

# Australian Aid: Promoting Growth and Stability

A WHITE PAPER ON THE AUSTRALIAN GOVERNMENT'S OVERSEAS AID PROGRAM

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ISBN 1 9208 61 734

For further information about the Australian Government's overseas aid program, contact: AusAID Public Affairs Group

AusAID  
GPO Box 887  
Canberra ACT 2601

Phone 02 6206 4727  
Facsimile 02 6206 4695  
Internet [www.ausaid.gov.au](http://www.ausaid.gov.au)

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## Foreword

*Australian Aid: Promoting Growth and Stability* sets out a comprehensive plan for Australia's overseas aid program for the next ten years. It represents a distinctly Australian view on development, informed by the best of international knowledge and our own experience from fifty years of providing aid. It is also underpinned by our values and spirit as a nation.



I applaud the international focus on the challenge of global poverty and welcome the announced increases in aid budgets worldwide. However we need to be mindful that money alone will not achieve the Millennium Development Goals. Aid has to be spent effectively and in support of improved policies and actions by developing, as well as developed, countries if we are to rid the world of poverty.

Australians can be justly proud of their aid program. From disaster relief efforts in Aceh and Pakistan, to re-establishing law and order in Solomon Islands, to striving to stop women from dying in childbirth in Papua New Guinea, we have earned an international reputation for responsiveness, pragmatism and flexibility.

Yet there is no room for complacency. As we work towards the goal of doubling the size of our aid program by 2010 we will be ambitious and creative to ensure that every aid dollar is spent effectively.

We will focus our aid on the fundamental pillars for poverty reduction and development — economic growth, sound governance and stability. At its core, development is about people. Australia will make a major investment in the people of the Asia-Pacific, particularly its women and children.

Delivering Australia's aid program will be built on partnerships. We will use our aid to reach out to the region and mobilise new partnerships that promote closer ties between Australia and our neighbours.

I am committed to ensuring that Australian taxpayers know whether their aid program is working. The White Paper outlines strategies on how we will go about this, including through the publication of an Annual Review of Development Effectiveness.

I would like to thank those who contributed to the development of the White Paper, through participation in public meetings, seminars, consultations or written submissions. I also acknowledge Professor Ron Duncan and his Core Group team for developing a thoughtful set of recommendations which have provided robust building blocks for the White Paper.

*Australian Aid: Promoting Growth and Stability* outlines an integrated and coordinated Australian response to the complex development challenges of our region. By doing so, we will maximise our contribution to the achievement of the Millennium Development Goals. And at same time, we will advance our neighbours' and our own national interest by promoting a secure and prosperous region.

A handwritten signature in black ink, which appears to read 'Alexander Downer'. The signature is fluid and cursive, with a long horizontal stroke at the end.

Alexander Downer  
MINISTER FOR FOREIGN AFFAIRS





# Executive summary

## Introduction

*Australian Aid: Promoting Growth and Stability* was instigated by the Minister for Foreign Affairs in March 2005 and provides the strategic framework to guide the direction and delivery of Australia's overseas aid program over the next ten years.

The White Paper provides a comprehensive account of how the Australian Government will approach the doubling of Australia's aid budget to around \$4 billion annually by 2010, as announced by the Prime Minister in September 2005.

This is the first White Paper produced on the Australian aid program and the first time any Australian Government has announced a multi-year increase in aid funding. The White Paper underlines the Government's commitment to poverty reduction, sustainable development and progress towards the Millennium Development Goals (MDGs). Over the past 12 months, there has been extensive domestic and international consultation to guide the White Paper's preparation.

Australia has a strong aid program with an international reputation for flexibility, responsiveness and effectiveness. But the Government is not resting on its laurels. The White Paper outlines strategies in which questions of aid effectiveness, strengthened governance and tackling corruption in developing countries are addressed robustly. Australian taxpayers expect no less.

Australia's aid program is informed by our values as a nation, such as our commitment to economic and political freedom and our humanitarian spirit, demonstrated so clearly in our response to the 2004 Indian Ocean tsunami. We also believe in supporting people's self-reliance by building their capacity to stand on their own.

At the same time, Australia's peace and security is inextricably linked to that of our neighbours. By helping to reduce poverty and promote sustainable development, the aid program is an integral part of Australia's foreign policy and security agenda.

## Operating environment

Over the past 20 years, more than 500 million people in the Asia-Pacific region have been lifted out of poverty, but another 700 million live on less than \$1 a day and 1.9 billion live on less than \$2 a day, including over half the population of Indonesia. Asia is making progress towards the human development MDGs, but much of the Pacific is not, and even in Asia there is no room for complacency. Alongside strongly growing states such as China, Thailand and Vietnam, are countries that will have to overcome serious challenges to achieve and sustain growth and reduce poverty — including Papua New Guinea (PNG), most of the Pacific island nations, East Timor, Cambodia, Laos, Indonesia and the Philippines.

Generating broad-based growth will be critical to shoring up democracy and stability in the region. Difficult economic prospects and weak governance may see the risks of instability increase and, among other consequences, allow transnational crime and terrorist networks to flourish, further undermining development and efforts to reduce poverty.

Other threats to development have emerged or are intensifying. The Asia–Pacific region is vulnerable to natural disasters, as has been sadly witnessed over recent years. It is also vulnerable to infectious disease because of its dense and interconnected populations. Some 8.2 million people in Asia are living with HIV/AIDS; in the absence of effective action, the Asia–Pacific region will account for 40 per cent of all new infections by 2010. PNG is a particular concern. Avian and pandemic influenza also threaten widespread disruption.

Rapid economic and population growth is placing increasing pressure on the natural environment. Tensions over access to and management of natural resources, including water and energy, are growing and will need to be managed.

## Development lessons

Decades of experience in development have revealed a number of key lessons about what makes countries successful:

- Economic growth is central to poverty reduction.
- Countries that have engaged with the global economy have grown more quickly than those that have not.
- While growth is necessary for poverty reduction, it is not sufficient. Attention must also focus on how growth can be shared and sustained, including by providing opportunities through better health and education.
- Countries are more likely to achieve sustained growth if their governments enforce property rights, manage conflict, establish macroeconomic stability, align economic incentives with social benefits, and maintain law and order.
- While there are common fundamentals to development, there is no universal policy prescription to achieve it. Each country's situation is unique, as is its path to reform and growth.
- Aid is only part of the growth and development picture — both developing and developed country policies play a significant role.

Countries emerging from conflict or whose economies are stagnating pose particular challenges. Experience suggests that these states stay fragile for a long time, the spill-over effects are costly for their neighbours, and there is little chance of improvement without outside intervention. Australia's leadership role in the regional intervention in Solomon Islands is attracting positive international attention as an example of an innovative and successful approach.

## Strategic framework

The strategic framework that will guide Australia's aid program recognises the evolving regional environment and Australia's values and interests, and draws on the experience of over 50 years of delivering aid to the region.

The framework centres on the **objective** of Australia's aid program:

*To assist developing countries to reduce poverty and achieve sustainable development, in line with Australia's national interest.*

In order to achieve this objective, the aid program will be organised around four themes:

- 1) accelerating economic growth
- 2) fostering functioning and effective states
- 3) investing in people
- 4) promoting regional stability and cooperation.

The **effectiveness** of the aid program will be ensured by:

- 1) strengthening the performance orientation of the aid program
- 2) combating corruption
- 3) enhancing Australia's engagement with the Asia–Pacific region
- 4) working in partnership with regional governments and other donors.

The framework will be reinforced by promoting greater gender equality in development, and through untying Australian aid to improve efficiency and competitiveness. A fundamental tenet of the aid program is that Australia's assistance is jointly agreed and implemented with its developing country partners.

## **Where Australia will work**

Australia's focus on the Asia–Pacific region will continue. There will be growing focus on linking allocations to performance in major partner countries. Programs will align with the four themes of accelerating economic growth, fostering functioning and effective states, investing in people, and promoting regional stability and cooperation.

Australia provides more support to Indonesia than to any other Asian country. This aid partnership will continue to be maintained at high levels to assist Indonesia's efforts to cement its democratic institutions and build security and prosperity. The Government believes that the challenges faced by the Philippines, another close neighbour, are particularly serious, and Australia will intensify its development efforts accordingly. This White Paper outlines a particular focus on eastern Indonesia and the southern Philippines, given their very high rates of poverty and challenging development prospects.

The Mekong countries will continue to be an important priority for the aid program, with infrastructure, health and education being central to Australia's engagement. Future efforts will also place more emphasis on promoting regional approaches and integration, as well as on addressing shared challenges, such as HIV/AIDS and access to water. In East Timor, Australian aid will support the fledgling nation's efforts to build the policies and institutions needed for the effective use of future oil and gas revenues and to address critical health needs.

The importance of India and China to the region's development means that the Australian aid program will maintain a strategic footprint with them on key issues such as trade, clean energy and HIV/AIDS, and engage with them as emerging donors. In other parts of South Asia, the aid program will deepen engagement on selected issues, such as education and improving the core functions of government.

Australia is keenly aware of the challenges facing the Pacific — particularly Melanesia and the microstates. Australian aid to the Pacific will continue to operate within very long timeframes — change will be slow and incremental, and progress will require greater regional integration and the pooling of functions to promote efficiency and transparency in government and in the provision of services. Increases in aid allocations will be linked to performance.

Australia remains deeply committed to development in PNG. While significant effort is required to support improved governance, economic growth, and the delivery of basic health and education services, expectations of development need to be realistic. This White Paper proposes a potentially substantial increase in the aid allocation to PNG, subject to meaningful reform and continued improved performance by the PNG Government.

Australia will continue a pragmatic engagement with Africa, based on humanitarian concerns and key issues such as HIV/AIDS.

## What the aid program will focus on

### Accelerating economic growth

Generating shared and sustainable economic growth is the single most important objective for the Asia-Pacific region over the next ten years. The aid program will encourage growth by:

- improving the policy environment for private sector growth. Initiatives include a collaborative and demand-driven **Pacific land mobilisation program** to explore ways to overcome the major land tenure constraints to growth in the region.
- promoting trade through assistance for trade analysis, trade policy and trade facilitation, such as more efficient customs and quarantine services
- supporting the drivers of growth by:
  - investing in infrastructure. Poor infrastructure is a binding constraint to growth in Asia, while in the Pacific access to infrastructure in rural environments (where 80 per cent of the population lives) is a priority. A major **infrastructure for growth initiative**, providing expertise on policy and other key issues as well as targeted financing, will help address these barriers. This will include a partnership with the development banks, with estimated support of up to \$800 million over the next five years.
  - building skilled workforces in PNG and the Pacific, focusing on technical and vocational programs, including the establishment of an **Australia-Pacific technical college** to deliver Australian-standard qualifications in areas that meet domestic and international employment needs.
  - strengthening support for private sector-led **rural and business development**.
- addressing environmental challenges to growth through an **environment strategy** focusing on climate change and adaptation, water, and strengthening environmental regulatory regimes.

### Fostering functioning and effective states

Sound policies and institutions are central for growth and development. Existing governance support will be enhanced by:

- focusing on political governance by targeting leaders from all facets of society through a **Pacific leadership program** and by **building demand for better governance**
- providing **incentives** through allocating additional funding (up to 10 per cent of the aid budget over time) to those countries able to achieve agreed improvements in areas such as governance and addressing corruption

- making more selective and effective use of technical assistance to promote reform, and undertaking an integrated approach to law and justice support

Recent years have seen an increasing demand on Australia to respond to emergencies.

By virtue of our location and capacities, Australia is playing a leadership role in responding to disasters. Australia is establishing an **enhanced emergency response capacity** to strengthen civilian capacity to respond effectively to unexpected crises.

### Investing in people

Health and education enable the poor to participate in growth, make the workforce more productive, and lead to a better informed citizenry able to demand better government performance.

Australia will increase investments in health and education significantly. National health systems will be strengthened through a **delivering better health program**, particularly focusing on the needs of women and children. This will include assistance to establish sustainable health financing and for health workforce development. Australia will help countries confront health problems that create the greatest burden, and expand existing initiatives addressing major diseases, including **HIV/AIDS, pandemics** and a new initiative to **tackle malaria in the Pacific**, initially focusing on Solomon Islands and Vanuatu. It is expected that support for health programs will double by 2010.

Australia will invest further resources in getting more children into school, for longer and to achieve a better quality education. Australia will strengthen national education systems through a **delivering better education** initiative. In view of the importance of education for growth, stability and poverty reduction, it is expected that support for national education systems will triple by 2010. Further, a major **Australian scholarships** initiative targeting future leaders will see a doubling of the number of education awards offered by Australia to the region.

### Promoting regional stability and cooperation

An array of transboundary issues threatens stability and development in the region. Australia will promote regional responses through a **transboundary threats** program. This will support Australian Government agencies building networks and expertise in such fields as pandemics, disasters and transnational crime. Australia will also expand efforts to promote regional integration and support initiatives that promote regional governance in the Pacific.

### Strengthening effectiveness: how aid will be delivered

The Government is committed to maximising the effectiveness of the aid program and to placing Australia at the forefront of such efforts internationally. The aid program will pursue four strategies to this end.

#### Strengthening the performance orientation of the aid program

The performance orientation of the aid program will be strengthened across all levels and aspects of Australia's Official Development Assistance expenditure. This will include:

- enhanced country development strategies to give greater prominence to growth and performance and provide a single framework for all Australian Government development efforts

- strengthened links between performance and aid allocations within and between countries and the building of better performance into individual aid activities by linking payments to delivery, particularly in infrastructure, health and education
- strengthening the performance management function through establishing an **Office of Development Effectiveness**, which will improve the effectiveness of aid policies and programs, including through publishing an *Annual Review of Development Effectiveness* to inform the budget process.

### Combating corruption

Increases in Australian aid will be conditional on stronger governance and reduced corruption in partner countries. Australia will adopt a more rigorous approach to corruption by developing an **anti-corruption for development strategy** aimed at strengthening coordination across the range of Australian Government activity in this area, and by increasing its support for regional and global anti-corruption initiatives.

### Enhancing Australian engagement with the Asia–Pacific region

AusAID will continue to work with other Australian Government agencies to monitor the impact of broader government policies on regional development, and to ensure coordinated whole-of-government approaches on key development issues.

Responses to the region's challenges will need to draw on new expertise and players in government, business, academia and the community. The aid program will increase support for **development research** as a key contributor to better development, and mobilise a broader range of Australian expertise to help tackle the region's development challenges through an initiative for **mobilising new Australian links to the region**.

### Working with partners

Aid programs that are owned and driven by partner countries are more likely to be sustainable. Australia will work towards the principles of the *Paris Declaration on Aid Effectiveness*, and look for opportunities to use partner country processes and systems in aid program delivery.

Australia will work with other bilateral donors to reduce the burden of aid coordination for already stretched partner governments, and will identify opportunities to lead other donors towards coordination. A particular emphasis will be given to engaging emerging donors, such as China in the Pacific.

Australia has long pursued key interests through the World Bank and the Asian Development Bank (ADB), including in its programs to the Pacific and in building aid effectiveness. Australia will strengthen partnerships with the World Bank and the ADB in areas of mutual interest, given their significant regional financial weight and importance in policy dialogue.

## Aid management

Effective aid management will be central to implementing this White Paper. Many things will need to be done differently, and there are important new emphases. AusAID is producing an Agency Business Plan setting out how the White Paper will be delivered, focusing on streamlining business processes, strengthening human resources and enhancing management information systems.

Australia will continue to provide assistance mainly through grant funding, rather than through loans. To ensure better aid delivery, and in recognition of the need for greater levels of policy and operational engagement from AusAID and other government agencies, more staff will be placed in the field over time. AusAID and its partners in aid delivery will build staff skills to strengthen analysis of critical development issues and to ensure that this is supported by a deeper knowledge of the countries within the region.

Improved external communications will help to capture the achievements of Australia's aid program and inform the Parliament, the Australian public, opinion makers and development partners. The Aid Advisory Council will continue to provide independent insights and advice to the Minister for Foreign Affairs.

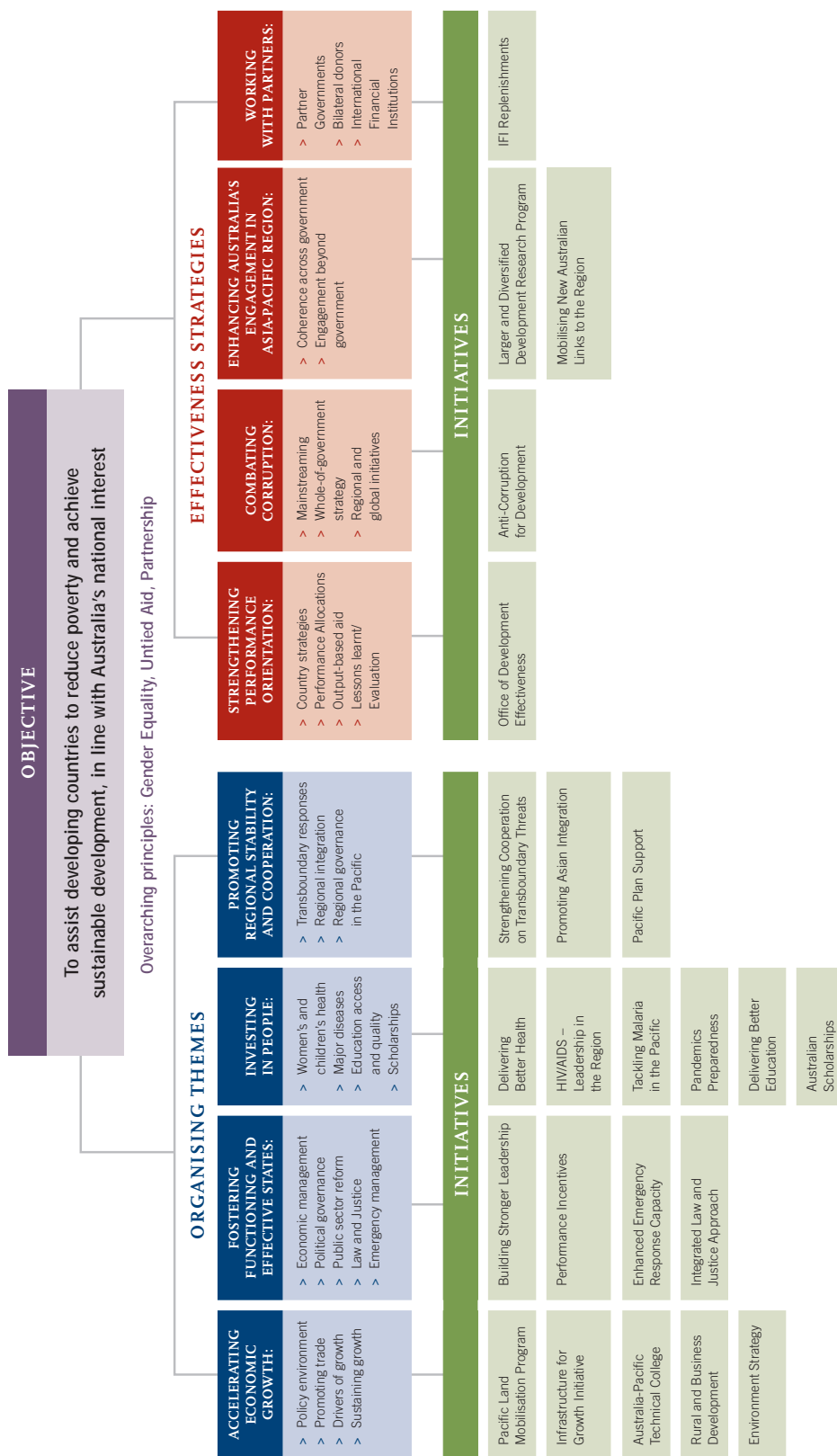
## Conclusion

Australian aid is effective and is making a real difference to the people of the Asia-Pacific region. The changes outlined in this White Paper will give the aid program greater reach and impact in the coming decade.

The Australian public and the countries benefiting from the aid program can expect the Government to be even more responsive, professional and accountable in the delivery of Australian aid. The Australian aid program will not only be larger, but also more effective and transparent.

The scale of the development challenges and the level of Australian commitment to growth and stability in the region require nothing less.

CHART 1 Strategic Framework for Australia's Overseas Aid Program





CHAPTER 1

Introduction



# Introduction

## 1.1 The purpose of the White Paper

*Australian Aid: Promoting Growth and Stability* was instigated by the Minister for Foreign Affairs in March 2005 and provides a strategic framework to guide the direction and delivery of Australia's overseas aid program over the next ten years. The White Paper's release follows the Prime Minister's announcement in September 2005 that Australia's official aid expenditure will double to around \$4 billion annually by 2010. The Prime Minister stipulated that this increase would be subject to the effectiveness of the application of additional resources and conditional on strengthened governance and reduced corruption in partner countries. *Australian Aid: Promoting Growth and Stability* explains how the Government intends to approach the doubling of aid resources. It sets out a clear operating framework in which questions of effectiveness, strengthened governance and reduced corruption are addressed robustly.

Australia's overseas aid program aims to help developing countries reduce poverty and achieve sustainable development in line with Australia's national interest. This White Paper outlines how this objective can best be achieved over the next ten years as part of the global effort to achieve the Millennium Development Goals (MDGs).

While the Australian Agency for International Development (AusAID) is the primary implementing agency for the Government's aid program, the policy framework outlined in this White Paper applies to all Official Development Assistance (ODA), including that implemented by other Australian Government agencies.

