



Australian Government
AusAID

Australian Aid: An Integrated Approach

Thirteenth Annual Statement to Parliament on Australia's Aid Program



www.ausaid.gov.au



Australian Government
AusAID

Australian Aid: An Integrated Approach

Thirteenth Annual Statement to Parliament on Australia's Aid Program

© Commonwealth of Australia [2005]

This work is copyright. Apart from any use as permitted under the Copyright Act 1968, no part may be reproduced by any process without prior written permission from the Commonwealth available from the Department of Communications, Information Technology and the Arts. Requests and inquiries concerning reproduction and rights should be addressed to the Commonwealth Copyright Administration, Intellectual Property Branch, Department of Communications, Information Technology and the Arts, GPO Box 2154, Canberra ACT 2601 or posted at <http://www.dcita.gov.au/cca>.

ISBN 1 92086130 0

Designed by GRi.D, Canberra

For further information about the Australian overseas aid program, contact:

AusAID Public Affairs Group

AusAID

GPO Box 887

Canberra ACT 2601

Phone 02 6206 4727

Facsimile 02 6206 4695

Internet www.ausaid.gov.au

This document is online at www.ausaid.gov.au/publications

COVER PHOTOS:

1. Mark Hoey, a community development adviser with the Quang Ngai Rural Development Program on the Nan Bridge with project officer Nguyen Thi Thuong Huyen, Tinh Tho Commune, Vietnam.

Photo: Will Salter

2. Secondary school students learn about HIV awareness, Phu Cu Province, Vietnam.

Photo: Alice Pagliano

3. Hope in the future, Solomon Islands. Photo: Gary Ramage/Defence

4. With so many villages destroyed by the Indian Ocean Tsunami, hundreds of families are living in tents, Kaafu Atoll, Maldives. Photo: Will Salter

Contents

1	INTRODUCTION	1
2	GLOBAL AND REGIONAL DEVELOPMENTS	3
3	THE ROLE OF GROWTH, TRADE AND AID	6
4	FUTURE DIRECTIONS	8
4.1	Indonesia: A closer partnership	9
	Tsunami response: A partnership for reconstruction and development	9
	Supporting growth, reform and the transition to democracy	10
4.2	Fragile states: A long term and integrated approach	10
	Our immediate region	12
4.3	Stimulating growth	16
4.4	Strengthening political governance and tackling corruption	18
4.5	Addressing transnational threats	20
4.6	Contributing to stability and security	21
5	CONCLUSION	23
	Bibliography	24

1 Introduction

KEY POINTS:

- > Australia is adopting new and integrated approaches to the region's governance and other challenges.
- > There have been significant changes in the way the aid program is managed and delivered.
- > The international community is recognising Australia's efforts.

The Indian Ocean tsunami wrought a tragic loss of life and livelihoods. The Australian Government's response to the disaster was unprecedented in its size and unsurpassed in its speed. With strong political leadership, Australia's aid, foreign affairs, police, defence and other arms of government worked seamlessly to deliver urgent assistance following the tsunami. This is continuing in the reconstruction phase.

The response to the tsunami typifies the innovative way in which Australia is engaging with the region. The Government has adopted new approaches to aid delivery, highlighted particularly by a more hands-on role to address governance weaknesses in the Pacific. The Solomon Islands Regional Assistance Mission and the Enhanced Cooperation Program in Papua New Guinea are bringing together the breadth of Australian intellectual and implementation capacities to help confront problems that do not lend themselves to traditional solutions.

Australia's joined-up approach has also been evident in ASEAN cooperation, trade policy, responses to

terrorism, people trafficking, corruption and peace building, for example in Bougainville.

The groundwork for a more effective aid approach was laid out in the 2002 Ministerial Statement *Australian Aid: Investing in Growth, Stability and*

BOX 1: TSUNAMI – AUSTRALIA'S RESPONSE

Australia took a leading role in the initial response, placing teams and supplies on the ground to support national relief efforts in Indonesia, Thailand, Sri Lanka and the Maldives. \$60 million was committed in immediate humanitarian assistance. AusAID has up to 40 personnel in the field and has deployed over 100 health professionals in affected countries. In addition, the Australian Defence Force and Australian Federal Police (AFP) have fielded relief teams to assist with medical and victim identification services.

On 5 January, the Prime Minister announced the Australia-Indonesia Partnership for Reconstruction and Development. Australia will contribute \$1 billion over five years – the largest single aid contribution ever made by Australia. The funding is additional to the existing aid program and brings Australia's commitment to Indonesia to a total of \$1.8 billion over five years.

The tragedy has demonstrated the compassion of the Australian people and the non government and business communities, with more than \$280 million raised in public appeals.

Prosperity. The statement's policy and program directions have been implemented alongside the reform agenda pursued across government. Key changes have been:

- > *a sharper focus, both financially and intellectually, on our immediate region and on governance:* the proportion of country allocable aid to PNG, the Pacific and Indonesia – our three largest Overseas Development Assistance partners – has increased from 45 per cent to 65 per cent since 1999–00 and will increase further with the additional \$1 billion program to Indonesia. Support to strengthen the core institutions of the state has increased from \$192 million five years ago to \$674 million this year
- > *a more robust Australian Government approach:* there is significantly increased engagement by key Australian Government agencies grappling with the region's governance challenges and assisting countries to maximise the benefits of globalisation and regional integration. Partnership arrangements between AusAID and agencies including the Treasury, Attorney-General's Department, Federal Police, Public Service Commission and Department of Finance and Administration have been formalised, solidifying cooperation
- > *changes in managing the aid program:* a deliberate and dynamic strategic planning process over the last four years within AusAID has focussed on enhancing the aid program's responsiveness to broader government priorities. New methods of delivery which provide greater responsiveness and sustainability are being employed – this includes coordinating our assistance with other donors while working within partner government systems. To improve effectiveness, Australia has further untied its aid. Capacity in the field has been strengthened allowing program management to be devolved, and policy capacity has been enhanced. AusAID now has a younger, more educated professional workforce than eight years ago and the proportion of AusAID staff in the field has doubled over that time, and
- > *a stronger policy framework backed up by a commitment to implementation,* in areas such as governance, service delivery, water, peace and conflict, humanitarian action and HIV/AIDS – the latter reinforced by a major \$600 million initiative and the appointment of a Special Representative to promote and energise regional leadership to tackle HIV/AIDS.

These developments have helped underpin Australia's leadership role in its immediate region. Australia's maturing approach has been recognised and commended internationally, with the OECD's Development Assistance Committee (DAC) in December 2004 praising Australia's leadership role on fragile states, most notably in Solomon Islands and Papua New Guinea, HIV/AIDS and peace and conflict. Another OECD report has cited the Australian-led Solomon Islands intervention as a lead example of how a combination of donors' security assistance, longer term institutional reform and development assistance can help countries regain legal and economic stability.

Australia is well placed to maintain its regional leadership role by continuing to adapt to the evolving demands of the region.

BOX 2: AUSTRALIA'S AID LEADERSHIP AND PERFORMANCE PRAISED

The 2004 OECD Development Assistance Committee (DAC) Peer Review of the Australian aid program was finalised in December 2004. DAC members are reviewed by peers every four or five years. Australia was last reviewed in 1999. The review team's findings were based on visits to Canberra, Phnom Penh and Port Moresby in July 2004.

The report commended Australia for our leadership on key development challenges in the Asia Pacific, particularly HIV/AIDS, governance, peace and conflict and fragile states. Australia's development agenda was noted as being much more ambitious than at the time of the last review. The hands-on and practical methods were welcomed – including the whole of government approach to PNG and Solomon Islands. The report acknowledged the high level of coherence between Australia's aid and trade policies.

On aid effectiveness issues, the DAC recognised efforts to untie aid, achievements in coordinating aid with other donors and aligning support with partner government systems, the high and above average share of Australian aid going to Least Developed and Other Low Income countries and moves towards more programmatic approaches to aid delivery.

