds is facilitated, through competitive processes.

<sup>4</sup> Submission from Professor Jayasuria, p. 20.

provided for medium-term research on a multi-year basis. There would be scope under such a program to fund research proposed by the development studies centres as well as research initiated by AusAID. Such an approach would also provide an opportunity to foster collaborative research, thus helping to build a more cooperative *network* of development researchers in Australia.

The current funding for the CMDS and ASARC are examples of the type of activities which would be better managed if subject to the peer review and contestability inherent in this kind of approach. There may be scope for using the same allocation process in determining grants under the AIRP as well.

AusAID appears to have encountered some difficulty in establishing its research requirements, particularly in relation to the AIRP. As a result, the Agency has not always been able to make effective use of the research products to reshape or improve aid programs. In order to ensure that research reports do more than gather dust on the shelf, the organisation might therefore have to be more strategic in establishing its priorities in this area, taking a longer-term view of its policy development needs.

**Recommendation 19.5** There should be a modest increase in the funds allocated to development research, and AusAID should:

- prepare a strategic plan for development research, providing for the extension of access to research funds through wider competition; and
- establish a development research council to advise on the allocation of research funds, and provide peer review of the work undertaken.

AusAID could also benefit from closer links with development research centres in other countries. This would allow AusAID to access a wider range of sources and perspectives on development, and minimise the risk of duplication of efforts in development research. It may be productive to involve acknowledged overseas experts in the field of development studies in the advisory council mentioned above, to ensure that Australia's development research is conducted in cognisance of overseas efforts and that best practice is maintained. For example, Canada's International Development Research Centre (IDRC) has a good deal of experience in this area which might be productively applied in the Australian context.

AusAID could benefit from greater interaction with other donors on aid policy and development issues. Most of the issues which AusAID must deal with are the subject of active research and debate in international donor forums, such as the Development Assistance Committee (DAC) of the OECD. AusAID's policy development processes might be improved by closer involvement in these debates.

In order to promote more effective use of development research by AusAID and stimulate greater interaction between the academic community and AusAID policy makers, the Committee believes there would be value in AusAID creating an Academic-in-Residence position, with limited tenure. The first occupant of this position would play a key role in establishing an improved system for the commissioning, management and utilisation of development research by the Agency. The position should be filled at a senior level by an internationally recognised expert in development studies for one or two years at a time. The appointee would also play a role in the proposed research advisory council, fostering debate on development issues in AusAID, and forging closer links with academic institutions.

**Recommendation 19.6** An internationally recognised expert in development studies should be appointed as an Academic-in-Residence in AusAID to assist with the development of new arrangements for supporting development research, to help forge closer links between AusAID and academic institutions and to promote active debate on development issues.

...there would be value in AusAID creating an Academic-in-Residence position



## **PART D—MANAGEMENT ISSUES**

## CHAPTER 20: MANAGEMENT STRUCTURE AND CULTURE

*This review was not asked to undertake a comprehensive examination of aid management issues. However, it is clear that a range of factors currently act as constraints to the most effective management of the aid program. The Committee has identified some new directions or approaches that the Government and AusAID should consider in the ongoing pursuit of excellence in aid delivery, and in the context of implementing new public service reforms. Included are proposals for: the creation and role of an independent Advisory Board; improved performance measurement; a renewed focus on staff skills; and greater decentralisation and devolution.*

### Introduction

This report reflects the Committee's views on how the aid program needs to change to increase its relevance, establish a clear focus and maintain its effectiveness into the next decade. This entails some significant policy changes, particularly in terms of greater clarity in the aid objective and its focused pursuit. A number of other policy and programming issues have also been discussed—all of them aimed at achieving the maximum development effectiveness of Australia's overseas aid program. Achieving, and sustaining over time, such increased effectiveness will inevitably require changed management approaches.

The terms of reference for this review ask the Committee to: '...also consider the implications, if any, of its recommendations for AusAID's organisational structure and processes'. Throughout the review process, there was some criticism of both AusAID's current management approach and of some of the broader environmental constraints in which the Agency operates. There was also widespread recognition that AusAID is a professional organisation with staff committed to the success of their work.

In the Committee's view, there is scope for AusAID to improve its performance. The Committee formed the view that some significant changes in AusAID's operational structure and culture are desirable to ensure that a focus on strengthened aid effectiveness is established and maintained. The Committee does not claim to know all the answers to questions raised by our review of the aid program, and believes that a thorough organisational review of AusAID is necessary to give effect to many of the recommendations in this report. The primary need is for the development of mechanisms and structures that encourage and

Achieving, and sustaining over time, increased effectiveness will inevitably require changed management approaches.

sustain a more rigorous, focused and evaluative culture within AusAID and in its approaches to program and project management.

The best way in which to achieve this has to be considered in the context of the comprehensive program of public sector reforms that the Government is pursuing. Such reforms will require a commitment to best practice in contemporary management, including: benchmarking and performance measurement; a reduced focus on regulation and process administration; greater flexibility in the employment framework; and improved leadership. It will also require attention to the organisational separation of policy development from program delivery, competitive service delivery, and a 'smaller' public service—with core responsibilities for policy advice, market regulation and contract management. Some of these, such as outsourcing and contract management, already characterise AusAID's approach. However, there is considerable scope for better use of benchmarking as a tool for continuous improvement in AusAID's management practice.

The development of a results-orientated learning culture, combined with principles of flexibility, continuous improvement, and greater autonomy, provide the framework for more effective management. The nature of the work done by AusAID also suggests there is considerable potential for greater emphasis on team-based arrangements in place of traditional centralised and hierarchical approaches.

## AusAID—some key features

Some of the salient features that characterise AusAID and how it currently manages the overseas aid program are summarised in box 20.1. (See also chapter 2).

### **Box 20.1 The Australian Agency for International Development: some key facts**

AusAID is the Federal Government agency that is responsible for the management of the official government overseas aid program. In 1995–96, Official Development Assistance (ODA) was \$1 564.5 million, 95 per cent of which is administered by AusAID. The balance (\$83 million) was expenditure by other government bodies on activities that are eligible as ODA, including \$40 million by the Australian Centre for International Agricultural Research.

- AusAID is an administratively autonomous agency within the Department of Foreign Affairs and Trade (DFAT). It works in close consultation with DFAT and other government departments. The Director-General of AusAID has responsibility for the management of the aid program, and the resources needed for this, and reports directly to the Minister for Foreign Affairs.

- AusAID consists of 3 divisions and 9 branches: as at March 1997, it had 555 staff of whom 447 were in Central Office (Canberra); 50 in State offices throughout Australia; and 58 overseas, mostly in Asia, the Pacific and Africa. In addition, some 170 locally engaged staff work for AusAID overseas.
- The aid program is appropriated on an annual basis by Parliament. It is currently divided into 3 sub-programs: Country Programs; Global Programs; and Corporate Services. Running (or administrative) costs within this last sub-program were \$56.2 million in 1995–96, 3.6 per cent of ODA. While the full annual aid budget appropriation is disbursed over the course of a single financial year, projects and funding agreements typically extend over a number of years. Management of future aid obligations is, therefore, an important consideration.
- AusAID is basically a policy, planning and contract managing agency. AusAID staff: provide policy advice to the Minister and Government; manage financial issues; plan aid delivery with recipient governments, multilateral institutions and NGOs; and let and monitor performance on aid contracts. New implementation contracts valued at some \$200 million are signed each year. These typically extend over 3–4 years.

### Constraints on AusAID

Some of the factors constraining management of the aid program are outlined briefly below. The extent to which these may be causing policy distortions and reduced aid effectiveness vary, but the net effect can be detrimental to the quality of the program. Some of the public sector reforms that are being progressively introduced will be beneficial in addressing some of these constraints, if opportunities are seized in a positive and constructive fashion. These reforms represent a considerable challenge, both in terms of capability and culture within the organisation. They will also require the Government to understand and support a strategic approach to the management of risk. As has been noted elsewhere in this report, aid is inherently a risky business.

#### *Multiple objectives*

The Committee is convinced that the multiple objectives (development, foreign policy, commercial) which the aid program has directly pursued for some time have led to a confusion of purpose. This has been a significant constraint on the capacity to maximise the developmental effectiveness of the aid program. This will be addressed by the adoption of a single, clear objective as discussed in chapter 4.

multiple objectives...  
a significant constraint on  
the capacity to maximise  
the developmental  
effectiveness of the  
aid program.

There is an inherent tension in managing in an uncertain budgetary climate.

...the danger is that funds may not be optimally spent under these sorts of pressures.

### *Short-term perspective*

The aid program, like most government funded programs, is constrained by relatively short-term political and budget cycles. However, development activities need a long-term view—a five to ten year time horizon, at least. It is just not possible in many cases to achieve change without a long-term commitment—particularly where substantial policy changes in recipient countries are also being supported. For positive development impacts to be achieved, engagement with a recipient country partner at the broad level has to be for the long haul, consistent and with predictable levels of support. It is only with this type of sustained commitment that long-term positive foreign policy benefits of the aid program will also be realised.