The White Paper draws extensively from a report, prepared by Professor Ron Duncan, Dr Meryl Williams and Dr Stephen Howes, that was commissioned by the Government to provide analysis and recommendations for the future of the aid program. Separate analytical reports were also prepared on Papua New Guinea (PNG), the Pacific Islands, Indonesia, Asia, HIV/AIDS and on engaging the Australian community. Over the past 12 months there has been extensive consultation, both in Australia and internationally. Public meetings were held in Melbourne, Sydney, Brisbane and Perth, chaired by the then Parliamentary Secretary to the Minister for Foreign Affairs, and numerous submissions and contributions were received from individuals and organisations. Targeted seminars involving academic and other experts on key issues, including growth, political governance and transboundary threats, were held, as well as a full-day roundtable with non-government organisations. Other major donors, the development banks and the UN were also consulted. A critical look at Australia's and international experience in development and lessons learnt in aid delivery over the past few decades was also undertaken.

## 1.2 Why now?

The Minister for Foreign Affairs released the Government's first policy statement on aid, *Better Aid for a Better Future*, in 1997. The statement gave the aid program clarity of purpose and direction, and provided a clear objective centred on poverty reduction and sustainable development. The commercial objectives and commercially focused programs that had had negative impacts on the program in the past were removed. Since 1997, Australia's aid program has changed very much for the better. It has responded effectively to the rapidly changing regional environment and aid volumes have increased from \$1.7 billion in 1997–98 to \$2.5 billion in the 2005–06 budget.

Some of the most important changes and achievements over the past ten years include the following.

### Regional leadership:

- a stronger engagement with our immediate region. Major recent commitments include:
  - the \$1 billion Australia Indonesia Partnership for Reconstruction and Development (AIPRD), announced shortly after the Indian Ocean tsunami in 2004 to help recovery and broader development in Indonesia
  - the Regional Assistance Mission to Solomon Islands (RAMSI), led by Australia in collaboration with regional partners, which restored stability, law and order and government institutions in Solomon Islands and is helping to reestablish the economy
  - the Enhanced Cooperation Program (ECP) in PNG to help overcome persistent governance concerns and the earlier phasing out of budget support in favour of jointly programmed aid focused on health, law and order, rural development and education
- playing a key role in establishing peace, conflict resolution and post-conflict reconstruction in Bougainville and in aiding East Timor in its transition to independence
- rapid and effective responses to crises that affected the region, including the Asian financial crisis, the South Asia earthquake, the Bali bombings, droughts and cyclones in PNG and the Pacific, and the Indian Ocean tsunami
- building institutional and people-to-people links between Australia and the Asia-Pacific region, including by providing over 10,000 scholarships and introducing the Australian Youth Ambassadors for Development program, which is developing a cadre of Australians with deeper knowledge of, and ties with, the region.

### Thematic initiatives:

- a greatly enhanced emphasis on strengthening the policies and institutions of Australia's developing country partners. Support for governance-related programs has increased from \$160 million in 1996–97 to an estimated \$885 million in 2005–06.
- a regional leadership role on HIV/AIDS involving a \$600 million commitment over ten years. Australia hosted the first Asia-Pacific Ministerial Meeting on HIV/AIDS in 2000 and was instrumental in the establishment of the Asia-Pacific Leadership Forum and the newly formed the Asia-Pacific Business Coalition on HIV/AIDS.
- new policies and programs on critical issues, including peace, conflict and development, water, food security, and humanitarian action

- launching and implementing, in partnership with the World Bank, the Virtual Colombo Plan to help overcome the digital divide between developing and developed countries.

#### Aid policy and management:

- creating a more effective and analytical aid agency with more resources devoted to the field, and more able to adapt to changing circumstances and deliver programs swiftly and effectively on the ground (for example, in the aftermath of the tsunami)
- adopting innovative methods of aid delivery, such as sector-wide approaches (for example, in the PNG health sector) and the Learning and Assistance Program for Islamic Schools in Indonesia, which are better aligned with partner government systems and adopt more responsive and flexible approaches
- bringing to bear the broader resources and expertise of the Australian Government to the development challenges of the region. The Treasury, the Australian Federal Police, the Attorney-General's Department and other Australian Government agencies now undertake major development roles alongside AusAID.

Notwithstanding the many strengths of the aid program, the announced doubling of aid volume will require new and coherent strategies — \$4 billion is a significant commitment by the Australian taxpayer and the Government needs a framework for applying these resources effectively over the next decade. Further, the regional environment in which Australia is providing aid is becoming more complex as new challenges and opportunities emerge, and there is a growing body of experience and research into what makes development and aid work. To maximise the impact of the increased volume commitment, the aid program needs to reflect these changes and the lessons that have been learnt.

This is the first time any Australian government has produced a White Paper on aid. It is also the first time any Australian government has announced a large and growing multi-year aid volume commitment. That this is being done now reflects the Government's commitment to the growth and stability of the countries in our region and the seriousness with which Australia takes its responsibility to assist those worse off.

The Government believes that the Australian public should be given a comprehensive account of its aid policy and spending. The various Commonwealth agencies involved in aid delivery need to be clear about Government and taxpayer expectations. Likewise, governments in the region will benefit from a clear articulation of Australia's aid policy and parameters: there must be no misunderstanding of the Government's commitment to the principles of aid effectiveness, good governance and reduced corruption as the basis for allocations of additional aid resources.



### 1.3 Australia's overseas aid program: our values and interests

Some in the community question why we have an overseas aid program, believing that Australia must choose between dealing with problems at home and providing assistance overseas to those worse off than us. The Government recognises that we must do both, that our aid program is a reflection of Australian values and Australian interests.

Global poverty is one of the most important economic and social problems facing our planet. More than 20 per cent of the world's population live in extreme poverty. Of the world's 50 'least developed countries' (LDCs), one quarter are in the Asia-Pacific region. This region also contains three of the world's four most populous nations — so even though a smaller proportion of the population lives in poverty or suffer from poor social indicators than in some other regions, huge numbers of people are affected. In Cambodia, one out of every ten babies born will die before its first birthday; in East Timor, almost half of all children under the age of five are so malnourished that their growth is permanently stunted; in PNG, life expectancy is only 56 years.

Our aid program, by responding to critical needs in our region, is a clear statement of Australia's values. It demonstrates our compassion, our generosity and our commitment to giving others much worse off than us a fair go. We are a country founded on individual human rights and equality of opportunity. We are strengthened by our cultural diversity. These values extend beyond our shores and are clearly reflected in our aid program. Australians are also practical, innovative and results oriented, and we value tolerance and mateship. These characteristics form our spirit as a nation.

Australia is a liberal democracy based on the values of political and economic freedom. We believe that every person — male and female — should be given the opportunity to raise their standard of living and to live in peace and security. Australians demand and expect efficient and accountable governments. We do not tolerate corruption and we believe that governments should be appointed and dismissed freely and fairly through the ballot box.

We focus our aid program on the Asia-Pacific region because we are committed to our neighbours and to their prosperity, safety and wellbeing. Australia's swift and generous responses to the Indian Ocean tsunami in 2004 and the earthquake in Pakistan in 2005 embody this spirit. The speed and generosity of these responses generated enormous goodwill, which has brought about greater understanding and stronger relationships between Australia and the affected countries.

However, our aid program is not just about responding once a disaster has occurred. We also believe in supporting people's self-reliance — building their capacity to stand on their own. This is why we have a strong and overarching commitment to long-term development and prosperity, and have placed our support behind the important global rallying call to increase efforts to achieve the MDGs.

Our aid program is a proud expression of all these values and characteristics, but it is also an expression of our own interests.

We believe that Australia's peace and prosperity is linked to that of our neighbours, particularly in our immediate region. These links are becoming deeper and broader, from both security and economic perspectives.

In a world that is increasingly interconnected, problems that cut across borders — such as mass movements of people, environmental problems, pandemics and terrorism — put further strain on development efforts.

The ability of our neighbours to generate economic growth, reduce poverty and maintain stability is therefore central to our own peace and economic wellbeing. More specifically, our neighbours' ability to manage borders effectively, to deal with transnational crime, terrorism and illegal people movement and to respond to outbreaks of infectious disease is not only vital for their own development, but also in Australia's national interest. Central to this is the sound functioning of our neighbours' key government institutions and their ability to provide equality of opportunity for both men and women, particularly the poor, to participate in the economy and raise their standard of living. Regional growth benefits Australia economically, through greater security and by providing a larger regional marketplace for Australia to trade and invest in.

Our aid program, as a means to advance these interests, is therefore an integral and important part of Australia's broader foreign policy and security agenda. Specifically, this White Paper is aligned with and adds to the Government's foreign policy White Paper of 2003, *Advancing the National Interest*.

We believe in hands-on, practical engagement with our partners, but not that aid alone can address the poverty and ills of our region. We believe that countries are responsible for their own development, driven by economic growth led by the private sector and by integration with the global economy. Developed countries, like Australia, can best assist developing countries by promoting global economic growth and by pursuing greater trade liberalisation. Well-targeted and effective aid can play an important complementary role, but will never be more important than growth and the significantly increased resources that flow from trade.



## CHAPTER 2

# Operating environment

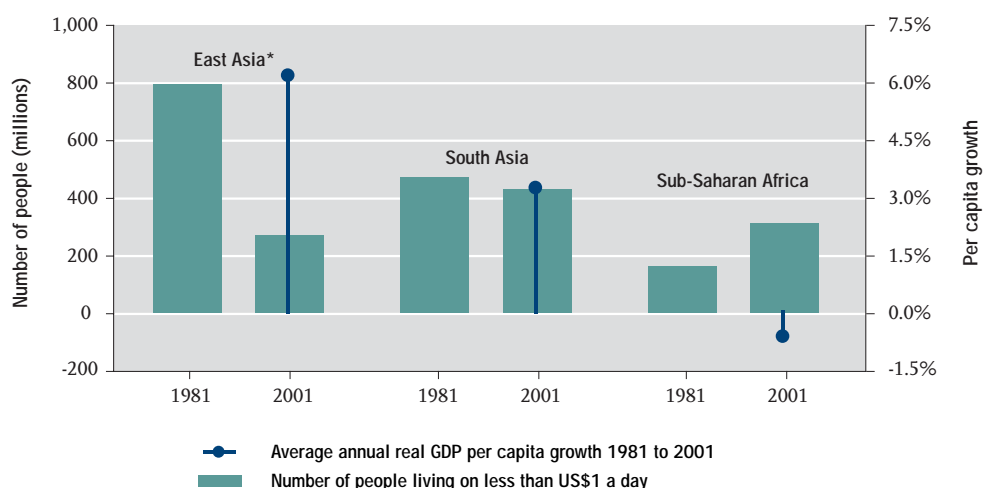


## 2 Operating environment

### 2.1 Development performance and prospects

Asia has seen remarkable economic growth and, as a result, rapid reductions in poverty. Some 520 million people were lifted above living on US\$1 per day in East Asia over the twenty years to 2001. The percentage of people living on less than US\$1 per day in East Asia dropped from 58 per cent in 1981 to 15 per cent in 2001 and from 52 per cent to 31 per cent in South Asia over the same period. This trend is continuing, fuelled by the rapid growth of China and India, and through capitalising upon greater opportunities for economic integration.

**FIGURE 1** Poverty and growth in Asia and Africa



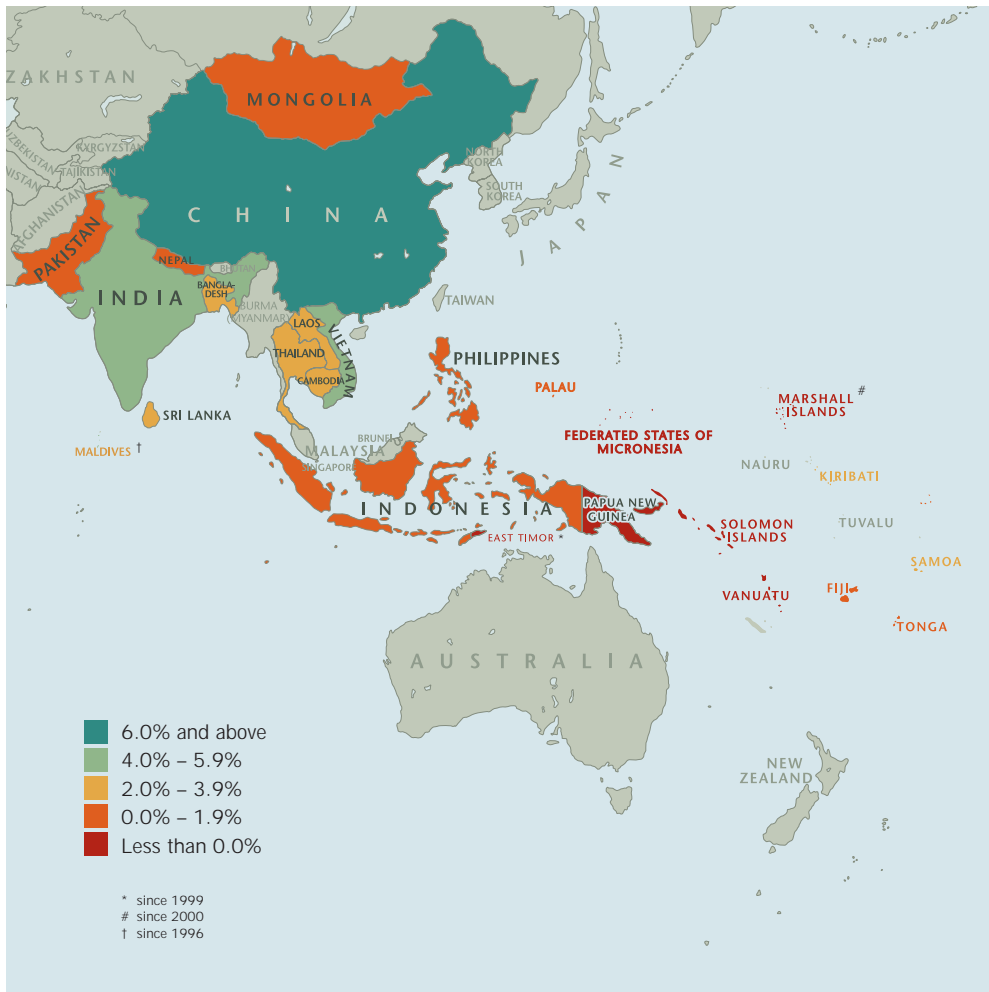
Source: Chen and Ravallion (2004) and World Bank Development Statistics Online.

\* The average GDP per capita growth figure shown for East Asia is the average for East Asia and the Pacific. Growth figures are based on GDP at constant 2000 US\$.

Despite this impressive performance, the Asia-Pacific region remains a poor part of the world. While Africa continues to be the most poorly performing region, including in its progress towards the MDGs, in Asia some 700 million people still live on less than US\$1 a day and 1.9 billion live on less than US\$2 a day, including over half the population of Indonesia. Asia is making progress towards meeting the human development MDGs, but much of the Pacific is not, and even in Asia there are no grounds for complacency. Many parts of the Asia-Pacific region, including PNG, much of the Pacific, East Timor, Indonesia and the Philippines, face serious challenges to achieving sustained growth and poverty reduction. Map 2 highlights the vastly varying economic growth rates of countries in the region over the past decade.



**MAP 2** Average annual GDP per capita growth  
in the Asia-Pacific region, 1995 to 2004



The disparities between the successful and the less successful parts of the region are expected to continue and possibly widen over the next ten years. The less well performing economies are likely to continue to struggle to take advantage of the opportunities afforded by greater global growth, particularly in China and India, and economic integration. Despite Indonesia's steady economic performance since the Asian financial crisis, and its even more impressive transition to democracy, the Indonesian Government faces serious challenges in generating the growth required to make significant inroads into poverty. Together with the Philippines, Indonesia also faces deteriorating competitiveness, due in no small part to deficiencies in physical infrastructure. PNG, East Timor and much of the Pacific lack the policies and institutions, as well as the human capacity and physical infrastructure, to capitalise successfully on regional growth. These countries pose a particular development challenge. Australia remains ready to work with Burma and the Democratic Peoples' Republic of Korea, but those countries are still politically and economically disengaged.

## 2.2 Regional challenges

### Stability and security

Social stability is one of the most important preconditions for sustained growth and poverty reduction. The poorest 20 per cent of the world's people suffer from 80 per cent of the world's civil wars. Experiences in Bougainville and Solomon Islands have shown the devastating impact that conflict can have on hard-won development gains. The links between security and development have never been clearer and are well expressed in the Government's *Peace, Conflict and Development Policy* (2001).

Regional stability over the next ten years will depend in part on how the great power relationships evolve between the United States, Japan, China and India and on how the region accommodates the economic and political rise of China and India. Apart from ongoing tensions between nations in such areas as the Korean Peninsula, Kashmir and the Taiwan Strait, there are also continuing intrastate tensions, such as those in the southern Philippines and parts of Indonesia. The Melanesian islands of PNG, Vanuatu, Solomon Islands and Fiji continue to be prone to instability. In all these countries, broad-based growth will be critical to shore up support for democracy and to promote stability.

Wherever the fear of terrorism exists, it will deter investment and employment generation. For example, the Bali bombings are likely to have a lasting impact on the island's economy, disproportionately affecting the poor who depend on tourism for their livelihood. While poverty is not a primary cause of terrorism, challenging economic prospects provide fertile recruiting grounds and, coupled with weak governance, havens for terrorist networks to flourish.

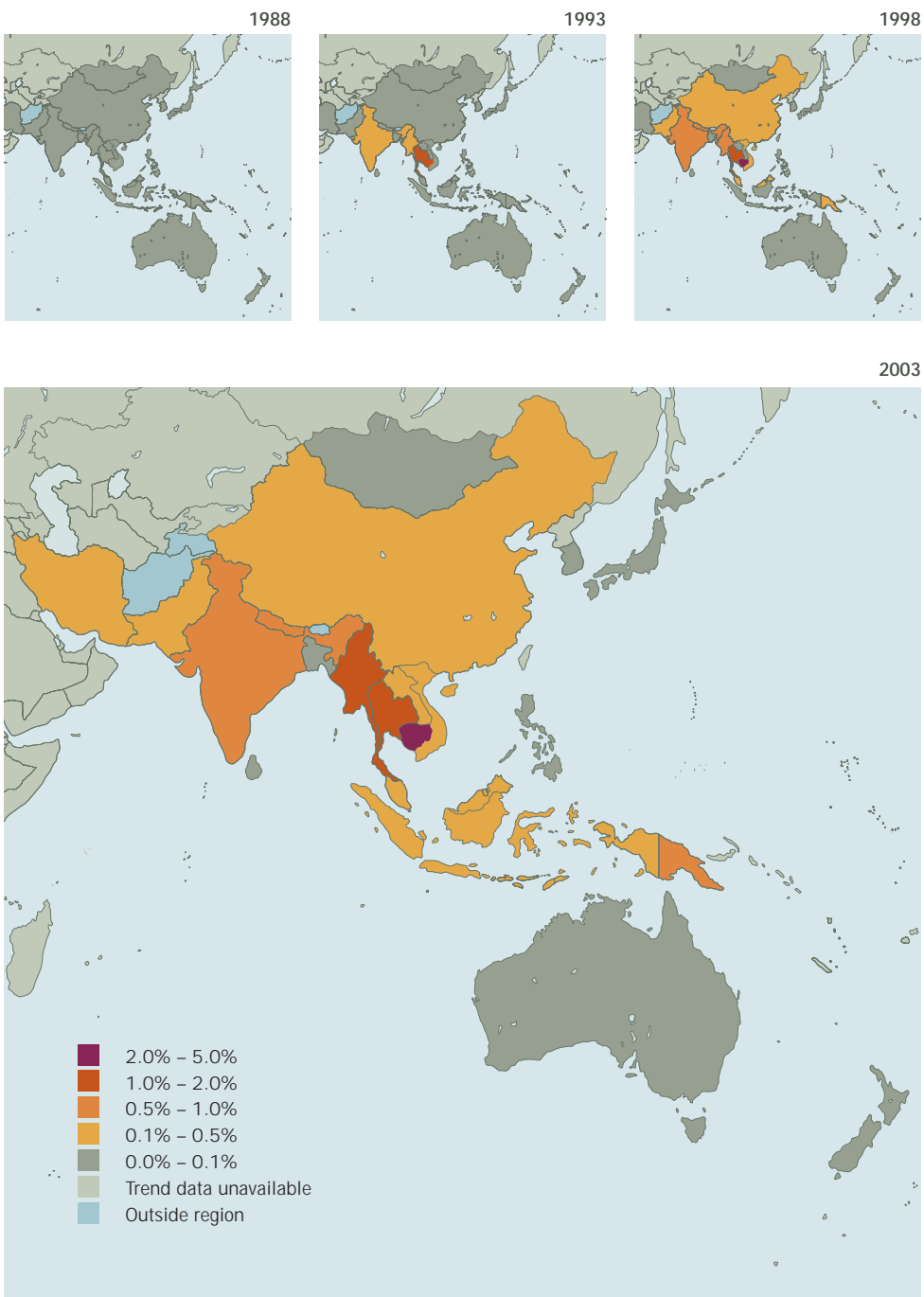
### Transboundary issues

Transboundary threats to the Asia-Pacific region's development and stability are growing. Because of its dense and rapidly growing populations, the region is among those most vulnerable to infectious disease and environmental degradation.

An estimated 8.3 million people are living with HIV/AIDS in Asia and the pandemic is spreading rapidly. The Pacific is also affected, with PNG presenting a particularly disturbing scenario. In the absence of vigorous and effective prevention responses, it is predicted that the Asia-Pacific region will account for 40 per cent of all new infections by 2010 — another 12 million people — threatening to make the region the new epicentre of the pandemic. Map 3 shows the prevalence of HIV/AIDS as a percentage of the adult population, and its rapid spread from 1988 to 2003.

