

## ANNUAL STATEMENT ON THE AID PROGRAM 1990

Senator the Hon Gareth Evans QC, Minister for Foreign Affairs and Trade, 21 December 1990.

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In its response, tabled on 20 December 1989, to the recommendations of the Joint Committee on Foreign Affairs, Defence and Trade (JCFADT) Review of AIDAB and Australia's Overseas Aid Program, the Government agreed to make an annual Parliamentary statement on the aid program.

This is the first of these statements, which, broadly speaking, covers the aid program for the last twelve months. This statement complements, and should be read in conjunction with, the more detailed information on the aid program to be found in the Foreign Affairs and Trade Portfolio Explanatory Notes (Budget Related Paper No. 6.8) and Budget Related Paper No. 4 on Australia's Overseas Aid Program.

### An environment of change

The last twelve months have seen significant events and the emergence of new priorities, presenting challenges to the nature of Australian development cooperation.

Perhaps one of the most dramatic changes on the international scene has been the opening of Eastern Europe and renewed relationships between East and West. The rallying of donors to support the reconstruction of Eastern Europe has had implications not only for Australia's contribution, but for the relative priority and allocations of international ODA flows to countries in our Asia-Pacific region. There has emerged the prospect of new bilateral relationships with developments in Indochina and Afghanistan. In Indochina there is now the promise of a political resolution to the situation in Cambodia, while in Afghanistan, we witnessed the withdrawal of Soviet armed forces. Significant indications of reform appeared in South Africa, not least the highly symbolic release of imprisoned activist Nelson Mandela and legalisation of the African National Congress. Most recently we have seen the invasion of Kuwait by Iraq and the onset of the current Gulf crisis. International events include now the drawing to conclusion of the significant GATT Uruguay Round of trade negotiations, which has important implications for developing countries and donors alike. Also in recent years there has been a continuation of the trend of marked economic growth and development among the so called Newly Industrialising Countries in our neighbouring Asian region.

In addition to changes in the global political framework, the international development

cooperation agenda has thrown up a number of important issues to be addressed. While some of these are not new, they have at least emerged with new emphases.

Of major significance has been the increasing emphasis which donor countries are according the macro-policy settings within developing countries. Achieving a policy environment within developing countries conducive to maximising the effectiveness and sustainability of development activities may well become the focus of development cooperation in the 1990s. Bilateral policy dialogue, or the discussion of macro-policy settings with recipient governments, is receiving recognition as the appropriate means to this end.

Foremost among specific issues influencing the international development assistance agenda has been the link between concern for the natural environment and sustainable development. In 1987, the World Commission on Environment and Development, chaired by G H Brundtland, issued its report entitled "Our Common Future". This report promoted the concept of sustainable development, meaning development for the satisfaction of the needs and aspirations of the present generation without compromising the ability to meet those in the future. Brundtland's report increased international debate on the role of development assistance in promoting sustainable development.

Continuing world population growth, while a fundamental concern that has always received focus in international development assistance, is set to receive more emphasis in Australian development cooperation in future programs. This has stemmed in part from concern for the environment, with links being drawn between population pressures and global resource depletion. It has also been based on concern about the increasing number of people living in absolute poverty. This number has been estimated to stand now at about one billion people. This most pressing humanitarian problem is one to which Australia must respond.

Concern for equity in the aid program and about the lead time for impact of general development on particular target groups has also brought issues such as Women in Development to the fore in recent years. Other major subjects of current importance include the closer targeting of international assistance on the development of the private sector in recipient countries, and the response of aid to human rights, with particular concern centring on civil rights abuses.

### The Australian context

The Australian aid program has responded not only to the international agenda, but also to domestic developments. In recent years, pressure has been placed on the aid program with the restriction on resources in the face of difficult domestic economic circumstances. One of the major effects of this has been the imposition of stringency in the allocation of these

resources, requiring sharper focusing of activities in pursuit of the aid program's objectives.