- **Budget process.** The effects of this short-term perspective are manifested in a practical way in the management of the budget process, and in the associated expenditure imperative. The aid program is appropriated annually, but most aid activities, by their very nature, need to be multi-year. There is an inherent tension in managing in an uncertain budgetary climate. The impact of unplanned and severe cuts in the annual aid budget can be very damaging—not least because of the need to accommodate multi-year, and often legally binding, program commitments already made. When sharp and unpredicted budget cuts drive sudden changes in the focus of the aid program, developing country partners are disadvantaged, bilateral relationships are affected, and the effectiveness of aid activities can be undermined. Development activities do not lend themselves to a ‘stop/start’ approach. It would be desirable for there to be a greater degree of predictability in future aid budgets.
- **Expenditure imperative.** Aid programs involve high elements of unpredictability. Many factors are not within the control of AusAID but have an impact on planned expenditure. Delays in recipient government inputs to aid projects, for example, can cause substantial delays to activities and hence expenditure. AusAID plans for this as much as possible, by over-programming or using fast disbursing forms of aid such as commodities assistance (purchase of goods). But the danger is that funds may not be optimally spent under these sorts of pressures. A high priority is given to achieving full expenditure in a financial year, partly because this affects likely future budgets. This has meant that the closeness with which AusAID achieves its annual expenditure targets has been equated, and adopted internally, as a measurement of the Agency’s performance. Clearly this should not be the case. The true measure is the results of the development activities supported.

The Committee questions whether the focus on *within year* annual appropriation and expenditure is the most efficient way to manage

the aid program. To overcome this potentially distorting influence, financial carry-over mechanisms should be investigated, such as a three-year rolling program approach or a trust fund arrangement. The aid budget is more like a capital works than a recurrent budget and effective management of the program requires that the aid budget should be on a multi-year rolling basis.

### *Staffing resources*

The AusAID culture is essentially generalist. There are few specialist staff in the organisation, and those that there are rarely work in the areas in which they are trained. AusAID has not been able to draw on expert knowledge as easily as it needs to. This has also contributed to a climate that undervalues and under-utilises that knowledge. While public service recruitment constraints have been a factor, the new reforms which amount to a far more flexible employment framework should enable the Agency to recruit, and retain, more of the high level skills needed in-house, on multi-year contracts if necessary. The Committee recognises that a small development Agency such as AusAID will never have, in the organisation, all the specialist skills needed to implement a complex and multi-faceted development program. Most such expertise will still need to be contracted as it is now. However, it is essential to have intelligent customers for professional advice—there has to be sufficient expertise in-house *as well*. A judicious balance needs to be struck between the generalist administrator coordinating the implementation of aid programs and specialist advice. (AusAID's need for sectoral expertise is discussed in chapter 7.)

The Committee is also concerned about the extent of staff mobility in AusAID. This was raised in many of the submissions received, and during overseas visits. It is far from being a new issue. It was raised in a review of ADAB, a predecessor of AusAID, as far back as 1986 (Fuchs 1986) and it has been an issue of concern to AusAID staff.<sup>1</sup> A degree of mobility is to be expected given the small size of the organisation and the need to post staff overseas. Nevertheless, the apparently very high rate of turnover depletes corporate memory, diminishes country knowledge and expertise, and causes inefficiencies through the need to constantly retrain staff.

### *Statistical information*

The Committee encountered difficulties in obtaining detailed and reliable statistics on Australia's aid expenditure. Whilst a significant constraint on the Committee's own deliberations, the lack of an accurate, reliable statistical data base must compromise the day-to-day decision-making within AusAID. A data base must be comparable over time so that activity trends and expenditure can be accurately

<sup>1</sup> A study was done within AusAID in 1996 as result of this concern. The study analysed movement of staff, and concluded that staff mobility was indeed high.

A judicious balance needs to be struck between the generalist administrator coordinating the implementation of aid programs and specialist advice.

the extent of staff mobility...depletes corporate memory, diminishes country knowledge and expertise, and causes inefficiencies

monitored and analysed. It must be able to produce reports for managers on different aspects or perspectives of the program easily and quickly.

Limited priority seems to have been given to the essential area of statistical data collection, analysis and management. What is required is staff with both technical knowledge and policy capacity. AusAID requires strengthening in two areas: general statistical collection and analysis; and development-specific statistical skills, such as interpretation of the DAC statistical directives and methods, and collation of data on sectoral and program lines. Given the importance of statistics as a policy development and management tool, availability of a sound and reliable statistical base that can be readily accessed and used by AusAID staff is critical.

### Future directions

the need to establish a framework...based on a continuous process of contesting ideas, evaluation, feedback and learning.

The Committee believes there is a need for a change in management program within AusAID, to alter the accepted way of doing things and revitalise the culture within the organisation. The focus should be on four broad areas of needed change: a greater emphasis on performance measurement and reporting; a more consultative management style and team-based approach; positive steps towards devolution and decentralisation; and a more analytical approach to the task of aid policy, planning and delivery. In particular, the Committee stresses the need to establish a framework within which decisions about the allocation of aid funds, the choice of programs and projects, monitoring the effective implementation of policy—fundamentally, the way the whole program is managed—is based on a continuous process of contesting ideas, evaluation, feedback and learning. It is difficult to overstate the importance of this to an effective outcome.

In this context, the following are issues and ideas that the Committee considers should be pursued, and which would help to overcome some of the constraints and problems identified.

### Coherence and integrity of the aid program

The effective pursuit of a clear objective depends on the aid budget being managed by a single organisation

The effective pursuit of a clear objective for the overseas aid program depends on the aid budget being managed by a single organisation charged unambiguously with this objective alone. There are aspects of ODA that are the province of other government departments and will therefore be driven by other objectives. However, the bulk of ODA, the 95 per cent that is administered by AusAID, has to be subject to the focus and disciplines outlined in this report to ensure that the most effective aid program is developed and delivered.

The role of AusAID as the government instrumentality with expertise in overseas development should be fostered, more widely recognised and utilised by other government departments in the consideration of development-related activities which they may pursue. This role is clearly something that the Agency has to win for itself through the development of its reputation for excellence.

**Recommendation 20.1** The management of the aid program by a single organisation should be reaffirmed to ensure the coherence and integrity of the program. It is essential to the effective pursuit of a clear objective (poverty reduction through sustainable development) that the aid budget is managed by an organisation that has been unambiguously charged with that task.

### Development Cooperation Advisory Board

The management of the aid program would benefit from the oversight and guidance of a small, independent Advisory Board. Of seventeen European donors surveyed, eight have formal advisory councils in different forms (Kooij and Mevis 1994). Some of these bodies have a consultative role. Others have an advisory function: advising the government on aid policy on their own initiative or at the government's request; advising on budget proposals; reviewing development activities on the basis of existing policies; or preparing position papers and commentaries on current development issues.

An Australian Development Cooperation Advisory Board would play a useful independent review function. The Board should not have an executive role. It should not be directly involved in management, but it should provide *independent* oversight of the overall focus and direction of the aid program.

The Board would also play a valuable role in establishing a credible and well functioning evaluation program. In order for this to work effectively, the independent Office of Evaluation, the establishment of which this review recommends, must be able to report directly to the Board, as well as to the Director General of AusAID.

The Board would help encourage a more evaluative and analytical culture in AusAID. It could have a useful role in the further development of performance measurement practices and effectiveness reviews in the Agency. In addition, such an Advisory Board could monitor the adherence of the overall program to the more focused objective, and the key programming priorities underpinning it. In short, it could provide independent advice to the Minister on the implementation of agreed policy, and on the development of new policy.

It should not be directly involved in management, but it should provide independent oversight of the overall focus and direction of the aid program.



In summary, the terms of reference for such a Board could include the following:

- review development activities on the basis of formulated policies, and monitor adherence to the agreed objective of the aid program.
- offer expert impartial advice to the Minister and AusAID on policy and program implementation, and contribute to the formulation of development strategies.
- oversee, review and comment on AusAID's evaluation and audit processes, and performance measurement and monitoring.
- offer advice on program policies and priorities when the annual Budget is being drafted.

It might also be considered desirable that the Board's views on significant project and program proposals, and on significant changes in priorities should be available to the Minister at the time he considers Agency briefs. Such an approach is similar to that taken, for example, in Denmark.

The Board should be small with only five to seven members. Members should be expert in fields relevant to development, but not selected as representatives of specific interest groups. They should be appointed by the Minister. The Director General of AusAID should not be a member, but should participate in meetings by invitation. The Board should meet at least four times a year.

**Recommendation 20.2** A Development Cooperation Advisory Board (of perhaps 5–7 members) should be established to provide an ongoing independent review of the focus and effectiveness of the aid program for the Minister, as well as to assist in creating and sustaining a more evaluative and analytical culture in AusAID. Members should be expert in fields relevant to development, and not selected as representatives of specific interest groups.

### Development Cooperation Charter

In his submission to the review, Professor Jayasuriya wrote: 'In refashioning the directions of Australian aid policy for the first decade of the new millennium, the *Aid Review* should endeavour to outline an *Australian Charter* for Australian aid policies and development assistance. The essence of such a legislative Charter would be to present a statement of objectives which are essential to, and together describe, the guiding principles of Australian aid policies...'.<sup>1</sup>

The Committee supports the idea of a Development Cooperation Charter to give the official overseas aid program a legislative mandate. It could help establish a higher public and political profile for the aid program and its objective, and contribute to a better informed

understanding of the program. The Committee commends the development of a Charter as a way of building multi-party political support for the aid program, and ensuring a longer term predictability of program focus and level of resources likely to be available for it. Given that development assistance activities are long-term, the establishment of a more robust understanding and commitment to the program would contribute to greater aid effectiveness.

The Japanese aid program is supported by an Official Development Assistance Charter, adopted in June 1992. The Charter sets out Japan's ODA policy, covering basic philosophy, principles and priorities. In addition, it covers measures of the effectiveness of the implementation of ODA. Japan established the Charter, 'in order to garner broader support for Japan's ODA through better understanding both at home and abroad and to implement it more effectively and efficiently' (Ministry of Foreign Affairs 1996, p. 51).

