



Australian Aid

Investing in
Growth, Stability
and Prosperity



The Australian Government's
Overseas Aid Program



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Investing in Growth, Stability and Prosperity

Eleventh Statement to
Parliament on Australia's
Development Cooperation Program

The Hon Alexander Downer MP
Minister for Foreign Affairs

September 2002



The Australian Government's
Overseas Aid Program

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Executive Summary



Australia's Minister for Foreign Affairs, The Hon Alexander Downer MP, talks with staff during construction of the Buka Town Hospital in Bougainville. Completed in 1998, it is now the only fully functional hospital in Bougainville, servicing around 170,000 people.

Australian Aid: Investing in Growth, Stability and Prosperity is a new policy document for the Australian aid program. It reinforces the essential policies established in 1997 in *Better Aid for a Better Future*, and brings together the policy framework that has evolved since then. It will guide Australia's aid program in response to a rapidly changing international and regional environment.

The single objective established for the Australian aid program in *Better Aid for a Better Future* will remain: To advance Australia's national interest by assisting developing countries to reduce poverty and achieve sustainable development. The Statement reinforces the aid program's focus on assisting developing countries in the Asia Pacific, for both development and national interest reasons. It also emphasises the critical importance of good governance as the basis for successful poverty reduction and development. Governance cuts across all elements of the international development agenda, and underpins all of our aid investments.

The Statement provides a detailed overview of the impact and effectiveness of the aid program, both in

achieving good development outcomes and highlighting its contribution to Australia's national interests. Development issues in Papua New Guinea and the countries of the South Pacific, which are some of Australia's most important development partners, are highlighted. This is in recognition of the expectation, of both the international community and the Australian public, of Australia's leadership role in assisting these countries in their development efforts.

Looking forward, the Statement sets out a range of priorities for making Australian aid even more effective, including: working increasingly within the development frameworks of partner countries; strengthening the aid program's relationships with key international organisations, NGOs and professional expertise; and making more use of incentives to reward good performance as a means of reinforcing our focus on good governance and continuing reform. The Statement also outlines a practical strategy for working more effectively with poor performing states – a key priority for Australia – one that both minimises the impact on the poor of failed states, and encourages government reform.

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1.1 International and Regional Challenges

In 1996 the Government commissioned a major independent review - the Simons Review - of Australia's aid program, to ensure that it was better positioned to focus on its core development role. The Government's response to the review, *Better Aid for a Better Future*, tabled in November 1997, set out the objective, key principles and future directions of the aid program. While some of the challenges identified in that document remain, the world has changed markedly since *Better Aid for a Better Future* was developed.

The East Asian financial crisis underlined the fragility of development gains in the region

The East Asian financial crisis, one of the worst regional economic downturns in over fifty years, saw massive economic and social dislocation for millions of people throughout the region. East Asia has largely recovered from the crisis, but remains fragile. While projected growth rates in East Asia are generally positive, they are still vulnerable to US economic performance and Japan's continued economic weakness. East Asian governments have undertaken significant economic and financial reforms, but much remains to be done in order to avert a repeat of the crisis.

Conflict and instability in the region are a direct threat to Australia's security

Recent years have also witnessed the re-emergence of protracted conflict and instability in our regional neighbourhood. Examples include the violent internal conflicts in Indonesia, the breakdown of law and order in Solomon Islands, and the threat to democracy in Fiji following the coup in 2000. We also saw the bloody and tumultuous events that led to the establishment of a newly independent country on Australia's doorstep, East Timor.

Indonesia is undergoing a major shift to a more open and democratic society

Some of our most important neighbours are facing significant challenges. Indonesia has undergone a major regime change in the last few years, and is still struggling to emerge from the effects of the economic crisis. It is grappling with the daunting challenges of decentralisation and the shift to a more open and democratic society after decades of autocratic rule. This difficult transition will span many years. Despite considerable gains since independence, the economic, political, and social outlook for Papua New Guinea remains challenging.

...and Papua New Guinea faces major development challenges

There are changes in the geopolitical landscape of Asia

We are witnessing significant geopolitical changes within the East Asian region, not least China's increasing political, economic and strategic influence in both global and regional affairs. This has been reinforced by its recent accession to the

World Trade Organisation (WTO). Notwithstanding this, Japan remains the world's second-largest economy and a significant global and regional power.

The September 11 terrorist attack on the United States, and the resulting international war on terror, has highlighted the relationship between security and development. While it provides no justification for acts of terror, entrenched poverty can create an environment in which terrorist networks may be fostered.

Australia is also not immune to the impacts of a range of transnational threats, which are prevalent in our own neighbourhood. The Asia Pacific is home to more people living with HIV/AIDS than any other besides sub-Saharan Africa (7.5 million in 2001). The world is experiencing unprecedented flows of illegal migration, with over 50 per cent of illegal immigrants being assisted by smugglers. The International Organisation for Migration estimates that 700,000 to two million women and children are trafficked globally each year, the largest number coming from Asia. Southeast Asia is also important in the \$730 billion (US\$ 400 billion) a year illicit drug trade. It is the world's second largest source of opium production, while the production and trafficking of amphetamine-type stimulants is growing at an alarming rate.

The number of disasters has also risen significantly in the past five years – from approximately 1,100 between 1992-96 to over 1,600 between 1997-2001 – an increase of almost 50 percent. The scale and impact of these, mainly on poor countries, has been considerable, and has stretched limited resources and capacity.

Globalisation over the past two decades has perhaps had the most profound effect on our lives. Unlike previous global waves of expansion throughout history, the speed, breadth and nature of interconnectedness between economies and communities is greater than ever before. Innovations in transport and communications have spurred exponential increases in the flows of goods, services, capital, people and information around the world. In particular, new information and communication technologies have contributed to greater transparency in government decision-making, heightened political activism, raised literacy levels, increased productivity and improved both health awareness and delivery of health services.

All of these issues directly affect Australia as well as our developing country neighbours. The Australian aid program has increasingly played an important role in whole-of-government responses to issues of trade, environment, immigration, conflict, and transboundary issues such as disease, drugs and crime, and will continue to do so. Australia's close proximity to, and relationships with, developing countries in our region mean that a lot is at stake for us in helping to tackle these challenges.

Security is closely linked to development

Transnational threats from HIV/AIDS, illegal migration, people trafficking, and trade in illegal drugs are increasing

As is the number and scale of disasters

Globalisation is increasing the interconnectedness between economies and communities at an unparalleled rate

The Australian aid program is playing an increasingly important role in whole of government efforts to respond to these critical issues

A clear lesson from September 11 is that we cannot insulate ourselves from what is happening in the rest of the world. Our own economic prosperity, social harmony, security and ultimately, freedom, will remain fragile while millions of other people in the world, especially within our own neighbourhood, are suffering in absolute poverty. Recent international forums such as the UN Millennium Summit, the UN Financing for Development Conference in Monterrey, the meeting of G-8 leaders in Kananaskis, and the World Summit on Sustainable Development all recognise this. Apart from the moral obligation for a wealthy country such as Australia to help ameliorate poverty, it is in Australia's own national interest to work with developing countries in promoting wider development, stability, prosperity and security.

1.2 Development Progress and Constraints

There has been remarkable progress in reducing poverty

The last 30 years have witnessed remarkable progress in achieving poverty reduction and development. The World Bank estimates that average life expectancy in developing countries has increased by 20 years. Adult illiteracy in the developing world has been almost halved, from 47 percent to 25 percent. Most importantly, the number of people living in poverty (ie living on less than US\$1 day) has begun to fall – a reduction of 200 million since 1980 – reversing the trend of the last two centuries of steady increases. This is in spite of the world's population rising from 3.7 billion in 1970 to over 6 billion in 2001.

But the gains have not been evenly spread

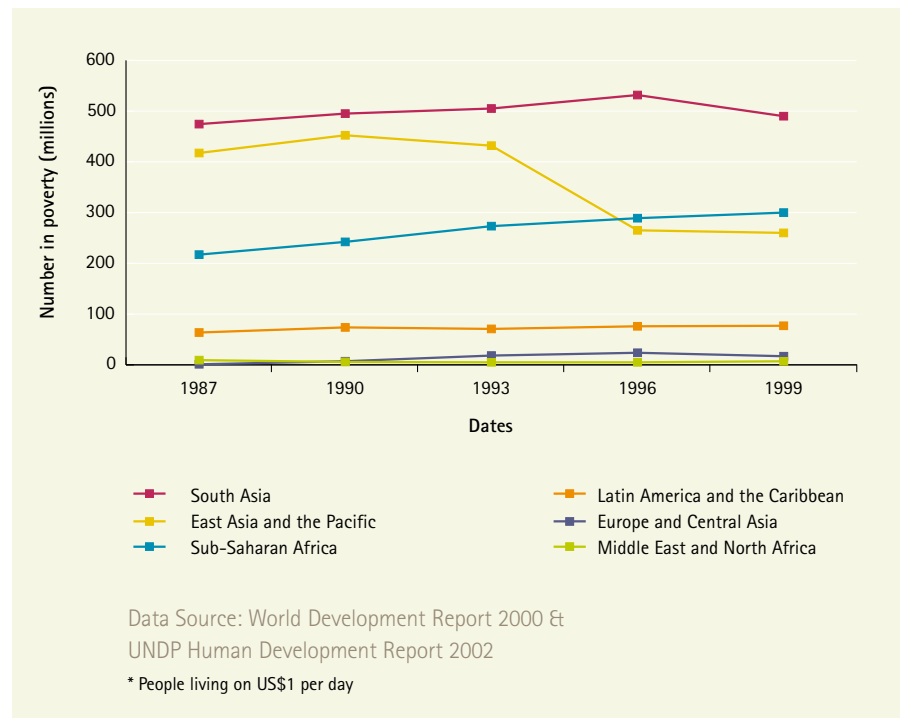
However, these achievements mask considerable disparities between geographic regions in development progress. The most significant gains have been realised in East Asia and the Pacific, where the number of people living on less than US\$1 a day dropped dramatically between 1987 and 1999, from 418 million to 260 million – a decline of over 30 percent. While much of this reduction has been achieved in China, significant gains have been made in most countries of this region. Even allowing for the Asian financial crisis in the late 1990s, this trend has continued. By contrast, South Asia has not fared so well – the number of people living in poverty rising from 474 million in 1987 to 490 million in 1999. Sub-Saharan Africa has also witnessed a surge in poverty numbers in that time, from 217 million to 300 million.

East Asia and the Pacific have achieved the most significant reductions in poverty

The success of many East Asian countries stands out

Within this global development picture there have been some notable individual achievements. On the back of continued economic growth and strong domestic savings, East Asian countries such as Korea, Malaysia and Singapore were able to transform from poor countries to modern, wealthy nations. For example, Malaysia's poverty fell from over half of the population to around 7 percent in the 1990s. Underpinning such gains were the massive investments these countries made in education, which strengthened their skills base, and an entrepreneurial sector that was an engine for further growth.

Figure1: World Poverty* by Region



More recently, individual countries such as Vietnam and China have made remarkable achievements, as have others...

More recently, Vietnam has made tremendous development progress since the 1980s. Per capita GDP doubled during the 1990s (from US\$200 to US\$400), and poverty levels have been halved. In China, the last two decades have seen a huge reduction in the numbers of people living in poverty, down from 270 million in 1978 to 200 million now. Chile has been an impressive performer in Latin America. An average annual GDP per capita growth rate of four percent since 1980 has seen typical incomes increase three-fold, with tremendous social gains such as increased average life expectancy and significantly reduced infant mortality.

...including in Africa

Within Africa, there have been several notable achievements, such as Uganda, Mauritius and Botswana. On the back of an average growth rate of 4 percent during the 1990s, Uganda has seen the proportion of its population living in poverty decline by a dramatic 40 percent during the same period. Mauritius, which in the 1960s was a poor country with a nominal per capita income of US\$260, is now a middle-income country with a nominal per capita income of US\$3,800. Rapid growth and sound social policies have translated into longer life expectancy, lower infant mortality, and have reduced the percentage of the population living in poverty.

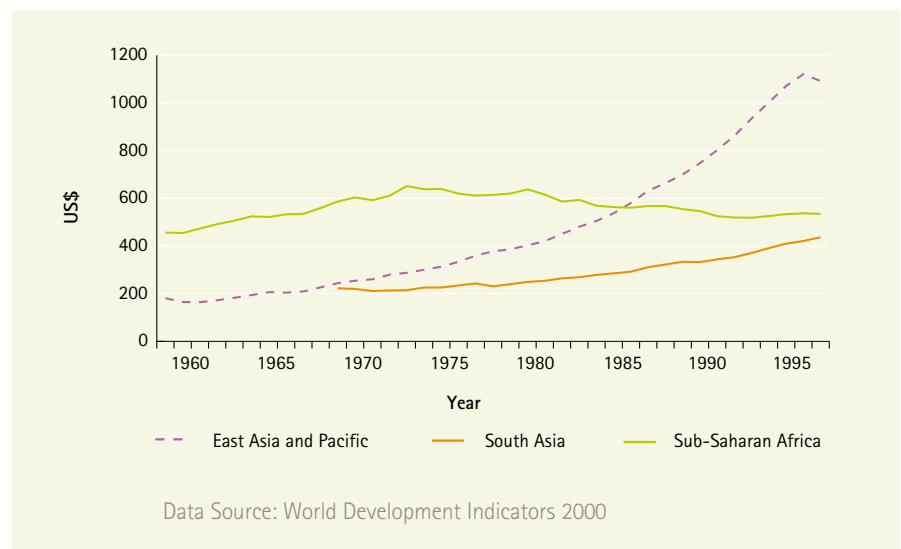
Botswana has achieved an annual economic growth rate of more than 7 percent over the last two decades. Apart from its natural resources, the central feature of this success has been sound management of its economy and finances, with investment in human and physical capital. This contributed to major improvements in social indicators such as infant mortality, which declined by over 70 percent between 1967 and 1994.

1.3 Why do countries succeed?

The reasons why some countries succeed are clear

The common factors underpinning the impressive gains in certain countries and regions have been the acceleration and sustaining of economic growth, and embracing globalisation. Since the 1960s, the annual per capita GDP of the developing world has increased by an average 2.2 percent, doubling the incomes of ordinary people. East Asia, where the greatest gains have been made in reducing poverty, has experienced continued high levels of economic growth (averaging 7.7 percent over the last two decades). On the other hand, the economies of sub-Saharan Africa (with a few exceptions) have generally either declined or remained stagnant during the same period.

Figure 2: Growth by Region GNP per capita, constant 1995 US\$



Strong economic growth is fundamental...

It is undeniable that economic growth is the main driver for development and poverty reduction. Key social indicators, such as maternal and infant mortality, literacy levels and school enrolments generally improve in line with per capita income increases. However, it should be recognised that the quality of growth is also important in achieving large-scale and sustainable poverty reduction. Such growth has the following characteristics:

- Responsible government and observance of the rule of law
- Investments in human capital, particularly in health and education
- An environment for private sector development that generates jobs for the poor and
- Better access for the poor to income-earning opportunities.