Against a challenging background, of both international and domestic developments, the Australian development cooperation program made significant progress on a number of important fronts. Some are highlighted below. While not an exhaustive coverage, it represents a cross section of key issues that have been addressed over the last year.

## Aid Volume

The Government remains committed in the longer term to the UN target of an ODA/GNP ratio of 0.7 per cent, and to trying to raise this to at least 0.4 per cent in the shorter term. However, the need for overall budgetary restraint remains the dominant factor in setting the level of the aid budget.

Since 1987-88, aid expenditure has been maintained at around the same real level. An exception was a one-off increase in 1988-89 to allow additional payments totalling close to \$100 million to be made to the World Bank and the Asian Development Bank. (These payments had not been provided for in the Forward Estimates for 1989-90 and may not have been able to be funded by an additional appropriation in that year: a shortfall in total expected Government expenditure late in the 1988-90 financial year made it possible for the payments to be brought forward to that year, thus avoiding later difficulties.) In the 1990-91 Budget, aid expenditure was increased by 1.6 per cent in real terms, greater than the average increase in Commonwealth outlays.

The volume of Australian aid remains a high profile issue, signifying its importance among aid constituencies. Despite the achievements that the Government has made in maintaining aid expenditures in the face of difficult circumstances - and it should be acknowledged that the aid program has been well protected in comparison to some other areas of Government activity - the Australian Council for Overseas Aid, in particular, has been vocal in criticising these efforts. Recent criticism has centred on distortionary effects that the \$100 million increase in payments to the Banks in 1988-89, and again in the current financial year, have had on year-to-year comparisons of aid volume. This has been disappointing, considering the information that the Government has shared with the aid lobby on the difficulties which the payments to the Banks, difficult to anticipate in their amount and timing, posed to Australian aid commitments.

## Policy dialogue

Policy dialogue is the cooperative process by which development partners address the recipient country's policy framework. A country's policy framework forms the context for development investments and other assistance. The priority accorded to policy dialogue is

in recognition of the fact that external resources can assist economic growth, poverty alleviation and broad development only if legal, regulatory and administrative policies are supportive. Policy dialogue can be undertaken bilaterally, or involve several parties including international financial institutions.

The Papua New Guinea program has been first in our efforts to develop a more sophisticated approach to bilateral policy dialogue. This is in recognition of the importance of PNG in the Australian aid program and the substantial flows of Australian aid resources to the country. It also recognises emerging concerns for getting the policy context right. This is a necessary condition not only for the effective utilisation of aid, but for the country's development overall.

As a base for policy dialogue, AIDAB has drawn on the regular economic analyses of PNG which it began in 1988. AIDAB has fed the results of this work into policy analysis and formulation, advice to Ministers and exchanges with the PNG Government. This investment has enabled a better understanding of how development programs fit in with wider economic strategies and also facilitated contributions by Australia to policy dialogue in the context of the World Bank Consultative Group on PNG. Importantly in the last twelve months, it allowed Australia to determine appropriate aid policy responses to the economic impact of the closure of the Bougainville mine and the recent sharp downturn in PNG's terms of trade.

PNG has embarked on a major program of stabilisation and structural adjustment, developed in cooperation with the International Monetary Fund, World Bank and Asian Development Bank. Australia's contribution included an additional \$15 million in balance of payments support in 1989-90 and \$3 million and \$5 million in programmed activities in 1989-90 and 1990-91 respectively. Australia's coordinating with multilateral organisations in the structural adjustment program marked a major achievement against a key objective of Australia's development cooperation relationship with PNG, namely, to encourage the diversification of PNG's sources of external assistance.

It is now planned to extend the work on the development of bilateral policy dialogue to the other major recipients of Australian assistance in the South Pacific. This is in keeping with the primary importance of the region to Australia. It is also timely, with many independent countries in this region now in a second decade of nationhood and facing new challenges.

