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STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE
AND TRADE

Reference: Economic and security challenges facing Papua New Guinea and the island states of the southwest Pacific

THURSDAY, 12 MARCH 2009

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**SENATE STANDING COMMITTEE ON
FOREIGN AFFAIRS, DEFENCE AND TRADE**

Thursday, 12 March 2009

Members: Senator Mark Bishop (*Chair*), Senator Trood (*Deputy Chair*), Senators Feeney, Ferguson, Forshaw, Kroger, Ludlum and McEwen

Participating members: Senators Abetz, Adams, Arbib, Barnett, Bernardi, Bilyk, Birmingham, Boswell, Boyce, Brandis, Bob Brown, Carol Brown, Bushby, Cameron, Cash, Colbeck, Jacinta Collins, Coonan, Crossin, Eggleston, Ellison, Farrell, Fielding, Fierravanti-Wells, Fifield, Fisher, Furner, Hanson-Young, Hefernan, Humphries, Hurley, Hutchins, Johnston, Joyce, Lundy, Ian Macdonald, McGauran, McLucas, Marshall, Mason, Milne, Minchin, Moore, Nash, O'Brien, Parry, Payne, Polley, Pratt, Ronaldson, Ryan, Scullion, Siewert, Stephens, Sterle, Troeth, Williams, Wortley and Xenophon

Senators in attendance: Senators Bishop, Feeney, Ferguson, McEwen and Trood

Terms of reference for the inquiry:

- (a) The following matter be referred to the Senate Standing Committee on Foreign Affairs, Defence and Trade for inquiry and report to the Senate by 30 May 2009.

The major economic and security challenges facing Papua New Guinea and the island states of the southwest Pacific;

- (i) the implications for Australia;
 - (ii) how the Australian Government can, in practical and concrete ways, assist these countries to meet the challenges.
- (b) The inquiry to include an examination of the following:
- (i) employment opportunities, labour mobility, education and skilling;
 - (ii) barriers to trade, foreign investment, economic infrastructure, land ownership and private sector development; and
 - (iii) current regional organisations such as the Pacific Islands Forum and the Secretariat of Pacific Community.

WITNESSES

CALLAN, Mrs Margaret, Assistant Director General, Papua New Guinea Branch, AusAID..... 1
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LAKE, Dr Jane, Adviser, Assistant Director General, Pacific, AusAID..... 1
TRANTER, Mr Robert William, Assistant Director General, Pacific, AusAID 1

Committee met at 4.31 pm

CALLAN, Mrs Margaret, Assistant Director General, Papua New Guinea Branch, AusAID

DAVIS, Mr Bruce, Director General, AusAID

LAKE, Dr Jane, Adviser, Assistant Director General, Pacific, AusAID

TRANTER, Mr Robert William, Assistant Director General, Pacific, AusAID

CHAIR (Senator Mark Bishop)—I declare open this meeting of the Senate Standing Committee on Foreign Affairs, Defence and Trade. Our inquiry is into the economic and security challenges facing Papua New Guinea and the island states of the south-west Pacific. These are public proceedings, although the committee may agree to a request to have evidence heard in camera or may determine that certain evidence should be heard in camera. I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee and such action may be treated by the Senate as contempt. It is also contempt to give false or misleading evidence to a committee.

If a witness objects to answering a question, the witness should state the ground on which the objection is taken and the committee will determine whether it will insist on an answer having regard to the ground that is claimed. If the committee determines to insist on an answer, a witness may request that the answer be given in camera. Of course, such a request may all also be made at any other time. I remind witnesses that the Senate has resolved that an officer of a department of the Commonwealth or a state shall not be asked to give opinions on matters of policy and shall be given reasonable opportunity to refer questions asked of the officers to a superior officer or to a minister. This resolution prohibits only questions asking for opinions on matters of policy and does not preclude questions asking for explanations of policies or factual questions about when and how policies were adopted. I also remind you that any claim that it would be contrary to the public interest to answer a question must be made by the minister and should be accompanied by a statement setting out the basis of the claim. Mobile phones should be switched off or turned to silent.

I now welcome officers from AusAID. The committee has before it submission No. 65 from AusAID. It is a public document. Do you wish to make any amendments to your submission?

Mr Davis—No.

CHAIR—Do you wish to make a brief opening statement?

Mr Davis—Thank you very much. I do have a statement. Would you prefer me to read it or would you prefer to get straight into questions?

CHAIR—You may read us your statement, Mr Davis.

Mr Davis—Thank you. Thank you also for the opportunity to appear before the committee. Our submission focuses on providing a development perspective on the economic and security

challenges facing Papua New Guinea and other Pacific Island countries. Many countries in the region are off track to achieve the Millennium Development Goals, which are internationally agreed development targets for 2015. Poverty, high population growth rates, low rates of economic growth, unemployment and uneven access to basic services like health, education, infrastructure and law and justice affect these countries in varying degrees. The global economic crisis brings new risks to economic growth, development and poverty reduction in the region.

The AusAID submission outlines a number of important dimensions to the economic and security challenges. I will highlight a few around gender equity, environmental concerns and access to justice, particularly in Melanesia. In our submission we emphasise the need for growth to be sustained and broad based to reduce poverty and joblessness. Agriculture and fisheries provide livelihoods for most Pacific Islanders. However, the productive sectors across the region offer varying potential for increased growth. Resource-rich countries like Papua New Guinea have more substantial opportunities than countries with limited domestic economic opportunities. Labour mobility and remittances are becoming an increasingly important part of the economy. Development assistance has an important role in supporting initiatives to improve economic growth prospects, such as economic management, trade policies, microeconomic reform and productivity, to enable growth, to promote human security, to improve the rule of law, to build and maintain infrastructure and to provide basic health and education.

The government has pledged to increase overseas development assistance overall from 0.32 per cent of GNI to 0.5 by 2015. In 2008-09, total ODA to the region is budgeted to increase from \$872 million to \$999 million. Through the Port Moresby declaration and Pacific Partnerships for Development, the government has focused Australia's development assistance on making more rapid, measurable progress in achieving the MDGs in the Pacific. This is through joint commitments and monitoring of the needed financing and reforms. Where capacity or systems are weak, the partnerships commit Australia to assist in strengthening state capacity to implement development policy and better plan and manage resources for development, both from their own budgets as well as from development assistance. The partnerships also set out the framework within which future expansions in Australia's aid will be directed at a country level.

Partnerships focus on measures that directly support growth and development, such as economic infrastructure, enhancing governance and private sector development, as well as improving basic services such as health and education. More broadly through the partnerships, Australia is taking a leadership role in influencing more effective aid to the region through practical common approaches to analysis, policy, dialogue and investment with key partners, particularly New Zealand, the EU, Japan, multilateral development banks and the United Nations, and by engaging with emerging donors such as China and Taiwan on aid program cooperation and good practice in development assistance.

I will make a few quick comments on the impact of the global economic crisis. Clearly, the crisis raises serious concerns about the potential for deteriorating growth and other development impacts in the region. Reductions in trade, tourism and remittances could deeply affect some countries. Sharply lower commodity prices will result in a significant decline in Papua New Guinea's export revenue and government revenue with implications for funding of basic service delivery, formal sector employment and trade exposed sectors such as logging and palm oil. In the Solomon Islands, the downturn in the logging sector is causing a major deterioration in economic activity and government revenue.

Tourist-dependent countries are expected to experience a worsening of the falls they have already experienced as economic conditions in source countries continue to worsen. Countries with national trust funds have lost considerable value over the past six months, which will cut future potential income. For example, Tuvalu's income from its fund is expected to be zero in 2009. Australia is working with the development banks, regional organisations and other donors to ensure a coordinated approach to redressing the effects of this crisis. We can talk more about that if members would like. We did a more detailed analysis of the impact of the global economic crisis as part of the recent Senate estimates hearings. The transcript of those hearings covers that point.

I will make just a couple of points in closing. We have included in our submission a couple of key documents. However, I refer the committee to a range of documents that have been produced recently. One is entitled *Tracking development and governance in the Pacific*. It provides a snapshot of development and governance in the Pacific and it will be an annual report to help track progress against MDGs. *Pacific 2020: Challenges and opportunities for growth* and *2008 Pacific economic survey: Connecting the region* provide an overview of economic performance in the Pacific and the outlook for the region, including key developments, opportunities and risks. Another recent document is the 'Vanuatu drivers of change study', which examines state capacity and socioeconomic drivers of change. Another is *Violence against women in Melanesia and East Timor 2008*, which assesses the effectiveness of current approaches to addressing violence against women and girls in Papua New Guinea, Fiji, the Solomon Islands, Vanuatu and East Timor, and sets a framework for action across the region. Another one is *Making land work*, which reports on reconciling customary land with social and economic development in the region. That will guide our implementation of the land program. Finally, *Valuing Pacific fish: a framework for fishery-related development assistance in the Pacific* outlines a long-term program of assistance to maximise the flow of benefits to the Pacific from sustainable commercial and subsistence fisheries. We included two documents in our submission: *Tracking development and governance in the Pacific* and the 'Pacific survey 2008'. However, we have copies of the other documents if they would be useful to the committee as well.

CHAIR—Thank you for that overview. It is more than useful; it anticipated a lot of the issues about which we were going to ask you questions this evening. You have referred to documents in your opening statement that you have not been able to make available to the committee yet. I think they would be most valuable and we would appreciate being provided with a copy in due course, because they cover a lot of the issues that will be the subject of discussion today and in forthcoming days. We had a committee meeting this morning and we were advised that there is a currently a review being conducted by Mr Beahan, former Senator Bourne and Mr Andrews. Can we have a status report on that before we go into more formal stuff?

Mr Davis—Sure. This review is called a political governance review and it is looking specifically at the work that is being undertaken by a number of different institutions in the region on issues associated with political governance. That is political governance with an emphasis on the work of parliament, the work of parliamentary committees, and some related issues like that. This started as an interest that the Parliamentary Secretary for International Development Assistance wanted to pursue in looking at where our own Centre for Democratic Institutions fits best within that broad range of interests in political governance. There are a lot of different international players such as the International Institute for Democracy and Electoral

Assistance, which is based in Sweden. Work has been done through the recent initiative by Indonesia that came out of the Bali forum. A lot of work is done by the likes of UNDP on parliamentary capacity support. One of the key interests of this review is to look at how all these bits of the jigsaw fit together and how we get the best value, particularly from the work of the Centre for Democratic Institutions within that range of players who are looking at parliament and parliamentary parties, the building of future leaders within parliament and the like.