2 Global and regional developments

KEY POINTS:

- > The peace, prosperity and security of all countries are increasingly intertwined.
- > Unprecedented progress has been made against poverty, but significant challenges remain.
- > In Australia's region these include the persistence of poverty, weak governance, instability and security threats, HIV/AIDS and natural disasters.

Significant global and regional events such as state failure, declining governance, instability, conflict, terrorism, the spread of HIV/AIDS and the emergence of new pandemics continue to challenge efforts to promote growth and stability.

Poverty has become a dominant issue at major international meetings. The focus on developing country issues at the Doha Round of trade negotiations, and initiatives such as debt relief and the Millennium Development Goals, reflect a genuine desire by world leaders to help the poor. It also stems from a growing appreciation that the peace, prosperity and security of all countries are increasingly intertwined and that poverty, instability and weak governance are seen as major threats to these interests.

Asia is developing rapidly. Growth rates for the region as a whole have been very impressive and reductions in poverty have been achieved at unprecedented levels. China and India have emerged as major players and their potential is only starting to be felt. Thailand is graduating from aid and is itself becoming an aid donor. There are moves towards enhanced regional cooperation and integration, particularly through ASEAN, and in 2004 elections to directly elect the President were held for the first time in Indonesia.

Nevertheless, challenges remain to the region's security, prosperity and development.

There remain **significant levels of poverty** in the Asia Pacific region. Despite the impressive growth and poverty reduction record for the region as a whole:

- > many countries such as Cambodia, Philippines, Laos, East Timor, Papua New Guinea and Solomon Islands are struggling to achieve levels of growth sufficient to make inroads into poverty, and
- > within strongly performing economies such as China, there are areas of concentrated urban and rural poverty, often in isolated areas with poor links to markets. Addressing these inequalities requires policies and initiatives that enable the poor to participate in the opportunities provided by greater prosperity.

BOX 3: UN SUMMIT AND THE MILLENNIUM DEVELOPMENT GOALS

In 2000, the Prime Minister and other world leaders adopted the Millennium Declaration which contained the Millennium Development Goals (MDGs), centred on reducing world poverty. World leaders will meet again at the UN in September this year in part to review progress towards the goals.

Like many other donors, Australia is preparing a report on our contribution to goal 8, "Develop global partnerships for development". In the Asia Pacific region, where Australia is a major contributor, significant progress has been observed in key poverty indicators, but serious challenges remain for meeting some goals, for example, health and education in Melanesia.

Australia is committed to helping countries accelerate progress towards the MDGs and will play an active role in the UN Heads of State Summit. Australia's approach will underline the need for a genuine partnership between developing and developed countries, and the over-riding importance of broad based and sustainable economic growth for the achievement of the goals.

There is also a need for developing countries to pursue continuing improvements in governance and stability, sound investments in people, commitment to private sector growth and openness to trade and investment. All countries, developed and developing countries alike, need to facilitate growth through a commitment to greater trade liberalisation. Developed countries should provide well targeted and effective aid and appropriate debt relief. Australia will emphasise the importance of security for development, innovative approaches to fragile states and efforts to combat HIV/AIDS.

Weaknesses in governance continue to impede growth and poverty reduction. Stronger legal and regulatory frameworks are needed in Indonesia to help stimulate investment and promote stable growth, while Papua New Guinea is struggling to maintain basic law and order, service delivery and public expenditure management. There is, in some parts of the region, a lack of accountable governance which together with corruption and poor administration within all levels of government undermines legitimacy and wastes scarce resources.

Instability and security concerns are undermining growth prospects for many parts of the region:

- > in Solomon Islands, GDP fell by almost a quarter in the deteriorating security environment between 1998 and 2002
- > instability, ethnic tensions and terrorism undermine investment and employment generation in the Southern Philippines and in parts of Indonesia, and
- > transnational crime, money laundering, drugs and people trafficking and their links to terrorism undermine stability and governance.

Many of the region's hard won development gains are threatened by the continuing spread and impact of **HIV/AIDS**. While there has been some success in combating the spread of the disease, as in Thailand, countries such as PNG and Cambodia will be facing levels of infection similar to Sub-Saharan Africa unless strong, sustained political commitment and action is undertaken. The avian influenza outbreak and Severe Acute Respiratory Syndrome (SARS) have demonstrated the potential for new communicable diseases to spread rapidly through the region at great economic and social cost.

The region is vulnerable to **natural disasters**, such as cyclones, droughts, floods and earthquakes. The 26 December Indian Ocean tsunami has had a massive and immediate impact on the region. At the time of publication, more than 290,000 people are listed as dead and more than a million people have been displaced from their communities. The reconstruction effort will take many years and comes at a time when there are already substantial development challenges.

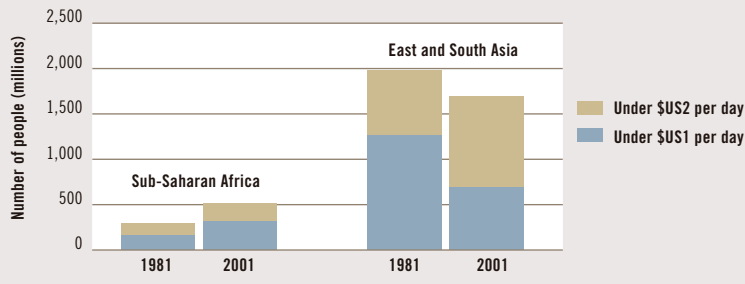
BOX 4: POVERTY TRENDS

Major progress has been made in reducing poverty. According to recent research, over the past 20 years the percentage of the developing world's population living on less than \$US1 a day is estimated to have dropped from 40 per cent to 21 per cent.

In East Asia and the Pacific¹, the number of people living on less than \$US1 a day in East Asia decreased by more than 520 million people from 1981 to 2001, while South Asia experienced a decline of 44 million. Against this trend, poverty in Sub-Saharan Africa increased.

Despite these gains, two-thirds of the world's poor live in East and South Asia. Three times as many people living under \$US2 day are in East and South Asia compared to Sub-Saharan Africa, leaving them vulnerable to shocks such as the Asian Financial Crisis, slowdowns in global growth, instability and natural disasters.

GRAPH 1: PEOPLE LIVING ON LESS THAN \$US1 and \$US2 A DAY, SUB-SAHARAN AFRICA AND EAST AND SOUTH ASIA



Source: Chen, S. and Ravallion, M. (2004) *How Have the World's Poor Fared Since the Early 1980s?*, World Bank Policy Research Working Paper 3341

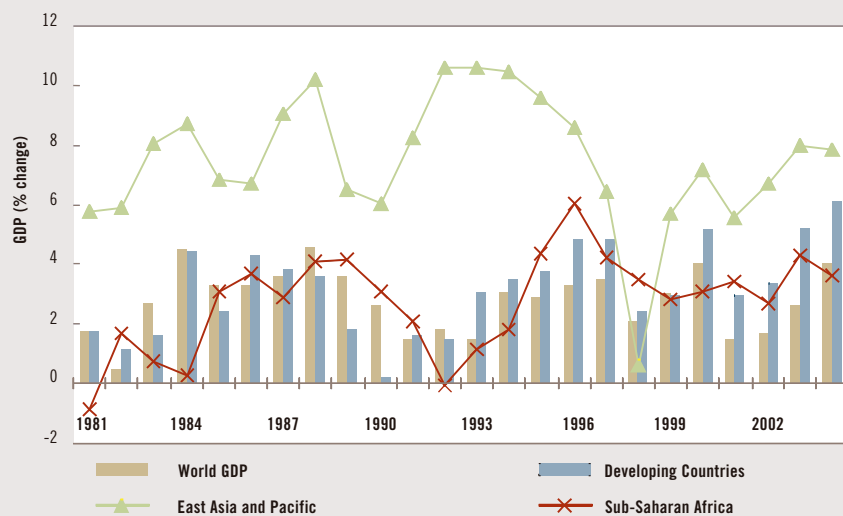
¹ East Asia includes Pacific countries and is defined as Cambodia, China, Fiji, Indonesia, Kiribati, Laos, Malaysia, Marshall Islands, Federated States of Micronesia, Mongolia, North Korea, Palau, Papua New Guinea, the Philippines, Samoa, Solomon Islands, South Korea, Thailand, East Timor, Tonga, Vanuatu, and Vietnam. South Asia includes Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

3 The role of growth, trade and aid

KEY POINTS:

- > Growth drives poverty reduction, and openness to trade and investment is critical.
- > Agricultural trade liberalisation is particularly important for the world's poor.
- > Poor governance and institutions, corruption, weak capacity and conflict can prevent or reduce the benefits of growth.
- > Institutions that provide dependable property rights, manage conflict and maintain law and order are the foundations of long-term growth.
- > Aid can help meet these challenges, promoting the conditions for trade, investment and growth – and ensuring that the poor can participate in growth.