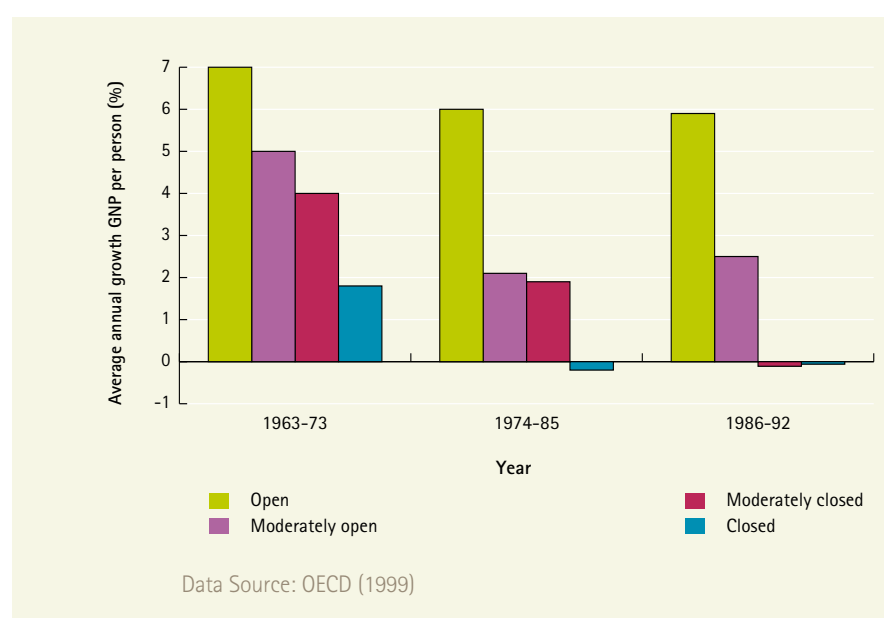
...but the quality of growth is also important

The quality of growth also has a significant bearing on the distribution of income between people, which influences poverty reduction levels. Countries experiencing growth with more equitable income distribution make poverty reduction gains more quickly.

Opening up to trade fuels that growth

At the same time developing countries that have taken advantage of globalisation and increased their integration into the world economy, through trade liberalisation and opening up their economies to investment, have achieved average per capita GDP growth of 5 percent a year during the 1990s, compared with only 2 percent for rich countries. Countries that did not enhance their integration into the world economy, notably those from sub-Saharan Africa, the Middle East and the former Soviet Union (representing approximately two billion people), have been left behind. Africa in particular is still fettered by high tariffs and quantitative restrictions on trade, which is undermining any growth and poverty reduction gains. Tariffs currently average 20 percent across the African continent, compared with approximately 7 percent in East Asian economies and around 5 percent for industrialised countries. Africa's share of world trade has fallen from 2.3 percent in 1970 to about 0.7 percent today.

Figure 3: More open developing economies achieve higher rates of growth



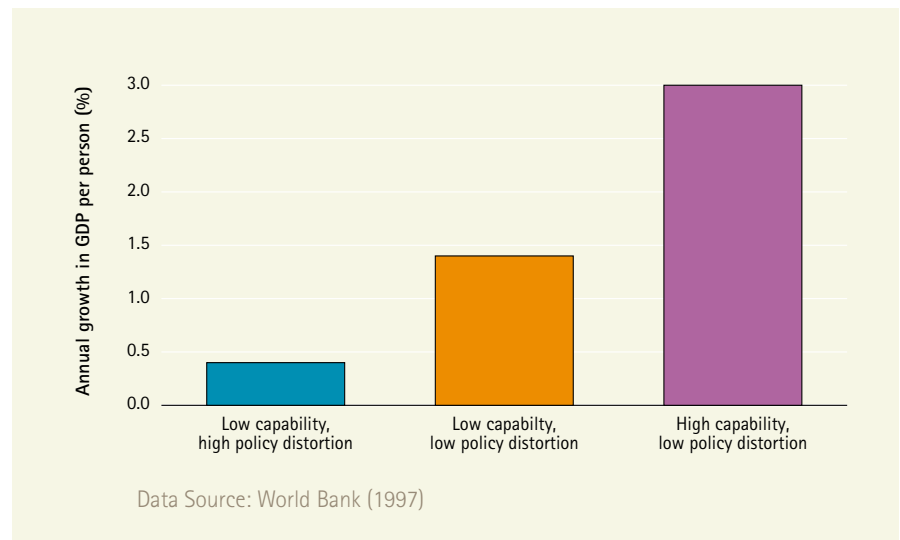
However, growth and globalisation alone do not account for the significant discrepancies between different countries and regions in terms of poverty reduction and development. Significantly, many developing countries have been hampered by destructive wars and ongoing conflict, many of which occur within states. Such violent conflict has been a major contributor to poverty, and reversed many of the development gains of recent decades.

Equally important is taking steps to improve systems of governance...

...and investing in human capital

But the main lesson from any objective analysis of development over the last thirty years is that sustained growth and poverty reduction has been achieved by countries that have taken steps to improve their policies, institutions and systems of governance. Countries that have developed strong macroeconomic policies, established robust public institutions, maintained domestic political stability and strengthened the rule of law, supported by investments in people through better health and education, have generally achieved strong economic growth and made great progress in reducing poverty.

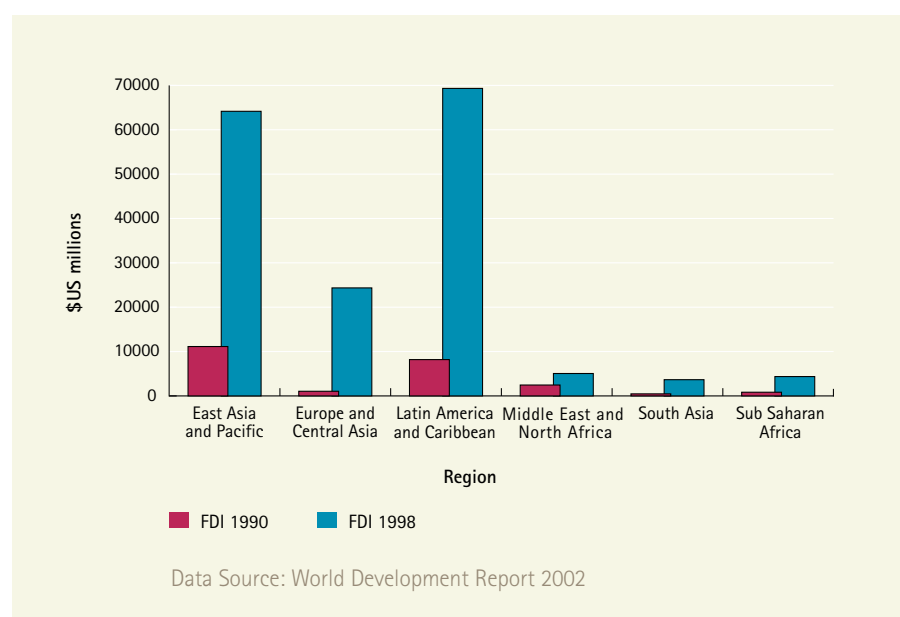
Figure 4: Economies with good economic policy and strong institutional capability grew up to eight times faster between 1964 and 1993



Outward looking policies and good governance act as magnets for attracting foreign direct investment, which itself contributes to greater economic growth

Countries that have adopted more outward looking policies and strengthened their systems of governance have also been more successful in attracting foreign direct investment (FDI). FDI is a major contributor to economic growth in developing countries. It facilitates the transfer of technology and management systems, creates new technical capabilities in developing countries and, in many cases, provides access to foreign markets for more sophisticated, technology-intensive and high value products. It also contributes to investments in people, through improving the quality of and access to resources such as education, health and financial services.

Figure 5: Foreign Direct Investment to Developing Countries by Region



Although investment flows are highly concentrated

Flows of FDI are highly concentrated. For example two-thirds of FDI to developing countries in East Asia and the Pacific is now concentrated in China. Nevertheless, what is clear is the importance of developing countries' adherence to sound policies, good governance and the rule of law as the main requirement for attracting resources such as FDI.

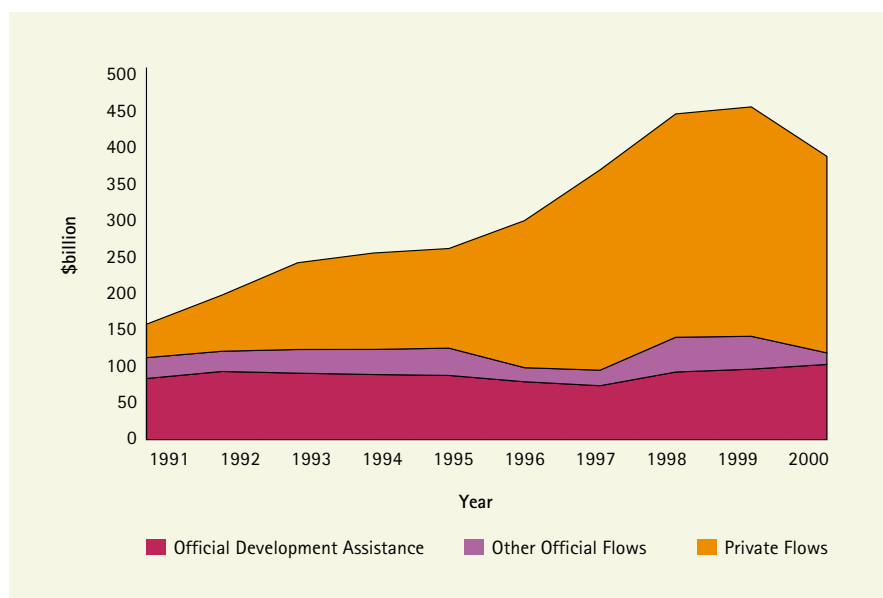
1.4 The role of aid in development

Foreign aid does not, and never will, form the bulk of the resources required to promote long-term development. Far greater are the resources from international trade, private international capital flows such as foreign direct investment, and the mobilisation of domestic savings. The 2002 UN Financing for Development Conference in Monterrey underscored this point.

Aid flows of US\$50 billion per year are small compared to development resources available through foreign investment and trade

The statistics speak for themselves. Total ODA flows in 2000 were approximately \$90 billion (US\$50 billion). By comparison, foreign direct investment flows from developed to developing countries total around \$360 billion (US\$200 billion) annually. Export earnings of developing countries are close to \$3.6 trillion (US\$2 trillion) a year. Australia alone imported approximately \$45 billion from developing countries in 2001, an increase of over 70 percent since 1997 (\$26 billion). This is in addition to annual Australian private direct investments in developing countries of over \$1 billion.

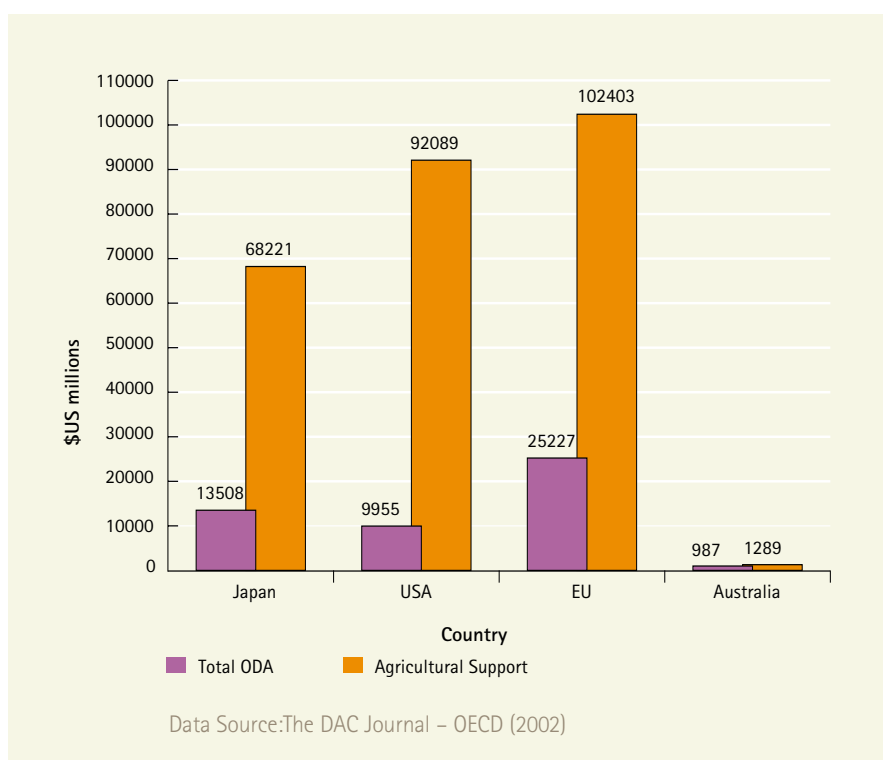
Figure 6: Total Financial Flows to Developing Countries – by Type



Trade reforms and greater integration into the global economy will boost growth and poverty reduction

Trade was recognised by the fourth WTO Ministerial meeting in Doha in 2001 as being integral to developing country efforts to achieve real, sustainable economic growth and long-term poverty reduction. The World Bank estimates that if developing countries were to adopt necessary trade reforms and become more integrated into the global economy, then the resulting new growth could see an additional 300 million people lifted out of poverty by 2015. But this is only half the story regarding trade. The other, and perhaps more important, side is developed countries' agricultural protectionism, which limits developing country access to lucrative markets. Some studies suggest a 50 percent reduction in current developed country agricultural tariffs and subsidies could, in time, see annual gains of up to US\$40 billion being passed on to developing countries.

Figure 7: Comparison of ODA to Agricultural Support



Aid can play an important role in supporting governance and policy reforms which underpin growth

But aid does play an important role. In 1998 the World Bank released a landmark report titled *Assessing Aid: What Works, What Doesn't*, which highlighted the importance of sound policy frameworks and robust economic institutions in developing countries to ensure the effective and sustainable use of aid funds. The report showed that aid can and has worked when it supports reforms in policies and governance, which are the keys to economic growth and poverty reduction. It is now widely agreed that soundly based and appropriately targeted aid can accelerate development. It can be crucial for assisting in improving the environment for private sector activity, and assisting countries to maximise the benefits of globalisation.

It can help create an enabling environment for private sector growth

And support investments in infrastructure and human capital

Aid has also demonstrated that it can be a decisive instrument for supporting health, education, agriculture and public infrastructure development, which are essential ingredients for long term growth and poverty reduction.

We have witnessed some spectacular successes in these areas, particularly in agriculture and health, and Australia has played an important part. For example, between 1970 and 1995, Asia's population grew by 60 percent. Yet the same period, as a result of new agricultural research, technologies and methods pioneered during the "green revolution", saw a doubling of cereal production in Asia. This result greatly improved food security, raised farm incomes and realised huge poverty reduction gains. The green revolution in many ways has underpinned Asia's transformation since the 1960s. Australia made a major contribution to the green revolution. Our scientists were at the forefront of the creation of the International Agricultural Research Centres (IARCs) that developed the science behind the green revolution. Australians have often been Directors of these centres and Australian research institutions have extensive cooperative links with them. Australian aid has also contributed significantly to ongoing international agricultural research, providing around \$50 million per year.