In 1989-90 a World Bank economic review of the region was made possible under the special World Bank - AIDAB South Pacific Facility. The Australian-funded review was conducted by the World Bank for its Pacific member countries (except PNG): Fiji, Kiribati, Solomon Islands, Tonga, Vanuatu and Western Samoa. The aim was to examine development performance, assess economic prospects and address some of the major

issues for development in the region. The review will hopefully provide a basis for better aid coordination and improved policy dialogue with the Pacific island countries. The review report was launched with much success in November 1990 at a World Bank seminar of island governments and key donors in Singapore. The meeting reached consensus on the appropriate domestic policies for an improved growth performance in the 1990s and the need for more effective utilisation of ODA, including through improved aid coordination and greater policy dialogue.

### New country programs

In March 1990, Australia welcomed the independence of Namibia and announced the commencement of a bilateral program of assistance. Australia made an initial commitment of up to \$6 million over the three years 1990-91 to 1992-93, which will be drawn from the existing allocation for the Southern Africa program. The program will focus on food security, transport and communications, education and mining. The program is intended to support the stability of the changed political configuration in Southern Africa.

In New Caledonia, where Australia has been providing assistance to the Kanak people in recent years through non-government agency channels, the offer of twelve training awards in 1989-90 through the New Caledonian authorities marked a significant development in Australia's relationship with the territory. A further twelve awards have been offered this financial year, again for intensive English and vocational training.

The Prime Minister announced in early 1989 development cooperation programs for India and Pakistan, to commence in 1990-91. The programs will emphasise the building of mutually beneficial economic linkages through contributions to economic development. The India program is expected to amount to \$35 million over a three year period. Despite some delays on both the Indian and Australian sides in reaching agreements on program priorities, substantial progress was made in the development of the program during 1989-90. The inaugural High Level Consultations between Australia and India were held in October 1990 at which Australia expressed the hope that delays would be overcome. Design of specific activities is continuing, with a focus on energy, mining, telecommunications, post-harvest food processing and railways assistance. The Pakistan program will total \$15 million over the same period. Its sectoral focus will be in mining and mineral processing, telecommunications, post-harvest food processing and livestock development.

### New directions in traditional programs

In addition to the expansion of the development cooperation to the countries above, there were some significant new directions within existing country programs in 1989-90. These directions aimed at refocusing the impact of Australian assistance for the greater

achievement of program objectives.

After difficulties in the Fiji program in the wake of the 1987 coups, the program was successfully consolidated in 1989-90. The current program, of an estimated \$13.2 million in 1990-91, has been designed to ensure that it is of benefit to all communities in Fiji.

In Indonesia, a major new strategy of assistance for East Timor has been approved in principle. This follows the declaration by the Indonesian Government in January 1989 of East Timor as an open province, with status on par with other regions of Indonesia. The program aims to raise living standards and productivity in East Timor, building upon activities which have been successfully applied in other provinces in the Eastern Islands. These activities include water supply and sanitation programs and agricultural inputs in West Timor.

In the last fifteen months there has been progress in the political situation in South Africa, especially the lifting of the ban on key political movements and the release of Nelson Mandela. Australia has been active in encouraging the dismantling of apartheid. Complementing efforts on this front has been the provision of assistance to black South Africans in preparation for democracy in South Africa under the Special Assistance Program for South Africans. Supportive of these measures of assistance has also been the three year \$100 million program of aid to Southern Africa which was pledged by the Australian Government in 1987. The successful completion of this landmark program was achieved in July 1990, delivering assistance to the (then) nine member

states of the Southern Africa Development Co-ordination Conference (SADCC): Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe. (SADCC now includes Namibia.) The program had also included assistance for the SADCC organisation itself. In May 1990, the Australian Government committed further assistance over the three years to 1992-93 for humanitarian and educational activities aimed at overcoming the impacts of apartheid. Assistance is expected to be close to \$17 million in total, including \$15 million allocated to activities identified in consultation with the African National Congress.