CHAIR—Has it gone to the relevant minister yet?

Mr Davis—No.

CHAIR—When is it to be completed?

Mr Davis—It is to be completed, I think, by around the end of this month.

CHAIR—And then it goes to the minister?

Mr Davis—It will then go to the minister.

CHAIR—Presumably it would need his approval before it is released publicly.

Mr Davis—Yes.

CHAIR—We put you on notice that we would be interested in receiving a copy in due course when it is appropriate.

Mr Davis—Sure.

CHAIR—I think we will probably ask the relevant three experts to give us a summary of their thoughts in due course. You might let them know through channels.

Mr Davis—Yes.

Senator FERGUSON—Are we going to formally write and request that?

CHAIR—We will follow the appropriate process.

Mr Davis—They have recently visited Papua New Guinea and East Timor. They looked at a broad range of things.

CHAIR—There are some interesting areas. We will probably talk to them.

Senator TROOD—Is this more an audit of the activities taking place in the Pacific, or is it also intended to be an analysis of where the centre might fit in relation to some of these things?

Mr Davis—It is more that forward-looking second role of: how do we get best value?

Senator FERGUSON—It is an analysis of the effectiveness?

Mr Davis—As a starting point, but the real value out of it will be their suggestions on where the work of the centre can be taken over the next few years and whether there are other gaps. We are pretty keen to find out if there are other gaps in that broad field of political governance that are not being addressed and other ways within the aid program that they could be addressed.

CHAIR—Does it relate in any way to centre funding?

Mr Davis—Yes. Longer term, the breadth of its mandate, which they are looking at, will provide the basis for future decisions about the level of funding for the centre.

Senator FERGUSON—Your influence extends much further than political governance, does it not?

Mr Davis—Yes.

Senator FERGUSON—It seems a very narrow confine for them to look at—just political governance. I did not know that until you just said it. I understood that it was more to do with the effectiveness of the current set up, if you like. As well as political governance, I thought it was about looking at the effectiveness of the delivery of aid to Pacific nations.

Mr Davis—That would be a very broad remit. They have really only had a limited period of time. There has been this concentration around how to engage at that end of the governance spectrum. Clearly, in going around, particularly to countries like Papua New Guinea, and talking with the parliament, its officers and the like it flows through to a lot of other issues like future leadership, accountability mechanisms that work and do not work, and regulatory institutions that work and do not work. While there has been a focus on a relatively narrow set of interests, they have to be put into that wider context of the broader set of regulatory and other influences that do or do not make governance effective in particular country situations.

Senator FERGUSON—When you are talking about political governance in the Pacific Island states, AusAID is not the only one involved.

Mr Davis—Absolutely not.

Senator FERGUSON—I often wonder who helps to coordinate the work that UNDP does in political governance. The EU is involved and the Chinese are involved in some countries. Without a certain amount of coordination between all of those providing political governance and other aid, I do not know how you do it.

Mr Davis—That is part of the reason why Mr McMullan was keen for this review to take place; that is, to ensure that we had a much clearer understanding of how all these bits of the jigsaw fit together. As you say, it is the likes of the UNDP engagement in the parliaments in both Papua New Guinea—not very successfully—and in the Solomon Islands—a fair bit more successfully. They need to look at what we do relative to those other inputs.

Senator FERGUSON—Is their office in Fiji?

Mr Davis—They have offices in Papua New Guinea, Fiji and Samoa.

CHAIR—We wrote to the CDI informing them of the inquiry. We would still be interested in receiving a submission from them, particularly as the work that they are doing and the issues you have raised are going to be quite critical to our report in due course.

Mr Davis—Sure.

CHAIR—You might politely pass that on, if I can put it that way, Mr Davis.

Mr Davis—Yes.

Senator FERGUSON—I have just one other question about political governance. I see that governance covers a fair proportion of your total budget. What sort of programs do you deliver that you would call governance?

Mr Davis—It is a pretty broad church.

Senator FERGUSON—I am not sure how you include them in governance and not somewhere else.

Mr Davis—I guess in broad terms there are a lot of programs around economic management. There are a lot of programs around law and justice. There are these areas that we have just been talking about in terms of the political governance agenda. There are issues around demand for better governance that include engagement with civil society and others. What have I forgotten?

Senator FERGUSON—I can give you an example. For instance, when East Timor first gained independence, we had a team of Treasury officials up there. You would consider that part—

Mr Davis—Absolutely.

Senator FERGUSON—of your governance. And that is part of your budget?

Mr Davis—Yes.

Senator FERGUSON—That is all included?

Mr Davis—That is right. The proportions that you were quoting about the amount going to governance includes a very big bit from the AFP's work in the Solomon Islands that counts as ODA.

CHAIR—We forwarded to you a couple of days ago a list of items we will proceed with. The committee sometimes wanders all over the place in asking questions. We have decided that we will use that list as the agenda and work through it seriatim. We will start with the budget. The budget papers for 2008-09 indicate that less ODA is being committed to the governance programs than in previous years, while there is seen to be an increase in both the education and

health sectors. Is that a one-off change or do you anticipate that trend of a slight internal switch in resources continuing into the foreseeable future?

Mr Davis—Health and education were subject to very big budget measures a couple of years ago. They continue to be particularly important sectors when you also look at it in the context of these new Pacific partnerships and trying to link those partnerships more closely to achievement of the MDGs, for example. There are some pretty big demands in looking at what can be done to move towards universal basic education opportunities and likewise in the health field. Some of the worst indicators—particularly in Melanesia, but not only Melanesia—against the MDGs are in health and education. I imagine that will be a continuing area of growth and priority. Having said that, governance will also remain very significant. In dollar terms, it is very big already.

CHAIR—It is about 21 per cent.

Mr Davis—Yes. Even if the proportion were to reduce slightly overall, that does not necessarily mean less dollars. With the growth in the program that we have had in the past couple of years in the Pacific, it is not growing at the same rate relative to others. As I mentioned before, that figure for governance covers a broad suite of activities. Something like the work in Solomon Islands on policing can have a pretty significant impact in statistical terms, but it does not then have that broader impact on changing the specific priorities that AusAID is dealing with.

CHAIR—The net effect was that there was a switch in internal emphasis accompanied by increased funding for health and education two years ago and over the medium term, the next three or four years, you expect that emphasis to be maintained together with continued emphasis on governance. Are they the three priorities across the board?

Mr Davis—There are other priorities. For example, infrastructure is a growing area of importance. There was a major announcement at last year's Pacific Islands Forum by the Prime Minister around increased emphasis on infrastructure. I would not want to leave the impression that it is just those three.

CHAIR—Is that set of priorities pretty consistent with the MDGs in this area?

Mr Davis—Certainly around health and education. As I said, they are the ones that are weak. In the end, the key MDG is always the first—that is, halving poverty. We are particularly concerned that, if anything, the trends in the region are not looking good—they are going the wrong way. In the end, unless there is some broad-based, inclusive growth, trying to redress that will be a major challenge.

CHAIR—Can you take on notice giving us a sectoral breakdown on the same basis as in the 2008-09 budget papers of Australia's ODA for the past 10 years so we can see what has happened there in a trend sense?

Mr Davis—Yes.

CHAIR—We have received a number of submissions, as you are probably aware, from a range of departments and agencies—CSIRO, ANAO, ACIAR, the Australian Prudential

Regulation Authority, the Ombudsman and the like. To what extent, if at all, is AusAID involved in encouraging or facilitating their presence and in the regions through the types of work they do?

Mr Davis—We are involved in a pretty massive way, partly because most of them get their funding through our budget allocation. Part of the process for making that work is us keeping a close engagement with the development of programs. There are opportunities for us to look across agencies in terms of the types of proposals that they believe would be valuable in the region and to see how they fit with other development activity. At times we encourage departments or agencies to take an interest in a particular weakness that we have identified. So, it is a very strong link that is significantly helped by a lot of the funding actually coming through a single source.

CHAIR—Does it go to the extent that you will identify a deficiency or shortcoming in some of those areas and commission one or other of these agencies to do the work and provide the funding through the governance budget?

Mr Davis—It can, or it can be things that have occurred to them through their own mechanisms and understanding of the region. It can work either way. A lot of these organisations have quite strong links through to the rest of the Pacific.

CHAIR—CSIRO and ACIAR would.

Mr Davis—Yes. ACIAR is a little bit of a different arrangement because they get their own funding within the budget. We collaborate with them by engaging at the strategy development level. They do an annual operational plan of what they are going to do in the Pacific. AusAID is integrally engaged in looking at that plan and, at times, particularly in the case of Papua New Guinea, funding separately some of their activities that fit in with where our priorities in the agriculture area are going. ACIAR do get their own budget, but most of the rest of these are done through our funds.

Mr Tranter—Some agencies have their own funds and have established their own international areas to facilitate partnerships with Pacific states and with other institutions outside the region. As you suggested, in many cases these agencies are responding to needs identified through consultations with Pacific states and are covered under our Pacific strategies or into the future under the Partnerships for Development. You could take RAMSI, for example, which Treasury participates in with AFP and DFAT. These agencies also play substantial roles in Papua New Guinea, the Solomon Islands and Vanuatu. The Australian Broadcasting Commission is playing a role in strengthening public broadcasting and working with national public radio. The Australian Public Service Commission is working with public service commissions in the region on human resource and workforce development. They are substantive programs that are identified bilaterally through discussion and analysis. We also have a mechanism, the Pacific Government Support Program, which facilitates interaction with other agencies. For example, APRA, ANAO and the Ombudsman access funding through that channel, which is about \$5 million a year with grants of up to \$500,000 to establish twinning and partnership arrangements with Pacific institutions and carrying on work with them around governance strengthening.

CHAIR—Can you take on notice whether there are other agencies or departments you are engaged with? Please provide a brief written overview of their work and the role they are undertaking on your behalf?

Mr Davis—Yes.

Senator TROOD—I do not want to interrupt if you have not finished that thought.

CHAIR—I have one or two questions. As part of your public diplomacy program do you also publicise the work that the other agencies are involved in, or do you not see that as part of your responsibility?

Mr Davis—We do a reasonable amount of that. We have a magazine and we sometimes have pieces from other agencies. We draw their material into the broader set of publications. Even the annual report has a fair degree of references to the work of other government departments, particularly in cases where it is very much a whole-of-government program, like RAMSI.

CHAIR—RAMSI is a bit different.