A Development Cooperation Charter for the Australian overseas aid program could be developed in consultation with a new Development Cooperation Advisory Board. The Joint Standing Committee on Foreign Affairs, Defence and Trade could also contribute to developing such a charter.

**Recommendation 20.3** The creation of a legislatively based Development Cooperation Charter should be considered as a way of encouraging greater multi-party support for the objective of the aid program, resulting in both a stronger political commitment to, and greater public understanding of, that objective.

### Performance monitoring and measurement

The Committee considered various options which may help sustain a commitment in AusAID to the new and more clearly focused objective of the program. There should be transparent processes for senior level supervision and support of policy implementation. The performance monitoring and measurement implicit in this will be all the more important if the Agency moves, as the Committee recommends, to greater decentralisation and devolution.

It is apparent to the Committee that AusAID is good at developing policies, but is not so good at their consistent implementation. It also needs to become better at measuring performance against policies, and at evaluating projects and programs, and learning from that process. An approach that could be adopted is the UK 'aim monitor' concept where senior level officers have nominated cross-organisational responsibility to establish and oversight the corporate pursuit of agreed policy priorities (ODA 1995a; 1995b). This approach could be developed in AusAID against the programming priorities identified in

...a way of building multi-party political support for the aid program, and ensuring a longer term predictability of program focus

AusAID needs to become better at measuring performance against policies, and at evaluating projects and programs, and learning from that process.

recommendation 4.2. These officers could report regularly to the Director General, and to the Development Cooperation Advisory Board, on progress against each priority. A renewed 'Country Committee' approach could also be established to give senior level commitment to, and oversight of, the implementation of policy. Country strategies and strategy papers would be the subject of regular, probably annual, review in this Committee.

Achieving change after the Jackson Report to sustain the new country programming approach required ongoing, and clearly perceived, senior level commitment to that change. A similar approach will be needed now to ensure that the renewed focus on the country programming approach, based on a clear strategy to reduce poverty, is achieved. The need to develop an effective mechanism to ensure ongoing senior level commitment to, and responsibility for, the performance of programs is discussed further in chapter 9.

### **Decentralisation and devolution**

Decentralisation involves shifting part of the organisation away from head office and closer to the focus of the program: the governments and peoples of developing countries. Devolution can occur with or without decentralisation and involves passing authority and responsibility to staff at lower levels. The pursuit of both is recommended; the pursuit of either will require major changes to the custom and practice in AusAID.

...it allows decision makers on the ground to react quickly and flexibly to changed circumstances, so as to maximise the value of the assistance.

Decentralisation has many advantages, principally the positioning of resources at the delivery end of the aid business, closer to the organisations and individuals being assisted. This provides program planners with better knowledge about the context in which activities will be implemented. If combined with devolution of responsibility, it allows decision makers on the ground to react quickly and flexibly to changed circumstances, so as to maximise the value of the assistance. There are potentially costs to decentralisation too, some financial, others in terms of the coherence of the aid program as a whole, and yet others the result of the separation of the organisation (or a significant part of it) from the general public, NGOs and contractors who have interests in its operations.

The experience of other donors has been that people in the field are generally much better able to design and implement development programs that are effective.

As a predominantly Canberra-based organisation, AusAID may well have underestimated the advantages of decentralisation to the developing countries where the aid program operates. Only 10 per cent of AusAID staff are now based overseas, although this is an increase from 7.5 per cent in 1990. The Committee is doubtful that with 90 per cent of its staff based in Australia, AusAID can have the in-depth knowledge and local familiarity needed to target Australian aid effectively. The balance between the location of staff at head office and in the field varies quite considerably between bilateral donors. Some

other donors have a much higher proportion of staff located overseas (the US, Germany) and some are actively pursuing greater decentralisation (the Netherlands). The UK moved the whole of the South Asia Department of the UK Overseas Development Administration to New Delhi about a year ago, and believes that decentralisation policies have brought about substantial improvements in the quality of its aid programs. The experience of other donors has been that people in the field are generally much better able to design and implement development programs that are effective.

The Committee considers that further decentralisation of aid management is clearly warranted, both to and within developing countries.<sup>2</sup> However, alternative approaches, such as the management of some country programs from regional centres within Australia, would need to be closely scrutinised. The Government of the Northern Territory put a case to the Committee to shift part of the management of the Indonesian and Philippines country programs to Darwin, but we are not convinced that the case can be made for this approach.

The Committee also considers that there are strong arguments in favour of increasing the role and responsibilities of AusAID posted officers. There may also be a case for significantly increasing the numbers of officers posted overseas, but this does not automatically follow. There needs to be a thorough review to work out the best way to address this issue. It is timely to conduct such an exercise, as the role of AusAID overseas staff has not been closely examined since 1986. Other systems and processes have changed considerably since then, including greatly improved communication systems. There may also be the potential to make greater use of locally engaged staff at some posts. There is a need also to clarify the relative roles of posted officers and head office. While the Committee was not able to examine the comparative functions of officers, it was apparent that some tensions exist in relations.

It is also the Committee's view that greater devolution *within* central office would result in greater efficiencies; motivate and empower staff to take on greater ownership and responsibility for tasks and for programs; and free up senior officers to focus on more strategic planning, policy development and overall program effectiveness. More team based management would help achieve this—greater responsibility should be given to program managers built on a core-team approach.

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<sup>2</sup> *Within* country means out-posting officers to specific regions within developing countries where significant aid program activities may be located, for example, to the eastern islands of Indonesia, or Mindanao in The Philippines.

The Committee considers that further decentralisation of aid management is clearly warranted, both to and within developing countries.

...greater devolution *within* central office would result in greater efficiencies

**Recommendation 20.4** The devolution of greater responsibility and decision making to staff located in developing countries should be pursued. This may involve an increase in numbers of staff posted overseas. The AusAID Executive should also actively devolve greater responsibility *within* central office in order to allow senior staff to focus more on higher level policy development, strategic planning, program coherence and coordination.

### Resource management—quality of people

The Committee was impressed with the general level of professionalism, enthusiasm and commitment of AusAID officers. Staff are hard working and dedicated—often achieving good results under difficult circumstances and considerable constraints. However, as has been discussed elsewhere, development assistance is a difficult, demanding and high risk venture. The skills, attributes and qualifications that are required of AusAID officers are considerable. The delivery of an effective aid program is dependent on the excellence of the people working on it—both AusAID staff, *and* the contractors engaged by AusAID.

Overseas aid is a dynamic business, but AusAID staff appear to be overly constrained by procedures, systems and rules.

AusAID will need to develop a learning culture and a more flexible organisational environment to meet the challenge. Management should actively sponsor greater scrutiny, debate and the internal freedom of staff to take decisions. Overseas aid is a dynamic business, but AusAID staff appear to be overly constrained by procedures, systems and rules. There is a danger that this could be stifling initiative and the best use of staff.

AusAID needs to work constantly and consistently at upgrading staff skills. The Agency should have a flexible and innovative approach to staff development. There are many ways of improving the effectiveness of staff—not least is motivating staff to enhance their own capacities. The Committee can see considerable benefits from encouraging the secondment of staff to other donors. A secondment with Japan, for example, may also have the benefit of facilitating potential cooperative aid activities. AusAID could also gain from increased levels of staff secondments with some of the major multilateral development agencies, or with some of the larger NGOs. Encouraging a positive and flexible approach to leave-without-pay for AusAID staff will facilitate staff gaining greater expertise of long-term value to the Agency at very little cost.

There is also a need for greater language skills in AusAID. Ideally, officers responsible for the development and delivery of country programs—especially posted officers—should have a reasonable fluency in the local language. Staff with an aptitude and interest in

languages should be encouraged to improve their skills. Ways to recognise and reward this should be developed.

The Agency needs to recruit and retain more specialists. With new public service reforms, there may be more scope to do this. Likewise AusAID should examine the scope to foster greater staff stability—perhaps through actively encouraging and rewarding specialisation of staff in particular programs or sectors. Longer postings overseas may also be of considerable benefit in encouraging greater stability, expertise and specialisation.

The *level* of resources devoted to overall aid administration and program quality control needs to be considered. AusAID administrative costs are estimated at 3.7 per cent as a proportion of ODA on 1996–97. This compares with the DAC average of 4.4 per cent in 1995. However, the way these figures are compiled make them difficult to compare. The Committee considers that AusAID should work with other donors in the DAC context to achieve a greater veracity and transparency in the kinds of resources required to run an aid program efficiently and effectively, and how these assessments should be presented. The effectiveness of aid may increase by spending *more* on project design, monitoring and evaluation even if that is at the expense of program funds. Trying to keep up program and project outlays by minimising management costs may not be consistent with aid quality and effectiveness.

**Recommendation 20.5** Innovative ways should be explored for developing and retaining high quality staff. To achieve the skills required of effective development officers may require increased resources devoted to staff training.

### **Contract selection and management**

Since 1994, AusAID has used a ‘two-envelope’ tender system involving separate assessment of technical merit and price according to a 70:30 formula. It was put to the Committee by a significant number of companies that price was now too great a factor in the awarding of AusAID contracts, and that quality is at risk. However, the Committee believes that a 30 per cent weight is appropriate to ensure value for money to the Commonwealth and to guard against over-design. Submissions drew attention to the fact that the processes for calculating technical and price scores are different and this has frequently resulted in a higher than 30 per cent weighting for price. This should be rectified to achieve the intended 70:30 weighting. We understand that this is already under review in AusAID.