GRAPH 2: GLOBAL ECONOMIC GROWTH 1981–2004



Source: World Bank Prospects for the Global Economy, 2004

Economic growth has been the main driver of poverty reduction. In East Asia, progress in reducing poverty correlates strongly with its impressive growth performance, compared to that of Sub-Saharan Africa (see Graph 2). Countries that have opened themselves up to trade and investment have grown much faster than those which have not.

The World Bank estimates that further trade liberalisation in the Doha Round of trade negotiations could increase real income in developing countries by as much as \$US350 billion by 2015 and lift an additional 140 million people out of poverty².

Agricultural trade liberalisation is particularly important. Growth in agriculture has a disproportionate effect on reducing poverty because 70 per cent of the poor in developing countries live in rural areas³. Australia, in its leadership role of the Cairns Group, has long championed the reduction of trade barriers for agricultural products as one of the most important actions that could reduce poverty in developing countries.

Growth and trade liberalisation by themselves, however, are not always sufficient to reduce poverty. While Pakistan had per capita economic growth of 2.2 per cent from 1950 to 1990 and tripled its per capita income over that time, basic social indicators still remain some of the worst in the world⁴. Resource rich countries that have not translated revenue windfalls into broad-based development include Zambia, Sierra Leone, Nauru and PNG.

There are many reasons for this. Poor governance, corruption, weak capacity, civil war and instability have allowed revenue windfalls to be squandered and have impeded growth, particularly in Sub-Saharan Africa. The poorest 20 per cent of humanity endures 80 per cent of the world's civil wars⁵.

Institutions that provide dependable property rights, manage conflict, maintain law and order and align economic incentives with social benefits are an important foundation for long-term growth⁶. Domestic policies that promote broad based private sector growth and effective investments in health and education have been common features of countries that have succeeded in reducing poverty.

Aid can and does have an impact when provided within a framework that acknowledges the drivers for broad based growth. Well targeted aid enhances the ability of developing countries to maximise the benefits of trade liberalisation, improve the environment for investment and ensure that the poor have the ability to contribute in achieving growth. The benefits of trade liberalisation accrue in different countries and sectors at different times. Aid can help accelerate these benefits.

2 World Bank (2004) *Global Monitoring Report 2004*, World Bank.

3 Aksoy, M. and Beghin, J. (eds)(2005) *Global Agricultural Trade and Developing Countries*, World Bank.

4 Easterly, W. (2001) 'The Political Economy of Growth Without Development: A Case Study of Pakistan', *Paper for the Analytical Narratives of Growth Project*, Kennedy School of Government, Harvard University.

5 Collier, P. et al. (2003) *Breaking the Conflict Trap: Civil War and Development Policy*, World Bank Policy Research Report.

6 Rodrik, D. (ed) (2003) *In Search of Prosperity: Analytic Narratives on Economic Growth*, Princeton University Press.

4 Future directions

KEY POINT:

- > The objective of the aid program is unchanged and will be pursued through a number of initiatives over the next three years.

The single objective of the Australian aid program will remain:

“To advance Australia’s national interest by assisting developing countries to reduce poverty and achieve sustainable development”

Poverty reduction remains central, reflecting both Australia’s humanitarian values and its economic and security interests.

Within such a broad remit there are many avenues available to help meet this objective, from direct support to the communities most at need, to broader institutional and governance programs. There are many areas of comparative Australian expertise where a strong contribution can be made, whether that involves financial management, agricultural research or HIV responses.

Australia’s aid will continue to **focus on the Asia Pacific** region, particularly our immediate neighbours. Australia is one of very few OECD donors located in a region comprising developing countries, many of which are fragile states. With deep trade, defence, economic and diplomatic relationships with countries in the region, the strategic dimensions of aid are strongly evident. The geographic focus of Australia’s aid program was supported by the recent review of the program by the DAC. Good aid practice encouraged by the DAC urges donors to limit the number of countries they focus on. Australia’s key partners choose themselves.

Australia’s aid will continue to be guided by the needs and priorities of our partner countries. The program’s **five guiding themes** will continue to link activities with the program’s poverty reduction framework and focus on broad-based growth. They are:

- > promoting improved governance across all areas of partner governments and strengthening democratic processes
- > assisting developing countries to access and maximise the benefits from trade and new information technologies
- > supporting stability and legitimacy through improved delivery of basic services
- > strengthening regional security by enhancing partner governments’ capacity to prevent conflict, enhance stability and manage transboundary challenges, and

- > promoting sustainable resource and environmental management.

Over the next three years Australia will pursue a number of **interrelated policy, program and partnership initiatives** that will further enhance the focus, effectiveness and relevance of our aid program. These will centre on:

- a closer partnership with **Indonesia**
- long term and innovative approaches to our engagement with **fragile states**
- initiatives to stimulate broad based economic **growth**
- strengthening **political governance** and tackling **corruption**
- addressing **transnational threats**, particularly HIV/AIDS, and
- contributing to **stability and security**.

4.1 INDONESIA: A CLOSER PARTNERSHIP

KEY POINTS:

- > Australia and Indonesia's relationship will be deepened through a closer partnership.
- > A \$1 billion Partnership for Reconstruction and Development will support Indonesia's recovery from the December 26 tsunami and will assist economic and social development as well as supporting Indonesia's program of reform and democratisation.
- > Priority areas for funding will be determined jointly through a Joint Commission involving Ministers from Australia and Indonesia.
- > Under the ongoing aid program Australia will scale up support for key reforms and education programs aimed at fostering long term growth and prosperity.

There will be a substantial deepening of Australia's already extensive relationship with Indonesia to assist the rebuilding process after the tsunami and to meet long-term development challenges.

TSUNAMI RESPONSE: A PARTNERSHIP FOR RECONSTRUCTION AND DEVELOPMENT

The human toll of the tsunami has been enormous and the damage in affected areas catastrophic. Recovery from the disaster will require a large and sustained commitment. In addition to Australia's contribution, the reconstruction effort is expected to attract significant support from other international donors.

The Government committed through the aid program an initial \$33 million for immediate relief to Indonesia, in addition to significant support provided by the Australian Defence Force and others. Subsequently, the Government announced a \$1 billion, five-year Australia-Indonesia Partnership for Reconstruction and Development (AIPRD), through which Australia and Indonesia will jointly develop a longer term program of assistance.

The \$1 billion commitment is to be appropriated to AusAID and will be on top of Australia's existing annual \$160 million aid program to Indonesia. The new program comprises \$500 million in grant assistance and \$500 million in concessional loans. While the early focus is expected to be on areas devastated by the tsunami, all areas of Indonesia are eligible for assistance under the partnership.