Mr Davis—It is a bit different. Through our mechanisms Treasury has recently put a person into the Vanuatu Ministry of Finance. We made that a feature of some of our publicity. I think we do, but obviously there is always scope to do more.

CHAIR—Are there others?

Mr Tranter—We often make reference to the contributions of agencies, but often it is a subsidiary emphasis to Australian support for a particular effort. Quite often, the fact that it is an Australian aid program is emphasised in our public messages abroad. We might give explicit emphasis to whether it has come from AusAID or Treasury et cetera. But it is about the Australian overseas development cooperation programs in a country.

CHAIR—Before I go on to continuity of funding, do you wish to ask any questions, Senator Trood?

Senator TROOD—That question crosses over to matters of priority. Has the shifting of priority towards health and education all come out of the governance program?

Mr Davis—No, it has come principally out of the growth in the overall level of the program.

Senator TROOD—I see. Is it out of the growth in the overall aid program or the governance program?

Mr Davis—In the last five years, from 2004-05 to this current year, the total for the Pacific has grown from \$708 million to \$999 million. There has been some significant growth in the overall global level for the Pacific that provides for that extra—

Senator TROOD—Can you prioritise that into the areas of education and health to a degree which was not true previously?

Mr Davis—They have grown. The other one that has grown is infrastructure. If you look back five years ago—

CHAIR—Do you mean provision of infrastructure?

Mr Davis—Yes.

CHAIR—Of roads and ports?

Mr Davis—Yes.

Senator TROOD—When we talk about the ODA, are we talking Australia's total ODA?

Mr Davis—We are talking about anything that counts within the OECD definitions—

Senator TROOD—It is not just that managed by your agency?

Mr Davis—That is why I used the example of some of AFP's work that counts as ODA in the Solomon Islands.

Senator TROOD—In reaching the new ODA target, are we including whole-of-government contributions to aid?

Mr Davis—Yes.

Senator TROOD—Approximately how much of that is administered by your agency?

Mr Davis—More than 80 per cent. I can get you the precise percentage if you like.

Senator TROOD—That is fine.

Senator FERGUSON—I want to get to transparency and accountability.

CHAIR—We will get there then. Can we just talk about continuity of funding for programs?

Mr Davis—Yes.

CHAIR—Both AUSTRAC and ACIAR seem to run some pretty worthwhile programs that rely upon non-recurrent funding from AusAID. Where does the financial intelligence unit a box, or FIU-in-a-box, come from? Does it come out of the Pacific Governance Support Program?

Mr Tranter—That is right.

CHAIR—That is one of the governance ones. And that receives priority?

Mr Davis—Yes.

CHAIR—Why are they characterised as non-recurrent and would they benefit from being permanent programs and having recurrent funding?

Mr Tranter—I think the limitations within that scheme are about year-to-year approvals. Many of the partnerships in the scheme have been running for nearly four years and many of the agencies have received follow-on funding from previous grants. Essentially they have become multiyear partnerships, but they have had to reapply for funding each year. I think AUSTRAC has received three grants under that program to support financial intelligence units in the Pacific. We realise it is a bit of a limitation on agencies and it also undermines the partnership objectives of the scheme having to reapply with that lack of certainty. So we are currently reviewing that scheme with a view to moving to multiyear agreements so that agencies have greater certainty in the financial flows to them, but also so that they can indicate to their partners overseas that they will be there working with them this year, next year and the year after.

CHAIR—Do you call it FUI-in-a-box?

Mr Tranter—Sorry?

CHAIR—Are you particularly referring to that when you say that you are considering multiyear funding?

Mr Tranter—Under that program; that is right.

CHAIR—Under which program?

Mr Tranter—Under the Pacific Governance Support Program. AUSTRAC is currently accessing funding. I assume that the reference you are making to year-by-year funding is because of the limitations on that scheme.

CHAIR—Yes.

Mr Tranter—They have access. The Ombudsman's office is active under that program. APRA accesses its resources there as well, and APSC previously did so. Going beyond the AUSTRAC arrangements, we are looking at opening up all grants to a multiyear basis to give them certainty. So, AUSTRAC will be able to access grants.

Mr Davis—The APSC program is a good example of that where we have already been able to move to a longer-term funding base. That is an example of how we can make that change in structure.

CHAIR—The Department of Infrastructure, Transport, Regional Development and Local Government was somewhat critical of the annual funding process. They said:

Currently the restrictive conditions of annual funding programs and the lengthy application process prohibit meeting resource needs. A more flexible aid program reinforced by proactive initiatives as opposed to reactive responses would address needs effectively with a relatively small amount of funding.

Do you have a view on that comment?

Mr Tranter—I think we share that assessment that funding should be made available on a multiyear basis. That would alleviate some of the limitations on the scheme. One of the good aspects of the scheme is that it is a competitive arrangement. Agencies need to demonstrate that they have strong partnerships in the region and that they have done the work to get out there and establish institutional networks. There is a panel that meets which is comprised of AusAID, the Department of Prime Minister and Cabinet, Finance, Treasury and the Department of Foreign Affairs and Trade. There is a process that provides some sort of robustness about the quality of those initiatives. It is also set in the context of Australia's broader strategy in the region, which is informed by our previous Pacific strategy.

The Prime Minister's Port Moresby declaration now provides a very clear framework for the nature of submissions that might be funded under that program as well. There is an initiative to try to open up funding under AusAID's appropriation to others to be able to establish these institutional relationships. We are assessing the lessons of that and incorporating it as part of a redesign process currently. We would expect that these new rules would apply for the next funding round, which should be available from about July, I think.

CHAIR—So you are seeking new rules as part of the budget process this year?

Mr Tranter—The initiative itself is funded under the Pacific private sector capacity building initiative, which is an existing measure. But we have already drawn a line under the current scheme to say that the last selection round was under the old rules. We have indicated to agencies that the next time they submit an application it will be against new criteria, which we are just sorting out.

CHAIR—Now?

Mr Tranter—Yes, in consultation with agencies.

Mr Davis—We do not apologise for imposing some serious demands on people putting in proposals so that we can be pretty confident they have been through the mill. We do not see it as a scheme where we want to just be providing money without some quite clear parameters, objectives or benchmarks of what is going to be achieved and capacity for review. While we certainly agree that there is value in there being a longer-term focus and predictability in funding, that needs to be balanced by ensuring that there is a really clear statement of delivery.

CHAIR—Will these new compliance regulations give effect to that type of thinking?

Mr Davis—That is right.

CHAIR—Are you are pretty well done internally in terms of your preparation?

Mr Tranter—A review was shared amongst agencies and that then informed a redesign process. That review was led by two consultants. One was Alan Morris, the Commonwealth Grants Commissioner. We think it has been pretty good as a review process. There are some other issues that the review is examining, for example, around opening up the scheme to greater participation by state and local governments. Many of the governance functions in the region are of a nature that might lend themselves more to local government administration or state and

territory functions. So we would like to see more participation by agencies at that level. The redesign should be sorted out in the next few weeks. There is a peer review of the design in the next fortnight. We have an objective of opening up the round again in July. I think the minister will have to be approached about the nature of the criteria to get confirmation that these are the sorts of areas we are looking to explore and we are responsive to the interests of agencies of the nature that you have described, and hopefully try to incorporate those within the new scheme.

CHAIR—Switching the discussion slightly, we often hear stories about capital equipment that is provided for whatever reason, often in the defence area in more recent times—patrol boats or whatever—and after six, 12 or 18 months, because they are not maintained and are sitting on an island or beach somewhere, they are effectively a waste of money. The Asian Development Bank has reported on one of its projects in Tonga and has noted that computers were no longer used, that motorbikes and the like have disappeared and mechanical equipment is not maintained and has become inoperable. Is AusAID through its various programs involved in the provision of capital equipment such as motors, motorcars, trucks and boats? If the answer is yes, do you build in maintenance and repair as part of the provision of that facility, or do you treat it as a sub cost?

Mr Davis—We certainly do not.

Dr Lake—This is actually quite a challenging issue for the Pacific. I think that what you are reading about in the ADB report is a problem that we have been seeing for some time in the Pacific.

CHAIR—You do hear it anecdotally.

Dr Lake—Yes. To some extent, if donors see their role as capital investors and always consider it as the country's responsibility on the recurrent side, sometimes the size of the capital investment can actually overwhelm the country's capacity to support the recurrent side. In a sense, the returns on the recurrent side are much higher than they are on the capital investment side. For instance, with the investment in the maintenance of the Highlands Highway in Papua New Guinea, the rate of return can be over 100 per cent. But the rate of return on a new road might be 12 per cent or something like that, because you are actually keeping massive investments already there. Part of the approach for this new Pacific region infrastructure facility is to try to work with, say, the World Bank and the Asian Development Bank to make sure that we are getting the balance between the investment side and the recurrent side better matched so that we have the long-term effectiveness of the investments but also effectiveness of the services being supplied through these capital investments.

The fiscal capacity of these countries to support the recurrent side of services—whether it is infrastructure, health, education—is a real issue. It has required in many ways a shift in the thinking of donors away from being responsible just on the capital side to actually working much more in sector-based approaches so we get a proper balance. Coming back to the governance perspective, if you move into the recurrent side, it means you are taking a much longer-term view about the development challenges and the engagement between the donors and the country. We have explicitly done this in a new program that we are developing in Vanuatu focusing on road maintenance by saying that this needs to be a 15-year or 20-year program and not a five-year program.

If you move into the recurrent side and you are not engaged in the governance issues around how policy, budget and financial management work, you will never get your infrastructure or recurrent side working properly. It is easy to provide large capital investment; it is much harder to actually provide the sort of support and engagement that results in long-term improvement of services. The challenge for all of us, including the ADB, is to move from what is a rather old-fashioned view of development challenges to this longer-term one, which is about engagement and the use of all resources—that is, donor resources and the country's resources—and how they are best used together in order to achieve the development outcomes that you want, which is service delivery in the long term.

CHAIR—This switch you are doing in the trial in Vanuatu, is that a one-off thing or is that part and parcel of all program delivery?

Dr Lake—You could say it is part and parcel of all of our programs, particularly in the Pacific. Not only are we the major players, but it is often not a constraint on the capital side that is the problem in these countries; it is often a constraint on the recurrent side that is the real issue. We must position ourselves around that discussion, which is the development outcomes you want with MDGs. We have to work together to make ensure that all resources, not just the donor resources in terms of capital investment but all resources—donor and current—are used jointly to head in the right direction.