In 1989-90, Australia reactivated a program of development cooperation with Malaysia. This was precipitated by the decision taken in December 1988 to phase out the program under which private students from developing countries were subsidised a proportion of the cost of their education in Australia. More than half the number of students under the previous program came from Malaysia. This made the student subsidy virtually the sole source of Australian aid to that country. The new Malaysia program focuses on scholarships as well as activities in nuclear-based medical technology, narcotics control, energy and other infrastructure development. It establishes a relationship of cooperation with the Malaysian Government which reflects the country's level of development.

1989-90 was the first year of the Treaty on Development Cooperation signed between Australia and Papua New Guinea in May 1989. The Treaty established the principles, levels and forms of aid for the period 1989-90 to 1993-94. A central tenet is the scaling down of budget support in favour of increased project assistance. Consistent with its policy of achieving fiscal self-reliance, the PNG Government wishes to speed up this move away from budget support and discussions will soon begin towards this end.

The significant events in the program to PNG encompassed also an efficiency audit by the Australian National Audit Office (ANAO). The report of the audit, tabled in November 1990, recommended that AIDAB seek to influence the direction of aid provided as untied budget support. This was in view of the conclusion that PNG's development had been disappointing, despite the very large volume of assistance provided by Australia since PNG's independence. The report made additional recommendations to improve the delivery and management of project aid under the PNG program. While AIDAB generally agreed with the findings of the efficiency audit report, it considers that its assessment of Australia's aid performance does not adequately recognise the serious constraints to PNG's development. AIDAB believes that ANAO's correlation between the provision of budget support and PNG's poor social and economic indicators does not give due regard to the wider political and strategic considerations that influence Australia's aid policy. Nonetheless, the ANAO efficiency audit makes a timely and important contribution to public scrutiny and awareness of AIDAB's performance in carrying out the official development cooperation program with PNG. Its recommendations lend support to the two important directions of increasing policy dialogue and phasing out budget support operating within the program.

There were, of course, difficulties to be overcome in the delivery of some of Australia's aid commitments to various countries.

Due to political and social disturbances in Burma, Australian aid to that country was severely curtailed. Currently, Australia's only contribution to Burma is through the support of students who are completing their studies in Australia.

Following the events of June 1989, development cooperation activities with China in 1990-91 will only include those commenced or in the pipeline before 13 July 1990.

In early 1989, the Prime Minister of Solomon Islands wrote to donor countries, calling a halt to all programs of external assistance. Solomon Islands' objective had been to take stock of aid flows and review its development priorities. This was a significant interruption in the delivery of Australia's program to Solomon Islands. Resolution of the problems in late 1989 allowed the successful resumption of the program.

A new aid scholarship scheme

The new Equity and Merit Scholarship Scheme (EMSS), introduced in 1990, broke new ground in education assistance. For the first time, private citizens from developing countries were able to apply directly for Australian Government Scholarships. EMSS was an outcome of the 1988 review of Australia's overseas student policy, replacing in the aid program the previous subsidised scheme for private overseas students. It represents a significant heightening of the effectiveness of training assistance in the development cooperation program.

EMSS involves two streams of scholarships: equity scholarships for students of academic ability but of economically or socially disadvantaged circumstances, and merit scholarships for students of exceptional academic merit. Students from twenty four countries, predominantly in the Asia-Pacific region, participated in the first intake under EMSS in 1990, with 910 students commencing study in Australia under the scheme. The number of students under EMSS is expected to rise to around 2500 by 1992.

### Environmental concerns and sustainable development

Environmental concerns have gained momentum on both international and domestic fronts. In Australia, the Prime Minister's major policy statement on the environment in 1989 included a statement on Australia's role in achieving sustainable development through the development cooperation program.

The main objectives formulated for the aid program in regard to sustainable development are to:

- . ensure that ODA commitments by other Government departments to international environmental initiatives take full account of development priorities and objectives
- . help develop a network of relationships, particularly among the countries of Southeast Asia and the South Pacific, to facilitate their involvement in environmental activity
- . assist in promoting Australia as a centre of environmental expertise and marketable technology.