In health, Australian assistance played a role in global efforts to eradicate smallpox, a disease that during the 1960s afflicted up to 15 million people annually, and left some two million dead. By 1980, the WHO certified that the disease had been eradicated. Australia also provided over \$21 million to international efforts, focusing on immunisation and surveillance programs, to eradicate polio in our region. In October 2000, the WHO declared the Western Pacific region (including North and East Asia and South Pacific) polio free.

Much has happened since *Better Aid for a Better Future* that has further informed the thinking of what works best in achieving poverty reduction and sustainable development. While *Better Aid for a Better Future* provides a sound policy framework for Australia's aid program, it is timely to both reflect on the considerable achievements of the aid program since then, and consider the policy directions in response to the changing international environment, building on the enhanced knowledge and understanding of how development can best be achieved. This will ensure that the aid program continues to serve the national interest in changing times.

The changed regional environment and a better understanding of how development can be fostered have informed developments in Australia's aid

2 Our Policy Framework

Better Aid for a Better Future was a turning point for the aid program

Better Aid for a Better Future was a clear turning point for Australia's aid program. The realignment of the aid program in 1997 on its core poverty reduction objective has enabled it to rise to the many development challenges that have emerged since then.

Australia's aid program has been commended as an international leader

The 1999 review of Australia's aid by the OECD's Development Assistance Committee (DAC) found that Australia's development cooperation program had "gone through an impressive process of restructuring and renewal.... (and) these reforms put Australia in the vanguard of DAC members' aid management practices".

AusAID's new strategic plan adopted at the end of 2001 seeks to continue the process of renewal and improvement. Its focus on improving program quality, enhancing policy and analytical capacity and strengthening people management and corporate systems seeks to better position the aid agency to meet the challenges ahead.

Australia's aid continues to serve the national interest by fostering regional growth and poverty reduction, promoting peace and stability in the region, and addressing transnational threats to Australia's security.

Australia's aid continues to serve the national interest

Australia's aid has formed a critical component of whole of government responses to: helping regional countries recover from the Financial Crisis by addressing underlying economic and financial governance problems; assisting East Timor approach recovery, nationhood and development; responding to conflict and instability in the Pacific in Bougainville, Solomon Islands and Fiji; helping countries benefit from the opportunities of globalisation, particularly in light of the Doha round of trade negotiations which has an explicit development agenda; providing practical assistance to improve human rights; and responding to the range of transboundary problems such as HIV/AIDS, drugs and people smuggling which threaten both our neighbours development prospects as well as our own security.

The implementation of effective aid, responsive to whole of government issues, continues to be well served by a unified aid administration and a global aid budget administered by AusAID.

2.1 Objective

The single objective established for the aid program in *Better Aid for a Better Future* will remain:

A single poverty reduction objective remains valid

To advance Australia's national interest by assisting developing countries to reduce poverty and achieve sustainable development.

This objective continues to serve the development of a quality aid program. The previous multiple objectives that burdened the aid program and blunted its impact are a thing of the past.

2.2 Poverty Reduction – the Overarching Framework

The focus of Australia's aid on a single objective has been strengthened by the development of a new overarching poverty reduction framework.

Poverty reduction is the central integrating factor of Australia's aid

Australia's approach to poverty reduction embraces four closely connected and mutually reinforcing pillars:

- Strengthening frameworks for sustainable and inclusive economic growth which will benefit the poor
- Supporting interventions which enable the poor to improve their productivity
- Encouraging governments, institutions and donors to be more accountable to the poor
- Reducing the vulnerability of the poor.

Economic growth is unquestionably the key contributor to poverty reduction provided public policies enable the poor to access the benefits of growth. Enabling the poor to increase their productivity, through access to credit, markets, property rights, technology, health and education systems is important. So too is strengthening systems of governance to improve accountability and provide better access to services, resources and decision-making by the poor. Addressing the vulnerability of the poor, from illness, conflict, natural disasters and economic crisis is also necessary to ensure that development gains are not undermined.

2.3 Guiding Themes

Five guiding themes link the poverty strategy to individual aid activities

There are five guiding themes that link the poverty reduction strategy with our individual aid activities. These provide a lens through which the poverty strategy is programmed and implemented, and relate Australia's aid responses to core national interest issues.

Governance

Promoting improved governance across all areas of partner governments and strengthening democratic processes.

Promoting improved governance across all areas of partner governments and strengthening democratic processes

Governance cuts across all parts of the development agenda and all aspects of aid investments. Democratic and accountable government lays the foundation for effective community participation. Sound economic and financial management is critical, as is establishing strong and accountable institutions that operate transparently, enabling participation by citizens in decision-making, and acting in accordance with the rule of law. The development of good governance approaches is not restricted to central government agencies but must also be adopted by service delivery areas of partner governments, local administrations, civil society and the private sector. The development of sound governance systems encourages economic growth and enables greater gains in poverty reduction to be made.

Globalisation

Assisting developing countries to access and maximise the benefits from trade and new information technologies.

Assisting developing countries to access and maximise the benefits from trade and new information technologies

Openness to trade and investment flows is a key factor in stimulating the long-term economic growth that is essential to poverty reduction. Affordable access to information and knowledge is also vital to the development process, but the digital divide between rich and poor countries is growing. Helping partner countries harness these engines for growth will contribute to long-term prosperity and stability.

Human Capital

Supporting stability and government legitimacy through improved delivery of basic services

Supporting stability and government legitimacy through improved delivery of basic services

Investing in service delivery systems – education, health, water and sanitation – helps build human capital in developing countries, laying the groundwork for skilled and productive populations, and ensuring the poor can expand their range of choices, improve their productivity and participate more fully in society. Ensuring basic service delivery is a key responsibility of government: if government's fail to fulfil this responsibility, their legitimacy will be questioned. Service delivery investments contribute to national stability, to strengthening economic growth and to enabling the poor to participate in and reap the benefits of it.

Security

Strengthening regional security by enhancing partner government's capacity to prevent conflict, enhance stability and manage transboundary challenges.

Strengthening regional security by enhancing partner government's capacity to prevent conflict, enhance stability and manage transboundary challenges

Conflict threatens our security. It is a terrible reverser of development gains and a primary cause of poverty. High levels of poverty can also increase the risk of conflict. A range of other powerful, non-military threats – from disease, illegal migration, refugee flows, environmental degradation, drugs and transnational crime – also undermine security. Both states and people are at risk from these threats. At the most fundamental level, human security is undermined by poverty, which increases individuals' vulnerability to disease, conflict, and crime and undermines their ability to participate fully in society. Besides providing direct humanitarian assistance, Australia seeks to enhance partner government's own capacity to prevent conflict and manage non-military threats to security.

Sustainable Resource Management

Promoting sustainable approaches to the management of the environment and the use of scarce natural resources.

Promoting sustainable approaches to the management of the environment and the use of scarce natural resources

The poor rely substantially on natural resources for their livelihood. The sustainable management of those resources is essential for improving living standards today while ensuring future generations also benefit. The majority of the world's poor live in rural areas. A strong rural economy, built on improved agricultural productivity and accompanied by the right policy settings, will boost national economic growth and reduce rural poverty.

2.4 Supporting Policy Frameworks

New policy frameworks are also strengthening poverty impacts

New policies have been developed in all key sectoral and programmatic areas including: good governance; humanitarian assistance; peace, conflict and development; health; human rights; HIV/AIDS; food security; rural development; private sector development; information and communication technologies; environmental management; and also for some important partner relationships such as with NGOs. These ensure Australia's aid is implemented in light of the best international thinking and incorporates the benefit of our own practical experience into more refined approaches. Australia's aid is delivered through bilateral and multilateral channels.

2.5 Partnerships

Carefully developed strategies with developing country partners enable us to make good poverty reduction investments

Effective partnerships with developing countries are a central focus of Australia's aid. Country strategies are jointly developed with all major partner countries and form the basis for our assistance. They are informed by a country specific analysis of poverty and the most effective contributions that we can make to reduce it. Australia works within partner countries' broad development frameworks, coordinating our aid closely with that of other donors.

We are also involved in working level partnerships with a range of international and community partners. These also support the effective delivery of Australian assistance, as discussed in more detail in Section 5.

2.6 Geographic Focus

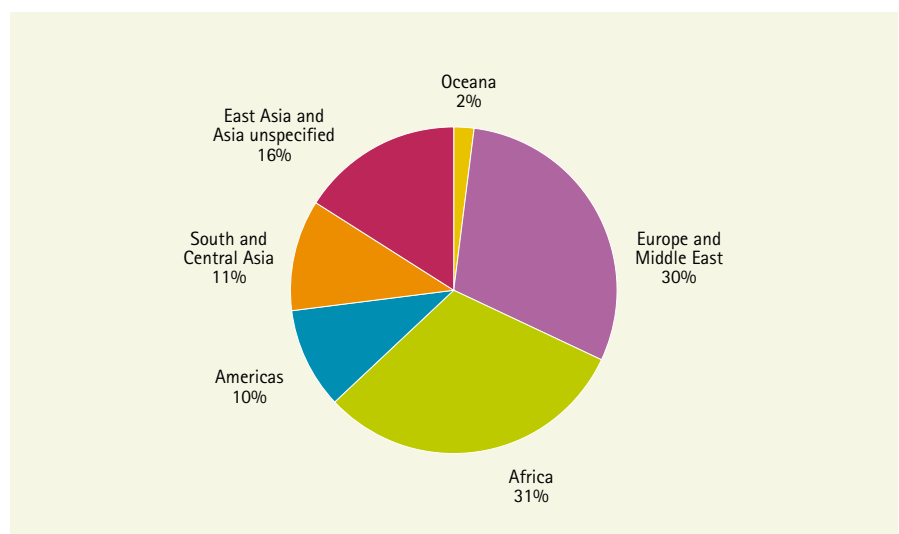
Australia's aid will remain focused on the Asia Pacific...

Australia's aid is focussed on the Asia Pacific region. The international community recognises Australia's leading role in the region, particularly in PNG and the Pacific. As the most recent DAC review noted, "Australia's security and economic progress are closely linked to the fortunes of a specific set of developing countries, more than is the case for most other members in the OECD's Development Assistance Committee".

...where the majority of the poor live and where our national interests are well served

The geographic focus of Australia's aid also makes sense in terms of the global distribution of aid flows – two thirds of the world's poor, some 800 million people, reside in the Asia Pacific, yet receive less than one third of total aid flows.

Figure 8: Geographic Distribution of ODA from all Sources



Australia's national interests are well served by focusing our assistance on the Asia Pacific region. The aid program is an expression of Australia's strong engagement with the region and commitment to working in partnership to meet its considerable challenges. Our practical experience and relationships with countries in the region provide a comparative advantage in delivering well-targeted and effective assistance.

Australia will continue to provide selective assistance to Africa and the Middle East, primarily working through international and non-government organisations.

2.7 Policy Coherence

Strong policy coherence is a hallmark of Australia's engagement with developing countries

Australia maintains strong policy coherence between our aid, foreign, debt reduction and trade policies, ensuring our policies take account of developing country interests. Nowhere is this more strongly born out than through our support for further trade liberalisation in agriculture through which developing countries stand to gain so much.

2.8 Resources for Development

Aid levels have increased

The Government has increased aid since *Better Aid for a Better Future*. The global aid budget has increased from \$1.43 billion in 1996/97 to \$1.81 billion in 2002/03, an increase of \$380 million. In this year's budget aid funding increased by three per cent in real terms. This not only reflects the Government's commitment to assisting those less well off than ourselves but is also recognition that the quality of the program has improved. The ratio of Australia's aid to Gross National Income is estimated at 0.25 per cent, placing Australia consistently above the donor average. We will continue to support the UN's 0.7 per cent ODA/GNI target and endeavour to maintain our aid at the highest level, consistent with the needs of partner countries and our own economic circumstances and capacity to assist.

Expertise and ideas are as important as money in helping developing countries

Effective aid to support development is more than just money. Australia's most effective contribution to international development is as a source of ideas and expertise, building the capacity of people and strengthening institutions.

2.9 A More Focused and Coherent Aid Program

Australian aid is increasingly focused on fewer priority countries in East Asia and the Pacific

Since *Better Aid for a Better Future*, the focus and coherence of the aid program has been significantly strengthened. The number of countries with which we have a bilateral aid partnership has decreased from 62 to 47. Rather than a scattergun approach, this ensures our aid is being delivered more efficiently and effectively, and that our partnerships are significant ones.

Correspondingly, a greater percentage of our bilateral aid is being directed to our highest priority development partners in East Asia and the Pacific, from 61 percent in 1995/96 to 89 percent in 2001/02.

A rigorous and detailed country strategy process has been introduced for all major partner countries. This includes an explicit discussion of poverty reduction issues, coordination with other bilateral and multilateral donors, and greater whole-of-government input on national interest issues in the development of strategies.

Within major partner countries, we are balancing our approach to work both with central governments on governance reforms and directly addressing poverty in the poorest regions. In the Philippines more than half our assistance is now directed to activities in the poorest region, Mindanao. In Indonesia, we are increasingly focusing on a core group of provinces in the Eastern Islands. We are concentrating on selected rural areas of Western China, where the poorest live. And in Vietnam, our aid is now directed to two of the poorest areas, including the Mekong delta and the Central Coast.

Within each country program, we have and are continuing to consolidate the focus of our programs. For example in Vietnam we are now working in two key areas, strengthening institutional reforms (governance) and targeted rural development interventions. Economic reform and governance is now the priority for assistance to the Pacific, accounting for a third of bilateral aid there.

We are also strengthening our impact by funding fewer, larger activities. In South Asia the number of discrete activities being funded is decreasing from 62 in 2001 down to 22 in 2004/05. In the Philippines program in 1997 there were 30 different projects. By 2003, there will be 12. The Indonesia program is also significantly reducing the number of activities from 53 in 1997 to no more than 30 per year. By doing more in a few critical areas, Australia is achieving greater impacts on poverty reduction.

One of the most significant changes since 1996/97 has been the more than doubling of the amount spent on governance activities to an estimated \$355 million in 2002/03. This reflects the Government's view that good governance investments are the most effective that Australia can make in fostering growth and reducing poverty. Governance is now the largest of the aid program's sectors and since 1996/97 has increased as a proportion of the aid program from 9 to 23 percent in 2000/01. The figure is likely to be even higher if we include significant governance investments in service delivery areas.

We have also increased assistance to build human capital. Maintaining and making more effective the delivery of services is fundamental to national stability and the legitimacy of governments, as well as helping people move out of poverty. Health expenditure has increased from 7 per cent of aid allocations in 1996/97 to 12 per cent in 2001/02. While education has remained a major focus, expenditure on basic education has quadrupled since 1996/97. Investment in basic education is one of the most effective poverty reduction investments that can be made.

There is greater targeting on the poorest regions and communities

To maximise aid impact, we are concentrating on fewer sectors within countries...