Due diligence in contractor selection should ensure that only those with the highest professional standards and competence are selected.

The Committee is also concerned to see the screening of contractors improved. Due diligence in contractor selection should ensure that only those with the highest professional standards and competence are selected. The process should include verification of a contractors' credentials—including financial status, professional qualifications, previous accomplishments, and references.

In focusing more on quality in consultant selection, AusAID should interview team leaders and, ideally, teams. Better ways of measuring and factoring in contractor performance assessment should also be pursued. The Committee was advised that there is a shortage of high quality Australian consultants in some fields available for AusAID work. If so, then there is a real risk of poor quality work. This should be largely overcome if the moves towards greater untying of the aid program are agreed. The Committee is also aware of the criticism made that AusAID has consistently sought an impossible combination of qualifications, expertise and experience—that there is an over specification and inflexibility in terms of reference. While the seeking, and selection, of excellence should not be compromised, it does have to be realistic.

As part of efforts in train in AusAID to improve contractor selection and contract management, the Committee strongly encourages greater focus on outputs contracts—in particular, training of staff in just exactly how these operate to best effect. A recurring comment made to the Committee was that AusAID staff have found it difficult to adjust to outputs contracts and are apparently reluctant to let go of micro-managing inputs. There was also some criticism that insufficient time and attention were being put into the design of projects. There may be greater scope to pursue design-and-implement contracts and this should be further explored. Putting the onus for achieving results onto contractors will allow contractors a good deal more flexibility in the way they implement the project. Performance of contractors will still need to be monitored. AusAID, and the contracting industry, will still need to consider how to deal with problems which arise when output performance is not satisfactory.

**Recommendation 20.6** Due diligence in contractor selection should be strengthened as a critical step in pursuing greater effectiveness of aid activities.

**Recommendation 20.7** Greater attention needs to be given to getting project design right to start with and, wherever possible, to an outputs/impact measurement approach to projects and the contracts that implement them.

### Organisational review

The Committee did not attempt a detailed investigation of how best to implement the recommendations on AusAID's organisational development. In order to do so, a thorough management and organisational review of AusAID should be pursued as a matter of priority. There is a need to define AusAID's core functions, and the expertise needed by the Agency to ensure their successful achievement. The best balance between specialist and generalist staff and the role of staff training need to be fully examined. Issues such as the appropriate extent of devolution and decentralisation need to be assessed in more detail in the context of an overall organisational review of AusAID. Likewise many of the other recommendations contained elsewhere in this report, such as improving the measurement of development effectiveness, the establishment of an independent Office of Evaluation, and the need to improve aid activity selection based on both quantitative and qualitative methods, have to be implemented in the context of a new organisational structure, management approach and staff skills base.

There is a need to define AusAID's core functions, and the expertise needed by the Agency to ensure their successful achievement.

**Recommendation 20.8** A management and organisational review of AusAID is needed as a matter of priority to progress the implementation of many of the recommendations contained in this report.



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# APPENDIX A: TERMS OF REFERENCE FOR A REVIEW OF THE AUSTRALIAN AID PROGRAM

## Objective

The objective of the review is to present a report to the Minister for Foreign Affairs on the overall priorities, objectives and focus of the aid program. It will examine how the aid program can best contribute to lasting poverty reduction, while also serving Australia's interests.

## Issues to be addressed

### Policy Context

The review will need to take into account current international trends which are influencing the nature of development cooperation. It will need to pay attention to overall government directions to ensure coherence between aid and foreign, trade and domestic policies. More particularly, the review will need to consider:

- the appropriate role for the aid program, particularly in the Asia-Pacific region
- how the aid program should respond to economic globalisation and the opportunities and challenges that trend provides for developing countries
- the instabilities generated by the post cold war period which have increased the demand for humanitarian and emergency assistance and international peace-keeping and placed additional pressure on aid budgets
- the role of other donors, including multilateral institutions, and the impact on Australia's aid program of their changing priorities, for example, the withdrawal of many donors from the South Pacific
- the role of the aid program in addressing global issues such as environmental degradation and climate change, refugees and the spread of preventable diseases.

### Geographic focus

Australia's aid program will continue to focus on the Asia-Pacific region. The review should:

- assess Australia's aid priorities within this region
- consider the nature of the future aid relationship with PNG and the South Pacific Island states
- consider the scope for Australian assistance outside the Asia-Pacific region, in particular in Africa and in the Central Asian Republics.

### **Program Focus**

The review should examine the appropriate program focus and balance between sectors within the aid program. This will require consideration of:

- good governance and policy dialogue issues (including economic reform, human rights and equity concerns)
- the appropriate balance of sectoral activities between, for example, education, health, agriculture and infrastructure
- the appropriate focus on cross-cutting issues such as gender and the environment.

### **Aid delivery**

The review will need to consider the most appropriate aid delivery mechanisms - bilateral, multilateral and NGOs.

### **Review process**

It will be important for the review to take account of the views of those involved in Australia's development cooperation, including:

- recipient governments
- Australian firms
- Australian tertiary and research institutions
- government departments
- non-government organisations.

### **Timetable**

The Committee will report within six months. This will require a concerted effort on the part of all Committee members and the Secretariat.

### **Output**

The Committee's report will contain recommendations to the Government about how to ensure the maximum effectiveness of the Australian aid program. The report should also consider the implications, if any, of its recommendations for AusAID's organisational structure and processes.

**June 1996**



## APPENDIX B: SUBMISSIONS AND CONSULTATIONS

The *Scope, methodology and acknowledgements* section at the beginning of the report outlines the basis for public consultation and contributions to this review of Australia's overseas aid program.

The following individuals and organisations contributed submissions to the Aid Review Committee. All submissions are on a public access file held by AusAID, except those marked with an asterisk (\*) where the individual or organisation requested that their submission remain confidential to the Committee. In addition, Committee members held follow-up meetings and discussions with those individuals and organisations marked with a hash (#).

A&P Development Consultants, Suva, Fiji.

#Abraham, Mr Fessehaie, Ambassador for Eritrea, Canberra, A.C.T.

#ACIL Australia Pty Ltd, Hawthorn, Vic.

Adelaide Diocesan Justice and Peace Commission, Adelaide, S.A.

AID/WATCH, Woollahra, N.S.W.

All Party Group on Population and Development, Canberra, A.C.T.

Appropriate Technology for Community and Environment Inc, Sydney, N.S.W.

#Asian Development Bank, Manila, Philippines.

Association for Research & Environmental Aid Ltd, Sydney, N.S.W.

Australia Papua New Guinea Business Council, Canberra, A.C.T.

Australian Baha'i Community, Mona Vale, N.S.W.

Australian Baptist World Aid Inc, Frenchs Forest, N.S.W.

Australian Bureau of Statistics, Canberra, A.C.T.

Australian Capital Territory Right to Life Association, Canberra, A.C.T.

#Australian Centre for International Agricultural Research, Canberra, A.C.T.

#Australian Centre for International Tropical Health and Nutrition, University of Queensland, Herston, Qld.

Australian Chamber of Commerce and Industry, Canberra, A.C.T.

#Australian Committee for UNICEF Ltd, Sydney, N.S.W.

Australian Council for Building Design Professionals, Melbourne, Vic.

#Australian Council for Overseas Aid, Canberra, A.C.T.

Australian Council of Trade Unions, Melbourne, Vic.

#Australian Democrats, Canberra, A.C.T.

Australian Electoral Commission, Canberra, A.C.T.

Australian Electrical and Electronic Manufacturers Association, Canberra, A.C.T.

Australian Energy Systems Exporters' Group Ltd, Canberra, A.C.T.

Australian Ethical Investment Ltd, Canberra, A.C.T.

Australian Executive Service Overseas Program Ltd, Canberra, A.C.T.

Australian Federation of AIDS Organisations, Sydney, N.S.W.

#Australian Foundation for Peoples of Asia and the Pacific, Crows Nest, N.S.W.

Australian Housing and Urban Research Institute, Brisbane, Qld.

Australian International Legal Resources Inc, Sydney, N.S.W.

#Australian International Projects Group, Canberra, A.C.T.