The partnership will be overseen by a Joint Commission under the leadership of the Prime Minister of Australia and the President of Indonesia, with assistance from the Foreign Ministers and an economic minister from each country. Detailed management arrangements for the AIPRD are being developed in consultation with the Indonesian Development Planning Agency, BAPPENAS. The Joint Commission will set the overall direction for the AIPRD and agree key priorities for funding.

SUPPORTING GROWTH, REFORM AND THE TRANSITION TO DEMOCRACY

Successful elections in 2004 were significant milestones in Indonesia's transition to democracy. Careful macro-economic management has also been maintained and the economy continues to grow. However, Indonesia's economy is struggling to achieve the growth rates of more than six per cent a year required to make significant headway in reducing poverty (the damage inflicted by the tsunami is estimated to represent a loss of between 0.1 and 0.4 per cent of Indonesia's GDP). Weaknesses in the legal system and uncertainties created by rapid decentralisation combine to hold back new private investment while public investment in essential economic infrastructure is lagging.

Indonesia's new Government recognises the importance of further governance reform and a national anti-corruption strategy is being developed.

Australia will continue to expand assistance in areas key to Indonesia's reform agenda and central to promoting growth and reducing poverty. This includes major programs focusing on economic and financial management, and legal and judicial reforms.

Australian aid to Indonesia also supports significant programs aimed at improving the quality and accessibility of education, including basic education programs. Education programs are critical for poverty reduction and lay the foundations for economic growth by providing Indonesians with the skills they need to participate in the global economy. Support for basic education, including in Islamic schools, was boosted from July 2004 with the commencement of a \$30 million, five-year Learning Assistance Program for Islamic Schools (LAPIS). LAPIS aims to improve the quality of education through programs which include teacher training, strengthened management within schools, and improved management of district education budgets. Indonesia's Islamic schools not only reach disproportionate numbers of poor, rural and female students, but they have also experienced rapid enrolment growth in recent years.

Australia will expand people-to-people linkages at all levels through the aid program, primarily through scholarships and exchanges particularly between key political and government agencies. This is an important way of promoting and sustaining development programs and building broader understanding and cooperation between the two countries, especially between younger leaders. Opportunities to expand people-to-people linkages between Australia and Indonesia include:

- > education sector exchanges allowing teachers and educators in the Islamic system to come to Australia
- > expanding the placement of Australian volunteers, for example, in English language teaching in schools
- > expanding academic linkages to encourage a revival of interest in Australia in work on Indonesian economic and development issues
- > facilitating inter-parliamentary exchange between the two countries, and
- > direct cooperation with a broader range of Islamic organisations such as women's groups and service delivery organisations.

4.2 FRAGILE STATES: A LONG-TERM AND INTEGRATED APPROACH

KEY POINTS:

- > The economic, social and security implications of fragile states are considerable.
- > Countries in the region face serious governance, institutional or stability problems.
- > Australia's approach addresses development, security and political aspects of state fragility in an integrated, whole of government way.
- > Aid has a particular role to play within this broader engagement.

Fragile states are countries that face particularly stark poverty and development challenges and are vulnerable to further decline – or even state failure. Weak governance, failed institutions, instability or conflict result in dismal growth prospects. The state fails to deliver critical services to the broader population, with a particular impact on the poor.

The economic, social and security implications of fragile states, and their spillover impact on neighbouring countries, have prompted significant international attention on how best to engage with such countries. Recent research has concluded that fragile states that are not assisted have little prospect of overcoming their problems and are likely to experience ongoing fragility and stagnation for generations⁷. Taking into account lost domestic growth and the economic spillover effects on neighbouring countries, the research estimates the long-term cost of a typical fragile state to be in the order of \$100 billion in foregone GDP. This estimate does not include important “non economic” spillover effects such as violence, crime, disease, refugees or the potentially dire security consequences of allowing fragile states to fail.

Many of our immediate neighbours are experiencing significant problems of governance and nation building. These range from virtual state collapse in Solomon Islands to East Timor where nascent institutions of democracy are suffering under capacity constraints. Other countries such as Vanuatu demonstrate the impact that political leadership changes can have on commitment to governance and reform. Fragility and vulnerability also arises from geographical circumstances and size, with countries such as Kiribati and Tuvalu that struggle to become self-sustaining viable nation states.

The critical issue for international engagement with fragile states is to build effective state institutions appropriate to individual country circumstances. They do not need extensive institutions, but they do need strong and effective ones within the limited scope of necessary state functions⁸.

Australia’s approach underlines the importance of addressing the development, economic, security, and political aspects of fragility in an integrated way through a coherent whole of government and donor approach. In Solomon Islands it was necessary to rebuild peace, restore law and order and stabilise government finances as critical first steps to avoid state collapse; only then could long-term programs of governance reform, institutional capacity building and growth be put in place. Not all cases will be the same and engagement strategies must be country specific.

In partnership with defence, policing, economic and diplomatic efforts, aid has a particular role to play in fragile states to:

i. Strengthen political governance and target corruption.

The failure of decision makers to act in the best interests of their country undermines reform and efforts to build capacity. Australia will work to refine the systems and structures of government to promote accountability and the stable functioning of democratic processes. Tackling corruption effectively and visibly is critical for sustaining public belief in the reform process, building a constituency for change and proving that accountability mechanisms can work. Improved political accountability will ultimately be achieved only through internal demand for reform. Education is central to this and Australia will also support grass roots civic education programs, including voter education, to build popular understanding and demand for political accountability.

ii. Build sustainable government institutions.

Australia has committed significant resources to fundamentally repair the machinery of government in several of our partner countries. A key concern in this work is to encourage only essential and affordable institutions for good governance to be retained, but for these to be strong. With Australian Government agencies providing practical, in-country assistance and

7 Chauvet, L. and Collier, P. (2005) ‘Development Effectiveness in Fragile States: Spillovers and Turnarounds’, *Paper prepared for DAC Learning and Advisory Process Difficult Partnerships*.

8 Fukuyama, F. (2004) *State Building: Governance and World Order in the Twenty-First Century*, Profile.

advice, we are fostering long-term institutional and personal linkages between partner government institutions and relevant Australian counterparts – developing capacity and ensuring access to ongoing advice and support.

iii. Exploit opportunities to stimulate growth.

Governance and institutional reforms are critical foundations for sustainable development, but will have their biggest effect on poverty in the medium to longer term. Even with failed government systems and services, the resilience of people and markets means that growth is possible. The aid program will help facilitate growth by identifying and exploiting opportunities to accelerate the removal of barriers to growth, particularly in regional and rural areas where poverty is widespread.

iv. Maintain the delivery of services to minimise the impact of system failures on the poor.

Australia is providing basic health and education services that would otherwise not reach poor and rural communities in some of our partner countries. Community and church organisations are supported to maintain services particularly where government systems have broken down.

Fragility is a long-term problem, requiring persistence. Expectations need to be realistic. Partners must drive the reforms needed to secure prosperity, especially in relation to political governance and corruption.

OUR IMMEDIATE REGION

This is a critical juncture for Australia's engagement with **Papua New Guinea**. Despite significant efforts, including those of the Australian aid program and other donors, PNG faces difficult economic prospects. There is widespread breakdown in service delivery and the economic and social impact of the HIV/AIDS crisis will intensify in the next three to five years. Instability is widespread (particularly in the Highlands) and the population will double in the next 20 years. As a critical response, the Australian and PNG governments have agreed to an Enhanced Cooperation Program (ECP), including

the deployment of up to 64 Australian civilian administrators and 210 police to help PNG meet important reform and law and order challenges and build longer-term capacity. With an additional \$800 million in support over five years, the ECP is a major commitment to building the Australia-PNG relationship, not least through long-term institution to institution linkages.