Pandemics have immediate and dramatic impacts. The 1918 influenza pandemic killed one to two per cent of the world's population and many experts think the world is on the cusp of the next big pandemic. If one does break out, there is a strong chance it will do so in Asia. Estimates of the cost of the severe acute respiratory syndrome (SARS) outbreak range from \$13 billion to \$40 billion. Already, 70 per cent of emerging infectious diseases are zoonoses (diseases that can be transmitted from animals to humans). Continuing population growth, degradation of the natural environment and the intensification of animal production systems all increase the likelihood of zoonotic disease outbreaks. These factors also place a premium on preparedness and response capacities and the maintenance of animal health.

MAP 3 HIV/AIDS in the Asia-Pacific region — adult prevalence, 1988 to 2003



With rapid growth in Asia, environmental concerns are intensifying, not least through tensions over environmental degradation and access to natural resources. Competition for resources, including energy, is likely to grow. Water is often cited as a potential source of regional tension, such as over the use of water from the Mekong River. Urbanisation and pollution from rapid industrialisation are affecting environmental health and air quality. This is leading to a greater incidence of respiratory infections, as is transboundary haze from poor forestry practices in Southeast Asia. As well as having direct negative impacts, these problems can undermine public health, which in turn reduces opportunities for growth and development. Increasing demands for energy and resulting climate change will also become more important for development planning in the coming decades.

Asia is particularly prone to severe natural disasters. The 2004 tsunami and earthquakes in the Indian Ocean killed more than 275,000 people and caused up to \$19 billion damage. The recent South Asia earthquake killed 74,000 people and left 2.5 million homeless. China and Bangladesh suffer from regular and increasingly severe flooding. The Pacific continues to suffer from devastating cyclones, and their frequency and intensity may increase due to global warming. Managing and responding to natural disasters should be central to any development planning scenario.

### Demographic challenges

More than half of the world's population lives in Asia and the Pacific. This proportion is set to increase to 63 per cent by 2050, by which time the region's share of the global population over 60 will more than double, from 9 per cent in 2000 to 23 per cent by 2050. The challenge of an ageing population is particularly acute in Japan, but will also emerge in the next half century in China, Sri Lanka, Thailand and, indeed, Australia.

In contrast, many of the less economically successful countries in Australia's region have the highest population growth rates and are experiencing 'youth bulges'. East Timor has had one of the highest fertility rates in the world, with an average of nearly eight children per woman. PNG, Solomon Islands, Vanuatu and the Philippines also have youth bulges, as do tiny microstates such as Tuvalu. This will place a premium on generating employment-creating growth to avoid worsening poverty levels and growing social tensions.

The drift of populations to urban centres will continue. By 2015, Asia will be home to 17 of the world's 27 mega-cities. If urban population growth is not matched by employment opportunities and new industries, social instability is likely to increase. This is a risk for the Pacific as well as Asia. In Melanesia, the combination of youth bulges, urbanisation and lack of employment opportunities is leading to rising crime, particularly among young men. This combination of factors is also a source of political instability as disaffected youth are rallied to support real or perceived grievances. Atoll countries such as Kiribati are facing particular problems of 'jobless urbanisation'.

## Integration

The Asia–Pacific region is becoming increasingly interconnected. In Asia, economic integration is well under way. About 50 per cent of Asian trade is now within Asia. Several bilateral and regional trade agreements have been forged or are under negotiation. The imperatives of these trade arrangements, as well as World Trade Organization (WTO) accession and membership, are shaping policy and institutional reform throughout Asia. Subregional connections are also growing. For example, strong trade flows with China are creating an economic growth corridor along the Mekong.

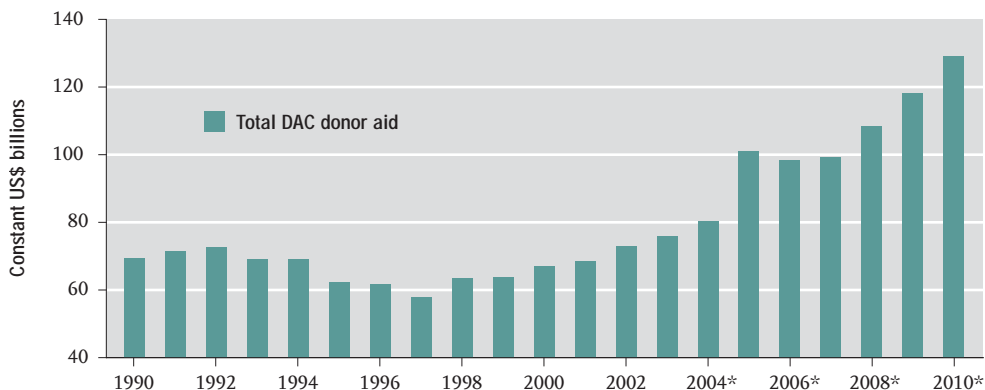
Political links are also increasing. China continues to look outwards and, apart from its growing political and economic influence, is emerging as a significant donor to the region (it is among the largest bilateral donors to the Pacific). India is looking to its east. The East Asia Summit has brought together the Association of Southeast Asian Nations (ASEAN) membership plus three (China, Japan and South Korea) with India, New Zealand and Australia. In the Pacific, initiatives such as the Pacific Plan are seeking to pool government resources and provide services on a regional basis.

## 2.3 International response to global poverty and development

There is now a heightened international awareness of the problems of global poverty and development. This springs from humanitarian concerns as well as a growing realisation that the problems of the developing world can quickly become the problems of the developed world. This awareness translated into the adoption of the MDGs at the UN Millennium Summit in 2000, setting out development goals for poverty alleviation, health, education and gender equality.

Most developed countries have announced significant increases in aid funding — global aid levels are expected to rise from US\$57 billion in 1997 to US\$130 billion by 2010. Development issues have been at the centre of major international meetings over the past several years, including the G8 Summit in 2005, leading to a number of major initiatives to tackle African poverty, debt and HIV/AIDS.

FIGURE 2 Global aid levels, 1990 to 2010



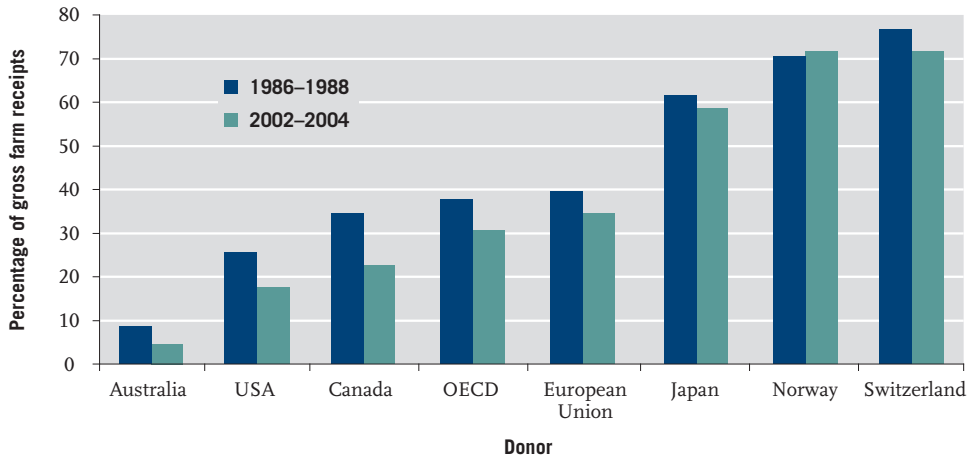
Source: DAC International Development Statistics (IDS) Online; OECD DAC Secretariat.  
 \* OECD DAC Secretariat projections.

Figures are Official Development Assistance (ODA) and are in constant 2004 US\$.  
 ODA refers to official government overseas aid expenditure. The OECD Development Assistance Committee (DAC) comprises 22 of the world's major bilateral aid donors.

The latest WTO round of multilateral trade negotiations has been labelled the 'development round', but progress to date has been disappointing. While the Government welcomes the recent announcements of global aid increases by many bilateral donors, the effectiveness of such increases will be undermined by continuing high levels of agricultural and other protection by both developed and developing countries. Trade barriers also directly contribute to the debt problems of developing countries because they reduce the capacity of those countries to service debt. While estimates vary of the impact that greater trade liberalisation would have on future poverty reduction, one thing is certain — substantial liberalisation has the potential to lift many millions out of poverty. For example, the World Bank estimates that the complete liberalisation of merchandise trade would lift an additional 32 million people out of poverty by 2015.

Australia is among the world leaders in reducing trade barriers to developing countries, and has progressively reduced trade subsidies for agriculture. Figure 3 shows the 'producer subsidy equivalent' (estimated support to agricultural producers, expressed as a percentage of gross farm receipts) for six countries, the European Union, and the Organisation for Economic Cooperation and Development (OECD) as a whole. The OECD annually assesses its member countries, using this as the principal tool for monitoring and evaluating agricultural policies. Australia's producer subsidy equivalent stands at just 4 per cent, in contrast to Norway's and Switzerland's at 71 per cent.

**FIGURE 3** Comparison of agricultural subsidies by country



Source: Producer and Consumer Support Estimates, OECD Database 1986-2004  
<http://www.oecd.org/dataoecd/49/27/35078982.xls>

## 2.4 Lessons learnt on development and aid

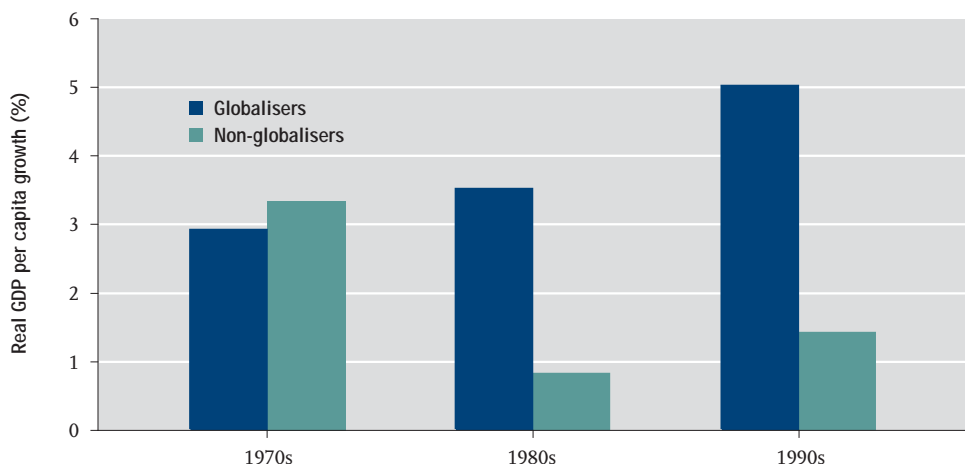
The heightened interest in and awareness of global development issues has also led to significant thinking about what makes countries successful and what makes aid more effective. Experience shows unequivocally that economic growth is the key to poverty reduction. This is illustrated by the contrasting experiences of sub-Saharan Africa and Asia, with the latter's consistently higher growth rates underlying its significantly more rapid poverty reduction (see Figure 1 at the beginning of this chapter).

It is also clear that countries that have integrated themselves into the global economy have grown more quickly than those that have not (Figure 5). In all countries that have sustained growth, the share of trade in gross domestic product has increased and trade barriers have been reduced. East Asia's economies, in particular, have been oriented outwards, and their impressive growth has occurred on the back of rapid trade integration.

This is not the whole story. Appropriate and effective institutions are essential drivers of long-term growth. Institutions that provide dependable property rights, manage conflict, establish macroeconomic stability, align economic incentives with social benefits and maintain law and order are an important foundation for long-term growth. There are various ways in which these general institutional pre-requisites for successful development can be met, but if they are not, growth will not be sustained.

This is best summed up in recent research by the World Bank. During the 1990s, many countries embarked on reform with the intention of fostering economic growth and reducing poverty. The results of those reforms were mixed: some achieved sustained growth with only modest reforms, while others failed to make gains despite extensive reforms. The analysis identified a clear link between sustained growth and macroeconomic stability, openness and a supportive business and investment climate, but it also highlighted the importance of tailored strategies that address a particular country's binding constraints as well as economic, social and political dynamics.

FIGURE 4 Growth records of globalising and non-globalising countries



'Globalisers' represent the top third of a group of 72 developing countries for which data was available, ranked by increases in their trade to GDP ratio between the mid-seventies and the mid-nineties. 'Non-globalisers' are the two-thirds with the least increase in their trade to GDP ratio.

Source: Dollar and Kraay (2004)

While growth is essential for poverty reduction, it is not necessarily sufficient. Some countries with rich resource endowments, such as Nigeria, Sierra Leone, PNG and Nauru, have experienced periods of high economic growth without notable improvements in living standards. Providing opportunities for people to participate in growth is critical. In some countries this has been done through land reform, in others by the wide provision of basic education and health services and by the pursuit of gender equity. The 2006 World Development Report emphasises the importance of equity for development, arguing that greater equality of opportunity for all citizens would not only provide poorer groups with more opportunities but would also accelerate aggregate growth.

Australia has also learnt important lessons on aid, both from its own experiences in Asia and the Pacific, and from other countries' experiences. Chief among these lessons are the following.

- Aid is only a small part of the growth and development picture. Developing country policies and institutions are more important. Other developed country policies are also critical, particularly trade policies.
- Well-targeted aid can be effective, but poor aid can do harm. It can undermine capacity, create dependency, absolve governments of their responsibility for the delivery of services and encourage rent seeking. Large inflows of aid can hurt exports by causing an appreciation of exchange rates (so-called 'Dutch disease').
- Building capacity for improved performance may take generations and expectations of aid must be realistic.
- For reform to be successful and sustained, it has to be driven by local champions.



- Approaches to improve governance must understand the local political context and, particularly in non-reform environments, support is best provided to help local people express their own demands for better services and performance.
- Alignment and integration of aid delivery with the developing country's own systems and policies is more likely to lead to sustainable results.
- Aid donors need to better coordinate and harmonise programs with each other to reduce fragmentation and transaction costs for developing countries.
- Greater emphasis needs to be placed on the evaluation and impact of aid programs, and the lessons should be fed into future policies, strategies and programs.

## 2.5 Fragile states

Many of the above lessons are also relevant to poorly performing or fragile states, but such countries require special and differentiated approaches — they tend to stay fragile for a long time, and experience suggests that they have little chance of improvement without outside intervention. Traditional aid approaches have often failed to deliver the expected outcomes because state policies and institutions are too weak to be able to mediate between competing interests and drive forward development-oriented programs of reform. Too often, the weak institutions of fragile states are unable to coordinate donors effectively. Therefore, the international community has sought to identify new, non-traditional ways to provide and coordinate aid in these environments.

The term 'fragile state' encompasses a wide variety of different circumstances, from post-conflict situations to protracted crises and stagnation, so assistance must be carefully calibrated to the individual country's circumstances and recognise the particular constraints of capacity and political will. Assistance needs to be flexible to take advantage of windows of opportunity and respond to changing conditions, but the low capacity of fragile states and the extent of challenges facing them mean that assistance is likely to be needed over decades. The long-term vision for international engagement must be on state building through support for increased capacity, legitimacy and accountability and for an enabling environment for economic growth. Further, the interdependence of the political, security, economic and social spheres requires policy coherence within the administration of each international actor.

Australia's engagement in fragile states in this region reflects these principles. Australia is taking a more systematic and longer term approach to state building that recognises that severe capacity constraints need a range of innovative responses. The Regional Assistance Mission to Solomon Islands (RAMSI) demonstrated the importance of a comprehensive approach to the law and justice sector — restoring law and order was fundamental, but policing interventions by themselves could not be sustained without functioning courts and corrective services. Community support for RAMSI has been strong — popular support is critical for successful reform and needs to be nurtured, including through support for initiatives with clear community benefits such as the restoration of health clinics or the reopening of schools.

## 2.6 Implications

Australia's aid program will need to take into account the continuously changing regional context in which it works and the lessons learnt about development and aid. The next chapter outlines the way Australia will position the aid program to deliver increased aid resources effectively.



CHAPTER 3

## Strategic framework



There is a danger that developed countries' aid programs can become diffuse, unfocused and uncoordinated — a long menu of disparate interventions that try to be all things to all people. The Government took decisive steps to bring some long overdue cohesion to the aid program in 1997 through the *Better Aid for a Better Future* policy statement. This has served Australia well.

However, with the increasing complexities and regional uncertainties of the environment in which Australia provides its aid and the goal of doubling aid volume by 2010, it is necessary to update the Government's aid strategies. This will also require more clarity for the increasing number of Australian Government agencies and other private, academic and not-for-profit organisations becoming engaged in aid delivery. This White Paper provides a clear strategic framework that will guide the direction and delivery of Australia's aid program over the next ten years. It takes into account the regional development context, reflects lessons learnt about development and aid, builds upon the aid program's achievements and embodies those values and characteristics that Australians expect of their aid program.

The framework consists of an overarching objective, four program themes around which the Government will organise its aid implementation and four strategies to ensure even greater effectiveness of Australian aid (see also Chart 1). The Government has provided a clear geographic focus for the aid program since 1997: the Asia-Pacific region. This has been recognised internationally as sensible and appropriate and the Government does not propose changing this focus. Australia will continue to be a leading donor to the region (Chapter 4 outlines the geographical priorities in more detail).

### 3.1 Objective

The overarching objective of Australia's aid program over the next decade is:

*To assist developing countries to reduce poverty and achieve sustainable development, in line with Australia's national interest.*

The wording used in the 1997 statement of the aid objective has been rearranged to overcome consistent misperceptions that the reference to the national interest implied a narrow sense of self-interest, somehow in possible conflict with the goal of poverty reduction. It did not have that meaning and never will. This Government has always held the view that an effective and well-targeted aid program, focusing on the alleviation of poverty and the promotion of sustainable development, is clearly in the national interest. This view is even more relevant today, as the links between regional development and Australia's national interest become increasingly intertwined. The objective has therefore been reworked to leave no doubt about the Government's intentions. The objective also demonstrates Australia's strong and unstinting commitment to the global effort to achieve the MDGs.

### 3.2 What the aid program will focus on

The aid program will be organised around four interlinked themes:

- 1) accelerating economic growth
- 2) fostering functioning and effective states
- 3) investing in people
- 4) promoting regional stability and cooperation.

**Growth** is placed as the first of the four organising themes to stress that, without growth, sustained poverty reduction will not be possible. Fostering **functioning states** is critical because the evidence points increasingly to appropriate and effective machinery of government as a bedrock of prosperity. **Investing in people** provides the opportunity for all citizens, especially the poor, to participate in the economy. Promoting **regional stability and cooperation** is becoming increasingly important in a world which is ever more integrated, and in which cooperation between nation states is required to tackle the rising level of trans-boundary threats and to seize the opportunities offered by economic integration.

Australia's aid program will remain selective in order to maximise its impact. It cannot be all things to all countries, or even to one country. The development of whole-of-government country strategies, coordinated by AusAID, will be the critical means for determining the focus of Australia's support to particular countries under the four themes, taking into account individual country circumstances, priorities and other donor programs.

### 3.3 How Australia will deliver its aid

The Government is committed to maximising the effectiveness of the aid program and is unequivocal that the doubling of Australian aid by 2010 must be subject to assurances of its effectiveness. Australian aid already does many things well. AusAID has an international reputation for responsiveness, pragmatism and flexibility. Most importantly, it has a solid reputation for achieving results.

Over the past decade, the Government has strengthened the aid program's accountability, performance and evaluation. Nevertheless, there is always scope for improving effectiveness. Four strategies will be pursued towards this end:

- 1) strengthening the performance orientation of the aid program
- 2) combating corruption
- 3) enhancing Australia's engagement with the Asia-Pacific region
- 4) working in partnership with regional governments and other donors.

This strategic framework is based on Australia's own development experience and analysis, and represents a distinctly Australian take on aid policy and implementation. The Government believes that this approach will maximise Australia's aid contribution to helping countries grow and accelerate their progress towards the MDGs.

### 3.4 Working with developing country partners

A fundamental tenet of the aid program is that Australian assistance is jointly agreed and implemented with Australia's developing country partners. This will not only continue but will be enhanced. Experience demonstrates that aid programs that are aligned with partner government priorities, are championed by local people, involve beneficiaries in design and implementation, and are aligned with partner government budgets and systems are more likely to be sustainable and effective than those that are not. This will require an acceleration of the change to more inclusive ways of working and different implementation arrangements, both of which the aid program has begun to adopt over recent years.

### 3.5 Gender equality

Of particular concern is ensuring that Australia's aid program makes a real contribution to achieving greater gender equality in development. Gender equality is integral to growth, governance and stability. While gains have been made, gender inequalities in health and education are still striking. Two-thirds of the 800 million people in the world who lack basic literacy skills are female. Girls are twice as likely as boys to die from malnutrition and preventable diseases, and half a million women die each year from complications during pregnancy — 99 per cent of them in developing countries. Investments in women's and girls' education and health yield some of the highest returns of all development investments, including reduced rates of maternal mortality, better educated and healthier children, and increased household incomes.

Gender equality extends beyond improving female health and education. It includes access to economic resources, participation and leadership in decision making, the human rights of women and efforts to eliminate discrimination against women. Achieving gender equality requires a focus on both men's and women's roles.

Gender equality is a consideration that will apply across all aspects of the strategic framework.

### 3.6 Australian aid will be untied

Australia's overseas aid will be untied. Removing restrictions on countries, allowing organisations based there to bid for contracts to supply goods and services to the aid program, is widely accepted as a way of improving aid effectiveness and efficiency. It increases partnerships between donor and partner governments, strengthens partner country ownership and achieves greater value for money through better competition. The World Bank estimates that untying aid reduces the cost of goods and services by between 15 per cent and 30 per cent, and by as much as 50 per cent for food aid.