Australian Nature Conservation Agency, Canberra, A.C.T.  
Australian Nuclear Science and Technology Organisation, Menai, N.S.W.  
#Australian People for Health, Education and Development Abroad Inc,  
Sydney, N.S.W.  
#Australian Red Cross, Melbourne, Vic.  
Australian Reproductive Health Alliance, Canberra, A.C.T.  
Australian Sports Commission, Canberra, A.C.T.  
Australian Vice-Chancellors' Committee, Canberra, A.C.T.  
Australians for Population Justice, Canberra, A.C.T.  
Barclay, Professor Lesley, Kogarah, N.S.W.  
Bee, Mr John, Brisbane, Qld.  
#Bilney, the Hon. Gordon, [consultation only]  
Blackburn, Dr Susan, Development Studies Centre, Monash University, Clayton, Vic.  
Blackman, K. J., Caulfield, Vic.  
Bloch, Mr Adrian, Glen Iris, Vic.  
BP Solar, Brookvale, N.S.W.  
Brady, Mr Nyle, Gilbert (Arizona), U.S.A.  
Brennan, Mr Barry, Tamworth, N.S.W.  
Brisbane Helping Hand Inc, Wavell Heights, Qld.  
Broughton, Mr Bernard, Canberra, A.C.T.  
#Burdekin, Mr Brian, Special Adviser to the United Nations High Commissioner for  
Human Rights, Geneva, Switzerland.  
#Caldwell, Emeritus Professor John C., National Centre for Epidemiology, Australian  
National University, Canberra, A.C.T.  
Cameron, Mr Baden J., Phnom Penh, Cambodia.  
Canberra Planners, Canberra, A.C.T.  
#CARE Australia, Canberra, A.C.T.  
CARITAS Australia, Sydney, N.S.W.  
Catholic Women's League Australia, Canberra, A.C.T.  
Catholic Women's League of the Archdiocese of Canberra and Goulburn,  
Canberra, A.C.T.  
Centre for Development Studies, Edith Cowan University, Churchlands, W.A.  
Centre for International Economics, Canberra, A.C.T.  
Charles Sturt University, Wagga Wagga, N.S.W.  
Clairs, Mr Tim, Nairobi, Kenya.  
CMPS&F Pty Ltd, Melbourne, Vic.  
Coffey MPW Pty Ltd, Canberra, A.C.T.  
#Commonwealth Public Sector Union, AusAID Delegates Committee,  
Canberra, A.C.T.  
Commonwealth Scientific and Industrial Research Organisation, Canberra, A.C.T.  
#Commonwealth Secretariat, London, U.K.  
Commonwealth Trade Union Council, London, U.K.  
#Community Aid Abroad, Canberra, A.C.T.  
Community Aid Abroad, Western Australia Public Policy and Education  
Committee, W.A.  
Copland, Dr Richard, Tarragindi, Qld.

#Crawford Fund for International Agricultural Research, Parkville, Vic.  
 #Credit Union Foundation, Sydney, N.S.W.  
 Cumberland Foundation Ltd, Jannali, N.S.W.  
 D'arcy, A., Alice Springs, N.T.  
 Deakin University, Burwood, Vic.  
 Defence and Foreign Affairs Committee to the State Council of the Liberal Party of  
 Australia (NSW Division), N.S.W.  
 Defence for Children International, Canberra, A.C.T.  
 Dengate, Dr Howard, Parap, N.T.  
 Department of Agricultural and Resource Economics, University of New England,  
 Armidale, N.S.W.  
 Department of Animal Production, University of Queensland, Lawes, Qld.  
 Department of Employment, Education, Training and Youth Affairs  
 (Commonwealth), Canberra, A.C.T.  
 Department of Environment, Sport and Transport (Commonwealth), Canberra, A.C.T.  
 Department of Health and Family Services (Commonwealth), Canberra, A.C.T.  
 Department of Immigration and Multicultural Affairs (Commonwealth),  
 Canberra, A.C.T.  
 Department of Primary Industries and Energy (Commonwealth), Canberra, A.C.T.  
 #Department of Treasury (Commonwealth), Canberra, A.C.T.  
 \*Development Studies Program, University of New England, Armidale, N.S.W.  
 Devereux, Mr Peter, Carlisle, W.A.  
 Dillon, Professor John, University of New England, Armidale, N.S.W.  
 Dorward, Dr David, La Trobe University, Bundoora, Vic.  
 #Dun, Dr Robert B., Noumea, New Caledonia.  
 Dwyer, Dr Terry, Canberra, A.C.T.  
 England, Jan, Taringa, Qld.  
 Falconer, Professor Ian, University of Adelaide, Adelaide, S.A.  
 #Family Planning Australia, Canberra, A.C.T.  
 Faragher, Dr R. I., East Bentleigh, Vic.  
 Feminist International Network of Resistance to Reproductive and Genetic  
 Engineering (Australia), c/- Deakin University, Geelong, Vic.  
 Fiji Council of Social Services, Suva, Fiji.  
 Fletcher, Dr Christine, Australian National University, Casuarina, N.T.  
 Flood, Mr Philip, AO, [consultation only]  
 Food and Agriculture Organization of the United Nations, Rome, Italy.  
 #Forbes, Professor Dean, Flinders University, S.A.  
 Ford, Dr Barbara, Ningxia, China.  
 Foreman, Ms Julie, Summer Hill, N.S.W.  
 Forum Fisheries Agency, Honiara, Solomon Islands.  
 Fox-Little, Mr John, Potts Point, N.S.W.  
 Fraser, D. J., Canberra, A.C.T.  
 Gascoigne, Dr John, Denistone, N.S.W.  
 GEC Alsthom, North Ryde, N.S.W.  
 George, David and Lucy, Dubbo, N.S.W.  
 Giblin, Mr Peter, Liverpool, N.S.W.

Gobbett, Mr Don, Summertown, S.A.  
Government of Bangladesh, Ministry of Finance, Dhaka, Bangladesh.  
Government of Botswana, Ministry of Finance and Development Planning,  
Gaborone, Botswana.  
#Government of Fiji, Suva, Fiji.  
Government of India, Department of Agricultural Research and Education, New  
Delhi, India.  
Government of Kenya, Ministry of Finance, Nairobi, Kenya.  
#Government of Northern Territory, Department of Asian Relations, Trade and  
Industry, Darwin, N.T.  
#Government of Queensland, Department of Economic Development and Trade,  
Brisbane, Qld.  
Government of Queensland, Department of Primary Industries, Brisbane, Qld.  
Government of South Africa, Department of Public Service and Administration,  
Pretoria, South Africa.  
#Government of South Australia, Department of Manufacturing Industry, Small  
Business and Regional Development, Adelaide, S.A.  
#Government of the Philippines, National Economic and Development Authority,  
Pasig City, Philippines.  
Government of Uganda, Ministry of Finance and Economic Planning,  
Kampala, Uganda.  
#Government of Western Australia, Perth, W.A.  
Grameen Bank Support Group, Mount Colah, N.S.W.  
GRM International Pty Ltd, Brisbane, Qld.  
Handscombe, K. R. Prahran, Vic.  
#Harradine, Senator Brian, [consultation only]  
#Hassall and Associates Pty Ltd, Canberra, A.C.T.  
Henningham, Mr Stephen and Oh, Ms Janaline, Canberra, A.C.T.  
Hort, Mr Harold, East Lindfield, N.S.W.  
Human Rights Council of Australia, Marrickville, N.S.W.  
Humphreys, Professor Ross, University of Queensland, Brisbane, Qld.  
#Hunt, Dr Juliet, Faulconbridge, N.S.W.  
Hunter, Ms Alison, Sungate, Qld.  
#IDP Education Australia Ltd, Canberra, A.C.T.  
International Committee of the Red Cross, Geneva, Switzerland.  
#International Crisis Group, [consultation only]  
#International Development Support Services Pty Ltd, Melbourne, Vic.  
International Fund for Agricultural Development, Rome, Italy.  
International Labour Organisation, Geneva, Switzerland.  
International Organisation for Migration, Canberra, A.C.T.  
Interplast Australia, Melbourne, Vic.  
Ison, Mr Barry, Ideas Aid International, Hall, A.C.T.  
#Jayasuriya, Emeritus Professor Laksiri, University of Western Australia, Perth, W.A.  
Jellinek, Dr Lea, Taggerty, Vic.  
Jones, Mr Alan, Armidale, N.S.W.  
Kane, Ms Penny, Major's Creek, N.S.W.

Kathage, Mr Bevan, Ipswich, Qld.  
 \*#Kennedy, Mr Jim, Leeton, N.S.W.  
 Key Centre for Women's Health, University of Melbourne, Carlton, Vic.  
 L'amer-Aussies Multinational Refugees Foundation, Leichhardt, N.S.W.  
 La Trobe University, Melbourne, Vic.  
 Labax Environmental Pty Ltd, Sydney, N.S.W.  
 Langmore, Mr John, MP, Canberra, A.C.T.  
 Lucas, Dr David, National Centre for Development Studies, Australian National  
 University, A.C.T.  
 Luke, Mr Garth, The Channon, N.S.W.  
 Macfarlane Burnet Centre for Medical Research, Fairfield, Vic.  
 Macquarie University, North Ryde, N.S.W.  
 Marist Mission Centre, Hunters Hill, N.S.W.  
 Marley, Mrs Keryn, Hove, S.A.  
 McDonald, Professor G. T., University of Queensland, Brisbane, Qld.  
 McKellar, Ms Belinda, Canberra, A.C.T.  
 McLiver, Ms Rhonda, Coolum, Qld.  
 McMurray, Dr Chris, National Centre for Development Studies, Australian National  
 University, Canberra, A.C.T.  
 #Metal Trades Industry Association, Canberra, A.C.T.  
 \*Middleton, Mr Robert James, Mt Gravatt, Qld.  
 Miller, Mrs Brenda, Berwick, Vic.  
 Millington, Mr Peter, Drummoyne, N.S.W.  
 Mills, Ms Maurita, Shepparton, Vic.  
 Mills, Ms Millie, Willoughby, N.S.W.  
 MM Cable Communication Products, Clayton, Vic.  
 Murphy, Mr Terence I., Fremantle, W.A.  
 National Association of Development Education Centres, Adelaide, S.A.  
 #National Centre for Development Studies, Australian National University,  
 Canberra, A.C.T.  
 National Council of Churches in Australia, Sydney, N.S.W.  
 National Farmers' Federation, Canberra, A.C.T.  
 Nevill, Mr Jon, Hampton, Vic.  
 Newland, Dr Henry, Royal Adelaide Hospital, Adelaide, S.A.  
 NSW Industrial Supplies Office, Drummoyne, N.S.W.  
 Nusatenggara Association Inc, Jamison, A.C.T.  
 O'Connor, Ms Christine, Vacluse, N.S.W.  
 Opportunity Foundation Ltd, Bondi Junction, N.S.W.  
 #Overseas Service Bureau, Fitzroy, Vic.  
 OZ Child, Melbourne, Vic.  
 Pacific Financial Technical Assistance Centre, Suva, Fiji.  
 Pang, Dr Henry, Nairobi, Kenya.  
 Permaculture Global Assistance Network, Kew, Vic.  
 Philippine NGO Council on Population, Health and Welfare Inc, Quezon City,  
 Philippines.  
 Placer Nuigini Ltd, Port Moresby, Papua New Guinea.