...as well as supporting fewer, larger activities

Governance expenditure has doubled over the last five years, and is now our largest sector

Our investments in human capital have increased

There is greater flexibility to respond effectively to the rising number of humanitarian crises and disasters

We have introduced greater flexibility to deal with humanitarian crises and disasters. In recognition of the rising number and scale of disasters, and Australia's humanitarian obligations to respond, the allocation for emergency assistance has more than tripled since 1996/97.

Australian aid is increasingly directed to multilateral agencies that are more efficient and effective, and focused on development issues of priority to Australia

We have adopted a more strategic approach to funding multilateral development organisations, ensuring we support effective and efficient organisations, and those that are engaged in development efforts in line with Australia's policy focus. For example, while providing the same level of support, we are halving the number of programs supported through international health organisations, with a greater focus on critical and emerging health issues in our region. Since 1996, we have discontinued funding to several UN organisations, and tightened core funding to major UN partners, while directing additional targeted funding towards specific priority programs.

NGOs must now demonstrate quality and impact to access Government aid funding

The aid program has committed \$77 million to the Highly Indebted Poor Countries Initiative (HIPC) to reduce the burden on poor countries of unsustainable debt. This reflects our comprehensive and coherent approach to poverty reduction and sustainable development.

The introduction, in 1997, of a rigorous and standardised accreditation process for Australian and international NGOs to access Government aid funding and improve quality and impact on the ground, has seen the number of NGOs being funded reduced from over 130 to 53 now. The Australian community can be satisfied that Government funding is now directed to NGOs that can demonstrate sound management practices.

Volunteers are now targeted at our bilateral aid partner countries to enhance the impact of Australian expertise

The geographic focus of Australia's overseas aid volunteer programs is now targeted at countries with which we have a bilateral aid partnership, rather than being more widely dispersed. Approximately 85 percent of volunteers are now placed in countries in the Asia Pacific. This ensures we are achieving the most impact from all sources of Australian aid expertise.

Research to support the aid program is now more closely linked to program and policy requirements. It is initiated on a needs basis and competitively contracted. The ANAO also recently concluded that AusAID's contract management systems were soundly based and well managed.

The Strategic Plan will enhance our ability to respond effectively in a changing international environment

AusAID's new Strategic Plan is enhancing our ability to respond effectively in a changing international environment. Key changes include strengthening systems and approaches for policy analysis and partner country engagement – for example through greater in-country management of aid delivery – and adopting more flexible delivery strategies and mechanisms.

3 Australian Aid: Achieving Results

Australian aid contributes in practical and innovative ways to building regional stability, security and growth

Australian aid is innovative, but practical. Based on a thorough understanding of our region and the development challenges confronting it, our aid is successfully addressing the fundamental issue of poverty in our partner countries. By promoting development that is sustainable, Australia is making a major contribution to regional growth, security and stability.

3.1 Improved Governance

Good Governance is the fundamental building block for development – Australia has been strong advocate for improved governance

Australia has been at the forefront of donors addressing governance issues and has taken a strong advocacy role for good governance in the region. At least 17,000 senior and middle-level officials have been trained by Australia since 1999 in different aspects of governance, from banking supervision to election planning. Australia's performance as a strong, stable regional power, our long and robust democratic tradition and our championing of open trading systems and economic reform ensure we are well placed to assist.

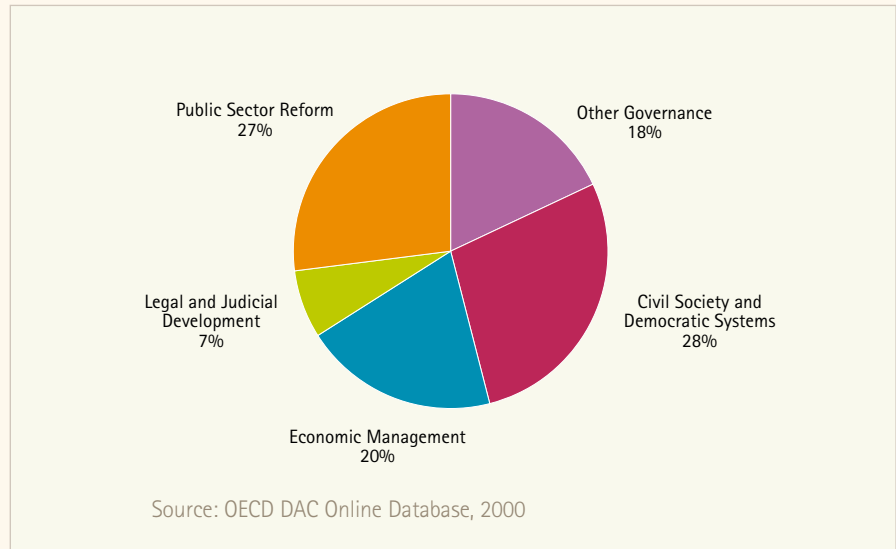
Australia's assistance for improved governance focuses on five key aspects:

- Improved economic and financial management
- Strengthened law and justice
- Increased public sector effectiveness
- Development of civil society
- Strengthened democratic systems

But to be effective governance assistance must be matched by political commitment to reform

Australia can provide technical and expert governance assistance, but to be effective it must be matched by political commitment and a willingness to pursue difficult reforms in partner countries.

Figure 9: Australian Governance Expenditure by Category, 1996–2001



The Asian Financial Crisis reinforced the importance of good economic and financial management

Australia has established flexible and responsive mechanisms in most major partner countries to support economic and public sector reform. In Vanuatu, Kiribati, Thailand, East Timor and PNG we have helped improve budget systems and planning which has led to improved accountability and more responsible government spending. In Samoa we supported the Government's amendment of the Public Service Act to include new values, principles and a code of conduct to ensure a more accountable and service-driven public sector. And in South Africa, assistance for an asset management program for public works is generating \$1.5 billion in income for the government; while assistance in managing large debt cases for the Revenue Service has yielded \$100 million in recovered revenue.

In Thailand, Indonesia and the Philippines, following the Financial Crisis, we are helping governments address key reform issues such as corporate governance and prudential supervision of financial institutions.

STRENGTHENING ECONOMIC AND FINANCIAL MANAGEMENT IN EAST ASIA

All of the economies affected by the Financial Crisis have returned to moderate economic growth, although recovery remains fragile with ongoing reform required to strengthen economic, financial and regulatory systems. Australian assistance has helped achieve some important gains in creating conditions conducive to renewed growth and investment.

Australia is providing assistance to help the Government of Indonesia draft a new anti-money laundering law with associated training on investigative auditing and fraud awareness and detection. Indonesia was successful in June 2002 in presenting its case to the OECD Financial Task Force (FATF) avoiding counter measures being applied. This assistance is helping reduce Indonesia's risk exposure to international money laundering. It also helped secure the next tranche of a \$636 million (US\$350m) Asian Development Bank Financial Sector Support Loan.

In Thailand, Australia helped enhance the capacity for strengthened prudential supervision and regulation in the Bank of Thailand, enabling it to implement institutional rules and regulations governing supervision of banks and other financial institutions. The Bank of Thailand judged Australia's assistance to be highly effective. The outcome was more highly trained and skilled personnel within the Bank, which strengthened the management and regulation of the financial sector. This ultimately led to greater economic stability in Thailand following the Financial Crisis.

In 1999, Australia provided funding for the Asia Recovery Information Centre (ARIC) which established a high profile website on the social and economic impacts of the crisis and recovery, crisis response policies and programs, and emerging assistance needs. On average, the site has received between 500–600 hits/day. The usefulness of the site in providing accessible and timely information and analysis on Asia's crisis and recovery has been cited by a number of leading commentators, including Forbes magazine and the Far Eastern Economic Review.

Effective law and justice systems promote regional security, increase international confidence and help attract foreign investment

Australia's assistance is also directed to long-term activities to promote the rule of law through strengthening police and legal institutions. We are supporting legal reform programs in Indonesia, Vanuatu, Fiji, Tonga, Cambodia and PNG. In PNG, Australia is supporting a professional development training program for all judges, magistrates and court officers in order to strengthen court operations. In Fiji we have helped improve the capacity of the Office of the Director of Public Prosecutor to manage major prosecutions. Australian support is helping strengthen police forces in Solomon Islands, Vanuatu, Samoa and PNG by building organisational capacity and introducing community policing approaches. Effective law and justice systems promote human, national and regional security, increase international confidence and help attract foreign investment.

The Ombudsman Commission in PNG is dealing with an increase in complaints – a sign of increased confidence in the Institution

PNG: STRENGTHENING ACCOUNTABILITY

In Papua New Guinea, Australian assistance to the PNG Ombudsman Commission Office has helped install new IT systems for case management, finance and administration, leading to improved work practices and organisational structure with productivity increases estimated at 30–50 per cent. Public confidence and access to the Commission is reflected in the 100 per cent increase in complaints over the life of the project. In 2001, the Commission made 10 referrals to the Leadership Tribunal, a doubling from the previous year. In the lead-up to the recent national election, over a dozen MPs were referred for prosecution before leadership tribunals. This drew considerable media attention to the issue of public corruption and resulted in the resignation of a number of MPs. The Chief Ombudsman has written to AusAID noting that “officers have taken ownership and are implementing reforms that were commenced under the project...the Commission is emerging from structural adjustments and institutional strengthening into a performing organisation”.

With Australian support the number of national human rights mechanisms in the region is continuing to grow

The Government helps promote and protect human rights through supporting grass roots activities for indigenous human rights groups and building the institutional capacity of national human rights bodies. With Australian support the Asia Pacific Forum for National Human Rights Institutions (APF) has provided advice and expertise to assist with the establishment of national human rights commissions in Korea, Malaysia, Mongolia and Thailand. The number of internationally accredited national human rights institutions in the Asia Pacific has grown from four to nine in the past six years.

Australian assistance has helped the conduct of free and fair elections

Australian assistance has been effective in supporting free, fair and credible elections in a range of partner countries, including the landmark 1999 Indonesian elections, as well as elections in Solomon Islands and Fiji in 2001, which were positive steps after a period of protracted conflict and destabilisation in both countries.

CHINA: SUPPORTING PRACTICAL IMPROVEMENTS IN HUMAN RIGHTS

The China Australia Human Rights Technical Cooperation program demonstrates the effectiveness of the Government's practical approach to achieving improvements in human rights. Human rights reforms and changes have been informed and supported through Australian technical assistance. Some of the tangible outcomes include:

- Public prosecutors have begun to adopt a public complaints processing system as a result of cooperation with the NSW police integrity commission and the Independent Commission Against Corruption.
- A more cooperative approach to reducing the incidence of domestic violence is beginning to emerge as a result of State organisations and communities consulting more closely.

Getting the enabling environment for private sector development right is critical for strong economic growth

Improved governance occurs when Governments invest in strong institutions and enabling frameworks. The benefits are often seen in private sector growth and improving living standards.

VIETNAM: ENABLING THE PRIVATE SECTOR TO GROW

Australia has advanced the Government of Vietnam's (GoV) reform agenda by supporting the development and dissemination of the new Enterprise Law which improved the legal framework for private enterprise operations. GoV leadership of the process was a critical success factor, and Australia's assistance funded a widespread information program. As a result of the new law, 27,000 new businesses employing more than 500,000 people have registered in the first 18 months after the introduction of the law, reflecting growing domestic business confidence in the private sector environment. This demonstrates the catalytic role that small amounts of Australian assistance can provide.

THAILAND: PROPERTY RIGHTS HAVE LED TO GROWTH AND BETTER INCOMES

A system of well-defined property rights is critical in establishing an incentive regime for investment and improvements in productivity.

In the mid 1980s, the Royal Thai Government embarked on a 20-year land titling project to address rural poverty. Australia, in partnership with the World Bank, has supported this program. At the time the project commenced, only about 12 per cent of occupied agricultural land was covered by title deeds. Under the first three phases of the project around 8 million land titles have been issued which has strengthened land tenure security, increasing investment incentives and farmers' access to institutional credit. An impact survey at the end of the first phase (completed in 1991) found that:

- Farmers with land titles had increased borrowing from institutional sources by 27 per cent
- Farmers with land titles had higher agricultural output and undertook more land improvements than those without; and
- Revenues from land-related taxes increased 500 per cent over a 10 year period to US\$1 billion.

Australia, in cooperation with the World Bank, is also supporting a land titling program in Laos with the potential for similar impressive benefits.

3.2 Benefiting from Globalisation

Trade related assistance has increased by over 50 percent

Australia works to strengthen the capacity of developing countries to participate in global and regional trading arrangements and take advantage of new trade opportunities. Trade and investment liberalisation are key components of the process of globalisation that is reshaping our world and offer substantial opportunities for growth and sustained poverty reduction. The Government has increased expenditure on direct trade related assistance from \$18 million in 1996–97 to an estimated \$28 million in 2002–03, an increase of over 50 per cent.

The Doha development agenda kicked off an ambitious program of trade related technical assistance for developing countries to assist their integration into the international trading system. Australia is supporting this agenda through a \$460,000 contribution to the WTO's development agenda global trust fund.

Australia is helping developing countries address the challenges of globalisation

Australia is also working bilaterally and regionally with most of our major developing country partners on trade issues, both to address the complex accession issues associated with World Trade Organisation (WTO) membership and to ensure that policies and programs are carefully structured to ensure the poor benefit. For example, prior to the 2001 Doha Ministerial WTO meeting, Australia provided a comprehensive training course in trade law for participants across East Asia including Cambodia, China, Indonesia, Laos, Malaysia, the Philippines, Thailand and Vietnam which increased their understanding of WTO agreements and procedures. Australia, in conjunction with the South African Government, also delivered a separate trade negotiations training program for senior officials from around 20 African nations. We are helping Indonesia develop the capacity to meet its obligations under the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). And Australia is assisting APEC member countries to harmonise customs arrangements and improve quarantine controls, develop e-commerce and strengthen intellectual property rights.

Australia's trade policies also contribute to developing country economies

These programs of assistance complement Australia's broader trade policies, such as preferential market access for least developed countries (LDCs), which help promote developing country economies. For example, around 93 percent of goods imported from LDCs enter Australia duty free. There are also no quantitative restrictions and no special safeguard arrangements on textiles or other sectors that are important to the economies of LDCs.

CHINA: GROWTH THROUGH TRADE LIBERALISATION

Australia provided assistance to support China's liberalisation of trade relations and accession to the WTO. Over 1,700 Chinese officials have undertaken various forms of training in liberalised foreign trade policies and procedures ranging from workshops to Graduate Diploma programs. These officials are now driving China's economic reform efforts. Many of them worked directly on China's successful accession to the WTO. WTO membership is estimated to bring China gains of 1–2 per cent annual GDP growth over the long term, lifting millions of people out of poverty.

Australia is helping ensure small island states are properly represented in the Doha negotiations

Maximising the benefits of trade liberalisation can be particularly challenging for small island states without the resources to participate effectively in the WTO. To support the capacities of our South Pacific partners, Australia has made a \$500,000 contribution to the Agency for International Trade Information and Coordination, an international organisation that assists small states without representation in Geneva to access the WTO.

We also assist them through regional trade agreements

Through the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) Australia, and New Zealand, provide duty free and unrestricted or concessional access for virtually all products originating from the developing island member countries of the South Pacific Forum. Australia's ratification of the Pacific Agreement on Closer Economic Relations (PACER) is also an expression of Australia's desire to not only advance the cause of regional free trade, but to help Pacific island states to enhance and defend their economic and trade interests in the global economy.