CHAIR—Does part of the budget increase of a couple of million dollars that we identified at the outset in aggregate and trend line in terms of health, education and governance—the significant amounts that Mr Davis outlined in his opening comments—reflect an internal shift to more emphasis on the recurrent funding that Dr Lake is outlining?

Dr Lake—It is and it will.

CHAIR—It will?

Dr Lake—Yes. We have been doing this for some time in Papua New Guinea. So, over the past decade in Papua New Guinea we have shifted our expenditure on roads from upgrading a small number of roads to actually working with government to maintain the key national roads of the country. If you are talking about private sector development, health and education services or banking services, it is not so much upgrading a road and then leaving country to maintain it, it is the reliability of those linkages that is really important. I could use an example such as the United States Millennium Challenge Account in Vanuatu.

They are doing major and very comprehensive upgrading of some roads in the country. But the country's capacity to maintain those roads in the longer term is quite limited. Our approach has been quite different. That is, we take a low-key approach. We work with the country in developing a local private sector and community-level maintenance so we are bringing the roads up to what we call a trafficable level so you can get around rather than a much higher level. It is a better allocation process.

Mr Davis—As well as talking about roads, you could equally talk about buildings.

Dr Lake—And health and education.

Mr Davis—If you look at the main streets of Apia in Samoa, there are some very appropriate buildings and some very inappropriate buildings given the capacity to maintain and so on. Thankfully I think we are on the side of the angels with the buildings in which we have been involved in the construction.

CHAIR—Is that a shift in attitude that is common to other aid donors in the Pacific?

Mr Davis—I think it is a growing trend.

Dr Lake—It is a growing trend, but in a sense it is not a Pacific issue. It is really about fragile states with limited capacity. In a sense, you are talking about the reliability of services. How do you support the reliable services that are essential for state functionality? That is a different question from the classic role of donors. So, yes, it is an issue in the Pacific, but it is also an issue in other parts of the world.

Senator TROOD—I see the virtue of the approach. It has always struck me as curious that that was not part of the philosophy behind ODA. But it would be more productive if everybody was thinking in the same way rather than just a group of donors or one donor. It is interesting from the point of view of what Australia can contribute as to whether or not this is a view that has been widely held or manifest in the Pacific.

Dr Lake—The Pacific Region Infrastructure Facility that we are setting up along with New Zealand, the World Bank and the Asian Development Bank is a new example in the region for this in infrastructure. However, what we call sector-based approaches in health and education have actually been doing this for a long time. If you go back to the sort of Paris and Accra agenda of working with government and through government systems, to do that you are actually doing governance and public administration work that is matching donor resources with the country's resources in a much more coherent and integrated way, which is in effect doing same thing. My feeling is that in education and health they are a little bit in advance of some of the work around this in infrastructure. But PRIF is a major milestone in terms of changing the way we operate.

CHAIR—Thank you, Dr Lake. We have this continuation in terms of a lot of funding going to governance and a whole range of programs that you have outlined. Is Australian aid for improving governance in the Pacific Islands confined only to governments and government agencies in the Pacific, or does it also extend down to corporate governance?

Mr Davis—The main engagement in private sector corporate governance would be through reform of government regulations, I guess. Can you think of other examples beyond that sort of work?

Mr Tranter—The primary influence on corporate behaviour is through strengthening regulation, whether that is around telecommunications, stevedoring or water services.

CHAIR—The work with APRA, the Ombudsman—

Mr Davis—There is another area where we have done quite a lot in recent times. That is around support for what could be called corporate governance in civil society and support for the

churches and the like. There are some pretty good examples in Papua New Guinea of working with other institutions outside of government.

CHAIR—Would that be non-government organisations?

Mr Davis—Non-government organisations or churches in building their own local capacity in governance.

CHAIR—What shortcomings have you identified in respect of non-government organisations in a governance context?

Mrs Callan—Perhaps I could answer that by way of example. In Papua New Guinea the churches deliver a very high proportion of health and education services. In doing that, they have the same weaknesses as the government system in many ways in terms of accountability to their constituents and planning and financial management. We have a program called the Church Partnerships Program, where church partners in Australia provide assistance to their counterpart organisations in Papua New Guinea to try to strengthen their corporate processes—their planning, financial management, accountability and reporting. It mirrors the government sector, but in the non-government sector. Of course, it is very important for service delivery in that country.

CHAIR—Is that example in Papua New Guinea replicated throughout the rest of the Pacific or is that a standalone program?

Mr Davis—We are doing work in Vanuatu and Samoa.

Mr Tranter—We do it in a similar way within our program partnerships with the Vanuatu National Council of Chiefs, which is the representative body of traditional authorities. We are talking about governance, and this is really about governance at a community level. In people's villages it is often the chiefs or even the churches that have a major influence on the way that people make decisions about resources. It is often the chiefs who make the decision about the resources to be given to women or young people. We have been engaging with the National Council of Chiefs in partnership with the Australian Centre for Peace and Conflict Studies about strengthening their ability to engage in the political process.

CHAIR—Is that in Papua New Guinea?

Mr Tranter—This is in Vanuatu, but there are similar programs elsewhere. We are strengthening their ability to present a view to government in a way that government can incorporate, whether that is through parliamentary committees or putting a view to a sector plan preparation process. We are also strengthening their ability to deal with their members and to organise resources within their own group. We do similar work with the church bodies as well. Again, in partnership with Australian faith-based organisations we share experience about the community sector and how those organisations go about governing themselves in accountable ways to their constituents—how they manage their money. It is capacity development for the groups, but it also strengthens their ability to participate in the political process without getting involved in the politics itself.

CHAIR—If you are already trying to engage them in education about governance at a non-government organisation level or through the churches down to village level in the various countries in the Pacific, you necessarily come up against a challenge in the acquisition and distribution of funding. It heads right into the authority figures in the particular society. Does that mean you have a fine line to tread between their legitimate authority and their desire to maintain it, our desire to change, for want of a better description, and also the conflict of us imposing our social values in terms of women, gender, children and the rest of it that might not be as important to them as it is to us? How do you resolve that?

Mr Davis—The chiefs are a good example.

Mr Tranter—Often these groups are not as socially progressive as we might expect in our own jurisdiction. For example, we support advocacy about the role of women in the community and in the economy. When we are dealing with the chiefs, it might be more about sharing experiences and discussion and dialogue rather than forcing an opinion. That is the culturally appropriate way of talking things through.

CHAIR—Is that conflict an issue? Is it a conflict?

Mr Tranter—I am not sure that it is a conflict, but it is something that arises very often, particularly around the role of women in communities. Often the best way to spread an effective message like that is not through us bringing that message but rather through other groups in society. That might mean working with women's advocacy groups. Male politicians are particularly strong advocates to influence change. We are least likely to get traction in an advocacy role. So we support others to build on that message. We need to come at these problems in a range of ways. Our programs do not seek to undermine the role of traditional authority and the role of churches; in fact, we recognise that it is a real strength in Pacific communities. We are not promoting our role, but we are recognising that these groups do make decisions about resources and they do play a role in service delivery. In Pacific countries where the cost of service delivery is high and resources are scarce, they can deliver services in an affordable and very appropriate way. For example, in the law and justice area, around community based remand arrangements, the chiefs can play a role in supervising remandees, probation arrangements, or managing diversion out of the court system. It is a strength that can be built on and it is similar in the health and education areas for the churches. We promote our resources through those networks in a modest way. But we recognise that it is a strength in Pacific communities.

Senator FEENEY—I am interested in the church engagement you spoke about. To use the Vanuatu example—and forgive my ignorance—what sort of denominations are we talking about?

Mr Tranter—In Vanuatu it is predominantly—

Senator FEENEY—I guess that is a generalist question. I am interested in Vanuatu in particular, but what about the other Pacific countries?

Mr Tranter—Protestant, Catholic, the Evangelical Pentecostal churches.

Mr Davis—In the case of the churches partnership in Papua New Guinea we are working with seven: The Anglicans, the Uniting Church, the Catholics, the Seventh Day Adventists, the Salvation Army and a couple of others.

Senator FEENEY—Each of those obviously has their own tradition, let alone their own doctrines and governance structures. To what extent do you need to interface with those? Are you really working exclusively with the church as it exists on the ground, or do you find yourselves having to work and liaise with church hierarchies in the country and perhaps elsewhere?

Mr Davis—Liaison on the ground, often working through their Australian counterparts that have very strong, deep links with them and doing it in a way that is not forcing a pace but making available support and resources. We do that in the defined way that they want rather than trying to force it. It took us quite a long time to develop the churches partnership in Papua New Guinea. But I think that is seen as one of its strengths; that it was not something that we were coming in with a model saying this is the way it should be. Dialogue was started and ideas were put on the table. There were opportunities for them to have serious influence on what they thought could be useful in further development of the partnership. If you talk to some of the leading agencies here in Australia, I think they would be very positive about not only the way that this has unfolded but also the process of getting there.

Senator FEENEY—Has it ever engendered any political or social opposition in Papua New Guinea or other places?

Mr Davis—I cannot recall any actual opposition, but partly because it was done in a relatively softly, softly way.

Senator FEENEY—Thank you.

Senator FERGUSON—Are the Mormons still present in Samoa?

Mr Davis—They are.

Senator FERGUSON—Since the cyclone?

Mr Davis—They are very strong there. They are also very strong in Tonga.

CHAIR—In Papua New Guinea?

Mr Davis—They are growing in Papua New Guinea. But they are particularly strong in those two Polynesian countries.

Senator FERGUSON—Samoa and where?

Mr Davis—Tonga.

Senator FEENEY—Are they part of the churches partnership program?

Mr Davis—No.

Senator FEENEY—Why is that?

Mr Davis—I think they have kept themselves a bit separate. I do not think when we were working, particularly in the Papua New Guinea case, they were as engaged with the broader church networks. I think that is probably still the case.

Senator FEENEY—Are there any churches, Christian or otherwise, that you would not work with? Do you work to some kind of—again forgive my ignorance—list of approved and non-approved religious organisations?

Mr Davis—We do not work to a list, but we certainly listen to and talk with the organisations here in Australia that we have strong contacts with courtesy of the funding we provide for their broader development programs. It is that key range of players that we engage with.

Senator FERGUSON—Is that the Council of Churches in Australia?

Mr Davis—The Council of Churches and Caritas. A lot of them have development agencies associated with their work. The SDA does, as do others. It is really working with those development arms of their broader work and working it from that.