Plan International, Kew, Vic.  
 Polyplan Associates, Waterford, W.A.  
 Purcell, Dr Donna, Toowoomba, Qld.  
 Quantum Technology, N.S.W.  
 #Quinlan, Mr Terry, Manila, Philippines.  
 R&J Cole Consulting Pty Ltd, Tweed Heads, N.S.W.  
 Relpar Pty Ltd, Mulgrave, Vic.  
 Remenyi, Professor Joseph, School of Australian and International Studies, Deakin  
 University, Geelong, Vic.  
 #Results Australia, Sunnybank, Qld.  
 Royal Australasian College of Surgeons, Melbourne, Vic.  
 #Royal Australian Planning Institute, Spring Hill, Qld.  
 Rural Industries Council, Rabaul, Papua New Guinea.  
 #SAGRIC International Pty Ltd, [consultation only]  
 Salesian Society Inc, Oakleigh, Vic.  
 #Save the Children Fund Australia, Collingwood, Vic.  
 #Schofield, Professor Frank, University of Queensland, Herston, Qld.  
 Sisters of Mercy, Adelaide, S.A.  
 Smith, The Hon. Warwick, MP, Minister for Sport, Canberra, A.C.T.  
 #Snowy Mountains Engineering Corporation Ltd, Cooma, N.S.W.  
 South Pacific and Oceanic Council of Trade Unions, Brisbane, Qld.  
 St Vincents Hospital Emergency Care Centre, Fitzroy, Vic.  
 Stevenson, Mr Richie, Harboard, N.S.W.  
 Tax Reform Australia Inc, Melbourne, Vic.  
 The Association of Consulting Engineers Australia, Sydney, N.S.W.  
 The Caucus of Development NGO Networks, Quezon City, Philippines.  
 The Foundation for Development Cooperation, Brisbane, Qld.  
 The Hunger Project, Gisbourne, Vic.  
 The Population Council, New York, U.S.A.  
 The Salvation Army, National Secretariat, Canberra, A.C.T.  
 Thom, Professor B. G., University of New England, Armidale, N.S.W.  
 #Tonti-Filippini, Mr Nicholas, Lower Templestowe, Vic.  
 Transfield Pty Ltd, Sydney, N.S.W.  
 #Tribe, Professor Derek, Parkville, Vic.  
 Underwood, Professor Peter and Genat, Mr Bill, University of Western Australia,  
 Fremantle, W.A.  
 Unisearch, Sydney, N.S.W.  
 United Nations Association of Australia, Canberra, A.C.T.  
 #United Nations Capital Development Fund, [consultation only]  
 United Nations Department of Humanitarian Affairs, Geneva, Switzerland.  
 United Nations Development Programme, New York, U.S.A.  
 United Nations Development Programme, Regional Office for Southern Africa,  
 Lusaka, Zambia.  
 #United Nations Development Programme, Regional Office for the South Pacific,  
 Suva, Fiji.  
 United Nations High Commissioner for Refugees, Geneva, Switzerland.

United Nations Industrial Development Organization, Vienna, Austria.  
United Nations International Drug Control Programme, Vienna, Austria.  
United Nations Population Fund, New York, U.S.A.  
University of New England, Armidale, N.S.W.  
#University of Papua New Guinea, Port Moresby, Papua New Guinea.  
University of South Australia, The Levels, S.A.  
University of Sydney, Sydney, N.S.W.  
#University of the South Pacific, Suva, Fiji.  
Vail, Mr Peter, Artarmon, N.S.W.  
Van Gelder, Mr Ralph A., Orange, N.S.W.  
#Von Bernuth, Mr Rudy, International Council of Voluntary Agencies,  
[consultation only]  
Voolmann, Ms Tiina, Changrai, Thailand.  
#Vunibobo, Mr Bernard, Minister for Finance, Government of Fiji.  
Waddell, Dr Robert, Wentworth Falls, N.S.W.  
Wildlife Management International Pty Ltd, Karama, N.T.  
Women's International League for Peace and Freedom, Adelaide, S.A.  
#World Bank, Washington D.C., U.S.A.  
World Food Program, Rome, Italy.  
World Health Organization, Geneva, Switzerland.  
#World Health Organization, Regional Office for Western Pacific, Manila, Philippines.  
World Health Organization, Special Programme for Research and Training in Tropical  
Diseases, Geneva, Switzerland.  
#World Vision Australia, East Burwood, Vic.  
Young Women's Christian Association of Australia, Melbourne, Vic.

## APPENDIX C: REFERENCE STATISTICS

Table A1 Australia's Official Development Assistance, 1969–70 to 1996–97<sup>a</sup>

	Current Prices (\$m)	Constant Prices (1995–96) (\$m)	Real Change over Previous Year (\$m)	Real Change over Previous Year (%)	ODA/ GNP Ratio (%)	Implicit Price Deflators
1969–70	171.5	1 186.2	23.6	2.1	0.55	14.5
1970–71	180.6	1 178.0	-8.1	-0.7	0.52	15.3
1971–72	200.5	1 224.4	46.4	3.9	0.52	16.4
1972–73	219.2	1 252.1	27.7	2.3	0.49	17.5
1973–74	264.9	1 328.0	75.9	6.1	0.50	19.9
1974–75	334.6	1 381.7	53.7	4.0	0.52	24.2
1975–76	356.0	1 261.3	-120.4	-8.7	0.47	28.2
1976–77	386.2	1 231.5	-29.8	-2.4	0.45	31.4
1977–78	426.1	1 257.6	26.0	2.1	0.46	33.9
1978–79	468.4	1 292.5	35.0	2.8	0.44	36.2
1979–80	508.7	1 280.6	-11.9	-0.9	0.43	39.7
1980–81	568.0	1 291.2	10.6	0.8	0.42	44.0
1981–82	657.8	1 343.7	52.5	4.1	0.43	49.0
1982–83	744.6	1 369.9	26.2	2.0	0.45	54.4
1983–84 <sup>b</sup>	931.8	1 606.2	236.3	0.7	0.50	58.0
1984–85	1 011.4	1 646.9	40.8	2.5	0.49	61.4
1985–86	1 031.0	1 540.3	-106.6	-6.5	0.45	65.9
1986–87	975.6	1 358.9	-181.4	-11.8	0.38	70.7
1987–88	1 019.6	1 330.0	-28.9	-2.1	0.36	75.5
1988–89 <sup>c</sup>	1 194.6	1 437.4	107.4	8.1	0.37	82.0
1989–90	1 173.8	1 327.6	-109.8	-7.6	0.33	87.1
1990–91	1 261.0	1 367.4	39.8	3.0	0.35	90.8
1991–92	1 330.3	1 416.7	49.3	3.6	0.36	92.5
1992–93	1 386.0	1 459.7	43.0	3.1	0.36	93.4
1993–94	1 410.8	1 469.3	9.6	0.7	0.34	94.5
1994–95	1 483.7	1 524.2	54.9	3.7	0.34	96.5
1995–96	1 564.5	1 564.5	40.3	2.6	0.34	100.0
1996–97	1 450.1	1 409.2	-155.3	-10.0	0.29	102.9

Source: AusAID Implicit Price Deflators sourced from ABS National Income, Expenditure and Product 5206.0.

<sup>a</sup> Encashment method of calculation.

<sup>b</sup> The Australian Government's contribution towards the education within Australia of all students from developing countries was included as ODA for the first time in 1983–84. The real change for 1983–84 excludes this student subsidy but the ODA/GNP ratio includes it.

<sup>c</sup> In 1988–89 there was a one-off bring forward of multilateral development bank payments. This had the effect of increasing 1988–89 expenditure but decreasing 1989–90 expenditure.