THE MY THUAN BRIDGE: GROWTH AND INVESTMENT

The provision of physical infrastructure can also be an important enabling factor in stimulating growth. The My Thuan bridge across the Mekong River in Vietnam funded by Australian aid has opened up the Mekong Delta, benefiting 16 million people, largely farmers, by reducing time and access costs to markets and services. Nearly 60,000 people (and growing) travel by vehicle across the bridge each day with many more on foot – more than double the previous ferry traffic. The Bridge has also facilitated additional economic and social activity, with the Government of Vietnam establishing 3 new industrial zones near the bridge. There have also been positive environmental spin-offs with reduced air pollution and noise from vehicles queuing for ferries.

3.3 Building Human Capital

Improving access to services, particularly health and education, can accelerate poverty reduction and promote stability

Poverty reduction can be accelerated when the poor have the necessary tools to participate in growth. Most fundamentally this involves access to health and education services. Investments in governance – building the capacity of governments to manage service delivery – need to be balanced with better service delivery to rural populations. Major education and health programs form part of Australia's aid assistance in many partner countries.

Service delivery can only be maintained with proper management and functioning systems

Improved service delivery outcomes will only be sustainable if the management of health and education services at national and local levels is strengthened and reformed. Australia is assisting countries develop better quality, cost effective and community focused service delivery systems which will support the sustainable delivery of services and lead to better health and education outcomes in the long term. In Fiji, for example, we helped introduce a computerised health information system enabling better planning and management of health resources. We are now supporting the decentralisation of health services, enabling the community to participate more actively in decisions relating to their health.

Australia is helping children attend school and improving health services in many partner countries

We are also supporting the delivery of services – a major contributing factor to stability. Australian aid since 1999 has trained almost 45,000 primary and high school teachers. We have built or refurbished at least 1,200 schools and education centres. Australian assistance has gone towards providing over 50,000 people with vocational training, and helping over two million children enrol in, or gain access to, education facilities and services. Australian assistance is helping children, especially girls, attend school: improved literacy will increase their chances of winning skilled jobs. Educating girls is the single best investment that can be made in reducing child mortality and ensuring mothers will in turn educate their children and achieve better family health.

Australian aid since 1999 has also trained 1,900 health professionals. We have built or refurbished over 700 hospitals and health clinics. Australian aid has helped improve access to health services for over five million people. We are also directly helping ensure more children survive, are well nourished, have access to clean water and go on to live healthy and productive lives. This has included in recent years the provision of over 600,000 water supply and sanitation units, benefiting many hundreds of thousands of communities.

- In India, we have contributed to increased enrolment, attendance and completion of primary education for approximately 900,000 vulnerable children. This was achieved through training teachers, constructing and upgrading classrooms, and establishing community-based schools and education resource centres.

- In Bangladesh, with Australian help for teacher training and materials, the gross enrolment rate for primary education has risen from 82% in 1995 to 96% in 2001 with no gender disparity in enrolment. Completion rates to grade 5 have also increased from around 60% in 1995 to 70% in 1999. In some of the poorest districts of Balochistan, in Pakistan, we have assisted in the enrolment of 23,280 girls, many in traditionally male-only schools.
- With Australian support for a National Vitamin A program, child mortality in Nepal has been reduced by 22% in four years. This has helped to avert an estimated 35,000 child deaths per annum.
- In Tibet, Australian aid has improved the health, productivity and welfare of about 17,000 people in poor rural areas by upgrading rural health facilities, training health workers, improving the local hospital's diagnostic and treatment facilities, and providing safe and accessible water supply. We have helped provide iodine supplements to combat cretinism in 140,000 children under two and 650,000 women of child-bearing age.
- In Indonesia, Australia has helped improve the proportion of births attended by skilled health personnel and consequently helped reduce maternal mortality by training midwives in 153 villages to provide maternal/child health care services and training another 750 midwives in basic safe delivery care. More than one million women of reproductive age and 260,000 newborns have benefited from this assistance.
- In Vietnam, Australia has provided clean water and environmental sanitation to approximately 430,000 people in five provinces, reducing the risks of water-born diseases.

AUSTRALIAN DEVELOPMENT SCHOLARSHIPS: INVESTING IN HUMAN CAPITAL

Over many years Australia's development scholarship program has made an outstanding contribution to the development of human capital in the region and elsewhere. Since 1996 around 10,560 students have successfully graduated with Australian assistance. These include:

- Approximately 960 doctors, nurses and other health professionals. In 2002 we are training a further 270 health professionals.
- Approximately 1340 engineers or physical science professionals, with 320 more completing their training.
- 540 people from our developing partner countries have qualifications in education due to the assistance provided by the Australian aid program. In 2002 we are funding 180 more education students.
- Reflecting our focus on governance investments, approximately 3,290 students have completed various business and public sector management degrees. Another 860 are still studying.

The Australian development scholarship program has also contributed to advancing Australian partnerships with recipient country government and business sectors. For instance:

- In Vanuatu, five of the nine current Directors General of government agencies have studied in Australia through this program.
- In Indonesia, government ministers, members of parliament and several leading business and academic notaries have studied in Australia.
- In the Philippines, senior government officials and influential academic and business leaders have studied under our scholarship program.

In agricultural research, the ACIAR John Allwright Fellowship Scheme has enabled over 100 project scientists from developing countries to gain postgraduate qualifications through study in Australia. Many Fellows have made significant contributions to ACIAR research and now hold senior positions within their research institutions.

3.4 Promoting Regional Security

The strategic use of aid can assist in dealing with conflict and provide incentives for peace

Australia's aid is helping countries promote peace and stability and address a range of transnational threats to security such as disease, drugs and illegal people movements. A new policy on Peace, Conflict and Development provides a framework for strengthening the effectiveness of our aid and targets three key areas:

- Conflict prevention and peace building
- Conflict management and reduction
- Support for post-conflict recovery

Australia has a strong track record of responding to conflict with effective assistance

Australia is tackling issues of conflict resolution and peace building in a number of partner countries including Indonesia, PNG (Bougainville), Solomon Islands, East Timor, Cambodia, Sri Lanka and the Philippines.

In Sri Lanka, we are working with conflict-affected communities of all ethnicities in the north and east. We have helped clear over 2000 landmines, house more than 16,000 people, sink more than 1100 wells and build thousands of toilets. Micro-credit and education opportunities have enabled people to return to productive lives as students, farmers and fishers. In the Philippines, Australia has played a significant role in providing a peace dividend for ex-Moro National Liberation Front combatants and their families through livelihood training and programs enabling them to be integrated into the mainstream of civilian economic and social life.

Australia's most significant and sustained involvement in facilitating conflict resolution processes and offering a peace dividend has been in Bougainville.

BOUGAINVILLE: CONSOLIDATING PEACE

The successful Parliamentary vote giving effect to the Bougainville Peace Agreement was passed on 27 March 2002. The resolution of the long-standing conflict on Bougainville has been a major achievement by the PNG Government and the people of Bougainville. Australia has long been a committed partner to the Bougainville peace process. Australia's constant message of support to the indigenous led peace process was the offer of a concrete peace dividend: where there was peace, development would be able to follow.

- Australia directly supported the peace process, funding 312 civilian peace monitors, providing advisers to both parties to assist with peace negotiations, as well as funding Bougainville delegates' participation at peace meetings.
- Families affected by conflict were supported with humanitarian packages including family and medical kits and over 700 village reconstruction packs were distributed.
- We supported the restoration of law and justice systems through training (with New Zealand) 124 community auxiliary police.

In recent years with the cessation of conflict, activities are now focussed on development outcomes, reflecting the greater capacity for real improvements to people's lives. These include:

- Expanding individual's employment opportunities through training 3000 ex-combatants in basic literacy and numeracy;
- Helping children return to school after a decade of lost education through the construction of 162 classrooms and training 633 elementary teachers, along with the provision of text books and teaching aids;
- Reviving the economy through rehabilitating 300 kilometres of road utilising local community labour and inputs, enabling cocoa and copra producers to get products to market. Four million cocoa seedlings have been distributed to revitalise production and copra and cocoa driers have been rehabilitated with 30,000 households now engaged in cocoa production.

A range of other transboundary issues impinge on the security of individuals, communities and countries, including in Australia. The poor are particularly vulnerable to these threats, as they are to the debilitating effects of conflict and natural disasters.

Illegal people movements is a growing regional problem. Investments in development in our region help reduce factors that cause illegal people movement such as economic and political uncertainty. Australian investments in resolving conflicts in East Timor, Bougainville and Solomon Islands have arguably avoided significant refugee flows. The establishment of a \$15 million International Refugee Fund announced in the 2002–03 budget will provide support to international agencies to improve the conditions of displaced people and to address the underlying causes of people movement.

Australian assistance in resolving internal conflicts in regional countries has arguably avoided significant refugee flows

Australia is helping countries respond effectively to HIV/AIDS...

...leading the establishment of the Asia Pacific Leadership Forum on HIV/AIDS and Development

Australia is playing a leadership role in combating the spread of HIV/AIDS in the region. There are now some 7.5 million people living with HIV/AIDS in the Asia Pacific, with more than 3,000 new infections every day. The impact of HIV/AIDS on the developing world is reversing decades of economic progress. Where the virus takes hold, it poses a major threat to human and national security. Australia is playing a critical role in helping countries in our region respond effectively.

Australia organised the first meeting of 31 leaders in the Asia Pacific region in Melbourne in 2001 to consider the impact of HIV/AIDS and priorities for action. Following that meeting, Australia led the establishment of the Asia Pacific Leadership Forum on HIV/AIDS and Development, which was launched in August 2002. This brings together key decision makers from the Asia Pacific to provide a catalytic leadership role in fighting AIDS in our region.

Disease does not respect national boundaries and can pose a significant risk to livelihoods unless addressed effectively.

HELPING ERADICATE AGRICULTURAL THREATS IN ASIA

Australian projects in Thailand in the 1980s and early 1990s led to the development of rapid diagnostic tests for foot-and-mouth disease (FMD) and helped establish the regional diagnostic laboratory at Lampang as the leading diagnostic centre in Asia.

In 1995, the Philippines was plagued by a major epidemic of FMD – more than 1,500 outbreaks affecting 100,000 animals in 22 provinces. Australia's assistance, in partnership with the FAO, to help control and eradicate FMD in the Philippines is an example of our aid program achieving important development gains which also impact on Australia's national interests. With the project nearly completed, more than two-thirds of the Philippines (and half the national animal population) has been declared FMD free. Only two regions remain affected by FMD and work is continuing on eradication there.

Through the Australian Centre for International Agricultural Research (ACIAR), we have also equipped a small disease diagnostic laboratory in Laos and it has become a major player in the campaign to control foot-and-mouth disease in southern Laos and the province of Yunnan in China.

3.5 Sustainable Resource Management

The majority of the world's poor live in rural areas, and are disproportionately dependent on natural resources for their livelihoods, especially common property resources such as forests and fisheries.

Australia's assistance is helping reduce rural poverty by increasing opportunities for the poor to generate income by:

- Increasing agricultural sector productivity
- Stimulating non-farm employment
- Managing natural resources sustainably

Sustainable management of natural resources is critical for the livelihoods of the rural poor

Appropriate policies, institutions and systems leads to better management of limited natural resources

More efficient farming, forestry and fisheries help improve the food security and incomes of the rural poor. In Vietnam, Australian research assistance on a simple and environmentally friendly rodent control technique has helped lift rice production by up to 20 percent. In East Timor a new Geographic Information System is enabling better agricultural land-use planning and management. Australian assistance has helped Pacific Island countries with sustainable management of tuna stocks, an industry valued at approximately \$3.8 billion annually, including through supporting scientific assessments of tuna stocks to better set appropriate harvest levels. In Cambodia, we are strengthening the agricultural extension service that will help poor farmers improve food security and cash incomes.

Appropriate policies, institutions and systems are necessary to ensure proper management of limited natural resources.

- In Indonesia, Australian aid helped strengthen the capacity of provincial and local level environmental management agencies, through installing information systems and training almost 1,400 people in community based fisheries management and coral reef management and rehabilitation.
- We helped strengthen India's national pollution control legislation and construct its first hazardous waste treatment and storage facility in Hyderabad. This model has been identified for replication in the rest of India.
- Australia's involvement in Nepal's forestry sector has reduced long-term soil erosion and arrested the long-term degradation of its natural forests, benefiting over 10,000 forest user groups.

AUSTRALIAN AGRICULTURAL PARTNERSHIPS

Through the work of ACIAR, often in collaborative partnership with other international organisations, Australia has achieved a number of successful research outcomes that are now realising benefits for developing countries. For example, the biological control of weeds and pests has yielded some resounding results:

- The control of banana skipper butterfly in PNG rescued that country's banana industry and prevented the pest reaching the Australian mainland (benefits estimated at \$200 million).
- Salvinia water weed control in Sri Lanka restored waterways for fishing and transportation.
- The control of passionfruit scale in Samoa saved its passionfruit industry.
- The control of the breadfruit mealybug salvaged the staple crop of communities living in South Pacific atolls.

A new initiative, funded through the International Maize and Wheat Improvement Centre, is reintroducing and testing wheat germplasm in Afghanistan, after an absence of research in that country for the past 30 years.

Australian researchers have also played a significant, catalytic role in the development and adoption of zero-till agriculture technologies for the rice-wheat system in northwest India. Gains of \$1.8 billion are predicted through the adoption of these technologies, of which \$234 million is directly attributable to Australian research.

3.6 Making a Difference: East Timor and Cambodia

East Timor: On the Path to Recovery and Development

On May 20 2002, East Timor emerged as an independent nation. It is amongst the poorest countries in the world, with 40% of East Timorese living below the poverty line of \$1 per day.

Australia was instrumental in enabling the popular consultation on East Timor's future to take place in August 1999, supporting the process with financial and logistical assistance.

Australia's largest humanitarian response

Australia responded quickly to the humanitarian crisis in 1999, launching our largest ever humanitarian response. More than 200,000 refugees and displaced persons were successfully returned home and provided with shelter and resettlement materials. Rice and maize seeds and tools were quickly distributed enabling production to return rapidly to pre-crisis levels and avoiding a protracted need for food aid. Australia helped restore water systems in key towns and assisted children to return to school. A potential humanitarian tragedy was successfully averted.

Restoring basic services

The devastation in East Timor meant that much social and economic infrastructure was destroyed. Australia, in concert with other donors, supported major reconstruction efforts, restoring more than 500 schools, restarting a basic health system, restoring irrigation networks and animal populations, and keeping road networks open.

Strengthening democratic structures and systems

Australia refurbished East Timor's first Parliament Building, facilitating the important work of developing East Timor's first constitution. This was accompanied by training for Parliamentary staff and newly elected Members, as the National Council (a precursor to the first Parliament) established its operations and became a robust forum for national debate.