Australia has been an active participant in international debate and discussion on untying aid and has moved progressively in this direction. In 2001, in line with other OECD donors, Australia untied some aid components to least developed countries (LDCs). By January 2005, it had forged ahead of many other donors by untying the vast majority of its aid to LDCs and also by ensuring that firms in countries receiving aid could bid for Australia's aid program contracts. The latter policy supports increased local participation in development assistance activities and contributes to the development of local markets. Australia will now go further and untie its future aid contracts.

Untying Australia's aid is consistent with the Government's emphasis on improved effectiveness, efficiency, accountability and value for money. It will expand the pool of expertise that Australia can access as the aid program is scaled up over the medium term. Untying Australian aid is also firmly in line with the Government's longstanding commitment to openness in trade and competition. It places Australia at the forefront of international best practice, alongside the United Kingdom, Ireland, New Zealand and the Nordic countries. Untying also removes the current inconsistency between aid program procurement and the Commonwealth Procurement Guidelines.

The European Union recently passed legislation that provides for untying aid procurement on a 'reciprocal basis'. Untying Australia's aid program will therefore have the added benefit of allowing access for Australian firms and individuals to the massive European Union aid procurement market of about \$12.7 billion per year (€8 billion).

The Government's progressive moves in untying the aid program have been in close consultation with Australian industry partners and there has been striking enthusiasm from industry for the introduction of a total untying policy. Many Australian companies that focus on development assistance activities have already benefited from international untying.

The Government believes that untying will not result in a reduced Australian identity for the aid program. There are far more sophisticated and effective means of promoting Australian identity. The United Kingdom's Department for International Development untied its program in 2001, yet has perhaps the highest recognition and profile of any bilateral donor. Through the implementation of the policies outlined in this White Paper, Australian aid can have a similar level of recognition in the Asia-Pacific region.





CHAPTER 4

## Where Australia will work, and why



## Where Australia will work, and why

Over the past ten years, Australia has focused its aid on the Asia–Pacific region. This has been a deliberate policy — focused effort is required to strengthen impact. The Government will continue to concentrate its efforts to be effective; this cannot be done if Australia’s work is spread across too many regions.

Australia’s leadership has been required to respond to a range of emerging issues and unforeseen events affecting the region, including natural disasters (particularly the Indian Ocean tsunami), the Asian financial crisis, the rise of HIV/AIDS and other pandemics, and failing governance and instability, particularly in the Pacific.

Australia’s aid focus on the Asia–Pacific region, which was supported by a recent review of the aid program by the OECD, will continue. The reasons for maintaining this focus are as follows.

- The region faces considerable **challenges to its development**. It is home to the greatest number of poor; disparities are increasing between and within countries; it is susceptible to the development of new pandemics; competition for resources is intensifying; and a number of countries are navigating through the critical early stages of democracy.
- Australia shares with its neighbours a close interest in promoting **regional stability and prosperity**. This can best be assured if all countries in the region grow economically, reduce poverty and are managed effectively and if there is a high level of regional cooperation.
- Australia’s aid can capitalise and build upon the deep political, economic, security and people-to-people **links** between Australia and the region. These are becoming more important as the region grapples with an increasingly complex development agenda.
- Australia’s aid focus **complements the efforts of other donors**, who are concentrating on Africa and who are looking to us to enhance Australia’s regional leadership role. Australia is a world leader on development in Asia and the Pacific.

The organising themes and effectiveness strategies (outlined in Chapter 3 and explained in more detail in Chapters 5 and 6) will guide the Government’s country and regional development strategies. However, some broad policy directions will be adopted for the countries and regions in which Australia invests. These are outlined below.

### 4.1 Asia

The key development challenges facing Asia are in sustaining and sharing growth and managing threats. To sustain growth, Asian countries will need to overcome infrastructure constraints, advance microeconomic reform, strengthen their market orientation and build their human capital. They will also need to manage critical environmental challenges. To share growth, the lagging regions of Asia will need to catch up, and income gains need to be translated into better health and education outcomes. To manage threats, Asia will need to be alert to a range of risks, from pandemics to human trafficking.

Australia's aid to Asia will remain small relative to the size of many Asian economies. Outside East Timor and Indonesia, Australia's aid plays a strategic role. To maximise impact, Australia will provide aid to help its partners address their central challenges, and will be smart about how it uses aid. Emerging needs and priorities will inevitably alter the shape and level of Australia's assistance to Asia. Done properly, the aid program will reap rewards beyond the financial value of the contribution.

### Indonesia — a long-term commitment

Assisting Indonesia to meet its development challenges requires a long-term commitment in a number of key areas. Investments designed to help Indonesia cement its democratic institutions and build security and prosperity are good for poverty reduction and clearly in Australia's national interest. The \$1 billion AIPRD initiative underlined this commitment.

Australia will maintain high levels of assistance to Indonesia and continue to extend support for infrastructure, basic education, health and HIV/AIDS, rural development, and small and medium enterprise growth. The Government will work in partnership with Indonesia to plan and design carefully a number of large-scale development investments to follow the AIPRD.

### Philippines — strengthened engagement

The Government assesses the development challenges of the Philippines as particularly serious. The Philippines is falling behind in international competitiveness, governance remains weak, and instability is a concern, particularly in the south. Economic management in the wake of the Asian financial crisis has not been as strong as in Indonesia. The public debt to GDP ratio of the Philippines is still around 100 per cent, whereas Indonesia's has been almost halved. Further deterioration in the performance of the Philippines economy would have serious implications for the people of that country, some 46 per cent of whom live on less than US\$2 a day, and could lead to greater instability. Such an outcome would also have wider regional impacts through greater people movement and transnational crime and, potentially, by creating an even more conducive environment for terrorist networks.

Efforts towards development in the Philippines will be intensified. More analytical resources will be devoted, and research and policy dialogue — particularly in conflict management, reconstruction and nation building — will be stepped up. Increased financial resources will be sourced mainly through the health, education, infrastructure and incentive initiatives, as outlined in Chapter 5. The sheer scale and the nature of the issues confronting development in the Philippines will require Australia to work closely with the multilateral development banks and other major donors, such as the United States and Japan.

### Southeast Asia — a focus on lagging and vulnerable regions

Australia will place a particular focus on Asia's lagging and vulnerable regions, especially the southern Philippines and eastern Indonesia, given their high rates of poverty. Australian aid will aim to improve governance and support community-based development. To overcome basic infrastructure bottlenecks, Australia will consider support for employment-intensive public works schemes. In this regional context, helping to strengthen security and prosperity in the East ASEAN Growth Area (90 per cent of the population of which lives in eastern Indonesia and the southern Philippines) will be a significant focus of this work. Australia will collaborate closely with regional institutions, the multilateral development banks and key donors.

The Mekong region will remain a focus for the aid program. Thailand, Vietnam and southern China are all growing rapidly. Vietnam has had great success in reducing poverty and there is potential to support Vietnam's acceleration to 'aid graduation' over the coming years, particularly through incentive-based approaches. The Mekong region also contains vulnerable countries such as Cambodia and Laos. The Government will support programs to strengthen the region's integration, in partnership with the multilateral development banks because of the magnitude of the task. As circumstances permit, opportunities to improve the humanitarian situation in Burma will be pursued.

On 12 January 2006, Australia and East Timor signed a treaty establishing a framework for the exploitation of Timor Sea oil and gas resources, including equal sharing of future revenues. The additional revenue to East Timor provided for under this treaty will help secure development and economic prosperity for one of Australia's closest neighbours. Australia will assist East Timor to build the institutions and policies it needs for the effective utilisation of the future oil and gas revenues.

### India and China — engaging with the regional powers

While China and India are developing countries, they are in a different category from others in the region. Australia will not have a role in financing their development, but they remain of great strategic importance to Australia and to the region's development. The aid program will maintain an engagement centred on core shared priorities and areas in which Australia has particular skills and expertise. This will include HIV/AIDS, clean energy, trade and transboundary threats. One important part of this engagement will be through scholarships targeting future leaders. In India, Australia will pursue partnerships (including delegating responsibility for the delivery of Australian aid) with other key donors, such as the World Bank and the United Kingdom's Department for International Development, to take advantage of their support and on-the-ground knowledge and capacity. Australia will also seek opportunities for cooperation with China in the Pacific, as China's regional aid presence is now significant and growing.

### South Asia — selective partnerships

Australia has expanded its engagement with Pakistan through a new scholarship program and an \$80 million contribution to the post-earthquake reconstruction effort. With Asian poverty increasingly concentrated in South Asia, and with South Asia increasingly integrated with East Asia, Australia will look to expand its engagement in other South Asian countries, particularly Bangladesh, focusing on functioning states and education initiatives, and appropriate regional programs. This engagement will be shaped around specific issues such as education, in order to avoid dissipation of effort. Channelling support through other donor programs and mechanisms will be explored to maximise impact and reduce fragmentation.

## 4.2 PNG and the Pacific

The Government is deeply concerned about the future of the Pacific region, in particular Melanesia and some of the microstates (for example, Nauru). While some countries are performing better than others, in the absence of improved domestic government performance and sustained economic growth the likely future for the region is one of deteriorating services and increasing levels of poverty. On top of this, HIV/AIDS is now stalking PNG, and will devastate the country if left unchecked.

Small states can perform better if they are integrated with the global economy. Integration of the Pacific island economies will require policies to promote trade, investment and competition. It will also require better functioning governments, higher levels of human development, and more extensive infrastructure. Even with the best policies, however, a number of the small island states will continue to be dependent on aid for many decades to come.

In comparison with its role in Asia, Australia is a big and normally the lead donor in PNG and the Pacific. Aid can help promote economic integration and reform, and Australia will use integration as a key reference point for aid in the Pacific region. To date, much of Australia's effort has been delivered bilaterally; however, Australia will increase support for regional governance solutions in the Pacific, as championed by the Prime Minister at recent meetings of the Pacific Islands Forum. Support will also continue for the pooling of functions to promote efficient and transparent provision of services.

Part of the integration agenda is labour mobility and migration. The aid program will be used to provide skills training for Pacific Islanders to enable them to broaden their employment opportunities both domestically and overseas. This is the thrust of the Prime Minister's announcement, in October 2005, that Australia will establish a technical training college for the Pacific (see page 39). Further analysis and research will be undertaken on the relationship between migration and development, especially in the Pacific. Australia's current policies migration in this regard will not change.

Expectations of development in the Pacific need to be realistic. Sustained 3.5 per cent growth in PNG (the average of the past three years) to 2025 would see GDP per capita at similar levels to the early 1990s, with most of the population surviving on less than US\$2 a day. In Solomon Islands, the 4.4 per cent real GDP annual growth achieved since 2003 would need to continue to 2025 for GDP per capita to reach the same level as in 1980. History suggests that such sustained high growth rates are unlikely in either country. The outlook for the microstates in the Pacific is even bleaker.

Australian aid to the Pacific will continue to operate within very long timeframes. Change will be slow and incremental, and Pacific partner governments will be set up to fail if demands for reform and progress are framed merely in the short term. The Government remains committed to working with its Pacific partners in support of their own sustained reform agendas and will not walk away with the job partly done. However, governments in the region should not expect that Australia will simply continue to provide unlimited assistance. Australia will help, but the Pacific island governments must face and tackle poor governance and corruption. And they must do it urgently.

### PNG — a performance-based partnership

Successive Australian governments, as a matter of deliberate strategy, have substantially reduced the allocation of aid to PNG in real terms since independence. Taking into account high population growth, Australian aid per capita is roughly one sixth of its 1975 levels in real terms. At the same time, Australia is committed to seeing PNG develop. While the proposed oil and gas pipeline between PNG and Queensland has the potential to provide much-needed revenue, particularly as existing projects come to an end, it is clear in PNG and elsewhere that resource windfalls do not automatically translate into broader growth and development gains. Significant effort and investment are required on governance, and additional aid will be needed to finance the increased emphasis on investing in people and supporting the drivers of growth, such as infrastructure, skills training and rural development. It will also be needed to tackle the HIV/AIDS emergency, which demands a crisis response, including through treatment.

However, an increase in aid will not be effective, and may even be counter-productive, if it is not accompanied by real reform and continued improved performance by the PNG Government. The Australian Government will put in place arrangements for a potentially substantial performance-based increase in the allocation of aid to PNG. This will be incorporated as part of the country strategy now under development.

### The Pacific — integration, regional approaches and incentives

Aid allocations to the Pacific have increased substantially in recent years and do not warrant wholesale increases. Australia will continue to focus on the Melanesian countries of Solomon Islands and Vanuatu, which require sustained support and where expectations should have a long-term timeframe. Additional support will be provided to implement new regional initiatives, such as skills training (see page 39), implementation of the Pacific Plan (see page 56) and related regional governance initiatives. Australia will remain ready to support improvements in performance in the Pacific with additional funding and to respond in the event of instability or other crises. While maintaining law and order in Solomon Islands is a priority, the expatriate police force will be reduced gradually as conditions allow, and some of the released funds will be redirected to economic and social investments. Australia's commitment to the development and prosperity of Solomon Islands is long-term and unstinting. Much has been achieved since 2003, but the focus of activities will continue to shift from stabilisation to ensuring long-term growth, development and stability.

Vanuatu, despite some political instability, has managed to maintain a commitment to and make progress in implementing some of the core elements of its Comprehensive Reform Program. This has been recognised by the United States Government's allocation of US\$65 million over five years from the performance-based Millennium Challenge Account. But high population growth and weak political governance continue to threaten progress. Fiji has enjoyed greater economic prosperity than most Pacific countries but faces serious challenges, particularly in the contracting sugar and textile, clothing and footwear industries. Prospects of political instability are seen by many as a potential brake to further investment and development. Australia will maintain a very strong commitment to supporting both Vanuatu and Fiji. Similarly, the aid program will continue to support good governance and growth policies in Samoa and Tonga, though recent Tongan Government decisions have brought into question its commitment to economic and public sector reform.

## 4.3 Africa and the Middle East

### Africa

Australia plays an important niche role in Africa. Australia's record in responding to humanitarian needs is strong, and the aid program has relevant knowledge to offer, particularly from its experience with the challenges of fragile states, trade policy and HIV/AIDS. Australia's contributions to multilateral organisations, the World Bank, and the Heavily Indebted Poor Countries initiative constitute a significant investment in Africa. Given Australia's capacity limits and the need for selectivity, enhanced support for Africa will be provided primarily through an expansion of support through multilateral channels and delegation to key bilateral donors. The Government does not believe Australia should substantially increase its bilateral role as a development partner in Africa. This is not to dismiss Africa's development challenges — they are compelling — but recognises that, given the global concentration of donor effort in Africa, Australia is better placed to focus on its own region. Australia will, however, maintain a pragmatic engagement with Africa, based on humanitarian programs and on issues of shared interest. Sharing knowledge, lessons and insights from developments in Africa is of special interest for Australia's efforts in the Pacific islands and fragile states. The Government will look to develop common approaches and programs with South Africa in southern Africa.

### Middle East and Afghanistan

Conflict in the Middle East is of global significance and its resolution of critical importance. Nowhere is the complexity and impact that security has on economic and social development more evident. Australia's aid effort in the Middle East has consisted of ongoing humanitarian and peace-building efforts in the Palestinian Territories, and responses to conflict situations in Iraq and Afghanistan. The Government has a strong track record of managing the aid program to ensure flexible responses to emergencies and, where required, contributions to international initiatives — the reconstruction effort in Afghanistan is a prime example of this. This capacity will be maintained and enhanced.





## CHAPTER 5

What the aid program will focus on



# What the aid program will focus on

As outlined in Chapter 3, the aid program will focus on four interlinked themes:

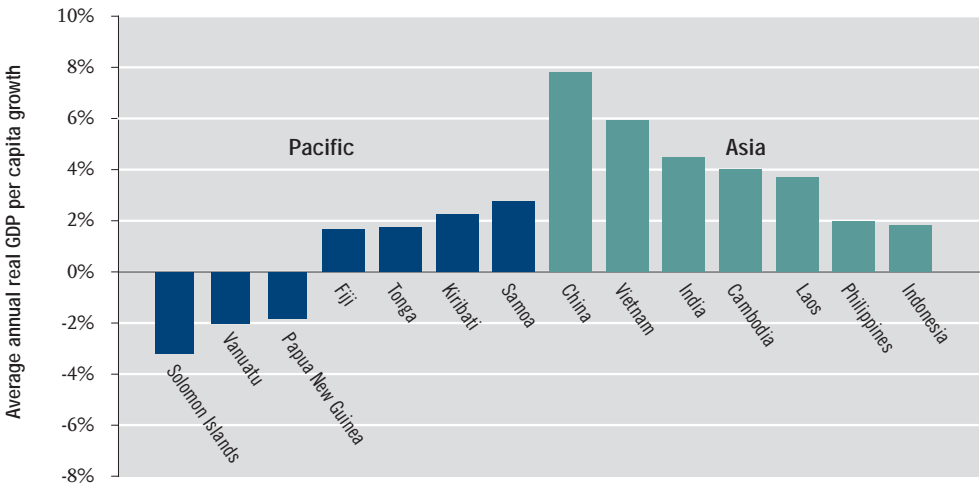
- 1) accelerating economic growth
- 2) fostering functioning and effective states
- 3) investing in people
- 4) promoting regional stability and cooperation.

These themes and major initiatives that will be pursued under each are described in more detail below.

## 5.1 Accelerating economic growth

The Government believes that generating broadly spread and sustainable economic growth is the single most important objective for Australia’s region over the next ten years. Underlying the impressive export-led growth of the Asia–Pacific region are severe disparities between and within countries. These are likely to grow over the medium term if current trends continue.

FIGURE 5 Growth in Asia and the Pacific, 1995 to 2004



Source: World Development Indicators Online; figures based on GDP at constant 2000 US\$.

Many countries in Australia’s immediate region, such as Indonesia and the Philippines, need to generate sufficient growth to make inroads into poverty and reinforce the legitimacy of their democratic governments. Indonesia has made impressive efforts in macroeconomic

management since the Asian financial crisis and in committing to address corruption. However, both Indonesia and the Philippines face serious issues regarding competitiveness. This is highlighted in Figure 6, which ranks Malaysia (a country that has ‘graduated’ from Australian aid), Indonesia and the Philippines among 60 countries on the basis of their competitiveness on government and business efficiency and on physical infrastructure. Indonesia and the Philippines compare poorly on all measures, particularly on infrastructure where they rank last and second last respectively. Growth needs to be employment-intensive and also encompass regions that are currently lagging, in order to shore up stability and reduce poverty. To be sustainable, growth needs to confront a number of environmental challenges, such as scarcity of and competition for water resources, climate change, and widespread abuse of and non-compliance with environmental regulations. Australia will support policies and programs to generate increases in aggregate growth and, in special circumstances, target groups and regions that, for whatever reason, are not benefiting from broader growth gains.

**FIGURE 6 Competitiveness rankings of Malaysia, Indonesia and Philippines among 60 countries**

<b>Malaysia</b>		2001	2002	2003	2004	2005
Economic Performance		27	9	29	25	16
Government Efficiency		18	24	19	14	16
Business Efficiency		25	31	24	18	13
Infrastructure		32	35	31	31	30
<b>Philippines</b>		2001	2002	2003	2004	2005
Economic Performance		33	40	34	43	37
Government Efficiency		34	35	32	38	42
Business Efficiency		31	36	40	48	49
Infrastructure		42	43	47	56	59
<b>Indonesia</b>		2001	2002	2003	2004	2005
Economic Performance		40	37	42	51	55
Government Efficiency		37	47	46	56	54
Business Efficiency		43	44	49	57	58
Infrastructure		46	48	48	59	60

Best 1–15

16–30

31–45

Worst 46–60

Source: World Competitiveness Yearbook 2004, International Institute for Management Development and Draft Regional Cooperation Strategy Program, Southeast Asia Region, Asian Development Bank, March 2005

The aid program has an impressive record in supporting growth in the region over the past decade. One study of the economic impact of the Australian aid-funded My Thuan Bridge in Vietnam, completed in 2000, estimated that it led to the creation of around 30,000 new jobs per year in the Mekong Delta, in the tourism, transport and industrial sectors in its first three years. In PNG, Australia’s support has been critical for the Highlands Highway — the economic backbone of the country. The highway is estimated to have an area of influence of 1.9 million people (40 per cent of the country’s population). Approximately 69 per cent (by value) of all PNG imports are handled through the port of Lae and transported to the highlands region via the Highlands Highway, which also enables the delivery of essential services such as health, education, and law and order.

More can be done to promote the drivers of growth, such as infrastructure, skilled workforces and rural development, as well as to promote the environment for growth as part of the governance agenda.

Growth has to be driven by the private sector. Governments need to address the binding constraints to private sector development, such as infrastructure bottlenecks and thin credit markets. Developing countries, and especially fragile states, cannot rely on governance reforms alone to drive growth. Reforms take a long time to deliver, and many of Australia's neighbours need to generate growth much sooner to provide employment for growing populations and to underpin stability. However, growth can be a powerful additional force for improved governance.

Under the theme of accelerating economic growth, the aid program will focus on a number of key approaches and initiatives. These fall under the categories of improving the policy environment for growth, promoting trade, supporting drivers of growth and addressing environmental challenges to sustained growth.

#### i) Improving the policy environment for growth

Australia has invested significant resources over the past decade to help developing countries improve the policy and regulatory environment for growth. The aid program will continue to promote environments conducive to private sector development, including by promoting competition and cutting red tape. In Vietnam, Australia supported the implementation of a new enterprise law. Since the law took effect in 2000, 80,000 new private enterprises have been created and over one million new jobs generated.

