

Twelfth Annual Statement to Parliament on Australia's Development Cooperation Program



Australian Government
AusAID

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The Hon Alexander Downer MP
Minister for Foreign Affairs

November 2003



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The aid program is a crucial part of Australia's broader policy of helping build a more secure and prosperous region. Our aid is contributing in no small part to Australia's national interest by helping create those conditions essential for enhanced regional stability and security, and poverty reduction.



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Australian Aid provides a solid foundation and has positioned the aid program well

I am pleased to deliver the Twelfth Annual Statement to Parliament on Australia's development cooperation program.

In September last year, I presented to the Parliament *Australian Aid: Investing in Growth, Stability and Prosperity*. This Statement re-affirmed the overall objective of Australia's aid – to advance Australia's national interest by assisting developing countries to reduce poverty and achieve sustainable development – and its focus on developing countries in the Asia-Pacific region.

The Statement identified five guiding themes that link this objective with our aid interventions, namely:

- promoting improved governance;
- assisting developing countries maximise the benefits of globalisation;
- supporting stability through the delivery of basic services;
- strengthening regional security; and
- promoting sustainable approaches to managing natural resources.

These guiding themes remain relevant and continue to shape our approaches in responding to the more uncertain international environment. A year on, this Statement provides an opportunity to outline our achievements and to focus on major challenges.

Instability and insecurity directly threaten development

The links between development and security have never been clearer. The tragic events in Bali in October 2002 as well as the deterioration of law and order in Solomon Islands demonstrate the consequences of instability in undermining growth prospects and hard-won development gains. Only when countries are stable and secure can people successfully engage in those productive enterprises that generate employment and sustainable growth. Where insecurity prevails and the rule of law is weak, individuals' vulnerability to conflict and crime increases and poverty is exacerbated.

The aid program is a strong expression of Australia's commitment to assisting our neighbours overcome those sources of instability and insecurity that threaten growth, prosperity and development.

Our innovative approaches in the Pacific as well as our responsiveness to the Bali attacks, the SARS outbreak and the Iraq conflict highlight the important role of our aid program

Through the 2003-04 budget, the Australian Government will provide an estimated \$1.9 billion in Official Development Assistance (ODA) - around \$79 million higher than the previous year and representing an ODA/GNI ratio of 0.25 per cent.

Australians have reason to be proud of their aid program. Our achievements in 2003 have been substantial. Just a few examples illustrate this:

The aid program is playing an integral role in Australia's strengthened engagement with the Pacific. We are taking a more robust, 'hands-on' approach to the region's development challenges, focusing on those key governance areas critical to stability and growth.

Our total assistance to Indonesia has been increased by around \$30 million and will reach an estimated \$152 million in 2003-04. This assistance will continue to target governance reform, basic education and support for those populations most vulnerable to instability. In Bali, a Rehabilitation Fund is helping those communities affected by the bombings establish and maintain alternative income sources.

Australian aid helped mobilise rapid and coordinated global responses to the outbreak of Severe Acute Respiratory Syndrome (SARS). Australia's contribution to the World Health Organization (WHO) funded the deployment of experts in epidemiology, infection control and virology.

We are making a significant and effective contribution to meeting the humanitarian and reconstruction needs of the Iraqi people. Australia's aid commitment to Iraq stands at more than \$120 million. Over half has been allocated to support key reconstruction priorities such as agriculture, food security, water and sanitation, while laying the foundation for the transition to a stable, open and market based economy.

A major new policy on water assistance, *Making every drop count*

In my Statement last year, I identified the critical development issues associated with ensuring access to water supply and sanitation. In March this year, I launched a major new initiative on water assistance, *Making every drop count: Water and Australian Aid*. This initiative outlines how we will deploy Australia's internationally recognised expertise and leadership to strengthen sustainable access to water and help secure regional and national prosperity.

And we are a leader in efforts to halt the spread of HIV/AIDS in the Asia-Pacific

And we remain a leader in regional efforts to fight the threat to development posed by HIV/AIDS. Since 2000, the Government has contributed \$85 million to reduce HIV infection rates as part of a six year \$200 million global AIDS initiative.

Significant challenges, however, remain ahead.

A Strengthened Engagement with the Pacific

Our Pacific neighbours are facing fundamental obstacles to their development

Australia's Pacific neighbours are facing fundamental challenges to their economic and social development. As outlined in a recent AusAID assessment of development in the Pacific, there have been significant human development gains in the region over the past thirty or so years. Some of these gains are under threat, however, particularly in Melanesia, from prolonged economic stagnation, instability and rapid population growth.