The Prime Minister's statement also announced a \$20 million Environmental Assistance Program to be implemented over four years, commencing in 1989-90.

In May 1990, the Government issued its response to the Report on Environmental Impact of Development Assistance by the Senate Standing Committee on Environment,

Recreation and the Arts. The Government undertook to ensure that the principles of sustainable development infuse the programming approach to aid delivery. The central approach adopted was to build a portfolio of development assistance activities and projects that are environmentally sound and contribute to sustainable development. In addition, environment-specific projects or programs will be carried out.

### Poverty alleviation

AIDAB addressed the issue of poverty alleviation in 1989 and 1990 with a paper of policy and programming issues within the program. The primary purpose of the first draft of the paper was to stimulate discussion in the Australian community on poverty in developing countries, on how the Australian aid program tackles poverty, and how this contribution could be enhanced. The paper was provided to participants attending the 1990 World Development Debate, held in Canberra in August 1990. Discussion of these issues at the Debate led to a number of suggestions for change. Work continues in this area to follow up the comments received from the World Development Debate and written submissions from interest groups, and further to investigate program options for the incorporation of poverty alleviation concerns in the aid program.

### Rapid growth in the Development Imports Finance Facility

Australia's mixed credits scheme, the Development Imports Finance Facility (DIFF), has expanded rapidly in recent years. In 1989-90, the scheme was reviewed. Among the major outcomes was the application of a ceiling on DIFF expenditure of \$100m (in 1990-91 prices). The maximum size of a DIFF grant was reduced to \$75m. This ruled out the so-called "mega-DIFF" proposals altogether, except for proposals then on hand. Changes were also made to DIFF guidelines to improve the assessment of the developmental worth of DIFF projects and create greater equity in its distribution among Australia's aid recipient countries.

### Cooperation with the Asian Development Bank

In August 1990, a cooperation agreement was signed between Australia and the Asian Development Bank (ADB). This agreement formalises arrangements for cofinancing of development activities between Australia and the ADB and canvasses possible arrangements for a South Pacific Special Fund to be set up by the ADB. The agreement will assist Australia to build the same effective cooperative relationship which we have been able to build in recent years with the World Bank.

### Increased payments to international financial institutions

Over the last few years, contributions to the World Bank and the Asian Development

Bank have increased significantly. The increases have resulted mainly from a reduction in the period of the draw-down of commitments made to the Banks. The result has been considerable pressure on the global aid budget and an upward trend in the share of the program delivered through multilateral, rather than bilateral, channels. Bilateral programs now account for 58 per cent of the program, compared with 68 per cent five years ago.

In 1990-91, payments to the Banks increased by around \$100 million. While the Government provided an additional \$30.7 million on top of the 1990-91 forward estimates for the aid program, a net shortfall of \$70 million has had to be absorbed by cuts to other program components. As an example, the new Mekong Bridge to be built between Thailand and Laos has reduced the scope for new Australian development activities in both of those countries. The demands of payments to the Banks will continue to grow over the next three years, placing pressure on other parts of the program.

### Emergencies and refugees

In 1989-90, AIDAB successfully completed a review of the role

of rehabilitation assistance in Australia's emergency and refugees programs. New policy and accompanying guidelines were developed to enable the funding of activities which fall between (short term) emergency disaster relief and (longer term) development assistance funded through country programs. Such activities might include, for example, the provision of simple agricultural packs containing seeds and basic tools through to literacy and vocational training programs. This type of assistance goes further to meet the needs of those affected by short term or chronic emergencies, building on the very short term life-sustaining relief provided in immediate response.

### Changing relationships with non-government organisations

The role of non-government organisations (NGOs) in the official aid program has continued to grow and diversify over the last twelve months. A major review of AIDAB's relationship with NGOs was completed in 1989-90. Among the key outcomes of the review was the introduction of funding of eligible agencies on a program rather than project basis.