As part of Australia's ongoing bilateral aid relationship, a new long term vision and strategy for engagement with PNG is being developed, tackling difficult and long term problems. This will be consistent with Australia's approach for engaging with fragile states. The strategy will include a focus on fostering **sustainable economic growth**, particularly in rural areas; building stronger **political governance**; developing **institutional capacity** at all levels of government, a twenty to thirty year undertaking, particularly to arrest the decline of standards in public expenditure management; and addressing **HIV/AIDS**.

A new country strategy to be drafted this year will provide the means to articulate such a long-term vision. The strategy will also build on an independent review of Australia's aid to PNG undertaken in 2004 (see Box 5).

The 16th Australia-PNG Ministerial Forum in December last year agreed to develop the new country strategy incorporating the aid review's recommendations. The strategy will place high priority on working jointly with other major donors to PNG, in particular the World Bank, Asian Development Bank, Japan and the European Union.

A major challenge is the Southern Highlands Province, which has the lowest development indicators in PNG. Development is being constrained by escalating tribal violence and crime and severe breakdowns in service delivery. Australia is working with NGOs, churches and resource companies to address these problems. Western Province also looms as an area of concern.

Australia is leading the way on an integrated approach to engagement with **Solomon Islands**.

BOX 5: AUSTRALIA-PNG JOINT AID REVIEW

In September 2003 Australia and Papua New Guinea agreed to commission an independent review of the bilateral aid program. The review resoundingly endorsed several aspects of the program, finding that without Australian aid some areas of PNG would have no access to essential public goods and services. It also highlighted the extent to which the aid program underpins the availability and maintenance of essential infrastructure. The review found that the program is considered the best of all the bilateral aid programs supporting PNG and commended the Australia-PNG Country Strategy as a key strength. It also noted the flexible and innovative nature of the program and endorsed whole of government approaches to strengthening service delivery and government institutions.

The review also made a number of recommendations including enhancing public expenditure management in PNG, untying aid to allow greater participation by PNG firms, improving the program's performance framework and continuing efforts to improve donor coordination. Australia and PNG have now commenced work on a new country strategy taking into account the review's recommendations, and Australia has already announced the untying of aid to allow PNG firms to tender for future development contracts.

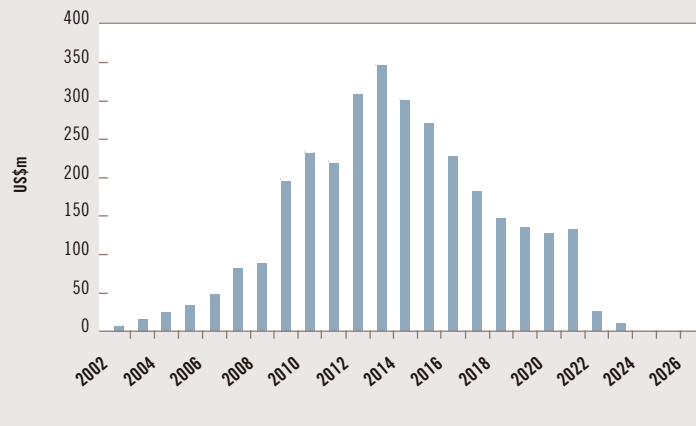
Australia will continue to work closely with Solomon Islands to address the complex and multi-layered challenges it faces in rebuilding economic and social prosperity. The significant achievements of the Regional Assistance Mission to Solomon Islands (RAMSI) in restoring the rule of law and stabilising government finances have established a solid platform for a significantly widened program of assistance and reform.

A major program to restore the machinery of government has started and will gain momentum throughout 2005. It provides ongoing assistance to all parts of the law and justice sector and a wider program of public service repair, reform and capacity building, particularly in the management of public finances. The latter will complement a range of initiatives to promote broad-based growth. A new economic reform unit will drive reforms aimed at expanding sustainable income-earning activities across Solomon Islands. Improved rural infrastructure and support for key sectors such as agriculture will target rural growth. Solomon Islands' first comprehensive civic education initiative on political governance will be implemented in conjunction with village-level voter education in the lead up to the 2006 elections. Corruption and political governance will also be targeted through building the capacity of transparency and accountability mechanisms such as the office of the Auditor General, the Leadership Code Commission and the Ombudsman's Office.

These initiatives will be complemented by Australia's continuing support through the bilateral aid program for the ongoing peace process and the delivery of basic services such as health care, electricity, and land and forestry management.

As the world's youngest independent nation, **East Timor** remains fragile with challenges to its nascent governance institutions. Population growth and drift to the capital, Dili, high levels of youth unemployment, corruption and dissatisfied veterans threaten stability and pose considerable challenges for the East Timor Government. Economic frameworks are weak, key skills are in short supply and options for employment and income generation (outside oil and gas) remain limited. The planned withdrawal or drawdown of the UN support mission (UNMISSET) in May this year may impact on the number of international advisors in key sectors.

GRAPH 3: ESTIMATED EAST TIMOR OIL AND GAS REVENUE



Source: World Bank Development Partners Meeting – Background brief May 2004

Major increases in Timor Sea revenues expected from 2009 onwards have the potential to underwrite East Timor’s development in the coming years. However, the experiences of Nigeria, Zambia and Nauru show that resource wealth is no guarantee of development.

Australia will build on its current assistance to East Timor to provide core support for East Timor’s transition to a stable and democratic nation. This will include strengthening law and governance, public expenditure management and transparency and accountability mechanisms. Australia will also focus on stimulating growth, particularly in rural areas.

As the third poorest country in the Pacific, **Vanuatu** faces significant challenges with some 40 per cent of the population living in poverty and a recent history of political instability. About 45 per cent of the population is under 15 years old and, like other countries in Melanesia, Vanuatu faces serious challenges in creating employment and providing services for its youth.

Australia is committed to helping to build a stable and prosperous Vanuatu through assistance to improve governance, promote growth and boost rural development. In December last year Australia and Vanuatu’s new government signed a Statement of Principles reaffirming our joint commitment to development through good governance, transparency and democracy. The two nations are now working together to determine the shape of the future cooperation program.

The severity of **Nauru’s** economic problems has necessitated increased Australian assistance through a program of tough but necessary reforms that aim to enable Nauru to function within its means, reduce long-term expectations and adapt to a significantly different livelihood. While Australian aid will continue to assist Nauru with economic reform, health, education and other essential services, the key challenge is to identify economic options that will contribute to a viable future and reliable revenue stream. Australian finance officials are working with the Nauru Government to make a careful and realistic assessment of these options.

In addition to the governance and capacity challenges faced by many Pacific nations, small populations scattered over vast distances make social and economic development and the provision of services particularly difficult. **Regional approaches to development** based on the pooling of resources between governments are emerging as a critical means for countries to achieve their economic goals. In partnership with other donors and Pacific partners, Australia has embarked on several far-reaching regional governance, infrastructure and policing initiatives.

At the 2004 Pacific Islands Forum, leaders agreed to the development of a **Pacific Plan for Strengthening Regional Cooperation and Integration**. Australia is closely involved in the development of the plan, which aims to identify areas where individual island nations can benefit most from sharing their limited resources and aligning policies to provide public goods such as law and order, basic infrastructure and regulatory systems. With support from Australia, senior officials from Pacific nations are drafting the plan for presentation to leaders at their annual forum to be held in Papua New Guinea later this year. This initiative will consolidate and build upon important regional initiatives already in place with Australia's support, including regional transport reforms, the Pacific Regional Policing Initiative and the Pacific Governance Support Program.

BOX 6: EVALUATION OF CAPACITY BUILDING IN PUBLIC FINANCE IN THE SOUTH PACIFIC

In 2004 AusAID conducted an evaluation of five activities intended to build capacity in public finance management in three South Pacific countries⁹.

The factors most affecting sustainability and impact of activities were:

- > effectiveness of management, and
- > availability of suitable counterparts.

A critical factor for the success of organisational capacity building is that the Partner Agency has a very clear vision of its own future. Activities that work with an organisation to develop and implement that vision are more likely to succeed.