Political will and improved capacity to address governance are crucial

Political will to institute the conditions required for sustained economic growth – sound governance, intolerance of corruption and adherence to the rule of law – is central to the Pacific's future. But it has proven difficult to sustain. Alongside insufficient political will, weak capacity is the major impediment to reform.

Pacific leaders have themselves acknowledged the nature and scale of the challenges

Meeting these challenges will require that the Pacific Island states take a stronger leadership role in their own development. At this year's Pacific Islands Forum meeting in August, leaders agreed that better governance, winding back corruption and stronger security are needed to tackle instability and economic decline.

Coherent and sustained approaches are required from the international community

It also will require the international community to provide coherent and sustained approaches that support national development efforts in the region including, where appropriate, 'pooled' approaches to regional governance issues.

And Australia has a key leadership role to play

Australia has an important leadership role in this regard. As the Prime Minister has made clear, it is not in Australia's or the region's interests to see failed states in the Pacific, and Australia stands ready to lend a helping hand to ensure this does not happen.

Australian aid is playing a key role in efforts to help restore law and order, economic governance and government systems in Solomon Islands

The aid program is integral to Australia's role in the Regional Assistance Mission to Solomon Islands (RAMSI). This initiative is providing a comprehensive mechanism to help address fundamental, across-the-board governance settings. Building on our existing programs and strong knowledge base, the expanded package of strengthened assistance includes an additional \$50 million on top of the \$37 million in estimated aid flows for this year. This package will provide assistance to stabilise government finances and functions, revitalise the courts, rebuild the prison systems and strengthen the police service.

A whole-of-government approach and sustained engagement with other donors

These efforts reflect our commitment to long-term development in Solomon Islands. RAMSI is not simply a law enforcement operation. It is a long-term capacity building exercise aimed at helping create the conditions necessary for a return to stability, peace and a functioning, growing economy. Our aid program is working with a range of other Government agencies and donors to ensure a coordinated approach to meeting RAMSI's objectives.

Building on extensive law and justice and economic governance assistance in PNG

In PNG, following my visit in September this year, we are finalising an agreement that allows for a much closer engagement. Our extensive involvement through the aid program has provided a very strong basis for enhanced assistance. In October, high-level scoping missions visited PNG to explore more direct and comprehensive forms of assistance to its judicial and law enforcement agencies and to strengthen economic governance.

Forging strategic partnerships with other donors to maximise aid effectiveness

And we are engaged in pioneering work with the World Bank and the Asian Development Bank to develop a Joint Country Assistance Strategy for PNG. This new approach will generate improved dialogue on reform priorities, the better use of combined resources, and aid more closely linked to reform efforts through a stronger focus on results.

Our approaches in Solomon Islands and PNG reflect a focused aid program in the Pacific concentrated on those key areas critical to stability and growth - law and order, economic governance and service delivery.

Australia is playing a leading role in strengthening policing throughout the region

Effective police and judicial systems help countries enforce the rule of law and combat corruption, thereby putting in place the conditions necessary to attract investment and achieve growth. There are now Australian-supported law and justice programs in all Melanesian countries as well as in Samoa, Tonga and Nauru.

Strong profile of public expenditure management programs across the Pacific

Improved economic and financial management systems are essential to the Pacific Island states. Australia has strengthened its programs of public expenditure reform. This is reflected in our support for activities designed to bolster budgetary systems throughout the region, not only in Solomon Islands and PNG but also in Fiji, Vanuatu, Tonga, Samoa and Nauru.

Where governments have shown commitment to reform, the gains have been substantial

Our ongoing work with Samoa in this area proves the gains that can be made by working with a government that is committed to reform. Australia's aid has played an important role in helping Samoa introduce a range of reforms that have underpinned its strong economic performance.

Continued support for service delivery remains a priority

Breakdowns in health and education services not only have a significant human cost. As I outlined in my Statement last year, they can also undermine the legitimacy of states and act as catalyst for instability. Australia will continue to support systems to more effectively manage service delivery.

'Pooled', regional approaches can help overcome capacity constraints

A key impediment to improved governance and service delivery in the Pacific is, however, lack of capacity. Australia is helping build 'pooled', regional approaches in areas such as policing, shipping and aviation. This includes helping make the Forum Secretariat a more effective mechanism to address common challenges.

I am pleased to report that there have been positive developments. The newly established regional policing initiative will provide a comprehensive approach to police training as well as a flexible mechanism for targeted support to police agencies across the region.