**Table A2 Australian bilateral aid flows, 1995–96 (\$ million)**

<b>COUNTRY</b>	
Cook Islands	1.9
Fiji	20.1
French Polynesia	0.5
Kiribati	6.8
Marshall Islands	0.6
Micronesia, Fed. States	1.7
Nauru	2.9
New Caledonia	1.2
Niue Islands	0.9
Palau	0.3
Papua New Guinea	336.3
Solomon Islands	11.5
Tokelau Islands	0.1
Tonga	11.6
Tuvalu	4.0
Vanuatu	14.8
Western Samoa	12.3
<b>PACIFIC TOTAL</b>	<b>427.5</b>
Burma	1.7
Cambodia	31.7
China	62.0
Hong Kong	0.3
Indonesia	129.7
Korea, DPR	2.0
Korea, Republic of	0.2
Laos	19.7
Malaysia	22.9
Mongolia	2.8
Philippines	73.9
Singapore	0.1
Taiwan	0.0
Thailand	37.0
Vietnam	63.0
<b>EAST ASIA TOTAL</b>	<b>446.9</b>
Afghanistan	4.8
Bangladesh	33.3
Bhutan	0.8
India	24.1
Maldives	2.7
Nepal	7.3
Pakistan	11.1
Sri Lanka	11.2
<b>SOUTH ASIA TOTAL</b>	<b>95.3</b>

COUNTRY	
Angola	3.9
Benin	0.6
Botswana	1.6
Burkina Faso	0.1
Burundi/Rwanda	0.4
Cameroon	0.8
Cape Verde	0.1
Comoros	0.0
Eritrea	4.3
Ethiopia	17.8
Gambia	0.1
Ghana	0.2
Guinea	0.7
Guinea-Bissau	0.7
Ivory Coast	2.1
Kenya	2.4
Lesotho	0.4
Malawi	1.4
Mauritania	0.4
Mauritius	2.8
Mozambique	11.4
Namibia	2.1
Niger	0.0
Nigeria	0.8
Rwanda	7.2
Sao Tome	0.1
Seychelles	0.9
Sierra Leone	0.1
South Africa	11.1
Sudan	6.1
Swaziland	0.6
Tanzania	2.8
Uganda	1.9
Zambia	1.8
Zimbabwe	6.2
SUB-SAHARAN AFRICA TOTAL	94.0
Egypt	7.2
Iran	0.0
Israel	0.1
Jordan	0.1
Lebanon	0.1
Oman	0.0
Palestinian Territories	2.5
Syria	0.0
Yemen	4.3
NORTH AFRICA & MIDDLE EAST TOTAL	14.3

**COUNTRY**

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Albania	0.1
Armenia	0.0
Azerbaijan	0.0
Bosnia	0.1
Croatia	0.2
Cyprus	0.0
Former Yugoslavia	5.4
FYR Macedonia	0.1
Georgia	0.0
Kazakhstan	0.2
Kyrgystan	0.1
Slovenia	0.2
Turkey	0.4
Uzbekistan	0.0
<b>CENTRAL ASIA &amp; EUROPE TOTAL</b>	<b>6.9</b>

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Argentina	0.0
Brazil	0.0
Chile	0.1
El Salvador	0.1
Guatemala	0.1
Guyana	0.1
Jamaica	0.1
Mexico	0.3
Nicaragua	0.2
Venezuela	0.0
<b>LATIN AMERICA &amp; CARIBBEAN TOTAL</b>	<b>1.1</b>

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OTHER: including in-Australia costs of bilateral programs, and other unallocable expenditure.	7.0
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<b>TOTAL BILATERAL AID</b>	<b>1093.0</b>
<b>TOTAL ODA</b>	<b>1564.5</b>

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Note: 0.0 indicates less than \$50 000, but greater than \$0.

**Table A3 Australian aid through international organisations, 1991–92 to 1995–96**  
(\$'000, 1995–96 constant prices)

Agency and Fund	1991–92	1992–93	1993–94	1994–95	1995–96
<b>Multilateral development banks</b>					
Asian Development Fund	53 142	55 813	1 355	40 418	77 700
International Fund for Agricultural Development (IFAD)	2 982	1 607	369	2 216	165
World Bank International Development Association (IDA) contributions	116 606	100 147	144 968	116 220	109 905
World Bank other	421	1 106	1 358	788	795
<b>Total multilateral development banks</b>	<b>173 151</b>	<b>158 673</b>	<b>148 050</b>	<b>159 642</b>	<b>188 565</b>
<b>UN agencies</b>					
World Food Programme	66 081	59 702	67 782	69 257	51 900
UN Development Programme	18 202	19 834	20 418	19 929	21 172
UN High Commission for Refugees	17 728	11 024	10 702	8 423	18 816
UN Childrens Fund	4 366	4 528	5 624	4 766	4 800
United Nations Population Fund	1 810	2 106	3 460	3 989	4 000
UN Relief and Works Agency	3 088	3 080	3 124	251	3 036
UN Environment Programme	1 065	1 087	1 100	1 091	1 100
International Atomic Energy Agency	1 118	1 291	1 354	5 024	1 290
UN Drug Control Programme	745	760	770	770	800
UN Industrial Development Organisation	2 330	1 959	1 982	3 205	2 120
World Health Organization	3 466	4 510	4 319	7 726	7 486
UN other	3 819	3 917	1 565	2 804	3 713
<b>Total UN agencies</b>	<b>123 821</b>	<b>113 798</b>	<b>122 199</b>	<b>127 236</b>	<b>120 233</b>
<b>Commonwealth organisations</b>					
Commonwealth Fund for Technical Co-operation	9 052	9 684	8 326	7 641	8 131
Commonwealth Scholarship and Fellowship Plan	1 653	1 451	1 401	1 466	899
Other Commonwealth programs	5 849	3 732	2 792	1 579	1 534
<b>Total Commonwealth organisations</b>	<b>16 554</b>	<b>14 867</b>	<b>12 519</b>	<b>10 685</b>	<b>10 564</b>

<b>Agency and Fund</b>	<b>1991-92</b>	<b>1992-93</b>	<b>1993-94</b>	<b>1994-95</b>	<b>1995-96</b>
<b>Other international organisations</b>					
International Agricultural Research Centres	7 562	8 323	8 420	8 898	9 752
Montreal Protocol Fund	2 662	2 633	2 604	3 320	3 828
Global Environmental Facility	4 153	4 528	4 478	8 804	4 300
International Planned Parenthood Federation	863	864	1 666	1 798	1 843
Population Council	111	110	219	539	549
International Centre for Diarrhoeal Research	330	329	429	431	433
International Committee of the Red Cross	532	442	1 250	688	3 727
South Pacific Commission	4 202	3 320	3 724	5 379	7 475
South Pacific Forum Secretariat	3 068	3 307	3 432	4 120	4 438
Other international organisations	3 817	2 574	5 090	7 535	2 735
<b>Total other international organisations</b>	<b>27 302</b>	<b>26 429</b>	<b>31 311</b>	<b>41 512</b>	<b>39 080</b>
<b>Total other government departments' funding to international organisations</b>	<b>30 084</b>	<b>29 211</b>	<b>21 054</b>	<b>20 640</b>	<b>21 669</b>
<b>Total</b>	<b>370 912</b>	<b>342 978</b>	<b>335 132</b>	<b>359 716</b>	<b>380 111</b>

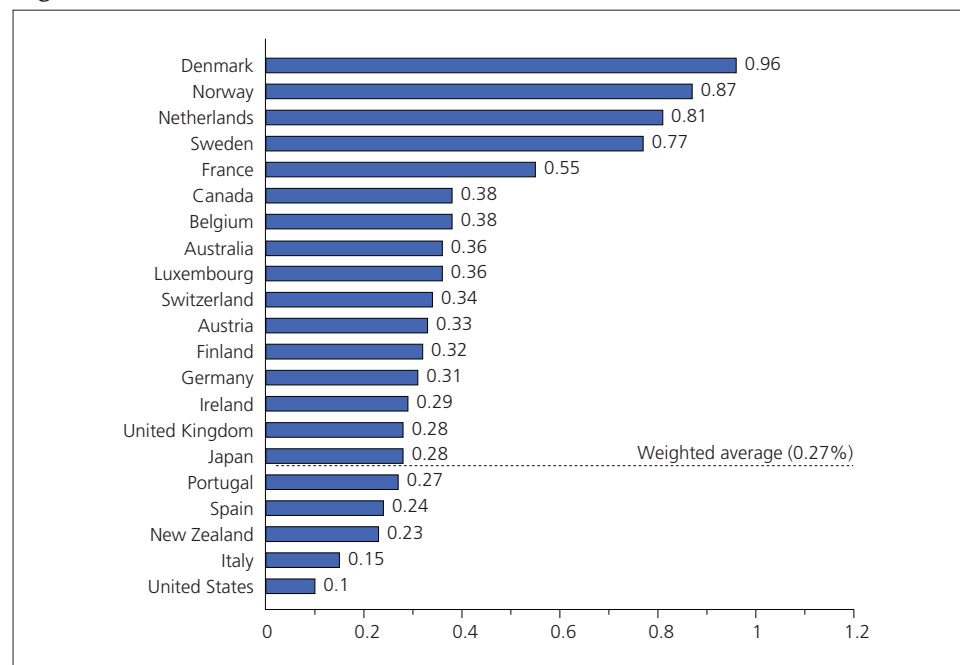
Table A4 Economic and social indicators of low, middle, and high-income countries

	GNP per capita		Population growth rate		Infant mortality rate (per 1000 live births)		Life expectancy at birth (yrs)		Primary school enrolment (% age group <sup>a</sup> )		Adult illiteracy (%)	
	1994 (\$)	Av. ann. growth (%)	Av. ann. growth (%)	1980	1994	1994	Females		1995	Male		
		1985-94					1990-94	1993			1993	
<b>All developing countries</b>												
Sub-Saharan Africa	460	-2.1	2.7	115	92	52	64	77	54	35		
East Asia/Pacific	860	6.9	1.4	51	35	68	115	119	24	9		
South Asia	320	2.7	1.9	119	73	61	87	110	64	37		
Europe/Central Asia	2 090	-3.2	0.4	34	23	68	97	97	..	..		
Middle East/North Africa	1 580	-0.4	2.8	95	49	66	91	104	50	28		
Latin America/Caribbean	3 340	0.6	1.8	60	41	68	..	..	14	12		
<b>Low-income countries</b>	380	3.4	1.8	87	58	63	98	112	45	24		
<b>Middle-income countries</b>	2 520	-0.1	1.5	63	40	67	102	105	..	..		
<b>High-income countries</b>	23 420	1.9	0.7	12	7	77	104	104	..	..		