Australian assistance has helped build East Timorese capacity to independently manage elections. More than 80 East Timorese have been trained in electoral administration, with up to 4500 others trained in operational aspects of running elections, such as undertaking polling station duties. The success of this approach was evident during the April 2002 Presidential elections, when nearly all district electoral functions were managed by East Timorese (under overall UN supervision).

Building a professional Public Service

Australia has helped lay the foundations for a professional public service by providing management training for 350 newly appointed senior public servants. Around 100 East Timorese students are now studying in Australia through the scholarship program in priority areas of medicine and health sciences, public sector management, engineering and agriculture.

Developing sound budget systems

Since May 2000, an Australian Department of Finance team has worked with the East Timor Ministry of Finance to establish sound budget systems. The team has been instrumental in helping develop modest budgets focused on high priority service delivery tasks. This has been critical in securing donor confidence and funding.

Planning for long term development

Australia provided technical assistance to support the development of East Timor's first National Development Plan. This provides the policy framework for reducing poverty and will guide future international assistance.

Helping the rural poor

Australia has recently commenced major programs to improve the food security and incomes of the rural poor and to establish community based water and sanitation systems.

As its Independence gift to East Timor, Australia provided a National Exhibition and Community Centre, which was opened by the Prime Minister and East Timor's Chief Minister on the eve of independence. The Independence Expo showcased to the international community a major display of East Timorese culture, goods and services.

Cambodia: Building the Foundations for Development

Cambodia is still recovering from over two decades of invasion, isolation, the Khmer Rouge reign of terror, and subsequent civil war, all of which resulted in the deaths of over 2 million Cambodians and left the country devastated. Although the current situation is far from perfect and poverty remains high, particularly in rural areas, there have been significant improvements. Cambodia is now a relatively stable and peaceful nation, democratic values – albeit slowly – are taking root, and attention is focused on long-term development. The improved economy is reflected in GDP growth of over 5 percent in 2001, despite a global slowdown, and 6 percent GDP growth is estimated for 2003.

Building peace

Australia played a key role in brokering the Paris Peace Accords of 1991, participating in peacekeeping operations and providing electoral assistance to both the 1993 and 1998 elections, Cambodia's first ever democratic votes. Importantly, Australia provided significant assistance in reconstruction and rehabilitation, as well as food aid to feed its undernourished population.

Restoring rice production and building food security

The progress of Cambodia in moving from a net food importer to producing rice surpluses is one of the great regional success stories – and one in which Australia played a role through supporting strategic partnerships between Australian scientists, the International Rice Research Institute (IRRI) and Cambodia. Critically, the government of Cambodia displayed leadership, provided the right incentives (such as deregulating land use and providing market access) and embraced modern technologies. In this environment, IRRI support through research and training, pest management and technical advice helped to rapidly expand rice production more quickly than would otherwise have been the case. The adoption of new technologies directly benefits poor farmers – the net

financial benefit to Cambodian farmers since the project commenced in 1987 has been around US\$40 million per year.

Reducing mine casualties

Australia has been active in supporting Mine Action programs in Cambodia, including land mine clearing, mine awareness education and victim support. Our investment of \$33 million since 1996, along with support from other countries, has been instrumental in significantly reducing the mine casualty rate from over 3,000 people per year to around 800.

Strengthening the rule of law and protecting human rights

Australia has been working to improve awareness of the rule of law and human rights standards within Cambodia's criminal justice system. There has been increased compliance with the law and international standards during investigations and greater adherence to the 48 hour police custody rule and six months rule for trials for accused persons. There is also now greater government focus on combating crimes against women and children, and protecting the rights of women and juveniles in the criminal justice system through:

- Establishment of a Child Sexual Exploitation Office.
- Government units focused on human trafficking, juvenile support and sexual assault.
- Establishment of separate women's and juvenile correctional facilities.

Strengthening democratic systems

Australia has further worked to promote democracy by supporting Cambodia's commune elections of 2002, through voter education campaigns and technical assistance. These elections had an 87 per cent voter turnout, and served to foster greater democratic representation and public accountability at the grass-roots level.

Papua New Guinea and the South Pacific: fragile development settings

Papua New Guinea and the countries of the South Pacific are some of Australia's most important development partners. The international community and the Australian public expect Australia to play a leadership role in assisting South Pacific countries in their development efforts.

4.1 Papua New Guinea

PNG is Australia's largest development partner

Papua New Guinea is Australia's largest development partner and at the same time faces the greatest challenges. Our assistance totals over \$300 million each year. This reflects the strong historical ties between our two countries and the development needs of PNG. PNG is our closest neighbour, only a twenty minute canoe ride from Australian territories in the Torres Strait. Australia has much at stake in PNG's ongoing political stability. By and large, PNG has not been successful in attracting broader donor support and Australia remains its major source of development assistance. We are committed to seeing PNG develop and prosper. The aid program is a central, practical part of our national interest engagement with PNG. It has played a critical role in supporting both stability and the legitimacy of national government, as well as the country's viability as a democratic nation.

Many Papua New Guineans live in poverty

PNG performs poorly compared with Asian and Pacific neighbours on key social indicators. Around one million people, a fifth of PNG's population, are living in poverty. PNG society is highly fragmented with over 700 disparate linguistic groups that test political and social unity. With population set to double, reaching ten million people by 2025, it will be very difficult to reduce overall the number of people living in poverty.

There have been gains. But PNG still faces serious economic and social challenges

There have been notable improvements since Independence in 1975, that Australia's assistance (which accounts for around 55 percent of the country's development expenditure) has been central to achieving. Life expectancy has increased from 49 years to 58 years. Infant mortality has declined from 86 deaths to 58 deaths per 1000 live births and adult literacy has increased from 45 per cent to 64 percent. But these gains are at serious risk in a deteriorating economic environment which has seen GDP per capita decline from 2000.

PNG has achieved significantly better development outcomes than countries such as Angola and Sierra Leone, which attained Independence around the same time and had comparable resource endowments. GNP per capita has increased since

Independence, compared to negative rates in both African countries. And gains in other development indicators such as life expectancy and infant mortality have also been better. Moreover, unlike Angola and Sierra Leone which have been wracked by civil war, PNG is still a functioning, if imperfect, democracy and has maintained national unity, in spite of its diverse cultural make-up. It is clearly in Australia's national interests that PNG remain a stable and vibrant nation.

Lasting development outcomes in PNG will only be realised over the long term

PNG continues to face a number of difficult social and economic challenges, and it is, of course, responsible for its own path as a nation. We need to be realistic about our aid involvement in PNG. Development outcomes are challenging to achieve and will only be realised over the long term, and only with leadership and sustainable commitment by PNG itself. While Australia is ready to play a supportive role, the key to future progress is a continued commitment by PNG's leadership to the recent financial, economic and political reform agenda. The Government negotiated a new Aid Treaty with PNG that came into force in July 2000 and put our development cooperation relationship on a new footing, including performance benchmarks.

Australia is supporting PNG's governance reform program

Australia is supporting PNG's governance reform agenda through a flexible program of technical assistance aimed at helping PNG with macroeconomic forecasting, cash management, debt management, budget formulation processes and tax policy. Through this assistance, financial management training has been provided to finance officers across the public service, improving accountability. The public service has introduced a new performance management system, the functioning of Cabinet has improved, and budget preparation processes strengthened. The capacity of the PNG Treasury to provide sound and informed economic policy advice has been enhanced.

The completion of an IMF structural adjustment program, which Australia helped facilitate, is a first

Australia has also helped facilitate IMF and World Bank engagement in PNG, through providing substantial financial and advisory support to enable PNG to meet conditions to access significant multilateral loan support. Under the Morauta Government's wide ranging reform program PNG did commence privatisation of key state owned assets, undertake Constitutional reforms to strengthen the political party system, legislate greater Central Bank independence and reform the superannuation industry to insulate entities from political interference. The completion of the IMF structural adjustment program in 2001 marked a first for PNG. But the reform agenda requires ongoing commitment and probably a fresh IMF program if gains made are to be consolidated.

But this is only the beginning of the reforms needed to restart economic growth

These reform programs brought a period of macroeconomic stability to PNG, with inflation dropping from 22 per cent in mid 2000 to 10.5 percent in March 2002. Interest rates were cut from 25 to 10 percent. However, the short and medium term economic outlook remains very challenging and an on-going commitment to reform is necessary. The translation of specific reforms into higher economic growth and improvements in service delivery remains a long-term prospect, and one that is critical to PNG's stability and sustainable development.

Australia has strengthened police capacity in a difficult law and order environment

Australia has supported stability and the rule of law in PNG with a major program to develop and strengthen the Royal PNG Constabulary (RPNGC). At Independence in 1975 when PNG's population was 2 million, there were 4,100 police officers. By 2001, with population over 5 million, the number of police has only increased to 5000 (20 per cent of whom were reserves or auxiliary officers). In order to ensure that law and order problems do not deteriorate further, the PNG government will need to allocate additional resources to the RPNGC. Without Australian assistance the situation would be far worse. In a difficult operational environment where crime and lawlessness are major problems, Australia's assistance has helped raise the level of discipline and professionalism of the Police through strengthening operational and corporate management systems. Major gains have been made in police corporate and strategic planning processes. Fraud investigation capacity has also been strengthened. Police performance during the Sandline crisis in 1997 and student disturbances in 2001 was very professional.

Incentives and contestability are ensuring we direct assistance to organisations that deliver development outcomes

The use of incentives and contestability is now a core part of our aid to PNG as we aim to promote good governance. The Incentive Fund was introduced in July 2000 with an allocation of \$12 million and will increase annually, depending on performance, up to \$50 million. It rewards high performing agencies and institutions across the spectrum of PNG government and society and provides an avenue for engagement outside government. Organisations funded must have demonstrated their capacity to deliver outcomes that further PNG's development strategy.

In addition to governance programs, Australian aid is focused on: the delivery of essential services; maintaining essential infrastructure; and minimising the impact of HIV/AIDS. Addressing these core areas of development reinforces the legitimacy of government in PNG, which depends fundamentally on its ability to deliver services to its people. As has been the case in many states of Africa, stability can be severely undermined when basic services are not provided and conflict will often result.

Education enrolments in PNG are increasing. Australia is helping through teacher training and textbooks

Australia is supporting the PNG Government's education system reforms. This program has achieved significant results with the number of children attending elementary school increasing from around 88,000 in 1998 to nearly 150,000 in 2000. At the primary level, enrolments have increased over the same period from just under 580,000 to 610,000. Australia's assistance since 1997 has helped train more than 9000 elementary teachers and 245 teacher trainers and has provided more than 604 000 text books to 392 primary schools. Returns from education will pay off substantially in the next generation, as a better educated population is able to access more productive jobs, and literacy amongst women contributes to healthier children.

Australia is helping PNG maintain more than 1,300 kilometres of rural roads as well as key economic arteries such as the Highlands Highway. PNG government funding for maintenance of the national road network is only around 10 per cent of that required. Australia's assistance, while obviously not sustainable in the

Australia is helping maintain over 1,300 km of rural roads

long term, is vitally important in supporting economic activity in a country where 80–85 per cent of the population are dependent on rural livelihoods. This assistance enables farmers to get their produce to markets, communities to continue to access education and health services, and supports higher economic returns for businesses.

Many deaths in PNG are preventable with the right health care. Australian assistance is helping increase access to medicines and supporting child vaccination

The health needs of PNG are immense and Australia plays a critical role in helping PNG maintain the provision of basic health services to its population. Over 50 per cent of deaths in PNG are due to largely preventable causes such as pneumonia, perinatal conditions, malaria, meningitis, and tuberculosis. Through Australian assistance over 500 health centres have been kept supplied with drugs to combat malaria, pneumonia, diarrhoea and TB. Australia has also played a key role in arresting the decline in immunisation coverage. Under a collaborative program with other donors Australia is helping maintain the cold chain in PNG, ensuring women and children are immunised. 62 per cent of health centres now have functioning cold chain equipment, up from 50 percent in 1998.

We are also helping build a better health system

While still assisting with basic service delivery, Australia has moved to scale-up its engagement in the governance of the health sector, integrating our assistance with PNG's own health system in a comprehensive way. This is helping improve the capacity of PNG's own planning, delivery and performance monitoring systems, and building a health system that gives priority to improving the quality, accessibility and effectiveness of services to the rural poor.

HIV/AIDS is a major health and development challenge for PNG

HIV is emerging as a major health and development challenge for PNG. One in every 350 Papua New Guineans has HIV/AIDS. This compares with about one in every 1500 Australians. Australia undertook a pioneering study into the possible economic impact of HIV in PNG – on the national economy, the workforce and law and order. The results are sobering, with estimates that real GDP could decline between 2.6–7.5 per cent by 2020. Australia is assisting the PNG Government implement its National HIV/AIDS medium term strategy through education and information programs, and support for counselling, community care and support and clinical services.

Australia will continue to assist but reform efforts must be maintained by the PNG Government

For PNG's future, much depends on continuing strong, reform-oriented management by the Government, including engagement with the World Bank and IMF and grappling with serious budgetary problems. Subject to such commitment, for its part, Australia will continue to assist those economic reform efforts and with improvements to long-term governance issues such as the electoral process. We will also continue to support the delivery of essential services and infrastructure activities that contribute to broad based growth and underwrite PNG's national unity and stability. It is in Australia's national interest to do so.

4.2 South Pacific

Australia is committed to long term engagement

Australia's close relationship with the countries of the South Pacific means that Australia is committed to long-term engagement to assist with national development efforts. The small island countries face enormous challenges in maintaining viable economies at a time of rapid global economic and technological change. The serious effects of recent political instability and internal conflict, particularly in Melanesian countries, is jeopardising the possibilities for sustainable development. Instability in the Pacific, amongst our nearest neighbours, also poses security risks for Australia.

Political instability and internal conflict are jeopardising development possibilities

Australia's \$165 million in assistance to the Pacific focuses on:

- Strong support for economic reform and strengthening governance
- Support for law and justice, democratic institutions and conflict resolution
- Service provision, including in regional and provincial areas

We have sharpened our focus on countries where Australia's national interests are most significant. Five years ago around half our bilateral assistance went to Melanesian countries (Solomon Islands, Vanuatu and Fiji). Today it is nearly two-thirds.

South Pacific countries must find their own solutions, but Australia is ready to assist

Establishing the frameworks for economic and social viability rest with Pacific Islanders themselves. Solutions to Pacific countries' development problems cannot be imposed from the outside. Australia's assistance to Pacific Island countries has been critical to supporting national unity and stability, in improving government capacity and in delivering services to the people. And we will continue to assist in ways that support countries' own efforts.

Governance is at the heart of development issues in the South Pacific. As Prime Minister Howard noted while in Fiji during the 2002 Pacific Forum: "It's an unmistakable reality that unless countries are well governed, have law and order and physical safety for people, they're not going to attract foreign investment and if they don't attract foreign investment in a globalised economy, their living standards, so far from rising, run the risk of sinking further."

Many countries in the region are grappling with government structures that are expensive and not well suited to deliver services to remote populations. National unity is fragile in some countries, and undermined by ethnic tensions and weak political systems. Governance institutions, including law and order bodies, are relatively weak. Economic and financial reforms are essential if countries are to be economically viable and attract investment.