Few countries in the region, especially in the Pacific, have clear, costed strategies for improving their economic growth. Accordingly, in collaboration with other donors, Australia will assist countries to develop meaningful, costed, growth strategies. Further, Australia will undertake analysis to understand better the binding constraints to growth in order to focus efforts most effectively.

Strengthening property rights is fundamental to improving development prospects. In Asia, AusAID has had considerable success in this area through land titling programs, but has had less success in the Pacific, where the problem is more pressing and more controversial because of widespread customary land ownership. There is, however, an emerging consensus that a 'middle way' has to be found that essentially combines customary ownership with long-term leases that unlock the commercial value of land. Accordingly, a demand-driven Pacific Land Mobilisation Program will be implemented as an important growth initiative. Box 1 summarises the new program.

### Initiative Box 1: Pacific Land Mobilisation Program

The issue of land tenure in the Pacific, although controversial, cannot be avoided if sustained growth is to be achieved. However, any changes to land tenure will have to come from within the Pacific, and such changes will take considerable time. The Pacific Land Mobilisation Program has two objectives: to survey and disseminate innovative land mobilisation practices in the Pacific; and, where there is clear demand for it, to resource innovations and improvements in land tenure arrangements. The program will be implemented in two phases, the first phase commencing in mid-2006.

**Survey and dissemination:** The first step will be preparing a report documenting both the innovative practices and problems in land tenure in the Pacific and PNG. AusAID will solicit participation from regional and international agencies such as the Pacific Islands Forum, ADB and the World Bank to co-sponsor this report. Various case studies in problems and innovations in land tenure will be undertaken, forming a report for showcase and dissemination.

**Resourcing innovations and improvements in land tenure arrangements:** Based on the results of the first phase, AusAID will, where requested, support specific initiatives within the framework of customary ownership designed to strengthen land tenure arrangements. There are many examples of successful use of such leases that may be replicable; the aid program will provide assistance for such replication.

### ii) Promoting trade

Growth is associated with greater openness to trade and investment. Australia will continue to pursue greater multilateral trade liberalisation rigorously, particularly in agriculture — an area of immense importance to developing countries. Australia will continue to provide global leadership through having one of the lowest levels of agricultural protection in the world and in granting quota- and tariff-free access to all goods from LDCs and East Timor. In line with this leadership role, Australia will build on current programs and provide further support to its regional partners in three main areas:

- *beyond the border*, by providing trade policy and analysis training
- *at the border*, by enhancing trade facilitation through improving the efficiency of areas such as customs and quarantine services while also maintaining the integrity of national borders
- *behind the border*, by focusing on policies that promote growth and overcome bottlenecks to trade, such as inadequate infrastructure (see Box 2, Infrastructure for Growth Initiative).

### iii) Supporting the drivers of growth

To complement work on improving the policy environment for growth, Australia will support the drivers of growth in three key areas: infrastructure; workforce development; and rural and business development.

- a) **Infrastructure** is critical for supporting stable development, economic growth and poverty reduction, including in areas of partner countries where unemployment is high and where development indicators are lagging (such as the southern Philippines, eastern Indonesia and the Pacific). Poor infrastructure is perhaps the most binding constraint to growth throughout the Asia-Pacific region. In Asia, rapid population growth and urbanisation threaten to exacerbate infrastructure bottlenecks. In the Pacific, emphasis is needed on equitable access to social infrastructure in remote, rural environments where 80 per cent of the population live mostly without electricity and roads. Infrastructure investment can lift economic growth and support social objectives. Infrastructure has been a declining sector for the aid program

over many years, but the recent post-tsunami AIPRD engagement in Indonesia marks a turning point: infrastructure will be a major focus for Australian aid in the coming decade. For many countries where the binding constraint to infrastructure development is a poor investment environment, Australia's wealth of expertise can be brought to bear to help get the policies right, reduce corruption (a major problem in infrastructure investments) and encourage public-private partnerships. Australia can also play a targeted role in financing projects that offer significant development impacts. In 2007, the Government will launch the Infrastructure for Growth Initiative (see Box 2). Support will also be provided to the Public-Private Infrastructure Advisory Facility (PPIAF), a multi-donor technical assistance facility managed by the World Bank. The PPIAF assists developing countries to improve their infrastructure through private sector involvement. Australia's experience can be channelled through the PPIAF.

### Initiative Box 2: Infrastructure for Growth Initiative

An estimated \$270 billion is required each year over the next five years to overcome critical infrastructure bottlenecks to growth in the Asia-Pacific region. Indonesia and the Philippines, for example, face major infrastructure constraints to growth, including in their lagging regions. This is a significant development problem. The provision of assets such as roads, telecommunications and power improve market access and make trade easier; enable water, education and health services to be delivered; and provide the basis for rural and industrial development. Infrastructure development is thus critical for reducing poverty and making progress towards the MDGs.

Australia already supports key infrastructure-related programs. Under the AIPRD, Australia will be supporting a major national roads program, junior secondary school building construction and rural infrastructure. In addition to supporting the maintenance of key economic roads, including the Highlands Highway, AusAID is helping PNG improve its processes for the planning and delivery of transport infrastructure. In the Greater Mekong, Australia is looking to support infrastructure programs that promote regional integration.

The Government will do more to help its regional partners address their pressing infrastructure needs through a major **Infrastructure for Growth Initiative**. To maximise impact and leverage, the initiative will include a partnership with the World Bank and ADB, and seek to operate alongside or as part of multilateral-financed interventions in the Asia-Pacific region.

The overall objective of the **Infrastructure for Growth Initiative** is to support increased economic growth in Asia and the Pacific. The infrastructure challenges faced by countries in the region require more funding and better policies. The initiative will help address both requirements by helping partner governments:

- improve their infrastructure policies by providing Australian and international expertise in areas such as public-private partnerships; regulatory reform; improved governance and anti-corruption; management and maintenance regimes; regional integration; and environmental and gender impacts
- finance high-priority infrastructure projects through the multilateral development banks and, in some cases, bilaterally for projects that have strong economic and social benefits and where national government, private and development bank finance is not available.

Typical projects will include rural electrification, rural roads, schools and health buildings, and the extension of water distribution systems to smaller towns and rural areas. Australian financing will be made conditional on key priorities such as anti-corruption being advanced. Support will promote environmentally friendly infrastructure, such as clean energy, and mitigate the possible adverse health impacts of better infrastructure (for example, HIV/AIDS transmission).

Reflecting the importance of this initiative, Australia will allocate significant resources from 2007 to meet infrastructure priorities in the region.

- b) Building **skilled workforces** in PNG and the Pacific to meet domestic needs and to access international labour markets is another important new direction for the aid program. This will be achieved by assisting skills and trades training at the post-secondary and vocational level. Central to this is the Prime Minister's announcement of the establishment of an Australia-Pacific Technical College, summarised in Box 3.

### Initiative Box 3: Australia-Pacific Technical College

The Prime Minister announced the Government's support for the establishment of an Australia-Pacific Technical College at the Pacific Islands Forum in October 2005.

The college concept is aimed at increasing the number of skilled Pacific island graduates as well as the quality of their training to meet Australian standards of vocational and technical education. If this is done well, in the right sectors, Pacific island economies will benefit from a larger, better skilled workforce to support economic growth, and graduates will benefit from improved employment opportunities at home and in an increasingly international labour market.

Currently, workplace competencies in the Pacific often fall short of industry requirements. Consistent with modern trends in vocational and technical education in which Australia is a world leader, innovative and flexible approaches will be adopted that target specific courses and occupations and ensure close links with industry. The college will build partnerships with Australian and Pacific industry associations, firms, private providers and education institutions to deliver Australian-standard training in a range of locations and formats across the region. Training to develop 'work-ready graduates' will be targeted at in-demand occupations where there are large identified employment needs and where Australian standard qualifications will greatly improve employment prospects and contribute to economic growth.

The college will focus initially on occupations in the automotive, electrical, health and community services, manufacturing, hospitality and tourism, and construction fields. Opportunities will be provided for both men and women, consistent with this White Paper's core principle of gender equality. A detailed design of the college will be completed before the next Pacific Islands Forum meeting in late 2006.

- c) Supporting private sector-led **rural development**. Currently, the aid program allocates more than \$217 million to rural development programs each year. Adapting and building upon those existing efforts to support rural development and agricultural productivity will increase incomes, stimulate development of the non-farm economy and generate employment opportunities in rural areas where the majority of the poor live. Priorities are set out in Box 4.

#### Initiative Box 4: Rural and Business Development

Australia will work with governments to promote an enabling policy and institutional environment for rural development, private investment and business development. A central feature of the assistance will be partnerships with the private sector as core collaborators and implementers. Key activities will include:

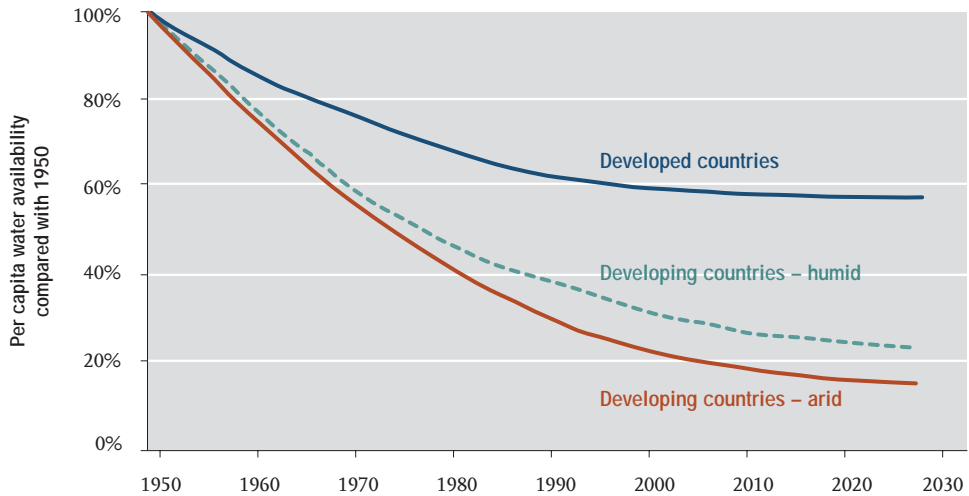
- **Agricultural research and development.** Advances in agricultural technology offer great potential to increase farm productivity. Through the Australian Centre for International Agricultural Research, Australia is already providing leadership and fostering important regional collaboration.
- **Community-driven, small-scale rural infrastructure.** Infrastructure support at the village level is needed to provide market access and generate employment.
- **Safeguards for the rural sector.** Activities will include the development of plans, veterinary infrastructure and skilled staff to build capacity for early detection and control of and response to livestock and crop diseases. Of particular concern are those livestock diseases that can be transmitted from animals to humans.
- **Establishment of a pilot Asia-Pacific small and medium enterprise development program.** A vigorous small-to-medium enterprise sector is a vital component of sustainable growth and development. The participation of women in this sector has been shown to achieve better repayment rates and social benefits, including increased household income and investment of profits in children's education and health care. The new program will initially be run on a pilot basis. Australia is well positioned to assist with agribusiness development and management, improvements to policy and regulatory frameworks, strengthening rural and agricultural financial systems, processing and production technologies, marketing and trade development, quarantine, sanitary standards and quality control. Support will be considered for private sector-led enterprise development activities in Pacific island countries that have the potential for delivering strong returns.

#### iv) Addressing environmental challenges to sustained growth

The countries of the Asia-Pacific region face major environmental challenges that will intensify in the coming years. The priority for Australia, as a bilateral donor with limited resources, is to determine which regional environmental challenges it should focus on. The list is daunting, from industrial, urban, mining and air pollution in Asia, to pollution of freshwater sources and inshore fisheries, degradation of coral reefs, loss of forests and severe weather events in the Pacific. Water shortages are already evident in many Asia-Pacific countries. As indicated in Figure 7, water availability per capita has declined dramatically in developing countries since 1950 and will continue to do so.



FIGURE 7 Water availability, 1950 to 2030



Source: Bridging Troubled Waters: Assessing the World Bank Water Resource Strategy, World Bank, 2002

AusAID has made some useful contributions to addressing some of these problems in individual countries. The 2003 launch of the aid program's water policy, *Making Every Drop Count*, lent greater impetus to meeting the challenge of access to clean water and more efficient water usage. AusAID's *Environmental Management Guide* provides a comprehensive framework to ensure that programs meet the Government's requirements according to the *Environment Protection and Biodiversity Conservation Act 1999*.

Australia needs to go further than simply including environmental considerations in activity designs. Accordingly, in 2006 AusAID will prepare an environmental strategy for the aid program. Funding for environmental programs in 2005–06 is an estimated \$123 million on activities that directly address environmental issues in developing countries, as well as \$182 million on activities that can be identified as having indirect environmental benefits. As the new strategy is implemented from 2007, this level of funding will increase significantly.

To achieve the greatest impact and effectiveness, the Government believes it must be selective in what it chooses to do. The environmental strategy will therefore be limited to three themes, each covering an area in which Australia can contribute significant knowledge and expertise:

- **Climate change and adaptation.** As well as focusing on adaptation programs and investments, particularly in the Pacific, this theme will include clean energy initiatives in support of the Asia-Pacific Partnership on Clean Development and Climate (AP6). Clean energy is a priority for the Government, and Australian aid will have a potentially important role in this dynamic regional partnership. AP6 is already gaining strong momentum, witnessed most recently in Sydney at the January 2006 ministerial meetings on clean development and climate.

- **Water.** The aid program will continue to focus on the management of freshwater resources for human consumption and more efficient water usage. The new strategy will help prioritise those countries where Australia can provide the greatest added value. A focus on the Mekong, the Philippines and the Pacific may see far greater impact than an emphasis on India, China and Indonesia, where many other donors are already making significant commitments.
- **Implementing/strengthening environmental regulatory regimes.** Many countries in the region have laws and regulations that are capable of preventing the worst environmental hazards, such as pollution, deforestation or dumping of waste. The problem lies in enforcement and implementation, which in some countries is, at best, totally inadequate and is often caught up in high levels of corruption (for example, logging in a number of Southeast Asian and Pacific countries). Australia is a leader in the development and application of regulatory reform, particularly on environmental issues. This wealth of experience will be brought to bear in supporting regional partners through the aid program. Elements of Australia's support will also be linked to the regional anti-corruption initiative outlined in Box 15.

## 5.2 Fostering functioning and effective states

The effective functioning of a state's institutions is central to development. Governments provide the environment for private sector development and hence growth and employment generation. They develop laws and maintain order and stability, provide for the protection and advancement of human rights, and ensure the sustainable use of resources. They generate revenue, deliver education and health services, and redistribute income.

Weak capacity and corruption have seen some of the region's governments perform poorly, with negative impacts on poverty and stability. At the other end of the spectrum, otherwise well-performing countries are grappling with new challenges faced by modern nation-states: potential pandemics, international trade regimes, microeconomic reform, economic integration and environmental protection.

Australia has long recognised the importance of policies and institutions and has invested significant resources over the past decade to improve governance in the region. AusAID's governance approach has five main areas: enhancing economic management; strengthening the rule of law; promoting public sector reform; strengthening democratic institutions and processes; and strengthening civil society. Working on governance issues is a long-term commitment, but the economic and social benefits that improved governance can bring are enormous. Australia has also provided strong leadership among the donor community in nation building in the region. This includes the use of sporting and cultural programs to build a sense of nationhood, an endeavour that will continue.

Australia will build upon this investment which, increasingly, has included the successful participation of a wider range of players in the delivery of assistance, including other Australian government agencies. Many of these are well placed to provide expertise and resources to partner governments. There are also significant benefits from improved long-term institutional links between Australian government institutions and their developing country counterparts.

In Solomon Islands, RAMSI involves the Australian Federal Police, the Treasury and the departments of Foreign Affairs and Trade, Finance and Defence, among others. It represents a more hands-on, proactive approach to tackling the multifaceted challenges of governance.

The ECP in PNG involves more than ten government agencies. Helping to build the capacity of their counterpart agencies in the region is now a part of many Australian institutions' core functions and will continue to be so. While AusAID is the primary agency responsible for the management and delivery of Australia's aid program, other government departments will remain strong and active contributors.

Australia will continue to focus on its traditional areas of governance support and will undertake a number of new strategies and initiatives, outlined below.

#### i) Strengthening political governance

In parts of Australia's immediate region, the exercise of political power is, at times, based on a very narrow set of incentives rather than a broad conception of national interest. Since political and social change is a long-term process, measured over decades rather than years, it can only come from within and requires broad and sustained leadership. Australia will assist PNG and countries in the Pacific to strengthen their political leadership and decision making. This will involve an approach across the Australian Government. The aid program will reinforce and complement Australian diplomatic efforts to improve political performance. Programs to strengthen accountability institutions, such as those for ombudsman offices and auditors-general, will continue. Box 5 outlines some of these approaches.

#### Initiative Box 5: Building Stronger Leadership

Australia will help develop the current leadership cadre in the Pacific, focus on the next generation of regional leaders and build the demand from within countries for improved government performance.

The **Pacific Leadership Program** will target current and emerging leaders in the region to develop leadership skills. This will include leadership in the academic, social and scientific communities and business, as well as political and bureaucratic fields. The growing engagement of parliamentarians and political parties in Australia with their counterparts in the region will continue, for example through programs run by the Centre for Democratic Institutions. A particular focus will be given to strengthening the regional network of female parliamentarians and leaders. As well as targeting current leaders, the initiative will involve a more systematic process to identify and support future leaders through scholarships. It will also involve building the capacity to provide leadership programs in Australian and other institutions. This approach will provide opportunities for groups from different countries to study together to create intra-regional links and networks of mutual support. Increased support will be provided for leadership initiatives targeted to youth, women and communities. The intention is to draw candidates from across all facets of society, and to provide longer term support for future leaders through increased support for leadership development and civics education in secondary schools.

Insufficient domestic demand for better performance or reform is one of the most important obstacles to institutional development in poor countries. The **Building Demand for Better Governance program** will support strategic partnerships to help augment domestic demand for reform and accountability in the Asia-Pacific region. Australia's aid program has already supported interesting innovations through media, civil society and civic education programs (for example, support for the PNG Church Partnership Program and 'War Against Corruption' campaigns, support for national human rights institutions, and partnerships with Transparency International). Such support will be expanded through direct support to the relevant organisations in partner countries and through partner Australian organisations (from development NGOs through to business councils and universities). A particular focus will be on supporting women's groups and building capacity in developing countries for independent analysis of government policy.

Australia will also deepen its understanding of political governance through **research** on issues such as voter behaviour and ways to align incentives with national development goals (see Box 16).

## ii) Incentives for good performance

Experience shows that aid works well when policy and institutional conditions are good. While donors reaffirm the need for current efforts to continue, particularly in fragile states, there is a growing trend among donors to link funds to performance.

Providing incentives for and rewarding improved performance is a cornerstone of this White Paper. This will be taken forward through a new performance initiative, which will be launched as part of the 2007–08 budget (see Box 6).

### Initiative Box 6: Performance Incentives

Improved governance and aid effectiveness are a sine qua non for countries in the region benefiting from increases in Australian aid. Australia will provide significant incentives for good performance by allocating additional resources to countries that meet agreed performance criteria. Australia will allocate up to 10 per cent of the aid program over time on the basis of performance.

Performance criteria will:

- be developed as part of country strategy performance frameworks agreed with respective partner governments
- comprise a mix of quantitative and qualitative indicators, such as independent corruption ratings; government budget allocations for core services necessary to reduce poverty, such as health, education, and law and order; improvements in business regulation; progress in implementation of economic and public sector reforms; and, in the Pacific, commitments to sensible regional governance arrangements
- be different in each country and be based on improvements relative to each country's particular situation in order to maximise impact.

The initiative will be rolled out on a pilot basis, with a number of countries, including PNG and the Philippines, to be the first ones eligible for funding in 2008, with other countries following by 2010. The application of additional aid funding made available through the performance initiative will be determined through the jointly agreed country strategy process. Such funding will be used for additional program support in sectors of importance to the respective country (for example, to promote infrastructure or health and education) and will be aligned with existing country budgets.

## iii) More selective and effective use of technical assistance

Technical assistance, or the placement of mainly foreign advisers to work with partner governments, has long been a central element of donor aid programs. The transfer of ideas and expertise to improve service delivery, manage budgets and more generally strengthen government capacity will continue to be a fundamental part of Australia's aid program. For example, a key aspect of Australia's increased support for infrastructure will be the provision of advice on such matters as infrastructure regulation and financing. Similarly, technical assistance will play an important part in strengthening the region's ability to prepare for and respond to outbreaks of emerging infectious diseases.

Donor experience shows, however, that heavy reliance on foreign technical assistance to pursue governance reforms and build capacity has had some success, but not to the extent desired. Some of this has to do with the short-term nature and external sourcing of technical assistance. The Government has sought to overcome these shortcomings by placing Australian government officials in technical assistance roles, thereby providing a longer term institutional partnership. The Government will build on this approach.

Other changes will enhance the way in which technical assistance is provided. The objectives of technical assistance will be made much more explicit, including whether it is to build or to provide capacity. Technical assistance will be provided primarily where there is a clear demand

and an opportunity to make progress in key reform areas. Accountability of technical advisers to their counterpart governments will be enhanced and there will be a shift in focus towards implementation and monitoring rather than planning. In non-reform environments, technical assistance will still play a role in building relationships and maintaining a dialogue with key partner agencies, but its extent will be carefully calibrated.