At the individual level, on-the-job training is the most effective mode of capacity building and is well regarded by senior managers and project teams. It is done best where training needs are determined in a participatory process with the partner agency and adult education principles are applied to the subsequent training.

Advisers learn more about the environment and the challenges facing their counterparts when they are co-located with counterparts on a day-to-day basis. This builds rapport, establishes an advisor's operational credibility, and creates an environment that encourages advisers to provide continuous informal coaching.

9 Australian Agency for International Development (2004) *Capacity Building in Public Finance: An evaluation of activities in the South Pacific*. Evaluation and Review Series, No.36.

4.3 STIMULATING GROWTH

KEY POINTS:

- > New initiatives will explore new ways of stimulating growth.
- > Policies and institutions, local political economies, and helping the poor participate in growth are all critical factors.
- > Key foci will include improving market access, encouraging rural development and agricultural productivity, and reducing the costs of doing business.

Growth-promoting reforms need to be combined with the right policies to ensure that the poor are included in the benefits and opportunities provided by growth. Critical considerations to be taken into account in the design of policies and programs to promote sustainable and inclusive growth include¹⁰:

- > **policies and institutions** have a strong impact on **productivity**, the main driver of sustained economic growth. Getting policy and institutional settings right helps to free the creative forces of local populations and improve the investment climate to increase productivity, opportunity and participation
- > initiatives to promote growth need to be **country specific**. Local culture, politics and other factors provide opportunities and constraints that are decisive for the success of growth initiatives, and
- > policies and interventions need to ensure the poor acquire the skills and maintain the good health they need to participate. Taxation and spending policies must avoid bias against the poor. Access to markets can be a critical factor in explaining the differences between areas of high and low economic growth.

Aid can be an effective tool for promoting growth, especially when it is used to help build the policies, institutions and social infrastructure needed for people and firms to improve their economic decisions and productive processes. This includes reforms to reduce the costs of doing business, increase market access and strengthen economic basics such as property rights, competition, appropriate incentives and sound finances.

BOX 7: DOING BUSINESS

The World Bank Group's annual *Doing Business* report¹¹ was launched in 2003 and investigates how regulations and other factors such as property rights and investor protection influence business activity. Quantitative indicators from 145 countries are used to analyse social and economic outcomes and identify what reforms have worked, where and why.

Key findings from the report so far include:

- > leading countries have simple regulations that allow businesses to be productive and legislation to provide social services and protect property rights
- > red tape is a major obstacle to growth in poor countries, with heavy regulation and weak property rights excluding the poor from doing business
- > the nations with the highest regulatory burdens are also reforming the least, and
- > the pay-offs from successful reform are large, with countries that achieve improvements in each of the *Doing Business* indicators estimated to experience higher annual growth by between 1.4 and 2.2 per cent.

Internationally, Australia ranks fifth for ease of doing business. It takes only two days to start up a business in Australia (the least amount of time of all countries surveyed), compared to 151 in Indonesia and 198 in Laos.

¹⁰ See, for example, Zagha, R. et al (forthcoming) *Economic Growth in the 1990s: Learning from a decade of reform*, World Bank Poverty Reduction and Economic Management Network.

¹¹ World Bank and International Finance Corporation (2003) *Doing Business in 2004: Understanding Regulation*, and (2004) *Doing Business in 2005: Removing Obstacles to Growth*, World Bank/IFC/Oxford University Press.

With these factors in mind, there is now an opportunity to build on Australia's significant investments in governance and achievements to date in helping to restore stability in Solomon Islands and elsewhere, by exploring new ways of catalysing growth, especially broad-based growth that benefits the poor in rural and urban areas.

A new **Stimulating Growth Initiative** will be developed to accelerate new approaches to growth. It will help in the design of country-specific policies and institutions that facilitate productivity enhancements economy-wide. Special attention will be given to:

- > improving market access
- > increasing participation of the poor in the formal economy
- > encouraging rural development, and
- > improving the investment environment.

Within this approach, key targets will include: improving agricultural productivity and competitiveness, including through enhancing research and development; encouraging private sector investment through streamlining regulatory systems and reducing the costs of doing business; and supporting the development of small and medium scale enterprises. Partnerships with key agencies, such as the World Bank's private sector arm, the International Finance Corporation, will be strengthened.

To complement and inform these initiatives a new study is being commissioned focusing on long-term growth options for the developing economies in our region. The study, to be titled **Pacific 2020**, will be a follow-up to the 1994 study of development prospects in the Pacific (known as *Pacific 2010*). It will be launched at a regional conference on growth prospects for the Pacific, Papua New Guinea and East Timor to be held early next year. Other focal countries for the growth initiative include Indonesia, Vietnam, Cambodia and Laos.

BOX 8: PACIFIC 2020

With the theme of stimulating growth, reducing poverty and securing prosperity, Pacific 2020 will focus on the issues most critical for achieving sustainable development in the region. It will highlight the key actions needed in the short to medium term to give countries of the region the best chance of realising their potential by 2020 and will focus on:

- > political governance
- > infrastructure and telecommunications
- > public expenditure and revenue management
- > key industries such as manufacturing, agriculture, fisheries, and tourism
- > land access and tenure issues
- > business friendly policy environments, and
- > labour mobility.

Australia will place a renewed emphasis on stimulating growth by helping countries to benefit from trade liberalisation. This will build on existing assistance and focus on three key areas:

- > **"beyond the border"** to help countries engage effectively in trade negotiations
- > **"at the border"** by strengthening customs, quarantine and addressing other trade facilitation constraints, and
- > **"behind the border"** by addressing regulatory, governance and infrastructure bottlenecks that restrict greater trade.

4.4 STRENGTHENING POLITICAL GOVERNANCE AND TACKLING CORRUPTION

KEY POINTS:

- > Good political governance is essential for development.
- > Australia and partner countries will work to strengthen political governance and reduce corruption.
- > Initiatives will focus on strengthening political and parliamentary processes and accountability – including by building demand for good political governance.
- > Political practice is as important as process.

Political governance is the process by which a country's management decisions are made. In democracies an important element is the mechanisms through which representatives are elected and held accountable for making decisions. Good political governance is vital to underpin good governance more broadly: a country's political governance impacts directly and decisively on the economic and administrative policies and governance systems that are critical for poverty reduction. Political practice – the actual behaviour and actions of decision makers – is just as important as establishing appropriate political and accountability processes.

Australia's development partners face political governance challenges to differing degrees. Decision makers, including elected members of parliament, ministers, heads of government, senior bureaucrats and others in positions of trust and authority, on occasion exercise their power in ways contrary to the interests of their nation and constituents. A number of factors and competing incentives contribute to this: sectional interests, tribal allegiances and basic corruption for personal gain are all factors that cause political governance to fail, with the actions of a few thereby undermining the prosperity of entire nations. Development programs, including in our region, will ultimately fail if political decision makers continue to base decisions on considerations other than the broader interests of the state.

Australia will expand its assistance to strengthen political governance in our partner governments, helping to enhance the integrity and accountability of decision makers. Clearly, there are very sensitive sovereignty issues in this field and, as such, a key judgement is determining which aspects are legitimate for external engagement. The focus will be on:

- > **strengthening political and parliamentary processes and practice** including the role of accountability and oversight mechanisms, and strengthening the integrity and functioning of political parties. The aid program funded Centre for Democratic Institutions will be one vehicle for this work
- > **building demand for accountability and encouraging a sense of nationhood** by focusing on options for state building, including building strong but only essential institutions. It will also be important to support both "top down" initiatives such as strengthening regulatory bodies (for example, leadership codes) and "bottom up" initiatives through public and community education schemes and public communications strategies, and
- > **understanding the interrelationship between culture, political economy and political governance.** In particular, the *Pacific 2020* study will identify ways of working within local culture and political economy to strengthen institutions and address perverse incentives.