The review has also introduced improved quality control through evaluation of NGO activities, which will feed into funding and other decisions on cooperation. The first of these has begun with a review of Australian assistance to Cambodia. This review will be important in planning any more comprehensive assistance to Cambodia in the future.

Significantly, the review was instrumental in extending the opportunity for NGO involvement in the aid program. NGO projects are increasingly being incorporated into

country programs. The volume of Australian ODA supplied through Australian NGOs totalled \$50 million in 1989-90, representing a significant increase over a total of \$34 million in 1988-89.

### Issues Raised in the Commonwealth Parliament

An important influence on the Australian development cooperation from the Australian side has been that of the Commonwealth Parliament in bringing to the fore issues which reach into the aid program. A number of these matters have already been mentioned above, but it is worth emphasising how significant the interaction between Government and Parliament on aid issues has been.

Throughout 1989 and 1990, several enquiries of Parliamentary Committees involved the Australian aid program. The most important of these was the JCFADT Review of AIDAB and Australia's Overseas Aid Program, the Government response to which was issued in December 1989. The Government accepted recommendations of the Committee in the areas of improving the efficiency in the use of staff resources, reporting and institutional arrangements, community involvement and accountability relevant to AIDAB and the aid program. The JCFADT report was also significant in raising issues of aid volume and the role of aid vis-a-vis human rights in recipient countries.

Other enquiries relevant to the aid program covered the environmental impact of development assistance, Third World debt, Australia's relations with Papua New Guinea and with India.

In 1990, the Government's response to the Senate Standing Committee on Environment, Recreation and the Arts report on the environmental impact of development assistance was issued. This enquiry was timely in the context of international concerns for the environment. It marked the heightening of the concept of sustainable development within the Australian aid program. The Government undertook to ensure that the principles of sustainable development infused Australia's approach to aid delivery. Towards this end, a central approach of building a portfolio of development assistance activities that are environmentally sound was endorsed. In addition, the aid program was to allocate resources to the development of environment-specific projects. This two-pronged approach is in keeping with international moves on the environment. Additionally, the Government undertook, in regard to multilateral organisations, to continue to support programs that promote development through environmentally sound means. Environmental issues cut across many sectors and interests in Australia. The Government response to the Senate committee's report highlighted the consultative processes between AIDAB and other agencies. AIDAB has also been successful in recruiting new staff to increase its base of environmental expertise in order to follow through the incorporation of sustainable development into the program.

Over the last twelve months AIDAB made substantive submissions to two JCFADT reviews, on Third World Debt and Australia's relations with Papua New Guinea. The AIDAB submission to the debt enquiry argued that while the countries most affected by external debt problems lie in regions outside Australia's focus (namely, Latin America and Sub-Saharan Africa), the debt crisis is relevant to Australian foreign and aid policy. Levels of debt are increasing in the Asia-Pacific region. Our relationships with international financial institutions necessarily involve Australia in the formulation of policy on the debt crisis. In this way, debt remains an issue of concern within the Australian aid program.

AIDAB's submission on PNG described the way in which the Australian program of development cooperation with PNG reflects the political, strategic and economic significance of our bilateral relationship, as well as the humanitarian concerns of the Australian community. It also notes that PNG's short term needs are to increase its absorptive capacity for external assistance, with the expansion of sources of aid, establishing the foundations for more broad-based growth.

## Conclusion

The past year has been a period of strenuous challenge and difficult choices. A stringent budgetary situation, together with obligations to the international financial institutions, have brought about a significant change in the multilateral and bilateral balance of the program. At the same time, Australia has responded to political and economic developments with the introduction of new country programs. These have placed even greater strain on ongoing programs.

On the other hand, greater attention has been paid to global issues, such as the environment, and policies which affect the quality of development assistance. The incorporation of these new concerns has seen a definite heightening of the quality of Australian development cooperation over the last twelve months. These trends are set to continue.