Source: World Bank (1996a)

<sup>a</sup> Percentages over 100 are due to the inclusion of enrolments of people outside of the primary school age group.

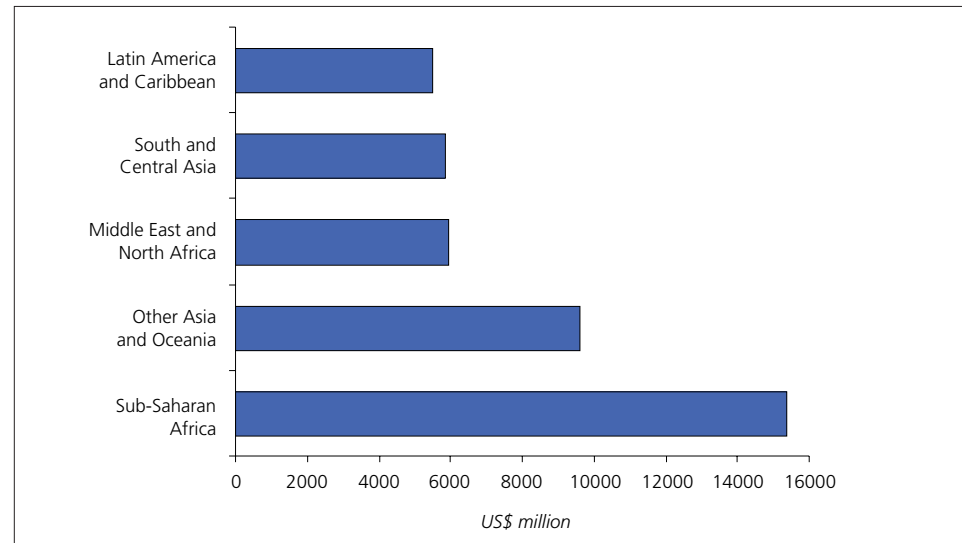
**Figure A1 DAC member countries' ODA/GNP ratios, 1995**



Source: DAC (1997a p. A8).

Note: The ODA/GNP ratios have been calculated using the 'deposit method'. Australia calculates its ODA ratio using the 'encashment method'. The deposit method counts multilateral development bank replenishment commitments as ODA at the time of the lodgement of promissory notes with the central bank of the donor country. Under the encashment method, MDB commitments are not counted as ODA until funds are transferred from the aid agency to the bank. Most donors simultaneously lodge funds matching the promissory notes leading to little difference between the calculation of the ODA/GNP ratio using either method. In Australia's case promissory notes covering the ten-year replenishment cycle are lodged over three years, but payments are made annually over ten years. The use of the deposit method can result in large annual variations in the ODA ratio. This explains the high ODA/GNP ratio recorded here for Australia in 1995, compared to figures presented elsewhere in the report which are based on the encashment method.

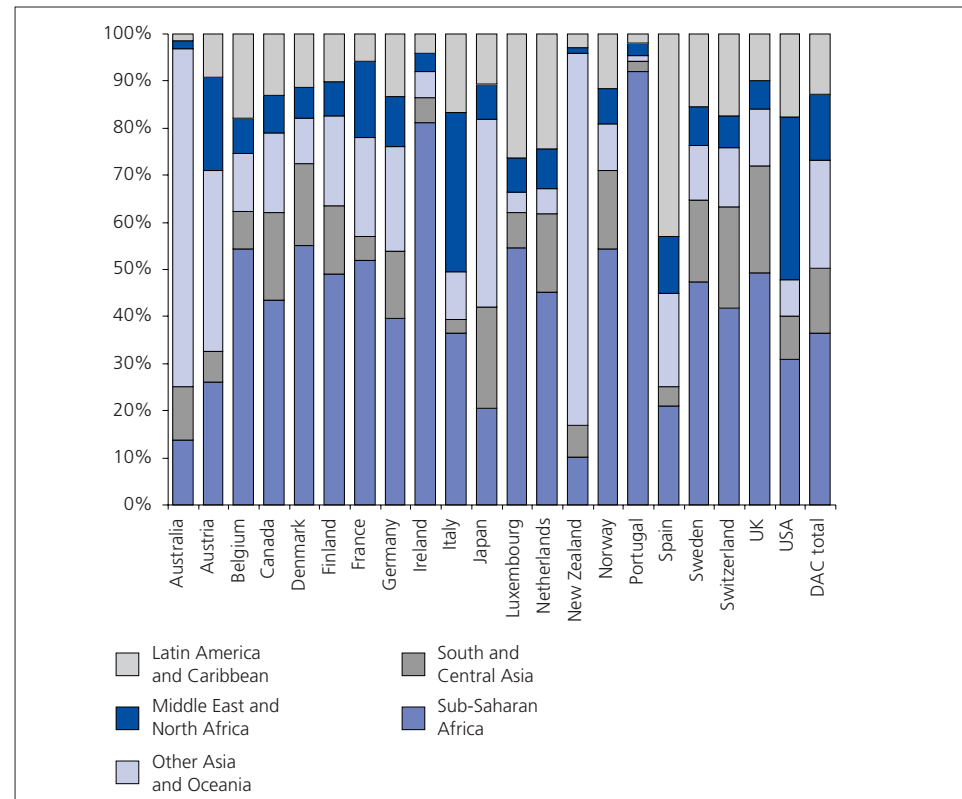
**Figure A2 Regional distribution of ODA, DAC total, 1994–95 (US\$ million, two year average)**



Source: DAC (1997a, p. A67).



**Figure A3 Regional distribution of ODA by DAC donors, 1994/95 (two year average, percentage of each donor's program)**



Source: DAC (1997a p. A68).

## APPENDIX D:

### DAC List of Aid Recipients (as at 1 January 1997)

Part I: Aid to Developing Countries and Territories  
(Official Development Assistance)

Least Developed Countries	Other Low Income Countries (per capita GNP < \$765 in 1995)	Lower Middle Income Countries (per capita GNP \$766-\$3035 in 1995)	Upper Middle Income Countries (per capita GNP \$3036-\$9385 in 1995)	High Income Countries (per capita GNP > \$9385 in 1995) <sup>1</sup>
Afghanistan	*Albania	Algeria	Palau Islands	Brazil
Angola	*Armenia	+Anguilla	Palestinian Administered Areas	+Chile
Bangladesh	*Azerbaijan	Belize	Panama	+Cook Islands
Benin	Bosnia and Herzegovina	Bolivia	Papua New Guinea	+Croatia
Bhutan	Cameroon	Botswana	Paraguay	+Gabon
Burkina Faso	China	Colombia	Peru	+Malaysia
Burundi	Congo	Costa Rica	Philippines	+Mauritius
Cambodia	Cote d'Ivoire	Cuba	+St Helena	+Mayotte
Cape Verde	*Georgia	Dominica	St Vincent & Grenadines	+Mexico
Central African Republic	Ghana	Dominican Republic	Suriname	+Nauru
Chad	Guyana	Ecuador	Swaziland	+South Africa
Comoros	Honduras	Egypt	Syria	+St Kitts and Nevis
Djibouti	India	El Salvador	Thailand	+St Lucia
Equatorial Guinea	Kenya	Fiji	+Timor	+Trinidad and Tobago
Eritrea	*Kyrgyz Rep.	Grenada	+Tokelau	+Uruguay
Ethiopia	Mongolia	Guatemala	Tonga	
Gambia	Nicaragua	Indonesia	Tunisia	
Guinea	Nigeria	Iran	Turkey	
Guinea-Bissau	Pakistan	Iraq	*Turkmenistan	
Haiti	Senegal	Jamaica	+Turks and Caicos Islands	
Kiribati	Sri Lanka	Jordan	*Uzbekistan	
Laos	*Tajikistan	*Kazakstan	Venezuela	
Lesotho	Viet Nam	Korea, Democratic Republic of	+Wallis and Futuna	
Liberia	Zimbabwe	Lebanon	Yugoslavia, Federal Republic	
Madagascar		Macedonia (former Yugoslav Republic)		
Malawi		Marshall Islands		
Maldives		Micronesia, Federated States		
Mali		*Moldova		
Mauritania		Morocco		
Mozambique		Namibia		
Myanmar		Niue		
Nepal				
Niger				
Rwanda				
Sao Tome & Principe				
Sierra Leone				
Solomon Islands				
Somalia				
Sudan				
Tanzania				
Togo				
Tuvalu				
Uganda				
Vanuatu				
Western Samoa				
Yemen				
Zaire				
Zambia				

Note: \$US

\* Central and Eastern European Countries and New Independent States of the former Soviet Union (CEEC/NIS)

+ Territory

<sup>1</sup> These countries and territories will progress to Part II on 1 January 2000 unless an exception is agreed.

**DAC List of Aid Recipients (as at 1 January 1997)**

Part II: Aid to Countries and Territories in Transition

Central and Eastern European Countries and New Independent States of the former Soviet Union	More Advanced Developing Countries and Territories
*Belarus	Bahamas
*Bulgaria	+Bermuda
*Czech Republic	Brunei
*Estonia	+Cayman Islands
*Hungary	Chinese Taipei
*Latvia	Cyprus
*Lithuania	+Falkland Islands
*Poland	+Hong Kong
*Romania	Israel
*Russia	Kuwait
*Slovak Republic	Qatar
*Ukraine	Singapore
	United Arab Emirates

\* Central and Eastern European Countries and New Independent States of the former Soviet Union (CEEC/NIS)  
 + Territory