One third of our assistance is directed to governance programs

Around one third of Australia's bilateral aid to the South Pacific is directed to governance activities to support all of our major partners with various economic, legal and public sector reform programs. We are continuing to expand governance programs – one in three new aid activities is in support of economic reform and governance.

A number of these programs are yielding results, but the challenge is for improvements to be sustained over the long term. Our assistance is helping countries with limited public sector budgets access additional revenue flows. In Tonga, efficiency gains in revenue collection increased revenue collection by 23 per cent in one year alone. In Fiji, assistance to strengthen the taxation service has improved debt collection by \$40 million.

SAMOA: LEADING REFORM IN THE PACIFIC

Through its positive policy action, Samoa has emerged as the leader of economic and public sector reform in the Pacific. Last year (2001) it recorded a 6.5% increase in GDP. This follows from a similar level of growth the previous year. Australian assistance (working with the Asian Development Bank) in the Treasury Department has helped Samoa to introduce performance-based budgeting, liberalise the financial sector and create an enabling environment for private sector development. For example, major changes to the taxation base introduced progressively in the late 1990s have seen tariffs reduced from 60 to 20 per cent. Corporate tax rates have been reduced from 35% to 29% and the top level of income tax is down to 29%. At the High Level Aid Discussions in July 2002, the Samoan delegation said: "The quality of management of the economy of Samoa is very much due to the assistance of Australia".

We reward good performers
and reform-minded governments

The Pacific Policy and Management Reform Fund provides an incentive for reforming countries to access additional funds. Since 1996/97, the Government has more than doubled the allocation to this competitive fund, with \$20 million available this year for programs that help push the parameters of reform, as well as promote peace and nation building.

Australian support for media
development is increasing government
accountability and transparency

Good governance is also being supported through activities that involve civil society. The Pacific media initiative is raising the standard of the media and communication delivery in the South Pacific. Since the project commenced in 1997, 47 training workshops have been run. These workshops strengthen media capacity to report on governance, public policy and development issues, as well as build the technical skills of staff in government, commercial and community media organisations. Over 400 Pacific Island trainees have participated to date. The evolution of a more professional media sector has resulted in increased government accountability and transparency. Following the 2002 Forum Economic Minister's Meeting in Vanuatu, for example, more than 200 stories were filed.

Law and justice systems
must be strengthened

Strengthening law and justice systems is one of the most pressing problems in the Pacific today, particularly in ensuring countries can deal with prevalent ethnic and social tensions. Functioning law and order systems are crucial for national stability and for longer-term development, particularly attracting investment. They are also important given the vulnerability of some countries within the region to commercial ventures and money laundering. Australian assistance is helping countries strengthen their capacity to respond to internal law and order problems.

- Australia's assistance during the trial of two ex-Ministers in Samoa in 2000 helped ensure a fair and accountable trial following the murder of a Samoan Minister.
- In Vanuatu, support for the public prosecutors office helped reduce from six months to two the time taken for analysis of briefs following the laying of charges. Within the State Law Office, legislation has been improved through legislative drafting training and the adoption of a plain language approach. And a new computerised litigation register has been introduced, improving operational efficiency.
- In Solomon Islands, sixty new police recruits have recently graduated with Australian assistance, the first since 1996, and the Central prison has re-opened. The additional police presence contributed to peaceful elections in late 2001.

Practical support for the peace process in Solomon Islands is helping rebuild communities

Conflict can very rapidly undermine development gains, as we have seen in Solomon Islands, and is an indication of the fragile national unity of some Pacific states. Assistance with conflict resolution and peace building activities has become a feature of Australia's assistance to the Pacific. In Solomon Islands, Australia is supporting the peace process following the cessation of hostilities. The Community Peace and Restoration Fund has been instrumental in providing small scale assistance to help rebuild and repair destroyed homes, schools and first aid posts; rehabilitate water systems and roads and provide opportunities for income generating employment. This practical assistance is helping communities across Solomon Islands sustain peace and address reconstruction. However, the full restoration of law and order by the government and prudent management of the economy is essential if the gains are to be sustained.

Management systems and service delivery is being improved

Delivering basic services to small but scattered populations remains a big challenge throughout the Pacific. Australia's support is crucial – both in governance assistance to develop more effective systems; and practical help to maintain adequate standards of health and education services. In Vanuatu, the Health Ministry is now better placed to deliver services as a result of having an improved medical records system and a modern budget and financial management arrangements. In Fiji, we have helped extend the community health system including upgrading health centres and nursing stations on the island of Taveuni. In Kiribati, we have helped build seven new junior secondary schools providing the opportunity for more than 3,000 students to continue their education.

Helping Pacific countries take advantage of trade liberalisation is a high priority

The difficulties that small island developing states can face in dealing with trade liberalisation are a particular concern for Pacific countries and an area where Australia is helping. We are assisting Pacific country participation in WTO deliberations and providing technical assistance to help affected Pacific states understand and address the implications of the OECD's harmful tax initiative. Australia is also making a practical contribution through supporting improved customs and quarantine services in the region. This will also help combat transnational crime.

Australia is also helping ensure other donors remain engaged in the Pacific

Australia also seeks to encourage other bilateral development partners in assisting with the needs of the South Pacific. Japan, the European Union, New Zealand and France are key partners in fostering development in the Pacific and with whom we will continue to cooperate in regional level dialogue and projects. Australia has also been active in ensuring the international financial institutions remain engaged with the Pacific.

Long-term commitment to and sustainable progress on economic reform is essential. Building institutions that accord with good governance principles while being consistent with traditional culture must also be a feature of Pacific nations' development efforts. National unity and stability hinges on government ability to maintain law and order and deliver services to populations. There may be greater scope for exploring regional solutions to address structural problems affecting countries. Australia's assistance to the Pacific will continue to support countries tackle these development tasks, with particular emphasis on our neighbouring countries of Solomon Islands, Vanuatu and Fiji.

5 Australia's Aid: Strengthening Impact

5.1 Making Australian Aid even more effective

Striving to improve further the effectiveness of our aid is an ongoing task.

5.1.1 Aid objective

Australia's aid will continue to be guided by a single objective and will continue to focus primarily on the Asia Pacific region.

5.1.2 Partner Country driven strategies and systems

Australia's aid strategies in individual countries will increasingly engage with and be driven by partner countries' own frameworks for development.

Australian assistance will be driven by partner countries own development strategies

At the heart of the development process must be country ownership of development strategies. Country level engagement is already the programming focus for Australian assistance. But many of our partner countries are now taking more responsibility for setting out their own vision and plan for reducing poverty, for example through Poverty Reduction Strategy Papers (PRSPs). Engaging through these frameworks will strengthen our country partnerships.

We will continue to improve our analysis and understanding of what Australia can deliver well, what will have the greatest impact on growth and poverty in individual countries, and what will yield the most sustainable benefits.

A sharper focus to our aid investments is possible

This will inevitably mean having a greater focus and selectivity in aid efforts. But by doing more in a few key areas we can have a bigger impact on poverty reduction.

We will 'scale up' our program investments to better support partner governments' programs and systems and minimise administrative and reporting burdens.

Scaling-up our assistance will increase coherence and efficiency

Numerous project level interventions can clutter partner country agendas and standard 3–5 year project interventions may not be the best vehicle to achieve sustainability. Partner country leadership of the development process provides greater scope for Australian assistance to be integrated into sector-wide approaches – providing coherence and efficiency gains for both partners. We can also improve effectiveness by investing in models and approaches capable of wider replication both within and between countries. Focusing our policy and

program engagement on helping countries position themselves better to access other, non-aid, financial resources for development will also be important.

Australian aid interventions will be driven by long-term affordability.

Affordability of recurrent costs is critical

Our assistance must be grounded in an understanding of the fiscal realities of our partner countries – what recurrent costs will be incurred from aid investments and what is affordable in the longer term. Further practical thought needs to be given to maintaining benefits post-activity, including ongoing but reduced involvement to support activity outcomes, their adaptation and wider application.

5.1.3 Supporting Reform through Incentive-Based Approaches

We will make more effective use of incentive-based approaches to support reform efforts.

Undertaking reform is a difficult process and must be led by partner governments

Effective governance arrangements in individual countries and effective aid are closely linked. However, undertaking reform is a difficult process and one that can confront many obstacles and incur possible political costs. To be effective, the process of change must be led by our partner governments themselves.

There is no single template for successful reform, but strong leadership is essential

Reform is never easy and it is inevitable that some aspects of reform will involve sensitive political issues. Sustainable institutional change involves a gradualist approach to reform, and long-term support. There is no single template for successful reform. Countries must themselves decide what is a culturally and institutionally appropriate approach to governance.

Australia has introduced incentive-based approaches in the Pacific which are working well

By introducing incentives and contestable elements into our aid program it provides a clear signal to partner governments where our priorities lie. It also sends a strong signal that when they wish to embrace reform, Australia will be there to support their efforts.

We will strengthen the use of incentives as we increase policy engagement with partner countries

We have led the introduction of this approach in the South Pacific, with the Policy and Management Reform fund, and more recently with the Asia Crisis Fund and the PNG Incentive Fund. The introduction of greater contestability to our aid provides new avenues for Australia to support reform efforts in wider society and the private sector. Increasingly as the aid program engages in more coordinated sector wide approaches led by partner governments and in concert with other donors, there will be further opportunities for incorporating incentive approaches within programs. This will be matched by more effective policy engagement and dialogue with partner governments.

5.1.4 Demonstrating Impact and Effectiveness

We are undertaking a review of performance information systems with a view to strengthening aid impact analysis, and will look further for ways to share better knowledge and lessons learned both across sectors and between partner countries

Quality assurance mechanisms are in place

Demonstrating the effectiveness and impact of development assistance is a challenge for most aid donors. The measurement of the effectiveness and impact of the aid program against its objective is very important. AusAID has instituted a range of professional management and quality assurance mechanisms to ensure that our aid remains driven by quality and focussed on real impact. These mechanisms include a sophisticated and robust system for reporting the performance of aid activities to Parliament; establishment of an Office of Review and Evaluation; publication of reviews and evaluations of AusAID performance; and the work of an internal Quality Assurance Group to assess quality, identify strengths and weaknesses, promote accountability and improve aid programs.

Further strengthening aid impact analysis is necessary

Nonetheless, as with all arms of government, the aid program must increasingly refine its approach to measuring impact. From now on, each of Australia's country and regional program strategies will develop a framework for assessing results at the strategy level, additional to existing mechanisms that report the quality of individual activities. The challenge accepted by Australia is to demonstrate results at the country level that are both measurable and attributable to Australian aid.

5.1.5 Strengthening our response to existing challenges

We will continue to strengthen assistance in line with policy frameworks and program priorities

Governance will remain a key priority for Australian assistance, and increasingly underpin our aid investments in all other sectors. This will include support for strengthening democratic and participatory systems.

There are a range of priorities for maximising our effectiveness in responding to current program challenges

We will increasingly focus on helping government's strengthen the governance systems for sustainable and effective service delivery, and support the development of policy settings that encourage improved agricultural productivity.

We will continue to support **basic service delivery** and investments that directly improve the quality of life for the poor.

We will continue to support **human rights** through strengthening national institutions and practical grass-roots initiatives.

Conflict and Peace building issues will, where necessary, be integrated into bilateral country strategies, with a focus on improving conflict analysis, prevention and recovery efforts.

We will support efforts to build developing country capacity in **disaster preparedness**, monitoring and management, as well as strengthen regional and multilateral coordination mechanisms within the Asia Pacific.

We will identify and support practical and affordable initiatives for enhancing, through the use of **information and communication technologies**, access to education and knowledge in developing countries.

We will continue to mainstream **HIV/AIDS** issues into broader development activities, and help countries assess alternatives for introducing new HIV/AIDS treatments.

Further mainstreaming of **gender** considerations into programs and strategies will be pursued, including through more detailed assessment of gender issues within broader poverty analyses.

We will continue to support bilateral, regional and multilateral efforts to enhance **environmental sustainability**.

To assist developing countries take advantage of the benefits of **international trade**, we will provide ongoing trade-related technical assistance, as well as supporting research on current and emerging trade and development issues, particularly as they relate to the countries of the Asia Pacific.

5.1.6 Responding to new Program Challenges

We will develop a strategy on addressing urban poverty and, where appropriate, incorporate a focus on urban poverty in specific country aid programs.

It is estimated that by 2030 nearly two thirds of the world's population will be urban. The major trends will be in the developing countries of Asia, where mega cities are expanding. Overcrowding, poor health and environmental conditions, unemployment and rising crime will become more acute.

We will increase water supply and sanitation assistance, with an explicit focus on sustainability through building local water management capacity in areas such as asset maintenance, revenue collection and budgeting.

Currently, over one billion people lack access to safe water, and 2.4 billion are without adequate sanitation. More than 3 million people die every year from avoidable water-related diseases. It is estimated that by 2025, nearly two-thirds of the world's population will be living in areas subject to water stress. The freshwater supply in the Asia Pacific region is among the world's lowest. Nearly 70 percent of global freshwater usage is directed towards agriculture. To meet global food requirements with a growing population will be an increasingly difficult task.

Urbanisation and access to water are emerging as critical program challenges for the next decade

5.1.7 Millennium Development Goals

We support the MDGs and will undertake investments that help their achievement, noting that aid alone will not be sufficient to ensure the goals are met.

The MDGs are valuable reference points and help shape international development efforts – within the framework of countries own development strategies

Australia supports the Millennium Development Goals (MDGs) as valuable reference points that help maintain attention on the importance of global development efforts. The goals have an important role in helping focus national and international development efforts.

The sectoral focus of Australia's aid matches closely the international goals

Australia's poverty reduction objective, focus on partnerships and sectoral focus are fully consistent with the eight international goals. And AusAID is intensifying reporting on development outcomes and impacts. Australia's focus on the Asia Pacific, home to 800 million of the world's poor, provides an appropriate regional balance toward meeting the MDGs.

Countries are themselves responsible for and must continue to lead their own strategies for development, including progress against the MDGs. Aid is only one factor in the global effort to alleviate poverty and promote sustainable development. Moreover, aid alone is not sufficient to ensure the goals are met.

Decisions need to be taken on the best poverty reduction investments in individual country circumstances

Our development assistance is responsive to partner government priorities within their own poverty reduction frameworks and approaches. Our assistance will, within these frameworks and across Australia's priority sectors, continue to invest in the best "poverty reduction buys" in individual country circumstances.

5.2 Engaging with poor performing states

Australian assistance will continue to work with poor performing countries through a graduated strategy that aims to reduce the impact of failed systems on the poor and encourages Governments to adopt reform strategies.

The question of aid donor engagement with countries that are "performing poorly" is a topical and important one. Poor performing countries are those with weak policies and institutions and where there is little chance of sustainable development. This may be because countries are in or emerging from conflict or it may be a lack of political will to tackle poor policy settings and weak institutions, with a resultant lack of transparency and accountability and an environment where corruption can flourish and human rights be abused.

Regrettably some countries in our region, particularly some of our nearest South Pacific neighbours are not, for one reason or another, performing well. Population increases that undermine growth and put pressure on services, ethnic and social tensions that undermine national unity, and poor governance will continue to destabilise development prospects. Melanesia in particular, is likely to be beset by problems for the foreseeable future.