The World Bank has identified **corruption** as the single greatest obstacle to economic and social development, absorbing an estimated \$US400 billion globally each year. Anti-corruption initiatives are a major feature of many bilateral programs and Australia has supported major regional and international initiatives such as the Asian Development Bank-OECD Asia-Pacific Anti-Corruption Initiative.

Over the next three years the aid program will expand its anti-corruption activities. Initiatives will build on existing programs and widen a network of partnerships with relevant international and regional organisations such as Transparency International, the UN Office on Drugs and Crime, APEC and ASEAN. At the APEC meeting in Santiago in November last

year, the Prime Minister announced a \$3 million contribution over three years for capacity building in support of the *APEC Course of Action in Fighting Corruption and Ensuring Transparency*.

Australia is also working to support good political governance in the longer term through regional initiatives such as the **Emerging Pacific Leaders' Study Forum**. This will bring together emerging leaders from business, government and community service sectors across the Pacific. This and other activities such as the sponsorship of emerging leaders through placements at the Australia and New Zealand School of Governance and at other innovative institutions are aimed at developing the leadership capacities of emerging and future leaders of the region. Current leaders are also engaged on governance issues through bilateral and regional dialogues, and through programs run through the Centre for Democratic Institutions.

There is a strong link between political and broader governance and promoting and protecting **human rights** in the region. National human rights institutions as well as human rights-focused local organisations have an important educational and advocacy role to play in promoting human rights and improved political governance. Australia will continue to provide multi-year support for the Asia Pacific Forum on National Human Rights Institutions and for the activities of local organisations seeking to promote human rights in a practical grass roots manner.

BOX 9: UNDERSTANDING CORRUPTION IN THE PACIFIC: TRANSPARENCY INTERNATIONAL STUDIES

With support from the Australian aid program, Transparency International undertook National Integrity System (NIS) studies in Cook Islands, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Niue, Palau, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. These are part of a series of country studies that Transparency International is undertaking in all countries in the region, including Australia and New Zealand.

The NIS studies provide an overview of institutions in each country that can promote accountability and integrity in government and the private sector. They will serve as a diagnostic tool for Pacific island country governments and help donors to better target anticorruption activities. They complement NIS studies already completed in Papua New Guinea and Fiji.

These studies enhance our knowledge of corruption in the region and identify parallels between countries and areas of common concern that can be used to build capacity in Pacific countries for anti-corruption and other governance activities. They also provide local populations with a greater insight into the specific nature of corruption in their countries that can then be used for internal demand for reform.

4.5 ADDRESSING TRANSNATIONAL THREATS

KEY POINTS:

- > HIV/AIDS, communicable diseases, illicit drugs and organised crime are all transnational threats to development and stability.
- > Australia will continue its contribution to regional initiatives addressing these problems.
- > On HIV/AIDS, Australia will continue to lead the regional response.

The region faces a number of threats to growth, stability and development which transcend national boundaries.

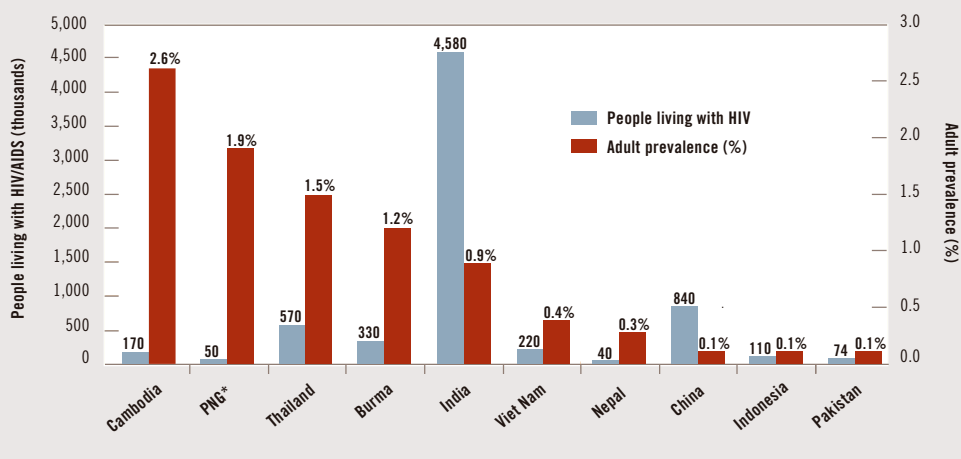
Over the next three years the aid program will continue to address transnational threats such as HIV/AIDS and communicable zoonotic diseases, illicit drugs and transnational crime.

HIV/AIDS is not only a health issue. HIV/AIDS and its consequences threaten to undermine regional stability and reverse the gains to economic development that have been made in many countries, with profound implications for security.

Much of the international focus for the HIV/AIDS pandemic to date has been centred on Africa. With the Asia-Pacific region accounting for 20 per cent of people living with HIV/AIDS in the world today, Australia has taken a leadership role to ensure the region receives appropriate global attention. A significant epicentre of the disease is rapidly emerging in our region, most notably in Papua New Guinea. In many parts of Asia, intravenous drug use is now the most prevalent means of HIV transmission.

Increasing prevalence rates combined with high risk behaviour among many groups throughout the region indicate the need for urgent and

GRAPH 4: ESTIMATED HIV PREVALENCE IN ASIA PACIFIC COUNTRIES



Source: UNAIDS, *Report on the Global HIV/AIDS Epidemic 2004* (2004)

* Papua New Guinea estimate from AusAID, Asian Development Bank and World Bank joint mission (2003)

comprehensive action. The high level of mobility throughout this sub-region, with many mobile people engaging in high-risk behaviour, further highlights the need for close regional cooperation.

Australia will place high priority on the effective implementation of its \$600 million international HIV/AIDS strategy, launched in July last year. Pragmatism and national leadership at the highest levels are critically important if HIV/AIDS is to be addressed effectively. Ministers attending the South-West Pacific Dialogue meeting in December last year made an important commitment to work together on this issue. In particular, the governments of Papua New Guinea, Indonesia, East Timor and Australia agreed to undertake a collaborative study on the epidemiological, social and economic risks and vulnerabilities to HIV/AIDS in the sub-region's emerging epicentres to enhance responses to the issue.

Communicable diseases also threaten the gains of development. A new program is now under development in collaboration with the Department of Agriculture, Fisheries and Forestry, the Department of Health and Ageing, the Australian Centre for International Agricultural Research, the World Health Organisation and the ASEAN Secretariat to combat communicable diseases in East Asia. The program will help build capacities in the region to monitor, detect and manage outbreaks of communicable zoonotic diseases such as avian influenza and SARS. These capacities will also be applicable to potential deliberate terrorist use of diseases. The \$5 million, three-year initiative was announced by the Prime Minister at the ASEAN-Australia and New Zealand Commemorative Summit in Vientiane and is due to start by mid 2005.

Although HIV/AIDS is a broader multi-sectoral issue, an effective response to the pandemic, communicable diseases and emerging non-communicable diseases will require sound, well-functioning health systems. The aid program will continue to address these issues and the relationship between health, poverty and security.

Continuing population growth and the need to pursue economic investment to reduce poverty is placing growing pressure on the region's natural resources and environment. **Water** is a particularly

critical natural resource that needs to be carefully and collaboratively managed at the local, national and regional level. Australia will continue to implement the aid program's water policy "Making Every Drop Count" launched in 2003, focussing particularly on the management of water resources and regional collaboration.

Poor governance, corruption and instability are intimately associated with **illicit drugs**. Asia is now estimated to be home to half the world's 15 to 20 million injecting drug users and substantial increases in amphetamine type stimulants have been reported across South East Asia. Australian aid funds counter-narcotics activities in the Greater Mekong region with a focus on demand reduction and alternative development. At the ASEAN-Australia and New Zealand Commemorative Summit in November last year, the Prime Minister announced a new \$2 million anti-drug initiative focusing on assisting Cambodia, Laos, Burma and Thailand over the next three years.