Mrs Callan—In the case of Papua New Guinea, there is a Churches Medical Council, for example, which works directly with the government. It is recognised as a partner to the government. So they have already self-selected as partners in service delivery. They are an obvious group that we would work with.

CHAIR—We will now switch to the Pacific Partnerships for Development. We had a fairly useful update two or three weeks ago at the estimates hearings.

Senator TROOD—I would like to ask a question about the global situation. I know Mr Davis addressed it in his remarks.

CHAIR—Do you want to go back there?

Senator TROOD—Just quickly. I want to clarify something. There is a reference in your submission on page 45 to the combined gross domestic product growth rate of 4.5 per cent in 2008, up from 3.3 per cent. On the face of it, it is going in the right direction. Can that still be figure in light of the financial situation we are all facing?

Dr Lake—I will find the reference.

CHAIR—It is page three of your submission.

Dr Lake—At the end of last year the Asian Development Bank estimated that there would be a drop of perhaps 1.7 per cent in GDP on average across the Pacific. Clearly that varies enormously from country to country. But, I think we are probably seeing that that was an

estimate on the basis of the global financial crisis. Now we are seeing more of an impact of the economic crisis that is actually likely—

Senator TROOD—To worsen?

Dr Lake—Yes.

Senator TROOD—The next sentence after that observation about an increase says that it largely reflects faster commodity-led growth. Of course, we know that commodity-led growth is now zero. Are you not going backwards? I am just trying to test the veracity these assessments since they were made.

Dr Lake—These were written—

Senator TROOD—That is what I am saying; they cannot be current, can they?

Dr Lake—No, they are not.

Senator TROOD—Have you made any more recent assessments?

Dr Lake—Yes, we have done some recent assessments.

Senator TROOD—What is the gloomy picture? Give us the bad news.

Dr Lake—I suppose one of the difficulties we have is that there are often lags in quite a lot of things around that. Based on the ADB's work at the end of the year, which was building in some of the drops in commodity prices, they were talking about a 2 per cent drop in the earlier expected average growth. However, with what appears to be more drops in things like tourism, logs and so on, it is likely to drop even further. But it is going to vary enormously from country to country. If you take something like tourism at the moment, in some countries it is holding up moderately well, including because Australians are not going to Europe or the United States but rather to other regions. So you are getting that switching effect.

Senator FEENEY—Can you list some examples? Which countries are doing well out of tourism?

Mr Davis—Vanuatu is still doing pretty well.

Dr Lake—Vanuatu is doing very well. We are not really sure about Tonga. Cook Islands is dropping off because that gets a lot of people from New Zealand and the New Zealand tourism market is dropping. It is very hard to tell because there are often quite a lot of lags in the data. We get more anecdotal information at this stage than we do solid data. Vanuatu is doing quite well. Fiji has been dropping off for a number of years in some sense. Recently its numbers have been holding up, but the actual income they have been getting from tourism has been dropping because they have been discounting. There is a whole mix of things happening there. But, if you look at the Pacific generally, there are five or six countries where tourism is very important. For instance, Palua depends on Japan and the United States, and both of those markets are really dropping. So it varies from country to country.

Remittances is another area where we seeing some drops, but we are not really sure what will happen in the longer term. For instance, the Asian Development Bank said that the last time there was a bit of a downturn remittances actually held up. But in some countries you have quite a lot of remittances coming from the United States, and that is starting to fall. But that is also then balanced. For instance, Tonga gets quite a lot of remittances from the United States. Those are falling, but because of exchange rate moves, the actual value in Tonga is holding up. It is quite a complicated mix.

We are doing some work with the Asian Development Bank and the World Bank and organisations like the Pacific Financial Technical Assistance Centre. We all support it, but it is basically staffed by IMF people. They are keeping an eye on the very macro level, particularly with the ADB increasing our monitoring on this. I was at a meeting a couple of weeks ago and the data were still only to December. December was still looking as though it was holding up, whereas we know that things are starting to drop away.

Senator TROOD—Is there an approaching reference date by which you will have further data that is more recent than this—the end of the March quarter, for example?

Dr Lake—We will certainly have more data by the end of the March quarter. We will also have a bit more analysis about what is happening here on a country-by-country basis.

CHAIR—I ask you to take that on notice, because we will still be going in March and April. Towards the end of March or April can you give us an update of your analysis of the economic situation in the South Pacific so we can have up-to-date figures when we come to write our report?

Dr Lake—Yes.

Senator FERGUSON—We have a lot of pages of topics and we are obviously not going to get through them. Can we cherry-pick a little bit?

CHAIR—Yes, we can.

Senator FERGUSON—Can we go to areas in which we each have some individual questions?

CHAIR—Do you have some?

Senator FERGUSON—I need to leave at 6.20 pm.

CHAIR—Tell us the areas you wish to deal with.

Senator FERGUSON—Transparency is the area I really want to ask questions about. The others are very interesting areas, but I have picked that one.

CHAIR—Senator Trood, did you have any areas that are of particular priority to you?

Senator TROOD—I am particularly interested in education.

CHAIR—Senator Feeney?

Senator FEENEY—No.

CHAIR—What time do you have to leave, Senator Ferguson?

Senator FERGUSON—At 6.20 pm.

CHAIR—We will do PPD and then we will go to transparency and accountability, then we will go to education.

Senator TROOD—I am relaxed. I do not have to leave.

Senator FERGUSON—What time do you plan to finish?

CHAIR—I thought we might have a quick meeting at 6.30 pm to decide whether we are going to work through dinner and try to finish at about 8.00 pm, or just to take a three-quarters of an hour break and go to 8.30 pm.

Senator FERGUSON—I might be able to come back, but I have to make a phone call.

CHAIR—We will do transparency now and then come back to PPD.

Senator FERGUSON—I want to ask some questions about CDI and particularly its involvement in good governance et cetera. I attended a conference in the United Kingdom at the end of last year with Quentin Clements on enhancing the parliamentary democracy system. He gave an excellent paper. He was one of the outstanding presenters at the conference; I cannot speak highly enough about him. Is CDI the only part of your overall responsibilities that actually does work in strengthening parliamentary institutions in those countries?

Mr Davis—No, other work is done through the program as well. There are times when we have also supported the likes of the UNDP in some of that work. There have been cases, not so much in the Pacific but more in Asia, where there has been backing of the work of IDEA and other organisations like that. But probably the vast majority of work directly in parliaments would be CDI, I think. Is that right?

Mr Tranter—I think that is probably right. There is another field of work around strengthening the operations of the ombudsman's offices and auditors general to bring information to the parliament and facilitate the work of public accounts committees through our regional programs.

Mr Davis—It is through demand for better governance programs and others that we have within our mainstream aid program.

Senator FERGUSON—Are there any other of the Pacific Island countries, aside from Papua New Guinea, who have what might be euphemistically called 'constituency development funds'?

Mr Davis—Yes. There is a version of that in the Solomon Islands.

Senator FEENEY—What is a constituency development fund?

Senator FERGUSON—Constituency development funds are discretionary funds to be used by and worked on by the local member, and it sometimes enhances re-election.

Mr Davis—There is certainly a version of that in the Solomon Islands funded by Taiwan.

Senator FEENEY—Taiwan?

Mr Davis—Yes. Are there any others?

Mr Tranter—That is all I know of.

Mr Davis—That is it.

Senator FERGUSON—So it is basically in the Solomon Islands and Papua New Guinea?

CHAIR—What is the source of the funding in Papua New Guinea?

Mr Davis—From their own budget.

Senator FEENEY—These are sums of money that are used entirely at the discretion of the member?

Senator FERGUSON—Almost. We are not sure about the Solomon Islands. They used to be. They are known as the slush funds.

Mr Davis—They have a few more controls now.

Dr Lake—In Papua New Guinea the district is the same as the electorate. There are district development committees that are supposed to work with the local member to allocate the funds and be accountable for the use of those funds.

Mrs Callan—The funds are allocated. I do not know whether it is a preference or there is some governance around it, but there is 10 per cent for education, 10 per cent for health and 10 per cent for infrastructure. So they actually do have some indicators of how the funds are to be used and what the local planning mechanisms should be. But it is fair to say there is very little accountability and reporting around that.

Senator TROOD—Is it transparent in the budget in Papua New Guinea in the sense that there is a line item or it is identifiable?

Mrs Callan—It has grown enormously in Papua New Guinea in recent years. There is now something called the District Services Improvement Program. But those funds are allocated to MPs and that is an agreed item in the budget.

Senator FERGUSON—There are some African countries that are catching onto the idea. In some of those countries it is actually put to very good use. It is quite well supervised because it is the only way they can get funding into individual constituencies. That leads to my next question, which really involves the oversight of parliamentary committees. We have a public accounts committee and estimates committees. We have various methods of scrutinising government expenditure or budget expenditure. Do any of the island states or Papua New Guinea have effective oversight committees?

Mr Davis—It is a big call to say that across the board every country has effective oversight committees. There are certainly some committees in some countries that work well. There have been periods, for example, in the Solomon Islands in the more recent past, where they have actually had scrutiny of their budget in a way that has never happened before courtesy of parliamentary committees. However, I would certainly not claim that that is a comprehensive approach.

Senator FERGUSON—I will give an example. I can remember in the Solomon Islands seven or eight years one of our guys working in the Health Department giving me a copy of what was supposedly the budget for that year. Do not hold me to these figures, but I will give some approximates. There was a budget of \$ million for education, of which the government spent \$3 million. There was a budget of \$8 million for the Prime Minister's department and they spent \$27 million. Those sorts of things simply could not survive in our democratic process.

Mr Davis—Sure.

Senator FERGUSON—If we are talking about political governance, surely one of the areas we should be concentrating on is trying to encourage them to take on parliamentary oversight of money that is available.

Mr Davis—Sure.

Senator FERGUSON—Of course, the danger is that some of the money that we put into the countries by way of aid could be treated in the same way, but not to the same extent that I am talking about. There has to be some decent oversight of expenditure of money in these islands where some of the democracies are quite new and inexperienced and some of them are simply not quite up to it because they have not had the experience to be able to do it.

Mr Davis—As I said, certainly in the Solomon Islands, some progress has been made through the Machinery of Government Program.

CHAIR—As a general proposition?

Mr Davis—As a general proposition, it is relatively weak.

Senator FERGUSON—Relatively weak?

Mr Davis—Yes.

CHAIR—So there is no effective parliamentary oversight of public spending?

Mr Davis—Yes.