And at the Forum meeting in August this year, members agreed to elect Greg Urwin, as the new Secretary-General of the Secretariat. Mr Urwin, a dedicated and experienced member of the Pacific community, will be a key asset to the Forum as it moves to tackle these challenges.

Focus on policing and economic governance extends to East Timor

Our enhanced governance focus with our neighbours also extends to newly independent states. In East Timor, we are continuing to intensify our focus on strengthening policing and helping build those economic and budgetary policy frameworks critical to sustainable growth.

Building Regional Security and Combating Terrorism

Southeast Asia further highlights the linkages between stability, security and development

The Pacific context highlights the clear linkages between issues of stability, security and development. These linkages are also evident in our wider region. Terrorist networks operating in Southeast Asia threaten growth prospects, particularly in Indonesia and the Philippines where existing tensions already undermine confidence and security.

Australia's aid program continues to place high priority on enhancing partner governments' capacity to prevent conflict, as well as assistance for post-conflict recovery and managing non-military threats to security. This includes contributing to broader counter-terrorism efforts

The aid program is building capacity in law-enforcement and promoting the conditions required for growth and stability

The aid program's contribution to counter-terrorism efforts centres on two approaches. The first involves building the capacity of partner countries to manage terrorist threats by strengthening counter-terrorist and broader law enforcement capacity. The second is to promote environments conducive to growth and poverty reduction that, in turn, lessen the potential for terrorist networks to develop.

New counter-terrorism initiatives in Indonesia and the Philippines

In Indonesia, Australia is currently implementing a \$10 million four-year initiative to help build counter-terrorism capacity. The aid program is working with the Australian Federal Police (AFP) to strengthen the capability of the Indonesian National Police to combat terrorism and related crimes. And we are helping combat money laundering through the Indonesian Government's new Financial Intelligence Unit as well as collaborating on travel security.

In the Philippines, the Prime Minister has announced a three-year \$5 million package of counter-terrorism assistance. The package will provide practical assistance in the areas of law enforcement, border control, port security and enhanced regional cooperation.

And support for regional counter-terrorism efforts

At the recent APEC Leaders Meeting in Bangkok, the Prime Minister announced a \$1.5 million contribution to a new "Regional Trade and Financial Security Fund". This fund will finance counter-terrorism capacity building in APEC developing economies.

Improved governance, growth and stability will play a key role in the fight against terrorism in the Asia-Pacific

Over the longer term, the aid program is making it more difficult for terrorist networks to find a foothold in the region by strengthening governance, promoting growth and stability, and reducing poverty. Aside from law and justice, key areas of focus are the development of effective, transparent and accountable institutions of government and public administration, improving the accessibility and quality of basic education services and the development of robust civil societies.

3 Globalisation and Policy Coherence

Enhanced approaches to policy coherence and aid impact

Our efforts in the Pacific and Asia reflect a broader concern that our development investments are informed by coherent policy approaches that maximise the impact of our aid. Aid alone will never be the answer to the challenges confronting our developing country partners. But effectively targeted aid can play a key role in helping catalyse national development efforts and mobilise the resources required for growth.

The development benefits of greater trade liberalisation will be immense

Trade liberalisation has the potential to lift millions of people out of poverty. If developing countries increased their share of world trade by just five per cent, this would generate financial resources worth about \$500 billion (US\$350 billion) – around seven times as much as they receive in aid.

Countries that have succeeded are those that have integrated into the world economy

As I made clear in my Statement to Parliament last year, those countries that have achieved strong growth are those that have integrated themselves into the world economy through trade liberalisation and openness to investment.

Australia's approach on trade and aid policies is a clear example of policy coherence

Australia maintains a strong coherence between its aid and trade policies. Despite recent setbacks, Australia remains committed to a successful Doha Development Round, particularly in relation to agriculture. And over the last seven years, our trade related aid funding has increased by more than 70 per cent. Estimated expenditure will reach \$31 million in 2003-04.

Trade-related support to developing countries extends beyond aid. From July this year, Australia is providing tariff and quota free access for all goods produced in the 49 Least Developed Countries plus East Timor.

Sound domestic policies and institutions will play a key role in harnessing the benefits of globalisation

If developing countries in our region are to reap the benefits of globalisation, sound domestic governance will be crucial. Far from weakening governments, globalisation makes it even more important for them to have policies and institutions that allow markets to operate effectively. Once again, this highlights the critical importance of our strong focus on governance.

The aid program is a crucial part of Australia's broader policy of helping build a more secure and prosperous region. Delivering on the priorities I have outlined here today, our aid is contributing in no small part to Australia's national interest and is helping create those conditions essential for enhanced regional stability and security, and poverty reduction.