#### iv) Improving emergency response capacities

Recent years have seen growing calls for emergency and humanitarian assistance and increased pressure on the aid program to respond both to human-made and to natural disasters in the Asia-Pacific region and beyond. Australia is a leader in this field. Australia's timely and successful contributions to East Timor, the Pakistan and Bam earthquake relief efforts, and to countries struck by the Indian Ocean tsunami have seen increased expectations of Australia. AusAID's 2001 Peace, Conflict and Development Policy is recognised as among international best practice. The Government's commitment of \$175 million since 1996 to address the scourge of landmines and its leadership in the global mine action arena also demonstrate the depth and breadth of Australia's humanitarian engagement.

Given its resources, capacity and location, Australia is now looked upon not only to provide financial resources, but also the necessary assets to respond to emergencies in the region. Australia will develop a greater humanitarian and emergency response capacity to meet this expectation by providing additional stand-by mechanisms and by facilitating the twinning of national and state response capabilities in times of crisis, effectively drawing on the breadth of Australian expertise. Efforts to build the capacity of developing countries themselves to prevent, respond to and manage emergencies will continue (see Box 7).

Humanitarian action and development activities will be more closely integrated to ensure that humanitarian and emergency responses are coordinated and do not undermine longer term development plans. The links between development and humanitarian action are clear. The effects of disasters and crises reduce prospects for growth and erode hard-won development gains. Where capacity to deliver services is low or insecurity prevails, vulnerability to hazards and conflict increases and poverty is exacerbated.

### Initiative Box 7: Enhanced Emergency Response Capacity

Australia will enhance its capacity to respond to unexpected crises. The aid program will strengthen regional governments' and their communities' resilience to crises and their response capacity. The 2003 Council of Australian Government report *Natural Disasters in Australia: Reforming mitigation, relief and recovery arrangements* calls for a holistic approach to Australian response efforts. Such an approach is also necessary for responding to disasters in the region. Building the emergency response capacity of the aid program also contributes to Australian Government initiatives to create a National Emergency Protocol to coordinate Australia's response to domestic and regional events.

The proposal involves a number of activities that provide much needed capacity to respond to unforeseen circumstances and events, such as large-scale natural disasters, in the Asia-Pacific region. These include:

- additional stores of relief and humanitarian items in Australia, the Pacific and Southeast Asia
- development of stand-by operations agreements with commercial entities, relevant United Nations and international agencies, and selected professional non-government organisations
- building of human and material response capacity for rapid humanitarian deployment assessment, response coordination, and specific sector teams (medical/surgical, engineering/construction, etc)
- refining and exercising interoperability protocols and procedures in humanitarian action (for example, through improved communications technology and systems) between the Australian Federal Police, the Australian Defence Force, the Department of Health and Ageing, Emergency Management Australia and AusAID
- applying Australian science, engineering and innovation to prepare for and mitigate disasters.

Enhancing Australia's civilian emergency response capacity is an important priority and some activities will be implemented with immediate effect.

#### v) Integrated approach to law and justice

The Government has placed considerable emphasis in recent years on strengthening law and justice institutions and systems in a number of countries in the region, particularly in the Pacific. This is fundamental to the aid program theme of promoting functioning states. While RAMSI has perhaps the highest profile, significant investments have been made in PNG, Vanuatu, Fiji and East Timor, as well as Indonesia and the Philippines. RAMSI provides a framework for assistance in policing, corrections and all aspects of the criminal justice system, as well as in the key accountability institutions that help counter corruption.

The key lesson from Solomon Islands and from Australia's other experiences is that it is not effective to look at one aspect of the law and justice sector in isolation. A focus on law and order will have marginal impact without parallel improvements in the prosecutions, courts and corrections systems. The integration of the work of AusAID, Australian Federal Police (AFP) and the Attorney-General's Department has been central to securing real improvements in law and justice systems. This will continue and will be expanded further. The AFP will broaden its regional role in law and order beyond enforcement activities to longer-term institutional capacity building.

While this White Paper outlines a new initiative to support anti-corruption measures in the region (page 61), it is the Government's intention that Australian aid policy in the law and justice sector go beyond simply combating corruption. AusAID, the AFP and other agencies spent \$138 million in 2004–05 on integrated law and justice support. This expenditure will increase in future years.

### 5.3 Investing in people

The Government believes that all people should have the opportunity, through access to health and education services, to develop their full potential to participate in the economy and find employment and income generating opportunities. A healthy and educated workforce is more productive and enables an economy to be competitive, thereby increasing aggregate growth. Literate and numerate mothers experience lower infant mortality, have fewer children, and raise healthier and better educated children who become more involved in democratic processes. An informed citizenry is more likely to hold accountable those in political and bureaucratic power. Access to services forms an important part of establishing the legitimacy of state institutions.

Within Australia's immediate region there are a number of areas — such as women's and children's health, domestic violence, HIV/AIDS, malaria and education quality — in which progress is either slow or negative and the need for action is particularly compelling.

The Government will significantly increase its investments in people in developing countries by strengthening national health systems, tackling major diseases (HIV/AIDS, malaria and potential pandemics), strengthening national education systems, and supporting higher education through scholarships and linkages.

#### i) Strengthening national health systems

In the Asia-Pacific region, as elsewhere, health systems that are crippled by inadequate financial and human resources cannot respond effectively to health concerns that not only have a great human cost, but also reduce the productivity of the country's workforce and undermine national development. Such systems cannot address the unmet needs of women or secure the health of the next generation by preventing and treating childhood illnesses. They are even less well equipped to deal with emerging new health crises, such as deadly pandemics or new diseases.

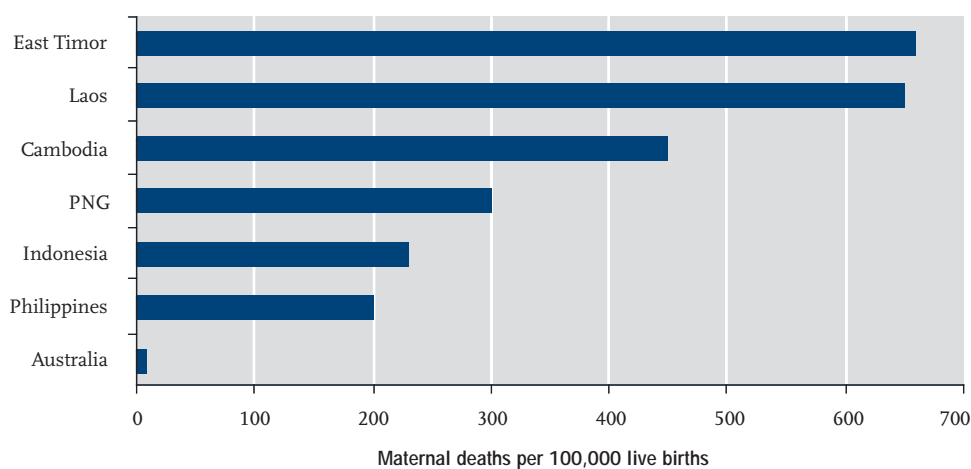
In countries with limited resources, the expectations of the government health sector are often totally incompatible with the funds available. Coupled with poor management, this produces struggling, inefficient systems unable to provide adequate health care. Actual health care costs are paid mostly as private out-of-pocket expenditures, which can be devastating for the poor. Each year, more than 150 million individuals in 44 million households worldwide face financial crisis as a direct result of having to pay for health care. Donor funds can prop up these dysfunctional systems without addressing the root problems. Moreover, donor investments targeted at specific diseases like TB or malaria are often undermined by general system failure.

Effective health systems must be able to detect and respond to disease outbreaks; reduce morbidity and mortality from endemic infectious diseases such as tuberculosis and HIV/AIDS; improve the health of the most vulnerable, especially in order to reduce maternal and child mortality; and address other health problems that cause the greatest burden, which will differ from country to country.

Work with developing countries in the region to improve health must strike a balance between addressing major and immediate health concerns and strengthening health system fundamentals over time. The fact that people are dying now means that there are particularly strong drivers for immediate action. Some health care can be delivered by working around weak health systems. For example, children can be fully immunised against common diseases through only six contacts; life-saving vitamin A or de-worming tablets can be distributed once every six months.

To combat the major killers of women and children, however, ready access to basic care backed up by hospital services is needed 365 days of the year. A child with severe pneumonia or diarrhoea may die within a few days if not treated. A woman with a haemorrhage after childbirth may bleed to death in a matter of hours. In nine countries of the Asia-Pacific region, more than half of all childbirths occur without the presence of a trained health worker. In 14 of the region's countries, a woman's chance of dying though pregnancy or childbirth is more than 20 times greater than in Australia, and in six countries it is more than 50 times greater (see Figure 8). Yet three-quarters of maternal deaths could be averted by the full use of proven, cost-effective interventions. Persistently high maternal and child mortality rates, for example as seen in PNG, Cambodia, Laos and East Timor, are a reflection of poor basic services and general system failings.

**FIGURE 8** Maternal mortality rates in the Asia-Pacific region



Source: UN Millennium Indicators Database (2000)

Many countries are also unable to train, deploy, manage and retain the right mix of health professionals. Well-trained health professionals are critical for effective health systems, but health workforces are in crisis in many countries. There are inadequate numbers (especially in rural areas, where most poor people live), the wrong mix of skills, high absence rates and low morale due to poor salaries and working conditions. Such staffing inadequacies cost lives.

More needs to be done to strengthen national health systems. Australia has a good platform on which to build, with support estimated for health programs totalling \$280 million in 2005-06. This includes a comprehensive health sector program in PNG and one being planned for East Timor, maternal and child health programs in Indonesia and the Mekong region (an AusAID-funded primary health care project in Laos dramatically reduced the maternal mortality ratio between 1998 and 2003). In mid-2006, AusAID will produce a new health policy to guide the application of additional funding. Box 8 provides more details.



## Initiative Box 8: Delivering Better Health

Australia will significantly increase its support to help improve the health and wellbeing of people in the Asia-Pacific region, particularly the most vulnerable. Support will focus three core elements:

**1. Addressing the needs of women and children by:**

- focusing on maternal health, sexual and reproductive health, access to safe and effective contraception based on informed choice, nutrition and education for girls, and programs to combat gender-based violence
- supporting programs such as improved sanitation that deal with the specific threats that kill young children (diarrhoea, pneumonia and, in some cases, measles and malaria) and help health workers and families to raise children in a healthy way.

Australia will support programs that use those measures proven to have the greatest impact, including improving nutrition, tetanus immunisations for pregnant women, clean childbirth facilities, breastfeeding programs, and antibiotics for infections.

**2. Strengthening health systems by:**

- focusing on critical health policy issues, including sustainable health financing, health sector reform and health information systems
- assisting with immediate and long-term workforce development needs that take into account the mobility of health professionals in the region (see also Box 3, Australia-Pacific Technical College)
- strengthening health infrastructure and maintenance, and enhancing the transparency and accountability of health procurement systems (see also Box 15, Anti-Corruption for Development)

**3. Targeting country-specific health priorities by providing assistance to tackle diseases that have the highest current or projected burden and are not already being addressed.** This may include enhancing health promotion in areas such as tobacco control, diet and physical exercise, utilising Australia's strong experience, adapted to local contexts.

In implementing this strategy, Australia will draw on expertise in government, universities and the private sector.

Efforts to strengthen health systems will enable countries to make better use of funds from global health programs such as the Global Fund to fight AIDS, Tuberculosis and Malaria and cope with a changing pattern of health problems and unexpected health threats, such as emerging infectious diseases.

It is expected that current levels of support to health may double by 2010.

## ii) Tackling major diseases

Some diseases are of such enormous significance for particular countries that more focused responses are needed.

- a) **HIV/AIDS:** Australia has taken a strong leadership role in the region through the Government's unprecedented commitment to HIV programs in Asia and the Pacific (see Box 9). Work on meeting this commitment is progressing well. Prevention efforts will be scaled up in tandem with expanded access to treatment. While Australia has already committed additional resources, a key priority will be to strengthen the region's capacity to use potential grant funding from the Global Fund to fight AIDS, Tuberculosis and Malaria.

**Initiative Box 9: HIV/AIDS — Leadership in the Region**

In 2004, the Government launched Australia's international HIV/AIDS strategy, *Meeting the Challenge*. This was accompanied by an increased commitment of \$600 million by 2010 to tackle HIV/AIDS, with a focus on building regional leadership, education and prevention programs, and treatment and care.

The Government will strengthen its leadership role by building on its record of success, such as the launch of the Asia-Pacific Ministerial Meeting on HIV/AIDS in 2001 and the establishment of the Asia-Pacific Leadership Forum. Leadership commitment to combating HIV/AIDS is still lacking in a number of partner countries, and fostering such commitment will continue to be a core priority for the aid program. Australia's approach will also include:

- An emergency and much larger response to the disease in PNG. Efforts to address the gender factors underlying HIV/AIDS, including domestic violence, will be integrated into AIDS strategies and interventions.
- Taking a leadership role to coordinate efforts to expand access to HIV/AIDS treatment, particularly in PNG and the Pacific islands, in line with the goal set at the 2005 UN World Summit to provide as close as possible to universal access to HIV treatment by 2010. As part of this agenda, the Australian Government is providing \$25 million, complemented by funding from the Clinton Foundation, to scale up treatment and care for people living with HIV/AIDS, initially in PNG, Vietnam and China.
- Strengthening partnerships with key Asian countries to promote prevention and treatment of HIV transmitted through intravenous drug use.
- Promoting leadership beyond government. In February 2006, the Minister for Foreign Affairs launched the Asia-Pacific Business Coalition on HIV/AIDS, an initiative by AusAID in partnership with the Lowy Institute and the Australian private sector, to mobilise the business community to help in the fight against HIV/AIDS.
- Strengthening capacity building and research linkages between Australian HIV/AIDS organisations and their counterparts in the region, in order to provide greater impetus to Australia's response.

- b) **Malaria:** Malaria is a major health concern in the region. Solomon Islands has the world's highest incidence of malaria, which is also the second biggest killer in PNG. The burden of disease falls most heavily on young people. Malaria causes enormous human suffering, retards economic and social development, and places severe strain on weak and under-resourced health systems. Left unchecked, malaria could seriously undermine development in the region. With new technologies, a global donor campaign against malaria, and a much-increased aid program to Solomon Islands, Australia will commit to tackle malaria in Solomon Islands, Vanuatu and eventually the entire Pacific, in concert with other agencies and regional governments. See Box 10 for details of this initiative.

### Initiative Box 10: Tackling Malaria in the Pacific

Tackling malaria in the Pacific is a priority development concern. It requires further support for front-line health systems in those countries most affected by disease. In the Pacific, the effectiveness of existing multilateral investments is being hindered by a lack of domestic implementing capacity.

A long-term regional initiative will be undertaken with an initial focus on Solomon Islands and Vanuatu. Priorities for Australian assistance will include:

- strengthening capacity of national health institutions in disease surveillance and control, commodity procurement and basic service delivery
- investments in affordable and proven measures, such as insecticide-treated bed-nets and drug treatments.

Providing technical support to ensure that funding from the Global Fund to fight AIDS, Tuberculosis and Malaria has maximum impact will be an important part of Australia's response. A new malaria research program, drawing on Australia's substantial institutional expertise in tropical health, will complement project activities. The program of assistance will be flexibly structured to enable an emergency response to malaria outbreaks. Later, targeted assistance can be extended to other countries in the region, such as East Timor, which have a high malaria disease burden.

- c) **Pandemics:** If, or when, a pandemic of a new or re-emerging disease breaks out, the economic impact in the region may be devastating, and the demand for humanitarian and development assistance overwhelming. As a priority, Australia is implementing the \$100 million commitment announced by the Prime Minister at APEC in November 2005 to scale up assistance for surveillance, quarantine, and outbreak and infection control of avian influenza in the Asia-Pacific region. Australia will pursue a continuing strong partnership with the World Health Organization and other relevant international organisations, and will assist small developing countries to participate in regional responses to health threats.

### iii) Strengthening national education systems

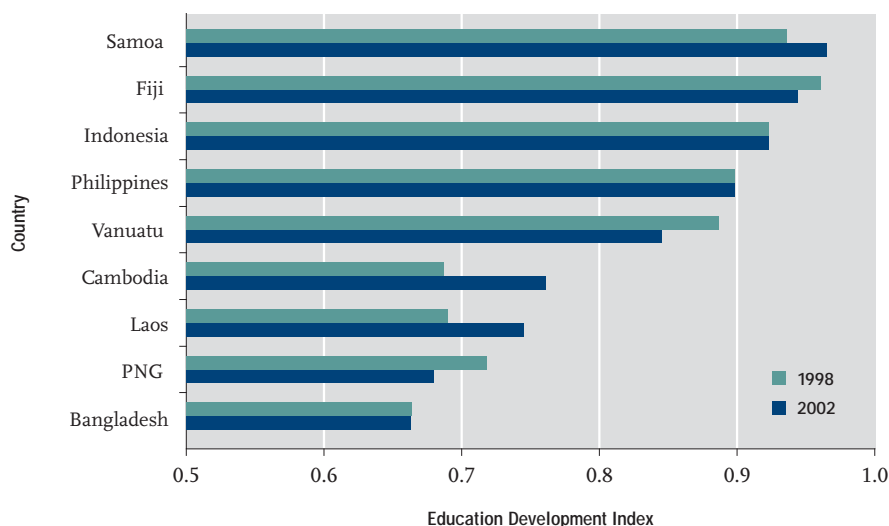
Education has a central function in reducing poverty. As well as providing the foundations for economic growth, education also provides important benefits in health, in population, in stability and security, and in fostering effective states.

Despite progress on education in recent years, over 100 million girls and boys around the world are still not in school today. Uneducated children will grow up to swell the ranks of the 800 million illiterate adults who make up the bulk of the world's poorest people. Women and girls continue to be most seriously disadvantaged: two-thirds of all illiterate adults are women, and in South Asia over 60 per cent of children out of school are girls. Within the education sector, it is primary schooling that generates the greatest social and economic benefits. Ensuring that all girls and boys have access to free, good-quality, primary education is a key benchmark for a functioning state and has been enshrined as a Millennium Development Goal.

In much of the Asia-Pacific region, under-investment in education has resulted in weak school systems that deliver poor-quality education and often fail to include large numbers of girls and children from ethnic minorities and remote communities. Across much of the Pacific, a demographic 'youth bulge' is putting pressure on already strained school systems, contributing to a progressive decline in quality at all levels of education.

The Education Development Index is a telling indicator of education performance in the region (Figure 9). The lack of progress in large countries such as Indonesia and the Philippines is a concern, as is evidence of apparent declines in some Pacific countries. The need for action is particularly compelling in PNG, where half of all children fail to complete a basic six years of primary schooling and where overall education performance is not only low, but deteriorating.

FIGURE 9 Progress in education in the Asia-Pacific region



Source: Based on research commissioned by AusAID drawing on United Nations Educational, Scientific and Cultural Organization's 2006 Education for All Global Monitoring Report and containing some estimates from trend data. The Education Development Index is a measure of progress towards the international Education for All goals, and is a composite indicator based on the Net Enrolment Ratio, Adult Literacy Rate, Gender Parity Indices and Survival Rate to Grade 5.

Aid programs should strengthen partner countries' own national systems of education rather than focusing on discrete activities or sub-sectors. AusAID will help foster national school systems that deliver quality universal basic education with good basic literacy and numeracy outcomes, as well as high-quality, relevant secondary education and vocational training. In the Pacific there is a particular need for skills training to meet domestic needs and enhance opportunities for migration, which will generate remittances. Australia will ensure that education spending is of sufficient quantity and quality, and that partner government policies promote efficient and equitable service delivery.

Aid program spending on education (excluding scholarships, technical and vocational education and high-level training) has been steadily growing over the past ten years, and currently stands at around \$100 million per year. In most countries, this contribution represents only a small fraction of the overall education budget and needs to be increased to meet compelling needs and to have significant impact on improving education systems. Over recent years, new and sensible sectoral approaches to education have started to take root across much of the Pacific, and are also being prepared in the Philippines, Indonesia and PNG. This new environment offers an opportunity for AusAID to scale up its investment in education throughout the region (see Box 11).

### Initiative Box 11: Delivering Better Education

There will be a significant scaling up of Australia's investment in education in order to get more children into school, for longer and for a better quality education. To this end, Australia will invest in the creation of functioning and inclusive national education systems that deliver basic schooling of good quality to all girls and boys, and offer pathways to higher levels according to ability and need. Australia will also work to strengthen the links between education and employment, particularly through improvements in quality and relevance. A major new education strategy will be developed, focusing on:

- tackling key issues of service delivery, including teacher training and deployment, the production and supply of curriculum materials, and school development and maintenance
- addressing fundamental issues of education financing, management and accountability (for example, in PNG)
- targeting interventions on pockets of education disadvantage using state, private, faith-based and non-governmental organisations (for example, in Indonesia, Philippines and South Asia)
- reversing the slide in education quality, such as in the Pacific, through multi-donor sector programs with relevant and unbiased curricula and teaching methods
- supporting the new Australia–Pacific Technical College (see page 39)
- ensuring that girls' education is given particular attention, in line with the Government's commitment to gender equality.

Australian aid to education will continue to move away from standalone projects to broader sectoral programs, integrated with partner government systems and policies. These will require working more closely with partner governments to address the difficult issues of sector financing, human resource development, system governance and management. Some technical assistance will still be required, but principally, as in health, AusAID will be funding improved and expanded service delivery. Consideration will also be given to increasing the use of the private and non-government sectors as implementing agents for education interventions.

It is expected that current levels of support for national education systems may triple by 2010.