Mr Tranter—But increasing activity by public accounts committees over recent years means budget frameworks are improving over time, which allows greater transparency and scrutiny. If I understood the point about our own resources being part of that scrutiny, we have seen in several countries steps to more substantively reflect donor resources as part of government budget frameworks. That is important for financial planning and planning around appropriations. But it also allows for reporting to parliament about donor flows. That has required some structural changes in budget frameworks to allow that to happen.

Senator FERGUSON—The other area is not quite connected, but it is similar. I refer to accuracy, accountability and transparency in the system. One of the issues is in the area of health in all of these countries. As I understand it, I think your own paper at some a stage talks about TB, malaria, diarrhoea, pneumonia and prevalence of HIV/AIDS, particularly in Papua New Guinea. How accurate do you think the statistics are about the effect of these diseases, most of which are quite curable, in relation to our attempts to get anywhere near the Millennium Development Goals?

Mrs Callan—In the health sector, for example, the ADB worked with Papua New Guinea authorities on a demographic health survey. So they have confidence that the data is reasonably accurate. But certainly when the first results came through from that, the numbers were not found to be believable. We needed to look again at those numbers and trace back through the survey to see if we were interpreting the numbers correctly. There is a major challenge to get accurate numbers. But I do not think there is any doubt about the rough orders of magnitude and the fact that the trends are going in the wrong direction. Part of the work that we are undertaking through taking a broader sector approach in an area like health will help to strengthen the statistical base so that we have decision making on the basis of good information as well. So we are working in that area.

Senator FERGUSON—Are the statistics likely to be understated rather than overstated? If people are attempting to be as accurate as possible—

Mr Tranter—We have seen some evidence of that in education, for example, around literacy rates. Often literacy is assessed by asking people whether they are literate—whether they can read and write. People will always overstate their literacy levels. In Vanuatu, for example, literacy rates at one point were stated to be about 70 per cent amongst adults. A recent survey, which took a significant sample of the population and did testing around people's ability to read and write in Bislama, showed that the literacy rate would be more in the order of between 30 per cent and a 35 per cent. It can highlight some overstating in statistics when they are done in a cursory way.

Senator FERGUSON—The last time I was in Vanuatu, which was a few years ago now, the only education being provided, particularly to women, was being provided by the churches. It was not being provided by any education department. I remember being told that churches were educating mature women who could not read and who wanted to become literate. The churches provided the system of education, particularly for adult females. Is that still case?

Mr Tranter—That is perhaps in some cases at a village level. I think we are seeing increasing numbers come into the education system at primary level in Vanuatu. But there are still problems with people falling out of the system at rather rapid rates the further up they go. As they reach years 8, 9 and 10 the attrition rate becomes quite marked. But enrolments at a basic education level have risen quite rapidly. We might expect to see a lagging from there on literacy. The big issue in the education program we are supporting is around quality of teaching and the quality of the curriculum and addressing costs in the system. We do not want the cost of education to become an obstacle for families. They should not start making choices about taking their kids out of school.

CHAIR—We have done transparency so we might head back to PPDs. As I was saying, we had some useful evidence in the estimates hearings on the four or five that you have signed up to date. We will shift the discussion forward a bit. What influence is the global financial crisis starting to have on the formulation and content of the PPDs?

Mr Tranter—PPDs have a strong focus on learning development goals and supporting growth. Over the period to date, we have negotiated partnerships with Samoa and Papua New Guinea, and more recently the Solomon Islands and Kiribati. In each of those cases growth and livelihood features very prominently.

CHAIR—What do you mean by growth? Do you mean in an economic sense?

Mr Tranter—Yes, support for higher incomes, private sector development, investment in infrastructure and those sorts of things. The partnerships also have a very strong focus on investments in education and health. They have established joint commitments about resourcing from Australia and Pacific governments to meet the goals in those areas. As the crisis starts to impact in the region we can expect there to be some pressure on state budgets and Pacific governments are going to come under some stress. They will need to make trade-offs about allocation of resources. We think the partnerships secure a focus on maintaining investment in social services so that finance continues to be made available in education and health, for example, which would be a really important part of our advocacy and dialogue with the Pacific states over the next year in particular. The partnerships, by their nature, are incremental frameworks that are designed to adapt and respond to developments.

CHAIR—The four you have signed to date were written in a particular economic environment.

Mr Tranter—That is right.

CHAIR—For want of a better time, I will say it was last December before things really started to bight. We now have three months of experience of what is happening, and your forecasts will tell us in due course that things will get a damn sight worse. What impact is it anticipated the fallout will have on the extant PPDs? Will it mean delays or a total reordering of priorities?

Mr Tranter—I do not think there will be delays. We are in the process of negotiating instruments with Vanuatu and Tonga. The discussions we have had with those governments have been about the impacts of the crisis. It is agreed that the frameworks should retain flexibility to

be able to respond to the impacts of the crisis. If you take the case of the Vanuatu partnership, which is currently under negotiation, we have discussed how work in our infrastructure program might be able to emphasise local labour hire arrangements to facilitate wage opportunities for people in rural areas to maintain incomes over time.

Similarly, we have talked to the government about looking for proxies for cash transfer arrangements for communities that are under stress. In most of the Pacific countries outside of Fiji, there are no formal cash transfer arrangement or formal social safety nets. You can look for proxies around school fee mitigation. Donors or governments can provide subsidies to schools so they do not need to levy the same fees on families, which provides some sort of relief in terms of cash in the community. We are having those conversations with governments about how we can use the partnerships and our assistance to be able to respond to the crisis.

With the ones that have already been signed, the relationship is dynamic. In a formal sense, the partnerships will be reviewed on an annual basis. It is an opportunity to reflect new commitments that might respond to emerging policy priorities for Australia and also for Pacific countries. We will be able to respond to emerging economic challenges, such as the crisis. By their very nature, the incremental development of the partnership means that new priority areas might be identified. I will perhaps let Ms Callan talk about the Papua New Guinea case.

CHAIR—So we have four extant PPDs.

Mr Tranter—Yes.

CHAIR—We are in negotiation with two or three other countries. The global financial crisis is loud and clear out there. You have outlined that they are inherently dynamic and flexible and there is certainly flexibility in terms of delivery of outcomes. What are the three critical issues your organisation has identified arising out of the global financial crisis in terms of the extant four agreements and the ones you are now negotiating? We will cut to the chase. I am interested in the problems and how you are addressing them.

Mrs Callan—With Papua New Guinea we are at the stage of the negotiation of the partnerships where we are about to proceed to the budget discussions. We have talked about what the priorities are and we have some information on costings for delivering on those MDG priorities. We are now at the stage where we need to talk about the Papua New Guinea government's capacity to contribute funds to those priorities going forward five years, the Australian government's capacity, and the capacity of other donors to contribute. We need to see whether the resources needed to achieve those goals are actually available or whether we might need to lower the bar a little bit in terms of what we are aiming to do. We are actually at the stage where we are discussing that at the moment.

CHAIR—With the government of Papua New Guinea?

Mrs Callan—With the government of Papua New Guinea. We need to be working within partner governments' budget cycles. Papua New Guinea is already in the middle of a budget year. So the discussion we have with them will be about the kind of resources they will want to work into their budget for 2010. They will start their budget process somewhere in the middle of the year.

CHAIR—So budget negotiations with Papua New Guinea have become more critical arising out of the global financial crisis. Does that apply to the other countries where we have extant PPDs?

Mr Tranter—Absolutely.

CHAIR—That is the first problem. That is budget resourcing and allocation. What are the second and third critical issues?

Mr Tranter—I think they are around protecting social services investments.

CHAIR—What does that mean?

Mr Tranter—To preserve financing for the Millennium Development Goals around education and health. As part of the joint commitments that underpin the partnerships, we are in the process of making commitments about our financing contributions and engaging with governments about their capacity to meet those joint commitments as well. That is categorised as a key part of our engagement with governments. The third area is starting to reflect some of the variable impacts of the crisis. In the case of Kiribati, for example, again it is a budget issue, but it is of a slightly different nature. The Kiribati government relies heavily on draw downs from a trust fund that is invested in equities.

CHAIR—Offshore?

Mr Tranter—Yes. The value of that trust fund has been reduced and there are now constraints on the government in terms of what it can actually draw down to supplement its own budget.

CHAIR—In terms of making its contribution to the agreements under the PPD?

Mr Tranter—Potentially. This will be a core part of our discussion with the government of Kiribati about how it manages those draw-downs, again for the purposes of meeting service delivery obligations.

CHAIR—I understand. If there is no money, there is no money.

Dr Lake—There is an additional issue that is really underlying some of Kiribati's problems. It has a series of state-owned enterprises with policy and regulatory frameworks around them that are really unfortunate to the extent that the government itself incurs quite considerable losses that are both uncontrolled or poorly controlled, and are a major loss to the budget. In a sense, that sort of discussion with the Kiribati government about improved governance—which I think is a really important thing in the budget—is really to help them. The discussion about prioritisation is also to help them to work out where the leaks are in their current budget system and how they are going to address them. That is not just a partnership thing. In a sense, it is also working with other donors like the Asian Development Bank and things like that. That governance discussion about the budget is a very important one.

CHAIR—I understand the point you are making.

Mr Davis—On top that, beyond what might be in a particular partnership, that does not excluded the capacity, for example as has happened in Tuvalu already, to look at whether there are other mechanisms within the ongoing program that need to be brought to bear to address particular budgetary problems that countries are having.

Mr Tranter—One example of that is that the Solomon Islands is facing a major fiscal squeeze around the fall off of logging revenues, which will be exacerbated through the crisis. There is a conversation with the government now about how that fiscal gap might be bridged. We are speaking with government now about options for financing, which might involve support for the budget in return for some mutual commitments around strengthening its budget framework and addressing soft expenditures around state-owned enterprises, risk and broader fiscal risk to the budget.

CHAIR—In light of the summary of the problems you are facing with the extant agreements, and the problem that will derive from the global financial crisis, does that mean in the PPDs being negotiated, or those we anticipate going forward with as the process evolves, that our goals will be necessarily much more modest?

Mr Davis—I do not think necessarily so. If you look at the goals we are working with in the case of Vanuatu it is still a goal around moving towards a much heightened engagement in areas like access to education. I do not think the goals will be that much more modest.

CHAIR—Perhaps the implementation, timing or progress will be more modest.