A strengthened approach on the links between illicit drugs and development will involve new initiatives that build on existing activities and expand partnerships. Australia will also support a major regional symposium this year on the evolving impact of drugs on development and approaches to address it.

Australia is also participating in important transboundary programs to target people trafficking and the abuse and exploitation of children.

4.6 CONTRIBUTING TO STABILITY AND SECURITY

KEY POINTS:

- > Aid has a role in building peace and assisting countries recovering from conflict.
- > Programs are in place to help promote stability and development in the southern Philippines, and assist recovery in Iraq and Afghanistan.
- > Australia will continue to support regional efforts towards economic integration and security.

There is a strong interrelationship between **development** and **security**, and aid is an important instrument to help prevent conflict and build peace, mitigate the impact of conflict and assist in post-

conflict recovery. In addition to the assistance Australia is providing in its immediate neighbourhood through peace dividends, law and order assistance and post-conflict reconstruction, the aid program is making significant contributions further afield to build peace, combat terrorism and assist with recovery from conflict.

Security in its broadest sense is essential to attaining positive development outcomes. **Terrorism** is one threat to this security. It threatens human life and imposes heavy costs on individual and national development prospects. Australia aims to provide effective operational-level cooperation to help countries to strengthen their capabilities to manage terrorist threats. The aid program is working with Indonesia and the Philippines (with support doubling to \$20 million and \$10 million respectively) and across the Pacific to build strong maritime and aviation security regimes, strengthen law enforcement and prevent the financing of terrorist activity. This assistance complements broader peace building and development efforts aimed at establishing the security and stability needed to boost economic growth and fight poverty.

Australia and the **Philippines** have a strong history of cooperation in support of peace-building and development, particularly in Mindanao. This will continue through a range of new and expanded initiatives. Australia has been by far the largest contributor to a multi-donor program helping communities affected by the Moro National Liberation Front (MNLF) conflict that was settled in 1996. A new \$17 million commitment for the final phase of this program (from 2005 to 2009) will bring Australia's contribution to over \$34 million since 1997. Other current and planned assistance for Mindanao will support peace advocacy, training and awareness raising; strengthen counter-terrorism capacity; improve basic education in government and Islamic schools; and foster economic growth.

In **Iraq**, Australia's humanitarian and reconstruction assistance has totalled \$126 million. In addition to initial humanitarian assistance, Australia has provided over \$45 million for technical assistance, including the deployment of around 30 advisers aimed at strengthening government and economic reform. Australia's continued focus has been in agriculture, with niche contributions in other important areas such as planning and development cooperation, electricity supply and police training. As part of this package,

Australia is contributing \$5 million for electoral assistance activities associated with the 30 January elections and preparations for a permanent constitution and government this year.

Afghanistan remains one of the poorest countries in the world, with an estimated 60 to 80 per cent of the population living in absolute poverty. Australia has pledged \$110 million in humanitarian and reconstruction aid to Afghanistan. Australia has provided \$13 million through the Afghanistan Reconstruction Trust Fund for basic services such as law and order. Australia also made a \$4 million contribution to the 2004 Presidential election to support Afghanistan's democratisation process and has provided high-level budgetary advice, capacity building and policy reform to the Ministry of Finance. We are also providing strategic support to improve security through improved border control and immigration systems. A key challenge for Afghanistan is the continued economic dependency of substantial sectors of the population on opium production and the links between this and the financing of terrorism. Australia is supporting the work of the UN Office of Drugs and Crime to combat narcotics production and is conducting research on replacing opium with alternative crops through the Australian Centre for International Agricultural Research.

Australia will continue to support **regional approaches** to strengthening economic integration and security through its cooperation with ASEAN and APEC. The five-year \$45 million ASEAN-Australia Development Cooperation Program supports economic integration and trade liberalisation and has promoted cooperation on regional security issues such as communicable diseases and counter-terrorism. Similarly, Australia is also supporting APEC's economic integration goals through capacity building activities with other members which are aimed at promoting economic liberalisation and trade security.

Australia's contribution to bilateral and international programs on the removal of anti-personnel mines and assistance to victims of mines plays an important role in post-conflict reconstruction especially in mine-affected countries of the Asia Pacific region such as Cambodia and Laos. The ability and confidence of rural populations in these areas to use their land are essential to their economic development and well-being.

5 Conclusion

KEY POINT:

- > Australia will continue to implement practical initiatives to achieve growth and reduce poverty in its region.

Australia is well placed to maintain and enhance its leadership role in the Asia Pacific and globally. The seamless whole of government approach and the positioning of Australia's aid agency has enabled good progress to be achieved in Aceh, PNG and Solomon Islands.

Growth generated by good policies, a commitment to governance and openness to trade and investment, holds the key to reducing poverty. The Government remains committed to addressing, in a hard headed and practical manner, existing and emerging opportunities and constraints to development, particularly in our region.

Australia's aid program has a vital and central role to play, alongside and in partnership with the diplomatic, economic, defence, trade, policing and other arms of the Australian Government.

Bibliography

- Aksoy, M. and Beghin, J. (eds) (2005) *Global Agricultural Trade and Developing Countries*, World Bank.
- Australian Agency for International Development (January 2005) *Humanitarian Action Policy*.
- (December 2004) *Pacific Regional Aid Strategy 2004–2009*.
- (September 2004) *Capacity Building in Public Finance: An evaluation of activities in the South Pacific*, Evaluation and Review Series, No.36.
- (July 2004) *Meeting the Challenge: Australia's international HIV/AIDS strategy*.
- (October 2003) *Papua New Guinea and the Pacific: A development perspective*.
- (August 2003) *Counter-Terrorism and Australian Aid*.
- (March 2003) *Making Every Drop Count: Water and Australian aid*.
- (June 2002) *Peace, Conflict and Development Policy*.
- Australian Public Service Commission (2004) *Connecting Government: Whole of government responses to Australia's priority challenges*, Management Advisory Committee Report.
- Chauvet, L. and Collier, P. (2005) 'Development Effectiveness in Fragile States: Spillovers and turnarounds', *Paper prepared for DAC Learning and Advisory Process Difficult Partnerships*.
- Collier, P. et al. (2003) *Breaking the Conflict Trap: Civil war and development policy*, World Bank Policy Research Report.
- Easterly, W. (2001) 'The Political Economy of Growth Without Development: A case study of Pakistan', *Paper for the Analytical Narratives of Growth Project*, Kennedy School of Government, Harvard University.
- Fukuyama, F. (2004) *State Building: Governance and world order in the twenty-first century*, Profile.
- Levin, V. and Dollar, D. (2005) 'The Forgotten States: Aid volumes and volatility in difficult partnership countries (1992–2002)', *Summary Paper prepared for DAC Learning and Advisory Process Difficult Partnerships*.
- Minister for Foreign Affairs Alexander Downer, *Australian Aid: Investing in Growth, Stability and Prosperity*, Eleventh Statement to Parliament on Australia's Development Cooperation Program, 24 September 2002.
- Twelfth Annual Statement to Parliament on Australia's Development Cooperation Program, 26 November 2003.
- Rodrik, D. (ed) (2003) *In Search of Prosperity: Analytic narratives on economic growth*, Princeton University Press.
- UNAIDS (2004) *Report on the Global HIV/AIDS Epidemic*, Joint United Nations Programme on HIV/AIDS.
- World Bank and International Finance Corporation (2003) *Doing Business in 2004: Understanding regulation, and (2004) Doing Business in 2005: Removing obstacles to growth*, World Bank/IFC/Oxford University Press.
- World Bank (2004) *Global Monitoring Report 2004*, World Bank.
- Zagha, R. et al (forthcoming) *Economic Growth in the 1990s: Learning from a decade of reform*, World Bank Poverty Reduction and Economic Management Network.

