



EXECUTIVE SUMMARY

Australian Aid: Promoting Growth and Stability



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

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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