Mr Davis—And sometimes the sequencing within those will vary. As was said before, in the Vanuatu case the focus on school fees is something that is clearly a pretty big issue in any event in the country, but heightened in a tighter budgetary situation. If we can give that priority early on within an ongoing interest in greater access to primary education, that makes sense.

CHAIR—The partnerships with the four extant countries state that the implementation strategy was to be worked out or finalised after the Niue forum in August of last year. Can we have a status report on the implementation strategy, where we are at, and whether those negotiations are completed?

Mr Davis—Sure. Is PNG 27 or 28 March?

Mrs Callan—It is 27 March.

Mr Davis—On 27 March we have the final talks with PNG about those. With Samoa, you have done all the workshops already with them and that is pretty well it.

Mr Tranter—We are coming now to a process review of the implementation strategy, so we would hope to have something to submit to ministers by May-June, ready for release by July. In the case of the Solomon Islands, one implementation strategy was identified at the time of signing by leaders and work is progressing on those schedules with the hope of having them completed by the middle of the year, and with Kiribati, again by the middle of the year.

CHAIR—So we should have the four implementation strategies resolved and signed off by the relevant ministers, give or take, by the middle of the year?

Mr Davis—And the three next ones at least signed by the time of this year's forum.

CHAIR—Which is when?

Mr Davis—August. My expectation is that at least the Vanuatu one will be well before that.

CHAIR—Why did we do the implementation strategies afterwards and not as part of the earlier negotiation process?

Mr Davis—We thought it was important to get the political level engaged in agreeing around the broad areas of priority and the broad sort of commitments and responsibilities that both sides signed up to initially, and following that, for that to be translated into the much more detailed implementation schedule. We were keen for there to be a political endorsement at an early stage, and certainly our Prime Minister was keen to be engaged at that early stage.

CHAIR—I detect in what you are saying that the implementation strategy for the next three is being done much quicker than the first four. Is that correct?

Mr Davis—I think that is probably going to be the case. We are not trying to race them to such an extent though that there is not a serious engagement and sense of ownership from the partner government in it.

CHAIR—That is still important.

Mr Davis—It is very important to make sure that it is not just something that we work on and that they sign up to. It is really important that there be that sharing of the whole process. Samoa was a good example. There were detailed workshops that involved both governments on how the more detailed implementation schedules would go. That really cemented for them what was important from their perspective, priorities and benchmarks, et cetera.

CHAIR—The partnerships still identify partnership priorities.

Mr Davis—Yes.

CHAIR—Have we done any costings on the projects under each priority? Will a particular amount be assigned to each priority in the four that we are hoping to have done by June or July?

Mr Tranter—Yes. Part of the implementation strategies is to identify the cost of meeting the targets that are set in the leader's statement of objectives. In PNG, for example, there is work going on. If you look at the Solomon Islands implementation strategy that is attached to the partnership framework, it spells out the resourcing contribution from each government. That reflects some previous work that had been done to understand the nature of the costs.

Your earlier question was: Why not bring these things forward at the time of signing? It is created as part of a detailed process of examining the costing of meeting MDGs or of meeting

the goals that are set out in the documents. In some cases it needs to line up with the budget process of the countries we are working with as well, so that they can indicate with certainty the commitments we might pre-empt to the process.

Mrs Callan—I will give you an idea of the complexity of the costing process. For example, in the education schedule in PNG, we are working with the PNG government on the total cost of achieving an enrolment rate of 70 per cent by 2015. You need to look at the salaries, school operating costs, infrastructure, maintenance, training of teachers, provision of materials, and just a wide range of costs.

CHAIR—Are we becoming the education department for PNG?

Mrs Callan—No, we are not becoming the education department but we are working really closely with them on that and providing them with expertise on it. There are other donors working in those areas as well. Health is another example in PNG where the costings are really quite complex because the responsibility for rural health services rests with the provincial and local governments. The national government has certain responsibilities with respect to training health professionals and providing some funding for the provinces, but the provinces have other responsibilities for parts of the rural health service that they need to deliver. The costs are actually quite complex. In PNG, every province and every local area will have a different cost structure partly because of the transport complications and complexity in that country. The costings work is fairly complex. We think this is really worth doing slowly, carefully and well.

CHAIR—From outside and for their business as well.

Mrs Callan—Particularly for them. I think they have had national development plans for a long time which aspire to certain levels of service delivery but there has never or rarely been behind that an examination of what that will cost and what do we need to budget for, year upon year. It is working together with them to have a long-term plan for achieving some of their development goals. They are concerned as we are about missing them all the time. It is a good approach for a long-term engagement.

CHAIR—In many cases, the partnership priorities are expressed in very broad and general terms—even as dot points under each broader outcome heading. When you are having this very exact budget processing and resource funding and allocation process going towards the future, are you going to identify clear targets attached to each dot point and the associated funding required for X number of years? Is your budgeting that specific?

Mrs Callan—In the case of education, for example, what we are aiming for is an increasing net enrolment rate with an average class size of a certain size—we will agree on what size that should be—and a certain quality of education. We want year 8 students to be achieving at a certain level. We will cost how many classrooms will it take? We know what the population growth is. If you want class sizes of only, say, 45 children, how many classrooms will you need? How many teachers will you need?

We will not have a number or a cost against each of those. In education, that is a package. You cost the whole objective in that case. In some other areas you might be able to break down

objectives because they may separate out in terms of budgeting. But in the case of education you cannot separate them out: They all go together.

CHAIR—Are we involved in this huge spend in Aceh through AusAID in education? Are lessons being gained from there? We have had to rebuild whole areas of the province in terms of infrastructure and education and schools in particular. Have the lessons learned from that relevant here, or is it just a totally different environment?

Mr Davis—I think it is a pretty different environment and it is being done very much in a post-disaster period. A lot of the work here has to relate to how this can operate with the limitations around the capacities within the education department in PNG, as Margaret has just been talking about. It is working within much more of an established field than we were doing in Aceh, which was a bit more green field post-tsunami.

CHAIR—I certainly appreciate the distinction. I was talking more in terms of the exactness of the budget and resource allocations.

Mr Davis—This is a bit more of a sophisticated approach than what we were talking about in those very early days in the post-reconstruction work in Aceh.

CHAIR—Are high food prices still a problem in the Pacific Island countries.

Dr Lake—Not so much.

CHAIR—Not so much?

Dr Lake—No, not so much. Probably in some ways it ranges from country to country. High food prices were a problem for some groups within those countries, but they were not necessarily a problem for all the people in the country because there was some substitution going on with the shift to domestic consumption rather than external consumption. The people who were most vulnerable there were the urban landless, urban poor, but in a sense last year there was problem because of the high fuel prices as well as the high food prices. There were also transport costs involved in that.

CHAIR—A lot of those problems have come off now?

Dr Lake—The food prices have to a large extent. The transport costs have come down to some extent and this comes back to the GFC or the GEC. You are getting a bit of a bounce back from the lower fuel prices, which is protecting these economies. The impact of the GEC may have slowed a little bit because of that. There is a bounce back.

CHAIR—Is malnutrition an issue in any of the countries too.

Mrs Callan—Yes, in PNG it is.

Dr Lake—Potentially. Poor nutrition in a lot of the Pacific countries.

CHAIR—It is a different thing from malnutrition though, is it not?

Dr Lake—Yes.

CHAIR—We do not have degrees of starvation or malnutrition?

Mrs Callan—You do in isolated areas in PNG where there is child stunting and there are problems with malnutrition. There is simply not enough food at different times of the year in some parts of PNG, and there are some very poor communities where there is child malnutrition as well.

CHAIR—Outside PNG, is malnutrition an issue?

Dr Lake—Protein malnutrition in the Pacific is a problem, particularly PNG and particularly in areas that are away from the coast. In the Pacific Islands, it is less of a problem because fish is more available.

CHAIR—Fish is available, yes?

Dr Lake—This is, in a sense, part of the reason why there is such a distinction between PNG and the rest of the Pacific. It does depend a little bit on the availability of fish because it is a major source of protein. This was your point earlier: There is not starvation, but there can be malnutrition because of the lack of protein and an imbalance of diet as opposed to poor nutrition which is leading to NCDs, like Samoa et cetera, which is a separate issue.

CHAIR—But it is a particular problem in PNG and an isolated issue in other Pacific countries.

Dr Lake—But to a very limited extent.

CHAIR—All right.

Dr Lake—In Fiji, maybe to a limited extent, but I think in a lot of the other Pacific Islands, it is less.

CHAIR—Could you speak briefly about the ACIAR development support facility? We provide \$35 million to PNG to strengthen the capacity of agricultural research and commodity institutions to deliver improved services to rural stakeholders. Are other Pacific Island nations benefiting from this facility? If so, how?

Mr Davis—No, that is a PNG-specific facility—is it not?

Mrs Callan—Yes.

CHAIR—It is PNG specific, and there is no suggestion of its being replicated or extended elsewhere?

Dr Lake—The example of NARI in Papua New Guinea is a little bit different from the Pacific. In some ways the rest of the Pacific does not have quite the sort of agricultural development challenges that PNG does. In Samoa, for example, there is actually a drop in

agricultural production, and it is a completely different issue in many ways. It is not due to weaknesses in the agricultural sector. It is that people prefer to make their income from other easier ways.

CHAIR—They have choice?

Dr Lake—For instance, going to New Zealand and working as a migrant labourer is easier.

CHAIR—You get hard cash over there.

Dr Lake—Yes. In other part of the Pacific the challenges facing agriculture are a bit different from PNG.

CHAIR—Mr Hearn from ACIAR spoke about the importance of enhancing extension services on the ground to ensure that the benefits of research are taken up by as many producers as is possible. Spreading out the information is what he is talking about. He said to us that in his view the government could assist by providing a greater incentive for improved extension and the funding of extension to get the information out there. Do you share that view? Are we engaged in that type of activity at all?

Dr Lake—Let me talk about PNG. If you talk to NARI—

CHAIR—NARI is?

Dr Lake—NARI is the National Agricultural Research Institute in PNG, which is the agency for this. The head, Dr Ghodake, of NARI says two things: one, the major constraint for agriculture production in PNG is the quality of the roads, and the poor quality of the roads is preventing producers from reliably getting to their markets; second, the Department of Agriculture and Livestock in PNG for many years has supposedly done outreach work, extremely unsuccessfully. A couple of years ago NARI was producing a whole lot of brochures and you were getting little individuals going around as entrepreneurs picking up the brochures, taking them home and selling them to other producers.