#### iv) Higher education through scholarships and linkages

There is a strong accord within Australia and the region on the value of scholarships as a means for promoting development and fostering relationships between Australia and people from the region. Scholarships promote political and economic reform and good governance in partner countries while building understanding within Australia of the people and development challenges of the region. They enable regional leaders to develop enduring connections with Australia. Well-targeted scholarships with proper gender balance are a highly effective form of aid. They empower people from developing countries to drive their own national development and reform agendas based on an informed understanding of a developed economy. Past Australian aid scholarship recipients have now become leaders in their fields throughout Asia and the Pacific.

A major initiative under this White Paper is **Australian Scholarships**, which will double the number of education awards offered by Australia to the region over the next five years. Details are contained in Box 12.

**Initiative Box 12: Australian Scholarships**

To promote education cooperation and development in the Asia-Pacific region, Australia is expanding its scholarship assistance through the Australian Scholarships Program. Building on current scholarship schemes being provided under the aid program and by the Australian Department of Education, Science and Training, Australian Scholarships will, over the five years commencing 1 July 2006, double the total number of education awards offered by Australia in the Asia-Pacific region to over 19,000.

The total value of Australian Scholarships over this period will be nearly \$1.4 billion. This includes \$442.5 million of new funding.

Australian Scholarships will consist of:

- a new regional scholarship for the Asia-Pacific region focused on developing future leaders — the Australian Leadership Awards
- a refined Australian Development Scholarship program — this will address skill shortages and help achieve a critical mass of Australian-trained scholars in key developing country institutions
- an expansion of the Department of Education, Science and Training's Endeavour Programme.

Australian Scholarships will address issues of mutual interest such as economic and social development, education, governance, transnational crime and security, emerging infectious diseases, trade and clean energy. Ninety-five per cent of the funding for Australian Scholarships will be eligible to be counted as ODA.

## 5.4 Promoting regional stability and cooperation

Stability is a critical pre-determinant for growth and poverty reduction. New challenges to stability are emerging, most notably transboundary threats (discussed in Chapter 2). These are not only direct threats to development — they also deter investment, diminish legitimate and stable employment prospects and have spill-over impacts on neighbouring countries. While ensuring stability is a core function of an effective government, the nature of transboundary threats is such that they can only be managed effectively through regional networks and cooperation.

At the same time, opportunities exist to enhance growth and streamline the costs of government through greater regional integration and approaches. In Asia and the Pacific, the next ten years will see significant opportunities to boost trade and growth, and to pool resources for governance through regional cooperation.

Australian aid will pursue three areas in which regional approaches need to be taken.

### i) Regional responses to transboundary threats

Pandemics, disasters, global warming, access to water, and transnational crime (including people smuggling, illegal fishing, drug trafficking, money laundering and terrorism) demand not only national but also transnational responses. Increasingly, these threats to development will require effective and close cooperation between countries in the region, including Australia. Institutional and personal networks will therefore need to become an important feature of the Asia-Pacific landscape in the years ahead. Those networks will be particularly important in averting or responding to crises.

The aid program will help build these networks on issues of core interest. Australia will continue to encourage dialogue and cooperation between source and affected countries in order to reduce negative spillovers and tensions. An Asia–Pacific transboundary linkages program to take greater advantage of Australian and international expertise in tackling these issues will be launched. See Box 13 for a summary of the program.

### Initiative Box 13: Strengthening Cooperation on Transboundary Threats

Many of the threats to the development of the Asia–Pacific region require regional as well as national responses. Growing integration and interconnectedness places a premium on effective networks and cooperation and on access to expertise that is available across countries.

Building on national systems and existing cooperation arrangements, the Strengthening Cooperation on Transboundary Threats program will provide support for initiatives put forward by Australian Government agencies that contribute to the development of networks and expertise on high-priority transboundary concerns. Support will:

- focus on critical areas such as economic integration and trade, infectious disease and surveillance, disaster prevention and management, transnational crime, drug and human trafficking, counter-terrorism, and environmental and natural resource management
- facilitate regional linkages by being multi-country in scope
- draw on Australian expertise by facilitating greater involvement of professional and scientific bodies, as well as academic institutions
- provide funding for long-term and short-term exchanges, research and training, as well as small-scale infrastructure and equipment support where appropriate.

The program will commence in mid-2007.

## ii) Promoting regional integration

Australia has a strong track record in providing assistance to organisations that promote regional integration and cooperation. An expanded range of regional integration initiatives in Asia will be supported to promote regional security and stability. Australia's successful record of support to the ASEAN Secretariat already stretches back over a period of 30 years. Further support for ASEAN will include a focus on security and prosperity in the East ASEAN subregion in collaboration with multilateral development banks and key donors. Australia recently announced an extension of this support for studies on economic integration across Asia (among the ASEAN+6 countries, which include Australia, New Zealand, India, China, Japan and Korea in addition to the ASEAN countries). Australia will continue to expand this support. Likewise, AusAID's effective support of the APEC forum will increase.

Australia is well positioned to support greater integration within Asia and between South Asia (the Indian subcontinent) and East Asia. The aid program will remain open to assisting relevant organisations that bring together East and South Asian countries if they are seen as playing a useful role in promoting regional cooperation and integration. Australia's experience means it is well positioned to provide a mix of research, strategy and Australian linkage programs.

Australia is also developing a program of sub-regional engagement with countries that share the Mekong River — Cambodia, China, Laos, Burma, Thailand and Vietnam. This will total \$40–50 million each year, in partnership with the Asian Development Bank's Greater Mekong Subregion Economic Cooperation Program, which promotes closer economic ties and cooperation among the six countries. This includes a significant infrastructure component, primarily in energy, telecommunications and transport.

### iii) Promoting regional governance solutions in the Pacific

Governments of small countries are more expensive than larger ones, as fixed costs are shared among fewer citizens. Governments in small countries also find it difficult to execute programs impartially because of the problem of familiarity — everyone knows everyone. With advocacy by the Australian Prime Minister and others at recent Pacific Island Forum meetings, factors such as these are driving the Pacific island states towards a more regional approach. This is embodied in the Pacific Plan, which was endorsed by Forum leaders in October 2005.

Australia will provide support for a range of initiatives identified by Pacific leaders for immediate implementation under the Pacific Plan. This will include a mixture of modest new funding and a rebalancing of existing commitments. In the first instance, support will be provided:

- to strengthen regional audit arrangements, focusing on training, operational support and the development of common institutional frameworks and standards
- for the establishment and operation of a regional ombudsman's office for implementing the Forum's Principles of Good Leadership and Accountability, with the power to investigate citizens' complaints against administrative acts and decisions of government
- to strengthen and upgrade country and regional statistical systems (at the same time, Australia will fund the further analysis required for the development of a regional economic and statistical office that would act as a clearing-house for statistics, benchmarking, comparative analysis and the sharing of good practice in economic policy).

In addition, Australia will continue to work closely with Pacific partners on longer term Pacific Plan initiatives to promote greater regional cooperation. This will remain a fundamental objective of the Government's engagement with the Pacific over the next decade.



CHAPTER 6

Strengthening effectiveness: how  
Australian aid will be delivered



## Strengthening effectiveness: how Australian aid will be delivered

The Government is committed to strengthening the effectiveness of Australia's aid program. This is even more important in the light of its plan to double aid by 2010. The goal is to place Australia at the international forefront of aid effectiveness. Australian taxpayers expect nothing less.

This goal will be pursued through four linked strategies: strengthening the performance orientation of the aid program; combating corruption; enhancing Australian engagement with the region; and working with partners. These strategies are discussed below.

### 6.1 Strengthening the performance orientation of the aid program

The performance orientation of the aid program will be strengthened at all levels. This will build on advances already undertaken by AusAID and cover adherence to quality processes during activity design and implementation, monitoring of activity inputs, evaluation of outputs and outcomes, and overall country performance assessments.

#### i) Upgrade the country strategy to give greater prominence to performance outcomes and provide a single framework for whole-of-government development efforts.

The country strategy provides the overall policy and implementation framework for Australia's aid program in any given country. It translates the White Paper's overall guiding themes and strategies into programs tailored to individual country circumstances and priorities. Country strategies are developed and agreed jointly with partner governments.

Country strategies will be upgraded by:

- a) including all ODA-eligible activity, including that delivered by Australian Government agencies other than AusAID, in order to strengthen the coordination and focus of Australia's aid programs
- b) strengthening selectivity — Australia cannot do all things in all countries, and the country strategy will be the key document which determines the focus of effort
- c) providing a more rigorous performance framework, which will articulate expectations at the country level more clearly and provide a better basis for assessing the impact of aid efforts
- d) agreeing, with partners, performance frameworks that link additional allocations to mutually agreed performance criteria.

#### ii) Strengthen the link between performance and allocations, between and within countries.

Chapter 5 highlighted plans to reward performance at the country level (see Box 6). In larger countries, incentives will also be provided to encourage agencies within countries to compete for funds. This will build on the incentive-based approaches already being employed under the aid program, such as the PNG sub-national initiative, which aims to provide incentives for improved governance by making assistance available to better performing and improving provinces.

Further research on how incentives and performance can best be built into aid programs will also be undertaken.

iii) Build performance into individual activities by enhancing approaches that link payments to deliverables.

AusAID has a strong culture of activity monitoring and a long history of linking payments to the delivery of specific outputs. This work will be reinvigorated and emerging lessons from a number of related international initiatives will be adopted. Specifically, this will involve:

- a) strengthening plans for monitoring and evaluation for all aid activities, and enhancing the implementation of these plans. In addition, AusAID's existing internal performance management system, which rates ongoing activities as satisfactory or not, will be further enhanced to strengthen the robustness of ratings (see section below, on the Office of Development Effectiveness).
- b) strengthening the link between payments and intended results for activities for which there are clearly defined outputs. Known as 'output-based' aid, this will build on AusAID's experience and that of the World Bank, the Global Partnership for Output-Based Aid and others to focus incentives for aid delivery agents on outcomes and make performance central to the activity. This will be particularly appropriate for interventions in the social and infrastructure sectors (for example, linking payments to the construction or maintenance of roads, as is being done in the PNG Road Maintenance Project).

iv) Strengthen evaluation and 'lessons learnt' functions through the establishment of an Office of Development Effectiveness (ODE).

The Government is unequivocal in saying that future allocations of increased aid volume will be subject to ensuring its effectiveness. Australia will continue to undertake and strengthen its evidence-based approach to aid programs. While AusAID has built up impressive evaluation and monitoring systems, the Government believes that Australia should be at the forefront of global efforts to improve development effectiveness. Establishing the ODE will help achieve this. The Office will be responsible for monitoring the quality of the aid program and performing evaluation functions. It will also monitor global effectiveness lessons and experience. Box 14 provides further details on the role and functions of the ODE.

## Initiative Box 14: Office of Development Effectiveness

The Office of Development Effectiveness will be established to improve the effectiveness of Australia's aid program. It will monitor the quality and evaluate the impact of AusAID and, as appropriate, other Australian Government agencies' ODA programs. It will perform the following functions:

- **Publish an Annual Review of Development Effectiveness**, drawing on the breadth of its work, including quality process reviews, concurrent and ex-post evaluations, and on the experiences of all Australian agencies delivering ODA. The annual review will be integrated into the Government's budget cycle and provide a practical link between expanding allocations and increased aid effectiveness, in accordance with the Prime Minister's September 2005 announcement.
- Act as a resource for all Australian Government agencies delivering ODA-eligible expenditure. Agencies apart from AusAID will participate in ODE activities and benefit from ODE feedback through evaluations and knowledge sharing.
- Evaluate the implementation of country strategies, policies and programs and, as a general rule, publicise the results and any management responses.
- Undertake reviews and periodic spot checks of existing performance monitoring systems and ratings of ongoing activities to verify that systems are being used correctly and that ratings are realistic.
- Build capacity within the Australian aid program to apply sound aid management principles. This will be done through the dissemination of lessons learnt from evaluations and experiences of Australian agencies, international organisations such as the World Bank, and research institutions.
- Advise on the development of new country strategies, particularly on the adequacy of performance frameworks and the deliverability of program objectives.

The ODE will be a small, high-profile office, headed by a senior executive officer reporting directly to the AusAID Director General. It will be provided with a clearly delineated budget. In order to strengthen the Office's profile and credibility, its work will be guided by a Development Effectiveness Steering Committee, including deputy secretaries of key Australian Government departments (Prime Minister and Cabinet; Foreign Affairs and Trade; Treasury; Finance and Administration) and also internationally recognised experts from time to time. The steering committee will also advise the Government on whether major new ODA-eligible programs and initiatives meet core quality and policy priority requirements.

## 6.2 Combating corruption

Corruption is a major brake to reform efforts and to broad-based economic growth and poverty reduction in many countries in the region. It also undermines aid effectiveness. The Prime Minister announced that increases in Australian aid will 'be conditional on strengthened governance and reduced corruption in partner countries'. Chapter 5 of this White Paper discusses how the aid program will help governments function better, and those efforts will be central to reducing corruption. However, the Government believes that further steps need to be taken by the aid program to address the scourge of corruption in the region. Effective external assistance in countering corruption is difficult to design and implement, in part because it requires a fundamental change in the social and political culture of a country and must be driven from within. There will be a gradual expansion of anti-corruption activities based on a solid understanding of what works and lessons learnt.

The aid program will increase efforts to reduce corruption by:

- **mainstreaming anti-corruption efforts in Australia's aid programs:** Each major activity will, as a matter of course, set out what it is doing not only to reduce the risks of corruption to the activity, but also to reduce corruption in the sector to which it applies. Country strategies will also set out how the aid program will help to reduce corruption.

- **developing a whole-of-government anti-corruption strategy:** The Government, through different departments and agencies, is already supporting a wide range of anti-corruption activities. Most prominent is the work of ECP in PNG and RAMSI. The AFP is active on anti-corruption enforcement; the Attorney-General's Department is active in multilateral initiatives such as United Nations Convention Against Corruption and through the OECD Foreign Bribery Working Group, and bilaterally supports improvements in legal frameworks in a number of regional countries; the Treasury and Department of Finance and Administration have made major commitments to supporting accountable public financial management in PNG, Solomon Islands and Nauru; and AusAID has a number of corruption education and prevention activities throughout the region. These disparate commitments will be brought together under one anti-corruption strategy, which will be developed during 2006 and is expected to lead to a new cross-government policy funding proposal being considered in the 2007–08 budget. An initial summary of the strategy is included in Box 15.
- **supporting regional and global anti-corruption initiatives:** These include the ADB OECD Anti-Corruption Initiative for Asia-Pacific, APEC Anti-Corruption and Transparency Experts Task Force, the OECD DAC/World Bank joint venture on strengthening procurement, governance aspects of the Pacific Plan, and support for Transparency International. Australia will support developing countries to implement the Extractive Industries Transparency Initiative, given the deep problems of corruption that oil, gas and mineral projects have led to in many countries. Australia will also help developing countries extend similar principles to the natural resource sectors, such as forestry and fisheries. A key focus will be to help ensure that developing countries receive the revenue that they are due from resource and forestry projects, and use it effectively.

#### Initiative Box 15: Anti-Corruption for Development

An anti-corruption strategy to guide the development and implementation of all Australian aid program activities aimed at countering corruption in the region will be developed by a core group of agencies: AusAID, Foreign Affairs and Trade, the Attorney-General's Department, the Treasury, Finance and Administration and the AFP. Other departments and agencies will be involved as necessary, but will work under core group management. The strategy will comprise three pillars: one for law and justice activities, one for economic and fiscal management, and one to build the internal demand within countries for greater transparency and anti-corruption. This model builds on Australia's early successes in countering corruption in Solomon Islands under RAMSI and in PNG under ECP. It will focus on the development of incentive structures for countries, sub-national governments, individual institutions and individual officeholders to resist corruption. The strategy will provide a statement of anti-corruption objectives and performance and evaluation indicators that will apply across aid-funded activities. A core tenet of the strategy will be close cooperation with other donors and international organisations, as well as with the Australian private sector. In view of the complexity and political sensitivity of corruption, the strategy will need to be conceived with a very long-term time horizon and will include some exploratory and experimental elements as well as ongoing research (such as the AusAID-supported National Integrity Studies of the Pacific undertaken by Transparency International).

The **law and justice pillar** will have five key operational themes: prevention, criminalisation, international cooperation, recovery of assets and technical assistance. With a key focus on strengthening and building the ability of Australia's partner countries to confront sources of corruption, activities will include:

- promoting effective criminalisation of supply-side corruption activities (an essential component of the OECD Convention on Foreign Bribery — all countries already criminalise domestic bribe taking)
- institutional strengthening to enable law enforcement, civil service, prosecution and judicial authorities to enforce legal requirements effectively, including through the implementation of appropriate institutional regulating laws and the transparent conduct of oversight and monitoring bodies

- effective building of international legal cooperation arrangements to promote the capacity to investigate and prosecute corruption, including the development of civil-based asset forfeiture regimes (an essential component of the United Nations Convention Against Corruption)
- promoting effective anti-money laundering regimes to track, trace and recover the proceeds of corruption (funding will be required for the Attorney-General's Department, the AFP and AusAID to implement this program; for example, the role of the AFP will include the formation under the International Deployment Group of a dedicated team of officers with a diverse background in corruption investigation and training).

The **economic and fiscal management pillar** will build upon the very solid base that has been established by the Treasury, Department of Finance and Administration and AusAID in the Pacific and to a lesser extent in Southeast Asia. The premise of this work is very simple: helping to improve budget processes, government financial management and procurement systems has far-reaching implications for improved transparency, accountability and work practices, making corrupt activities more difficult but more easily identified and criticised domestically. Given the strength of existing activities and engagement, only modest additional resources will be required to expand this pillar's work.

These two pillars will be complemented through **support to build demand** for transparency and anti-corruption within countries. Such demand is critical for long-term and sustainable improvements. Australia will build on its support for organisations that have the potential to play such a role, such as Transparency International, media groups, think tanks and the like. This will be part of the broader Building Demand for Better Governance program, described in Box 5.

### 6.3 Enhancing Australia's engagement with the Asia-Pacific region

The challenges facing the Asia-Pacific region will continue to evolve and become more complex. New policy responses will be required, and new expertise and players will be called on by the aid program to play a role, for example on pandemics, on infrastructure financing or on improving political governance. At the same time, a broader cross-section of Australian society is engaging with the region at government, business, professional and community levels. The aid program can benefit from and promote this engagement to strengthen the effectiveness of aid to the region.

The Government will work to further integrate and broaden Australian engagement in development in the Asia-Pacific region. This will centre on policy coherence and whole-of-government approaches to aid delivery, and on broadening participation beyond government.

#### i) Policy coherence and whole-of-government approaches

Development goes well beyond aid — other policies matter. Australia is recognised internationally for its strong record on policy coherence for development, particularly on issues such as trade. That record will be enhanced by ensuring that AusAID maintains and further develops its engagement on broader Australian Government policies that affect development (such as trade and investment) in collaboration with the other departments and agencies involved.

Australia is also recognised for its whole-of-government approaches to aid delivery. The increased involvement of other government agencies in the aid program draws in skills from diverse areas, from environment, education and health to economic policy and financial management. It also helps build long-term linkages between Australian and key developing country institutions.

Australia's whole-of-government approach will go further. First, to maximise impact and clarity of purpose (as well as to reduce the risk of fragmentation), single country strategies and implementation frameworks for major partner countries covering all ODA-eligible expenditure will be developed (see page 58). Second, opportunities to adopt whole-of-government approaches will be pursued on key issues such as corruption and law and justice (see page 61). Third, AusAID will play a central role in ensuring that the whole-of-government approach works and will often take a leadership and coordinating role. Fourth, as discussed in Box 14, the Office of Development Effectiveness will promote common and high-quality standards across ODA-delivering government agencies. Finally, the Development Effectiveness Steering Committee will advise the Government on whether major new ODA-eligible programs and initiatives are coherent and meet core quality and policy priority requirements.

## ii) Extending Australian engagement beyond government

Australia is a model of political stability, democracy, law and justice, economic growth and scientific achievement. This comes not simply from a strong government sector — business and private industry, scientific and other professional groups, a strong community sector and a vibrant media all contribute to the fabric of Australia's society. The Government believes that this broader Australian community can play an increasingly important role in the region's development, and that the aid program should support and encourage such an engagement in the following ways:

- **Research:** The aid program will boost and diversify its research investment (see Box 16). This is imperative if the program is to remain relevant and effective in a rapidly changing and increasingly complex development environment. Excluding support for agricultural research through the Australian Centre for International Agricultural Research (ACIAR), AusAID has a central research budget of \$2.5 million (0.1 per cent of Australia's ODA in 2004). By comparison, the United Kingdom's Department for International Development plans to spend \$230 million in 2006–07 (or over 2 per cent of that country's ODA). ACIAR's research work will be better integrated into the rural development strategy of the aid program and will function within the single framework of country development strategies. Greater private-sector participation in ACIAR research will also be sought. Consistent with the aid program's commitment to gender equality, research programs, including those of ACIAR, will incorporate gender considerations.

## Initiative Box 16: Larger and Diversified Development Research Program

Good development research leads to greater development effectiveness. A major initiative to boost and diversify Australia's development research investment will be implemented as a matter of priority. This will be guided by a new research strategy, to be developed in 2006, that will seek to support research in areas of high priority corresponding to the four White Paper themes (growth, functioning states, investing in people, and regional stability and cooperation) and the linked strategies to increase aid effectiveness. Longer term partnerships with research organisations in Australia and overseas, including in developing countries, will be central to success. An important longer term objective of the initiative is to build domestic and international research capacity on Asia-Pacific development.

The research strategy will be developed around four programs:

- a competitive program to provide support for priority and high-quality proposals put forward by research institutions
- a linkage with the Australian Research Council, through which AusAID will support research proposals (subject to the Council's competitive processes for funding)
- longer term collaborative relationships with key research bodies (in Australia and overseas) on critical topics
- a directed research program in which AusAID will solicit research on specific topics of interest.

Researchers will be encouraged to work in conjunction with developing country partners in order to strengthen capacity. Consistent with the policy of untying aid (see Chapter 3), all aid program research will be open to international competition. Support will be provided to selected global development research organisations, with the aim of building more and stronger links between Australian and developing country researchers. Priority will be given to dissemination, particularly within the Asia-Pacific region.

- **Non-government organisations:** The aid program will make continued and increased use of the non-government community as a delivery mechanism for Australian aid. Expanded support for NGO involvement in the aid program will be provided through a range of measures, but with an emphasis on supporting NGO activities that are aligned with the focus and priorities of official aid program strategies (the PNG Church Partnership Program is a good example). This support will also be made available to developing country and international NGOs that meet the required standards. The Australian NGO Cooperation Program is an important source of collaboration between the Government and accredited professional development NGOs, and its funding will be increased. The application of NGO Cooperation Agreements will be expanded, but with tighter criteria for the countries and sectors of priority.
- **New partners in development:** The aid program will strengthen and expand linkage programs in order to broaden the range of entities working on development in the region. This will be particularly important in areas such as political governance, anti-corruption and HIV/AIDS. The aid program, however, cannot and should not try to be all things to all groups. A selective and prioritised approach will be developed to maximise impact and minimise administrative burden, while ensuring proper standards of accountability. The Mobilising New Australian Links to the Region initiative will be launched to tap into the skills and experience of the broader Australian community to contribute to the region's development (see Box 17).



### Initiative Box 17: Mobilising New Australian Links to the Region

The Government will boost support to mobilise a broader range of potential Australian partners to help address the region's development challenges. Further analysis and prioritisation will be undertaken on the following linkage options.

**Community-based organisations:** Some small groups are unable to meet the accreditation standards established by AusAID for access to NGO funding. While there is no suggestion that accreditation standards should be lowered, a two-tier approach will be adopted. This will enable community-based organisations that lack the formal arrangements needed to meet AusAID's accreditation standards to qualify for small amounts of project funding and thus build further cross-country, people-to-people linkages. Guidelines will be developed in the near future for this second tier.

**Professional bodies:** Agreements will be sought with peak bodies relevant to core program priorities. These may include service organisations and/or medical and legal groups, with agreements covering education, linkage and assistance programs.

**Business links:** With a strengthened focus on growth, more substantial links with the business community will be pursued. This goes beyond investment and more traditional business matters to issues of shared concern. The Asia-Pacific Business Coalition on HIV/AIDS, initiated by AusAID in partnership with the Lowy Institute and launched recently by the Minister for Foreign Affairs, Mr Downer and former United States President Bill Clinton, is an example of the partnerships that the aid program will seek to foster.

**Local government and school links:** The aid program will consider ways to involve local government organisations, for example in the smaller Pacific Islands where service delivery is on a scale closer to that provided by local governments. Linking schools in Australia with schools abroad can provide considerable development education opportunities, and deepen Australian children's perceptions of themselves as global citizens. This will be taken up in the planned education strategy.

## 6.4 Working with partners

Partnerships with a wide range of groups are essential for an effective aid program. Australia will pursue stronger partnerships, particularly with developing country governments, private and non-government entities, bilateral and multilateral aid agencies, in order to enhance effectiveness.

### i) Partnerships with regional governments

As stated in Chapter 3, aid programs that are owned and driven by the partner government are more sustainable. The shortcomings of traditional approaches, in which projects are contracted out to external managing agents, are increasingly recognised; and moves have begun towards more programmatic approaches that require greater partner government responsibility in decision making and, in some cases, funding. In PNG, AusAID's funding for road maintenance is now managed primarily by partner government agencies, which are responsible for contracting out implementation. To make the full transition, partner governments will assume a greater share of responsibility for all stages of development assistance, from priority setting and planning to delivery and implementation. Wherever possible, the partner government will be in the driving seat; Australia will play an assisting, review and dialogue role, rather than a direct implementation role. In stronger settings with adequate safeguards, funding through government budgets will be considered.

Australia supports the 2005 *Paris Declaration on Aid Effectiveness*. This calls for closer partnerships between aid agencies and partner countries through the delivery of aid via the partner country's budget and the use of its procurement and financial management systems where possible. While this approach will not always be possible, especially in fragile states, in all cases activities will be designed and implemented collaboratively with partner governments and other development partners.

Australia will also work in close partnership with the local private and non-government sectors in partner countries, especially in fragile states. The aid program will try to increase their role as implementing agents for delivery of the program in the key sectors of infrastructure, rural and private sector development, health and education.

## ii) Partnerships with bilateral agencies

The significant increases in global aid budgets place a premium on accelerating efforts to coordinate and harmonise aid programs, both multilateral and bilateral. Excessive fragmentation of donor effort, in the form of duplicated missions and programs, reduces aid effectiveness and adds stress to already stretched partner government resources. Working more closely with other donors, for example through blending and co-financing arrangements, will reduce this burden. This will require joint analytical work and coordinated provision of technical assistance. Australia has already begun to implement this agenda (for example, with New Zealand in the Cook Islands).

Ultimately, harmonisation also entails delegating responsibility to other donors for the delivery of aid programs. This already occurs with support to multilateral organisations, particularly the World Bank and the ADB. The Government will be proactive but pragmatic in delegating aspects of Australia's aid program to other donors where those donors have the expertise and commitment to take on this role (for example, through the United Kingdom's Department for International Development in South Asia). For activity-level delegation and co-financing arrangements, this will involve accepting the design and evaluation standards of the main aid agency, as already happens with the World Bank. At the same time, Australia will encourage other donors to delegate parts of their aid program to Australia where this makes sense to both parties. This will also allow an extension of Australia's leadership role on key issues, and has already been done on legal reform and on HIV/AIDS in Indonesia.

The aid program will pursue stronger relationships with new donors, particularly with China, India, Thailand and Malaysia, whose footprints in the region are likely to grow in the coming years. Australia will build on and strengthen its engagement with the European Union, particularly with regard to its role in Australia's immediate region.

### iii) Leveraging the multilaterals

Twenty per cent of Australia's aid passes through multilateral channels. Two-thirds of this goes to international financial institutions (IFIs), with the balance to various United Nations and international organisations. This is a low ratio compared to other donors, reflecting Australia's focus on Asia and especially the Pacific, where most multilaterals are less engaged.

Supporting multilaterals is not an end in itself, but is useful when it advances Australia's development objective. The Government will be more proactive in leveraging the multilaterals to focus on issues of core interest to Australia. This is particularly relevant to engagement with the World Bank and the ADB, which the Government views as Australia's key partners because of their financial weight, policy dialogue role and convening power. The recently concluded replenishment rounds of the International Development Association and Asian Development Fund — the concessional lending arms of the World Bank and the ADB, respectively — resulted in a 25 per cent increase in Australian commitments. Australia will support sensible expansions to the International Development Association and the Asian Development Fund.

Australia will also work more with the IFIs in areas of mutual interest. Australia's comparative advantages are its grant-funding, flexibility, and ability to work with non-state actors as well as governments. The IFIs' comparative advantages are their convening power and influence, their independence, and their technical depth. A good example is the aid program-supported Pacific Trust Fund, which has played an important role in further engaging the World Bank in the Pacific. Many Pacific island countries are reluctant or unable to borrow from the IFIs. This makes them unable to benefit from the IFIs' expertise and projects, leaving Australia exposed as the major or sometimes only donor. Australia will look to 'buy in' IFI projects to the Pacific and facilitate greater multilateral involvement in the region. Australia will also partner with the IFIs in East and South Asia, particularly through trust funds (which are of considerable assistance to the IFIs in helping them respond more effectively to client countries). A priority area for partnership is infrastructure, where Australia's comparative advantages dovetail well with those of the World Bank and the ADB.

Australia will continue to support the core UN and multilateral agencies that play crucial global roles, such as the WHO. Beyond that, the level of support for multilateral agencies will be based on their relevance to the priorities of this White Paper, whether their focus includes the Asia-Pacific region, and their continued effective performance within the region.

Australia will support partnerships in the humanitarian area where multilateral and international organisations are particularly important, including with the World Food Programme, the UN Office for the Coordination of Humanitarian Affairs and the International Committee of the Red Cross.

Australia will pursue more strategic engagement with other relevant and effective international institutions. The Global Fund is a particular case in point. Its mandate on AIDS, tuberculosis and malaria is relevant for Australia's medium-term aid strategy.



## CHAPTER 7

### Aid management



Australia's aid program is focused, practical, effective and efficient. The directions and initiatives in this White Paper build on a very strong base. However, the demands on AusAID, other agencies and departments in implementing this White Paper will be significant, not least in handling a doubling in aid volume. Many things will need to be done differently, and there are important new emphases. This chapter briefly highlights a number of aid management issues that will be central to ensuring that the Government's strategic framework for the aid program is delivered successfully and has a real impact on reducing poverty in the region.

AusAID will be producing a new corporate plan and Agency Business Plan to coincide with the release of this White Paper. The Agency Business Plan will set out *how* the White Paper will be delivered. The implications are significant, and AusAID needs the business processes and resources to meet the challenge.

## 7.1 Grant aid

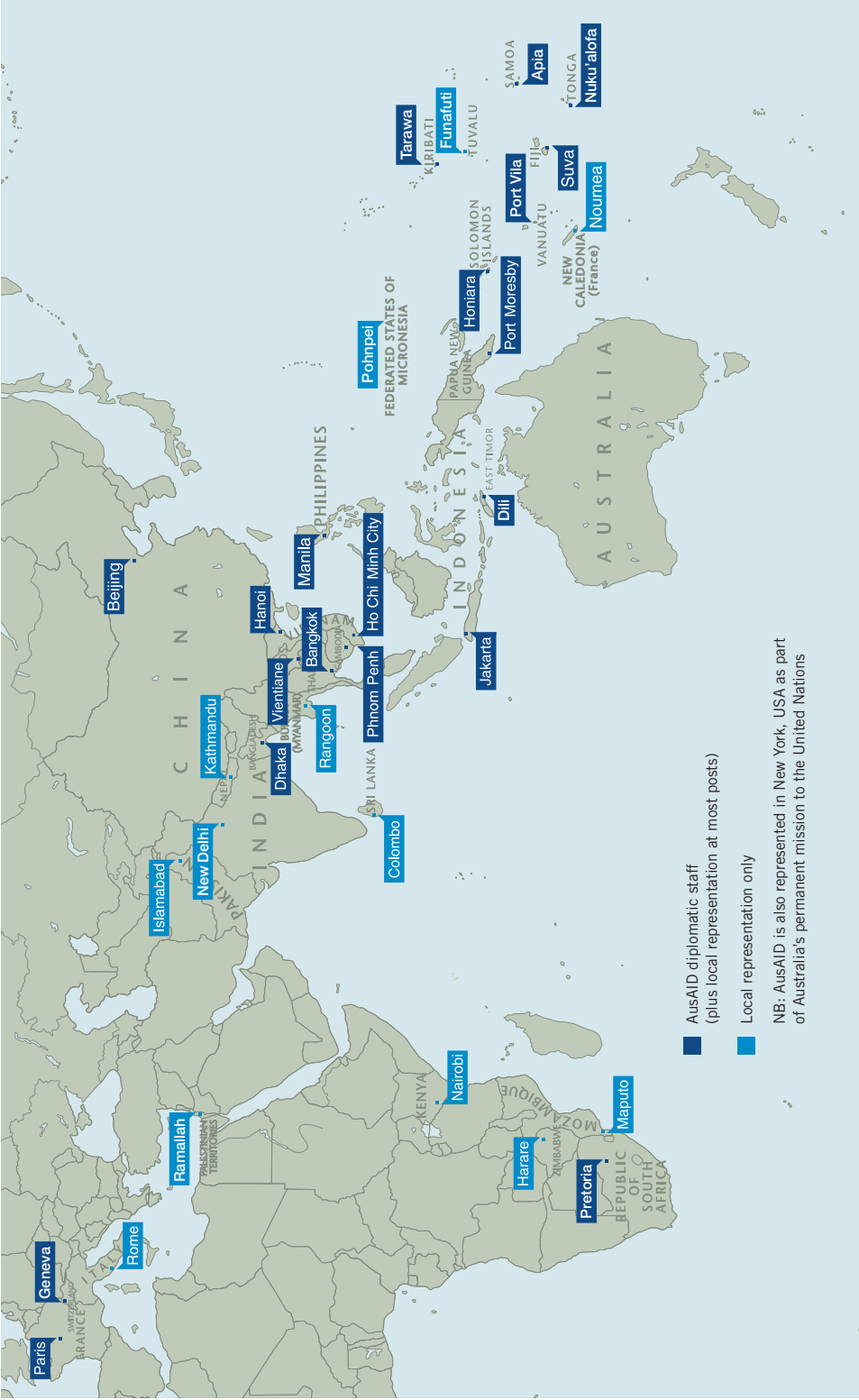
Since 1996, the Government has been quite clear that Australian aid is provided through grants, not commercially focused loans. Australia has recently introduced a development loan program as part of the Australia Indonesia Partnership for Reconstruction and Development (AIPRD). This \$500 million program will support two key development priorities of the Indonesian Government: funding the rehabilitation of more than 2,000 kilometres of heavily trafficked roads in poor areas of eastern Indonesia, and the construction of 1,500 new junior secondary schools in poor, remote districts.

However, further loan programs are not envisaged unless, like AIPRD, they meet specific needs and demands in partner countries. Australia's membership of the World Bank and the ADB, and its significant contributions to the International Development Association, the Asian Development Fund and the Global Environment Facility, ensure that Australia is investing in no small measure in sensible development loan financing. As a bilateral donor, Australia's role has been to provide mainly grant funding and this will continue, not least because the economies of most of the principal aid partners in the region are fragile and it would be inappropriate to burden them with more debt. Under the Infrastructure for Growth Initiative (see Box 2 in Chapter 5), it is envisaged that Australian grant funds will be used to blend with IFI loans that have economic and social benefits and to enhance the quality of the loan (for example, by strengthening anti-corruption measures).

## 7.2 Resourcing

The Prime Minister's announcement of a doubling of Australia's ODA to around \$4 billion by 2010 poses a number of challenges, such as how to ensure such increases are applied effectively and not simply disbursed for the sake of being disbursed. Accordingly, 2006 and 2007 will be a period of program development and design, with major implementation of many of the initiatives outlined in this White Paper to follow sensible piloting. A straight-line increase in aid

**MAP 4** Current AusAID overseas representation



volume to 2010 will not occur. AusAID will bear the primary responsibility for program development and will be resourced accordingly, although the departments of Foreign Affairs and Trade, Treasury, Finance and Administration, the Attorney-Generals, and Education, Science and Training will also be resourced to play important roles in the delivery of the White Paper initiatives. The AFP, through the International Deployment Group, will also require further resourcing for new program development and in order to place greater emphasis on capacity building within the region as well as on law enforcement.

This White Paper is not a budget document. All initiatives and funding requests will be processed through the normal budget process and will be assessed on their merits, taking into account overall aid effectiveness, as reported annually by the ODE, and other budget demands at the time.

### 7.3 Focus of aid delivery

The themes of this White Paper demand a greater level of policy engagement with partner governments by AusAID and other aid program actors, as well as a greater level of direct operational management. For example, to implement the strategies in health and education outlined in Chapter 5, there will need to be greater direct, field-based, policy engagement with partner governments and hands-on management of the programs. In Solomon Islands, AusAID and other Australian Government agencies are already directly involved in successfully implementing a challenging reform and development program under RAMSI, rather than simply contracting out all services to private contractors.

Accordingly, more Government-employed staff will need to be located overseas, especially in the priority areas of Indonesia, the Philippines, East Timor, the Mekong, PNG and the Pacific. This will build on the increases in field resourcing that has been occurring over recent years in efforts to improve effectiveness (Map 4 shows the current AusAID overseas representation). At the same time, a greater diversity of agencies and institutions (government, private sector, academic and community) will be engaged in delivering Australian aid. The Government does not underestimate the complexity of the future management arrangements. AusAID will have primary responsibility for providing overall coherence and coordination. The role of the ODE and the Development Effectiveness Steering Committee, which is covered in some detail in Chapter 6, will be important in this regard.

The increase in field-based resources and the complexity of program implementation will mean that further investments will be needed in communications and aid management systems and processes.

### 7.4 Skills

The Government's emphasis on performance and aid effectiveness throughout this White Paper will be reflected in all aspects of aid management. AusAID and members of other departments and organisations with responsibility for aid delivery will be expected to adopt a stronger performance culture and will be subject to continuous performance review. AusAID will be required to have a greater analytical capacity and a deeper knowledge of countries within the region in order to provide stronger insights into the binding constraints to growth and paths to reform.



AusAID will increase its knowledge and expertise in health, education, economic policy, infrastructure and the environment. Australian Government agencies, including AusAID, will increase their capacity-building expertise in anti-corruption measures, transnational threats and political governance.

## 7.5 Aid Advisory Council

In 1998, the Minister for Foreign Affairs established the Aid Advisory Council, comprising a number of eminent individuals from the public, private and non-government sectors.

The Council has played an important role in providing independent insights and advice on various aspects of aid policy, and was influential in the development of the Core Group Report in 2005. The Aid Advisory Council will continue to meet twice each year, with one meeting focused on the *Annual Review of Development Effectiveness*.

## 7.6 Communications

During the consultation process for this White Paper, observations were made that, while the Australian aid program was achieving impressive results, AusAID was not maximising the opportunities to capture its achievements and share information with the Australian public, stakeholders and development partners. To help overcome this, a clearer articulation of program goals and objectives will be important for the long-term, in-country support of aid programs. The RAMSI model is an excellent example of disseminating messages beyond the bureaucrats to the community, thereby gaining their support. Timely reporting on aid program achievements will also underpin support within Australia. There is an appetite in government and among the public for information on the impact that the Australian aid dollar is having. In addition to publishing evaluations and the *Annual Review of Development Effectiveness*, AusAID will be even more accountable to the Parliament for the application of an increasing aid budget, and will increase transparency and information sharing to a wider audience.

Australian aid is effective, and is making a real difference to countless people in the Asia-Pacific region. Through the implementation of this White Paper, in the coming decade it will have a greater reach and impact and will be more effective. The Australian public and the countries benefiting from the aid program can expect the Australian Government to be even more responsive, professional and accountable in delivering Australian ODA. The scale of the development challenges and the level of Australian investment in growth and stability in the region demand nothing less.

## Abbreviations and acronyms

<b>ACIAR</b>	Australian Centre for International Agricultural Research
<b>ADB</b>	Asian Development Bank
<b>AFP</b>	Australian Federal Police
<b>AIPRD</b>	Australia Indonesia Partnership for Reconstruction and Development
<b>AP6</b>	Asia-Pacific Partnership on Clean Development and Climate
<b>APEC</b>	Asia-Pacific Economic Cooperation
<b>ASEAN</b>	Association of Southeast Asian Nations
<b>ASEAN+6</b>	ASEAN members plus Australia, New Zealand, India, China, Japan and Korea
<b>AusAID</b>	Australian Agency for International Development
<b>DAC</b>	Development Assistance Committee (of the OECD)
<b>ECP</b>	Enhanced Cooperation Program
<b>GDP</b>	Gross domestic product
<b>HIV/AIDS</b>	Human immunodeficiency virus / acquired immune deficiency syndrome
<b>IFI</b>	International financial institution
<b>LDC</b>	Least developed country
<b>MDG</b>	Millennium Development Goal
<b>NGO</b>	Non-government organisation
<b>ODA</b>	Official Development Assistance
<b>ODE</b>	Office of Development Effectiveness
<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>PNG</b>	Papua New Guinea
<b>PPIAF</b>	Public-Private Infrastructure Advisory Facility
<b>RAMSI</b>	Regional Assistance Mission to Solomon Islands
<b>SARS</b>	Severe acute respiratory syndrome
<b>US</b>	United States
<b>WHO</b>	World Health Organization
<b>WTO</b>	World Trade Organization

## Glossary of selected terms

### **Adaptation (to climate change)**

Adjustments in practices, processes, or structures to offset the potential for damage or take advantage of opportunities created by a given change in climate. There is potential for developed and developing countries to enhance and/or acquire adaptive capabilities.

### **Capacity building**

The process of developing competencies and capabilities in individuals, groups, organisations, sectors or countries which will lead to sustained and self-generating performance improvement.

### **Delegation of Responsibility**

Delegating responsibility of aid funding to another donor agency or organisation, which acts as the agent for aid delivery.

### **Fragile states**

States that face particularly difficult development prospects because of weak governance, policies and institutions. Fragility can be exacerbated by political, economic and/or social instability, including conflict. There is no definitive list of fragile states — many are fragile in only some respects and may move in and out of fragility.

### **Fragmentation**

Occurs when more than one donor is actively funding activities, with each donor taking little account of what the others are doing and imposing its own procedures. The burden of this lack of coordination is heavy for developing country administrations that are already struggling to function effectively.

### **Donor harmonisation**

Coordination by donors of their processes and procedures, so that the burden of this aspect of aid provision is borne by them rather than by developing partner countries.

### **Official Development Assistance**

Funding that flows to the recipient countries listed by the OECD as developing countries and to multilateral organisations. ODA-eligible funding is provided by official agencies (including federal, state and local governments and their executive agencies); administered with the promotion of the economic development and welfare of developing countries as its main objective; is concessional; and conveys a grant element of at least 25 per cent.

### **Policy coherence**

Term used to describe how developed country policies that impact upon development (trade, investment, aid, migration, etc.), work together to support development in developing countries.