Australia cannot walk away from poor performing states in our region

For humanitarian, developmental and broader security/national interest considerations, we cannot simply walk away from poor performing, and even failed, states in our region. The consequences of allowing instability to worsen, conflict to escalate and service delivery systems, especially in health and education, to deteriorate, would prove far more costly in the longer term and in the short term, impact most adversely on those who can least bear the burden – the poor.

The aid program is an effective tool of Australia's engagement

Australia has to remain engaged, and the aid program is often one of our most effective tools of engagement. We need to develop engagement strategies which may be different to those we have with countries committed to reform, growth and reducing poverty.

A graduated strategy of engagement is needed

5.2.1 A Graduated Approach

While each situation will require a specific approach, in broad terms it is possible to identify a balanced approach to our engagement that will help reduce the impact of failed systems on the poor and encourage governments to re-embark on a reform path.

- **Analysis**

For any assistance to be well targeted it must be based on an analysis of the situation and the reasons for failure of governance or conflict.

- **Maintaining Service Delivery**

We will continue to foster national stability through the provision of humanitarian assistance that directly targets the poor and reduces their vulnerability, especially through maintaining service delivery in critical areas such as health and education. If government systems are failing, Australia's assistance may best be channelled directly to community organisations, non-government organisations and other civil society groups.

- **Broadening Engagement**

Other groups in society, including the media, can be advocates for change, for example promoting peace and urging improved accountability or democratic reforms. Australia will continue to develop broad-based aid investments that supports wider society including NGOs, church-based groups and other community and private sector organisations, in these roles.

- **Addressing Law and Justice**

Strengthening law and justice systems is essential in order to build an environment where the rule of law operates and which is conducive to stability, national unity and broader development. Australia will continue to work with partner countries to strengthen the institutional capacity of legal and police systems, including supporting community-policing efforts to improve the safety and security of people and communities.

- **Dialogue and Practical Support for Governance Reform**

It is important that we continue to maintain engagement with partner governments. Continuing to pursue a dialogue on good governance issues is a legitimate aspect of our aid partnership. This does not mean taking a hectoring approach or being a neo-colonialist power. It does mean supporting a country's own efforts to grapple with what are culturally appropriate approaches to good governance issues. It can also mean identifying and working with reformers within the government and public service, and possibly helping develop regional solutions to intractable problems. We will ensure that our engagement is backed up by flexible programs that offer practical support and incentives for the emergence of a more positive attitude to reform. An incremental approach, building slowly on achievements, will help avoid failure.

- **Donor Coordination**

Engaging with other donors will strengthen our leverage. Where appropriate, Australia will take a leadership role in coordinating donor engagement. Working with other donors to develop a jointly articulated view of the situation can form the basis for coordinated dialogue with the government. Together, donors can work with governments to support a reform action plan with benchmarks against which progress can be measured and continued support calibrated.

- **Addressing Conflict**

In the particular circumstances where failure is due to conflict, Australia is well experienced in working with warring parties to support conflict resolution processes, in providing a concrete peace dividend as soon as there is a sufficiently stable peace for development activities to prosper, and helping communities actively promote peace. We will continue to support partner countries address conflict and to move towards reconstruction and development.

5.2.2 Realistic Expectations

It is important that the Australian community understands that engagement with poor performers is a difficult and long-term task. Progress may be a long time coming. We also need to ensure our expectations match the reality. Fully sustainable outcomes are unlikely to be achieved in poor performing environments. This is not to say that sustainable poverty reduction should not be our over-arching goal. It should. But in order to get to the point where this is possible, creative approaches and opting for more intermediate goals may be necessary.

Expectations need to be realistic

Conditionality may be necessary
– but only after consideration of
all other options

5.2.3 Conditionality

There are clearly cases where it may be appropriate to impose conditionality, even though this should only be used following careful consideration of all other options. The Government has not resiled from cutting non-humanitarian aid on a number of occasions where it was warranted, for example, to India and Pakistan following the resumption of nuclear testing, and Fiji following the 2000 overthrow of the democratically elected government. These actions sent appropriately strong messages to the countries concerned. But we also made it clear, that it was in the interests of the poor that we continue to engage through humanitarian activities. The re-establishment of a full aid program remained an incentive to address the issues that had led to a reduction in aid.

BURMA: AUSTRALIA'S DISTINCTIVE APPROACH

The Australian Government's long-term interest is in a democratic, prosperous, peaceful and stable Burma, which can play a full and constructive role in regional political and economic affairs. Since 2000, Australia has taken a distinctive approach to the promotion of human rights and political reconciliation in Burma. Australia believes that some form of engagement, rather than isolation, is the right strategy to encourage change in Burma. Through the Human Rights Initiative, Australia's aid has introduced over 200 civil servants, NGO and ethnic minority representatives to international human rights instruments and standards. We are also establishing a small bilateral program to address child and community nutrition, and are continuing community-based humanitarian programs, anti-HIV/AIDS assistance and drug control programs. These initiatives, though modest, are examples of creative and practical ways of encouraging change in Burma against a backdrop of some recent positive political developments.

5.3 Strengthening Partnerships and Building Alliances

5.3.1 International Development partners

Australia will seek to strengthen its engagement strategies with key multilateral partners through making more explicit Australia's expectations of their role and programs. As a strong advocate for the poor in the Asia Pacific, Australia will seek to increase multilateral engagement in the region through targeted funding directed at high priority needs.

We will make more explicit our
expectations of international
organisations that Australia funds, and
use targeted funding to direct their
efforts in the Asia Pacific

Australia makes a substantial commitment, some 25 percent of our aid, to multilateral organisations and the development banks, as an important contribution to global poverty reduction. Our support is directed to organisations that are effective and efficient in pursuing their objectives. The Government is also keen to ensure that international development partners focus an appropriate share of their resources on countries in the Asia Pacific, where the majority of the world's poor live. This remains a critical and ongoing challenge.

Australia will continue to work closely with the Multilateral Development Banks (MDBs) in key regional countries through joint policy dialogue, sharing strategic analysis, and cofinancing which provides a significant boost for Australia's own program funding.

The large resources that the MDBs can mobilise allow them to tackle the important infrastructure needs of developing countries that are well beyond the scope of bilateral donors such as Australia. They are also well placed to promote policy dialogue with member countries on what are sometimes sensitive issues, especially related to good governance.

We will continue to seek opportunities to harmonise our procedures with other donors, as part of our obligation to ensure our aid is as effective as possible.

Further harmonising our procedures with other donors and strengthening donor coordination is important in maximising impact and reducing burdens on partner governments

This will build on the successful work we have undertaken with New Zealand in harmonising approaches in the South Pacific. Options include exploring possibilities for further cofinancing with other bilateral donors, particularly in the Pacific, to both enhance donor coordination on shared priorities and minimise the administrative burden on partner developing countries, taking account of effectiveness and accountability requirements.

We will endeavour to promote practical and flexible mechanisms to improve donor coordination and coherence in our region, wherever possible supporting partner government leadership of coordination processes.

We will enhance high-level policy dialogue with key bilateral donors such as Japan and the EU, within regional and international forums, on priority development challenges in the Asia Pacific. To reinforce this, we will support research on key development issues and agendas within the Asia Pacific and disseminate the results within donor and other relevant forums. We will also further promote practical field-level dialogue and information sharing, including exploring opportunities for bilateral collaboration. In countries where Australia has a limited aid presence, we will seek to maximise the impact of our aid by working closely with major bilateral partners, preferably through national frameworks.

5.3.2 Non-government Organisations (NGOs)

We will develop partnership agreements with NGOs in selected bilateral programs linked to country level strategies and develop a more strategic partnership approach to working with NGOs in emergency responses.

NGOs play a valuable role in the delivery of Australian aid

The Government and NGOs have worked together for many years to help developing countries. NGOs play a valuable role in the delivery of Australian aid. In particular, their strengths in garnering public support for the aid program, developing links with communities in developing countries, and flexibility in working in difficult environments, are of great benefit to making Australian aid more responsive and effective. The Code of Conduct for NGOs, introduced by the peak overseas aid body, the Australian Council for Overseas Aid, in 1997, was

NGOs have many strengths and areas of comparative advantage

Continuing to strengthen NGO partnerships is a priority

Australia is able to draw on highly skilled personnel to deliver the aid program

welcomed by the Government as an important step in improving NGO integrity and accountability.

For NGO programs, just as for the aid program as a whole, quality will continue to be an important aspect of funding considerations.

A review of Australian-funded NGO activities in 2001 revealed that NGOs were consistently effective in targeting the poor and marginalised, generating widespread community participation, and adapting to complex circumstances. However, there were weaknesses in the quality of NGO programs, particularly in relation to broader development impact and strategies for managing risk and sustainability. It is important that NGOs strive for continuous improvement to ensure that Australia's aid is as effective as possible.

Strengthening Australia's aid partnership with NGOs is a priority. Linking NGO programs and expertise more strategically to Australia's overall aid strategy with individual partner countries will ensure all Australia's aid resources are more effectively targeted to development priorities. Another important area where we can work more closely together is in relation to conflict and instability in our immediate region. Partnership agreements with selected emergency response organisations will facilitate more effective responses to humanitarian crises.

5.3.3 Expertise

We will draw on the widest possible range of quality Australian expertise to deliver the aid program and will strengthen effectiveness by fostering linkages between different strands of Australian aid expertise.

The delivery of a high quality aid program is strongly linked to the quality of expertise that helps deliver it. Australian aid draws on the best of Australian expertise using Australian knowledge and ideas to work with our development partners to deliver high quality aid outcomes. This includes individual technical experts, public sector institutions, universities, private sector international development firms and non-government organisations.

QUALITY AUSTRALIAN EXPERTISE PROMOTING GOVERNANCE REFORM

Australia is a recognised world leader in many areas of governance, particularly in macro-economic management, financial and prudential management, legal and judicial systems and broader public sector reform processes. The Australian aid program is fortunate to have such expertise on hand to provide quality policy advice and technical services to our regional neighbours in the critical area of governance. Some of the expertise utilised by our aid program includes: chief magistrates; police commissioners; public service commissioners; former IMF executive directors and academics. Senior officials from Australia's departments of Treasury, Finance, Industrial Relations and Attorney General are regularly involved in the delivery of Australian governance assistance.

The range of Australians engaged in the aid program has been broadened:

...Youth Ambassadors

...Volunteers

...Universities

The highly successful Youth Ambassadors program has provided a new vehicle for, to date, nearly 580 young professionals to undertake development work overseas. This experience early on in their careers is helping build a cadre of experienced Australians who will be a valuable source of expertise for Australia's aid program or indeed, other international organisations. In addition, more than 670 Australian volunteers in the last year alone were the human face of community development efforts.

The provision of scholarships helps showcase our higher education system. The Virtual Colombo Plan has opened up a new focus on education through the internet which provides even greater opportunities for developing country partners to benefit from the breadth and quality of Australian knowledge.

Continuing to broaden the range of expertise is important to maintaining quality aid

AusAID has an active stance of broadening the range of partners that are involved in the delivery of Australia's aid program. This is already bearing some fruit. During the last 18 months, eleven new firms secured AusAID contracts worth \$24 million. AusAID's outreach program to involve new players in the aid program will continue. Nevertheless, we are flexible in sourcing the necessary services for delivering the aid program, such as including the participation of partner country personnel, both to build capacity and to ensure we respond better to local circumstances and promote stronger interactions with partners. Australia has also agreed to untie aid to Least Developed Countries (in line with the OECD's Development Assistance Committee's provisions on untying).

Fostering greater integration between different sources of aid personnel, particularly volunteers, youth ambassadors and NGOs with bilateral programs will strengthen the focus of our efforts and make more cost-effective use of resources.

The incorporation of approaches, within a contestable framework, which foster longer term institutional linkages will also help build a better environment for supporting longer term investment in people and providing demand driven support.

VIRTUAL COLOMBO PLAN: AUSTRALIAN KNOWLEDGE FOR DEVELOPMENT

The 5 year \$A200 million Virtual Colombo Plan (VCP) was launched in August 2001. It aims to help close the global knowledge and digital divides, which are inhibiting many in developing countries from accessing, using, and sharing, knowledge that can help in their fight against poverty. Under the Plan several significant activities have been initiated including:

- \$6 million in support for the African Virtual University (AVU) as a facilitator of on-line learning in Africa, by upgrading staff skills, providing distance education materials, and supporting the establishment of an on-line library. Delivery of an HIV/AIDS diploma through the AVU is also planned.
- Support for teachers in basic education including Virtual Scholarships for PNG teachers to be implemented during 2002/03.

The Australian Development Gateway is now established. This is an Internet portal for consolidating and disseminating Australian development knowledge and e-learning for the international community. It forms part of Australia's partnership in the World Bank's Development Gateway Foundation announced in August 2001.

The VCP is also currently exploring opportunities for using Australian volunteers in initiatives to bridge the digital divide.

5.3.4 Community engagement

We will continue to develop programs that communicate effectively to the Australian public the different ways in which Australia is helping our partner countries and in doing so, building a safer, more secure region for Australia.

Australian aid has significant community support, with 85 percent of Australians indicating they support it. Broader community engagement in the aid program has been one of the hallmarks of the Government's approach. The Aid Advisory Council, established in 1998, has provided a forum for broad based discussion by community and industry leaders on aspects of our aid program.

The community contribution to mine action programs in Cambodia, through the Australian Government's "Destroy a Minefield" campaign, has been outstanding with more than \$600,000 contributed through efforts of school children and communities throughout Australia.

Ensuring that the community is informed about and supportive of the aid program is a priority. Equally important is recognising the contribution that many Australians make to peace and development. The presentation of certificates of appreciation to returned overseas aid volunteers, and the special recognition programs held last year for Australians that had contributed to East Timor, enables the Government to acknowledge the outstanding part many Australians have played in helping our neighbours with pressing development problems.

Community engagement has been broadened

Effective communication to the Australian public on the aid program is important ...

...as is recognising the contribution that many Australians make to helping our neighbours

As noted five years ago in *Better Aid for a Better Future*, addressing mass poverty is the single most important economic and social issue on our planet today. That remains the case. Even though significant gains have been made since then, the environment for development is fragile. Development gains can easily be eroded by conflict, economic crises or failures of governance. Development is a complex, high risk and dynamic undertaking that requires sophisticated approaches and interventions. And success ultimately depends on countries' own efforts. Aid can play an important supporting role.

Aid is a central component of Australia's foreign policy and national interest. It reflects the humanitarian desire of Australian's to help those less fortunate than ourselves. Our aid is engaged in promoting growth, peace, and stability in the region and addressing issues which are directly linked to Australia's continued prosperity.

The new directions established for the aid program in *Better Aid for a Better Future* and since, through an ongoing process of policy development and program refinement, mean that the aid program is well positioned to help achieve real improvements in our partner countries. The Government is confident that the Australian aid program is addressing fundamental development problems, is making an impact, and is playing an important role in meeting it's priorities.

Australians can be proud of the contribution we are making.