In a sense what you were getting for good agricultural ideas was opportunistic entrepreneurial behaviour of individual farmers who were saying, 'We'll do the outreach by ourselves.' NARI was suggesting that that inherent entrepreneurialism was a far better way of doing outreach, by demonstration et cetera.

CHAIR—Do you share that view?

Dr Lake—I certainly share the opinion that you should not give it to government. This is a problem. If government is not particularly effective, the last thing you want to do is give them a task they are not going to do well. Even if it should be a public good, if government is not going to do it well, it is better to look for other ways of doing that. Understanding what the constraints are and seeing that individual entrepreneurialism is a way of getting around it.

CHAIR—You are saying it works. They get the information out that way.

Dr Lake—Yes.

CHAIR—Even though, in our discussion, it is a public good derived from public research and public funds. That has to be concluded at this point.

Dr Lake—To get that out there by any way, say by individuals who go around selling it or do what they like with it, is much better. At least it gets around, and that is much better than depending on what might be a quite ineffective government system.

CHAIR—Do you put the same proposition for the other countries?

Dr Lake—I am less experienced in the Pacific.

Mr Tranter—I have seen models work well, Senator, in Vanuatu along similar lines. I have heard it described as a nuclear enterprise model where many agriculture producers are small holders; they are not plantations, nor are they running large estates. For them, the barriers to getting to market revolve around high transaction costs. Models that tend to work well, which I have seen in, for example, coffee or spice, are where entrepreneurs will facilitate a network of small holders and work with them to get their goods to the market, but will also work with them to improve the quality of their produce. They have a long-term commercial arrangement between community-based growers and a marketer-consolidator. It is all contained within the enterprise itself. The consolidator has a vested interest in having high-quality produce to bring in, and works with small holders to keep that quality up.

CHAIR—The net of that is that AusAID does not really see as part of its function the giving of firm directions as to how extension services should implement the dissemination of new information.

Dr Lake—It is really important to do the market chain analysis, work out what the constraints are, and then work out for those particular countries what might be the best way of doing it, but my feeling is it is more likely to be an entrepreneurial private sector solution to these things. It may be that there are some public goods that you can provide to facilitate that. But to suggest that the state is necessarily the best place to provide that service, I suspect not.

Mrs Callan—There are places where it works well.

Dr Lake—Yes.

Mrs Callan—We do support extension services in East New Britain, for example, and that works very well. That is particularly for research of particular crops, which matter a great deal to local growers. They want the extension services, there is a high demand, and it is a fairly closed community.

Mr Davis—And it is working through one of the most effective parts of government in the country.

Mrs Callan—Yes, exactly.

Dr Lake—East New Britain is the best.

CHAIR—Is it?

Dr Lake—By a long way.

CHAIR—It is well run, is it?

Dr Lake—Yes.

CHAIR—Can we now skip to coastal fishing in terms of food security? Does Australia give assistance to the coastal fishing sector in the Pacific Island countries? If so, how?

Dr Lake—We do. We work largely with SPC, the South Pacific Commission, which does do work around managing fishing. Some of the issues are regulatory and some of the issues involve working with local fishing groups about what it is sensible to do.

CHAIR—Are you talking about sustainable development of the fish stock?

Dr Lake—To a large extent, yes.

CHAIR—So we work with the SPC to educate local fisherman in terms of sustainable development?

Dr Lake—Yes, and the SPC is the mandated regional organisation around these areas, so it is natural partner to do that work. They are also linking it to, for example, some of the vulnerability work around climate change and the potential movement of stocks, and things like that. To move away from coastal fishing, that then is paralleled by our work with the FFA, the Pacific Islands Forum Fisheries Agency, which deals with oceanic fish as opposed to coastal fish.

CHAIR—That segues nicely into the issue of licence fees and getting the appropriate economic return, particularly to the host country or nation. Do you have a view, firstly on the adequacy of the licence fees, and secondly, on whether Australia is assisting Pacific Island countries in any way to obtain increased fees, or do we just not see that as part of our business?

Dr Lake—Some of this work is not AusAID, but DAFF, which is the Department of Agriculture, Fisheries and Forestry. In a sense there is a series of different pieces of work there, some of which is about the western and central fisheries and how you manage oceanic fisheries. That is the large-scale negotiation business about managing fish. There are then two separate pieces of work, some of which we are involved with and funding but not in a sense involved in the negotiations about. FFA also has a role around helping countries build up their capacity on collecting and managing the fees, and then working with national fisheries authorities. The national fisheries authorities usually have responsibility for both coastal fishing and fishing licences.

For instance, we also work with a number of national fishing authorities, including Kiribati and Nauru, and we are in the process of developing some work in some other areas. We work both with the FFA and with some of the national fisheries authorities. Sometimes it is an issue

not so much of the level of licences but actually the application and collection of licences. Sometimes it is really hard to tell what is going on because, for instance, you can have annual fish migrations because of changes in sea temperatures. For instances, Kiribati peaked in its fish licence revenues in about 2002 and then it went down quite significantly there. It is not clear to what extent that is because they are less effective in collecting fees, or to what extent it is fish moving and to what extent they should be negotiating those things upwards. In a sense it is a mixture of all three.

In Nauru, we have some people there working with the national fisheries authorities. They had in their budget that they are expecting \$4 million in fees and they have \$8 million so far this year. There is also an element where it is just a plain public administration issue as opposed to a fishery policy issue, or things like that. So in a sense, you need to look at all three: Is it a public administration issue? Is it a policy issue around how you approach fish licensing? Is it a regional issue about how fishing is managed?

Senator TROOD—Is the monitoring of receipt of fees within the determination of local governments?

Dr Lake—The monitoring of receipt of fees is a national issue but they all negotiate within these broader regional organisations about how that is to be managed.

Senator TROOD—Yes. I understood that the fees were set largely regionally.

Dr Lake—Yes.

Senator TROOD—But the disparity in the expectations, as you said, seem to be a reflection of different kinds of things happening, which are not entirely clear. Is that it? How do you explain a difference between an expectation of four and ending up with an eight when the fees are quantified?

Dr Lake—The trouble is that at the moment we are just not sure whether that is a combination of strengthening public administration—

Mr Davis—I am probably the only one who can do anything on the civil-military, if you wanted to talk about that.

CHAIR—Right.

Senator TROOD—I have a suggestion about this.

Dr Lake—Sorry?

Senator TROOD—It is all right. Sorry, Dr Lake. Would you like to finish your thought?

Dr Lake—In a sense it is a three-tiered issue. The surveillance and management of fishing, which is done by the FFA, also fits into the national process as well. But at the moment, although there is early advice from Nauru, it is not clear to what extent that is the result of public administration strengthening so that they are collecting more of the fees that they were due, or

whether there has actually been a shift in fish into Nauru's EEZ, in which case they are just getting more fees this year.

Senator TROOD—My question is: How are we getting at an explanation? Are we relying upon the Nauruan government to provide that information, or is it coming through access that the regional fishing arrangements commenced?

Dr Lake—In the long term that would largely come through the FFA. FFA is the relevant regional organisation that keeps an eye on these things, but also in a sense it is that combination. FFA can do what it can to help the public administration issues in the country, but also in a sense it helps for resources to go in and help those sort of basic fees collection issues.

CHAIR—The \$500,000 that FFA recently received, did that come from AusAID? You refer to it in your submission at page 20.

Dr Lake—There are a couple of points: We actually provide approximately \$2.3 million a year as core funding for FFA.

CHAIR—You do, yes.

Dr Lake—Most recently they were doing a pilot around some of the monitoring and surveillance work in the Pacific and we were funding that.

CHAIR—The money from that pilot came from AusAID.

Dr Lake—Yes.

CHAIR—Can you tell us what that is about?

Dr Lake—In a sense, part of the problem of fisheries management in the Pacific is that there are a lot of EEZs but there is also a lot of ocean out there that does not belong to any country. I always forget the name of it. We need to improve the monitoring of what is happening to the fishing boats.

Senator TROOD—High seas?

Dr Lake—Yes, the high seas, that is right. They have a tendency to say that the fish has come from the high seas when it has come from the EEZs. There are a couple of issues around their own monitoring and surveillance. One is to try to get a better handle on where fish stocks are and where fishing is occurring, but also to keep an eye on illegal fishing around the place. What we were doing was funding some aerial surveillance, which then supplements and improves the quality of the information out there. It was quite a small pilot project, but it was an important way of introducing some additional surveillance and information.

CHAIR—Have you determined it to be successful?

Dr Lake—I cannot tell you at the moment.

CHAIR—You are still doing the review, are you?

Dr Lake—No. I am sorry, I just do not know.

CHAIR—Okay.

Senator TROOD—What were you carrying out surveillance of? Were you carrying out surveillance on fishing or the stocks in some fashion?

Dr Lake—Both I think.

Senator TROOD—Was it?

Dr Lake—Yes, but mainly fishing. Monitoring and surveillance need two things: One is the area or big picture stuff, and the second is the on-the-water monitoring as well.

Senator TROOD—This seems to be a huge problem. As you say, it comprises the intersection of the EEZs with the high seas and the propensity of some operators to essentially exploit stocks to a level that makes them vulnerable. We have had evidence previously that suggests we have not quite got a good handle on some of these problems.

Dr Lake—No, but DAFF does a lot of work with FFA and we are increasing our engagement around that because we see it as such an important issue.

Senator TROOD—A critical matter.

Dr Lake—Yes.

CHAIR—Mr Davis, could I ask you to give us a status report on the pilot program.

Mr Davis—Sure.

CHAIR—And any commentary on future developments deriving from that particular pilot program because we want to see if it is being useful in identifying those problems.

Mr Davis—Sure.

CHAIR—Before we conclude this discussion, what assistance, if any, does Australia provide to Pacific Island countries to assert their interest in relevant international fora to protect their own interests in terms of access to the stock, control of the stock, and licence fees et cetera?

Mr Davis—One critical element is what we do in core support for these key regional organisations that in turn play that key role for the region, among other things.

Dr Lake—We pay for attendance. We are also paying for a new chair for the western and central Pacific fisheries body. There are quite a lot things. I can probably find you a little bit more but in a sense it is a series of both core and additional financing for priority programs that

we pay not only for the two regional organisations but also for their involvement in the international one, which is the western and central Pacific fisheries commission.

Mr Davis—If it could be useful, we could provide that in a more comprehensive way.

CHAIR—That would be useful, yes. DAFF referred to the practice by some distant water fishing nations of providing development aid in exchange for fishing rights. