

# Shifting Tides in Pacific Policy



**Australian Council for Overseas Aid**

***in association with the  
State, Society and Governance in Melanesia (SSGM) Project of ANU***

## **Summary Analysis of Senate Committee Report: *A Pacific Engaged: Australia's relations with PNG and the island states of the South West Pacific***

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In August 2003 the Australian Foreign Affairs, Defence and Trade References Committee of the Senate, released its report; *A Pacific Engaged: Australia's relations with PNG and the island states of the South West Pacific*. This paper will offer an analysis of the most pertinent points of the report, in the context of the ACFOA/SSGM *Shifting Tides in Pacific Policy* forum. Accordingly, much of the focus of the paper will be on Chapter 4 of the report – 'Australia's development assistance to PNG and the Pacific'. In recent months the debate surrounding the issue of aid to the Pacific has shifted up a gear. Some aid commentators have gone so far as to argue that aid has not 'worked' in the Pacific and further, that it may well be the problem. Others have argued that aid is critical to the future development of Pacific Island states, but the *way* aid is delivered must be reviewed.

*'Donors want countries in the driver's seat, but want to keep the road map'<sup>1</sup>*

In a controversial and much publicised article, Helen Hughes asserted that 'Aid has failed the Pacific'<sup>2</sup>. Her arguments and conclusions were dismissed by many as 'unpalatable' and based on 'crude stereotypes and unsolicited opinion'. A snapshot of the Pacific in

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<sup>1</sup> Participant, OECD Development Partnership Forum 2000, Paris December 2000, cited in *The Reality of Aid* 2002, page 4

<sup>2</sup> Helen Hughes, Centre for Independent Studies, Issue Analysis, No. 33, May 7 2003

2003 paints a mixed picture. While there are some post-independence success stories, there are also many problems facing the region as it increasingly struggles to effectively tackle globalisation, conflict, corruption and poverty. What Hughes fails to acknowledge, and what is picked up in the Senate report, is that the above scenario is an argument *for*, not against, a strengthened, long term, meaningful commitment of aid to the Pacific. This paper, and indeed the ACFOA/SSGM forum, begins with this premise – in light of the above challenges and criticisms, how can Australian NGOs and the Australian government make aid truly more effective?

### **AID: CONDITIONAL Vs OWNERSHIP**

In a submission to the Senate Committee, it was argued that in order to make aid more effective, it should be conditional. Prime Minister John Howard reaffirmed this stance in a speech delivered in July 2003. He asserted that

We [Australia] have made it plain – nations who look for our assistance, who receive our financial aid, must understand support is now conditional on working to overcome corruption.<sup>3</sup>

However, the Senate report and a number of submissions (including from AusAID) reject this assertion. In a submission by AusAID it was claimed that

...our ability to support good governance is linked to the commitment of the governments themselves to get their own house in order. It is by no means clear that we will increase their commitment by reducing aid and forcing them to submit to conditions that they do not believe in. Indeed, reducing aid could contribute to further decline'.<sup>4</sup>

Moreover, while the Committee notes that good governance, which includes overcoming corruption, is a critical factor in achieving sustainable development, it goes on to note that 'some countries in the region cannot meet the ideal requirements at this time but the Committee considers that the development assistance should be targeted at achieving these ideals as well as educating governments and civil society about the benefits of achieving these ideals'<sup>5</sup>.

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<sup>3</sup> The Hon John Howard MP, Ministerial Statement To Parliament On The Regional Assistance Mission To The Solomon Islands (RAMSI), 12 August 2003

<sup>4</sup> Senate Committee Report, Foreign Affairs, Defence and Trade References Committee, *A Pacific Engaged: Australia's relations with PNG and the island states of the South West Pacific, August 2003* p.96

<sup>5</sup> *ibid.* p.116

Consequently, the Committee asserts that incentives<sup>6</sup> and ownership, not conditions, make aid more effective. Similarly, in a June 2003 paper titled *Impact of rich country policies on Pacific Island Countries* by Satish Chand, it was argued that research in the 1990s on the effectiveness of aid in development has confirmed that ‘sustainable policy reform cannot be enforced through conditionality and that countries have to have ‘ownership’ of the reforms in order to be successful’<sup>7</sup>. This claim is reiterated in AusAID’s *Promoting Practical Sustainability* report, which asserts that:

The critical factor in promoting sustainability is the role of the stakeholders; i.e. those directly concerned with the program or project, especially the Partner Government and the implementing agency, and those who stand to benefit. Sustainability cannot be achieved without their involvement and support<sup>8</sup>.

Despite this, the committee noted that the most common concern regarding Australian aid delivery was with the tendency for AusAID to contract Australian consultants. This process, also known as ‘boomerang aid’ means a large proportion of Australian aid is ‘returned’ to Australia in the form of equipment and supply purchases, or through the contracting of Australian consultants. While AusAID rejects these allegations, the Senate Committee noted the 2002 report of the Australian National Audit Office (ANAO) on AusAID contract management which states that ‘AusAID estimates that Australian firms and individuals under contract management to AusAID deliver around 90 per cent of Australia’s bilateral aid program, which accounts for some 60 per cent of the overseas aid program’<sup>9</sup>.

It should be noted however, that while the Committee witnessed, first-hand, the success of some projects being developed through the PNG Incentive Fund, it was not immune from criticism. For example, the Committee concluded that there was a need for a strategic review of the Fund ‘to ensure that the assistance provided is also targeted to areas of development in most need and is consistent with the poverty alleviation focus

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<sup>6</sup> For example the use of incentives and contestability is a core part of Australia's aid to PNG with the aim of promoting good governance. The Incentive Fund was introduced in 2000 with an allocation of \$12 million and increases annually, depending on performance, up to \$50 million. The Incentive Fund rewards high performing agencies and institutions across the spectrum of PNG government and society and provides an avenue for engagement outside government.

<sup>7</sup> Satish Chand, *Impact of rich countries policies on the Pacific Island Countries*, June 2003, p.19

<sup>8</sup> AusAID, *Promoting Practical Sustainability*, September 2003 p.4

<sup>9</sup> *A Pacific Engaged: Australia’s relations with PNG and the island states of the South West Pacific*, August 2003 p.98

of the aid program<sup>10</sup>. Moreover, the Committee noted that although the Fund, in theory, can be accessed by the NGO and community sector, due to the minimum level of funding required for projects, small PNG non-government and community based organisations do not have the capacity or infrastructure to secure project funding<sup>11</sup>.

Notwithstanding, the point is made clearly throughout the Senate report and other supporting documents that to make aid conditional, as Prime Minister Howard proposed, is a recipe for making aid less effective.

### **What then, are the options for making aid more effective?**

The Committee found that a considerable challenge to the effectiveness of Australian aid is that it tends to be ‘crisis driven’. In a submission by Mr Nicholas Maclellan it was highlighted that:

In the overseas aid sector, development priorities have been sharply affected by these [recent Pacific] crises. In recent years, the Australian Agency for International Development (AusAID) has reallocated tens of millions of dollars from long-term bilateral and regional programs, towards emergency relief, rehabilitation and reconstruction programs in Bougainville, Timor Loro’sa’e and the Solomon Islands<sup>12</sup>.

The Committee recommended that to address this issue, a discrete ‘Emergency Fund’ be considered. Such a fund would exist in addition to the general PNG and Pacific budget to avoid the reallocation of aid from long-term development projects as emergencies arise. However, this point is part of a broader problem that the Committee identified with Australian aid.

At present the Australian Government regards the aid budget as variable expenditure based on the overall budget. Consequently, there has been ‘competing tensions’ about how Australia agrees on its aid commitment. To alleviate this problem, the aid budget must become a constant factor. This would also help aid recipients to be able to plan properly. A further dimension to this issue is the length of Australia’s commitment. The Committee correctly notes that while Australia’s provision of aid is long-term, in the sense that it has provided assistance for decades, it is not long-term, in that it lacks longer-term strategies. In order to address this issue the Committee considers that:

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<sup>10</sup> *ibid.* p.101

<sup>11</sup> *ibid.* p.100

<sup>12</sup> *ibid.* p.105

...one way of providing efficient and cost-effective development assistance will be to develop 20-25 year strategies for its regions of activity with a minimum guarantee of funding for five years. This will provide planning certainty and reduce the risk of ad hoc and inadequate programs and projects. It may also go some way to addressing the issue of differing definitions of development. The fear that assistance is short-medium term may also be what fuels the squandering of some of it<sup>13</sup>.

This is supported by AusAID's *Promoting Practical Sustainability* report which asserts that 'the usual three to five year planning horizon for development programs and projects is often inadequate in terms of promoting sustainable benefits'<sup>14</sup>. Instead, they propose long-term 'planning horizons' that incorporate a degree of flexibility in contracting throughout several phases of a project.

However, such an objective is complicated by several factors. Not least of which that over such an extended period both donor and recipient governments and priorities would change. Notwithstanding, such problems could be addressed by the Report's Recommendation 13 – that the Australian Government conclude bilateral treaties on development assistance with all bilateral government partners in the Pacific region.

## **REGIONALISM**

More broadly, the Committee recommends that an Eminent Persons Group be established to investigate the proposal of a 'Pacific Economic and Political Community'. Such a community, they claim, would ultimately involve establishing a common currency, common labour market and common budgetary and fiscal standards. While this proposal gained a significant degree of media attention, the idea of a Pacific 'regional block' is not a new concept. Furthermore, the Eminent Persons Group's mandate would be limited to simply investigating the proposal. One can assume then, that such a community will not come into fruition in the short-medium term. What is more immediate however is Australia's increased 'presence' and potential for greater influence by nominating (and successfully lobbying for) an Australian as head of the Pacific regions paramount political body, the Pacific Islands Forum Secretariat.

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<sup>13</sup> *A Pacific Engaged: Australia's relations with PNG and the island states of the South West Pacific, August 2003* p.133

<sup>14</sup> AusAID, *Promoting Practical Sustainability*, September 2003 p.3

## CONCLUSION

The overall thrust of *A Pacific Engaged: Australia's relations with PNG and the island states of the South West Pacific*, should be commended, it is a culturally sensitive document and is aware of the nuances of Pacific politics. The committee rightly observe that:

It was clear...from the evidence presented, and most starkly from the Committee's visit to the region, that PNG and the countries of the Pacific have an enormous potential for prosperous development. The challenge is to effectively harness the enthusiasm within the region to adequately support the realisation of the ideal<sup>15</sup>.

To effectively harness this potential, several major issues and challenges need to be addressed:

- Australia's increased 'presence' and potential for greater influence must be culturally appropriate, politically sound and in the context of the Committee's finding that Australia has an obligation to the region;
- development cooperation and sustainable policy reform cannot be enforced through conditionality – countries have to have 'ownership' of the reforms;
- Australia's development assistance must include mechanisms to promote and support increased gender equity in all aspects and stages of development programs;
- the aid budget must become a constant factor and guarantee a long term commitment;
- an Emergency Fund should be established in order to avoid Australian aid to the Pacific being crisis driven;
- Australia's aid should become more effective and generous by reducing the level of 'boomerang aid';
- Australia is part of the Pacific region but suffers from an inadequate knowledge of Pacific Islands' politics and culture – this is true for government, media and the general public.

It is hoped that by bringing together Australian NGOs, Pacific Island and Australian aid commentators, the *Shifting Tides in Pacific Policy* forum will assist ACFOA members in assessing priority areas in order to achieve more effective policies and practice in development cooperation in the Pacific.

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<sup>15</sup> *ibid* p.5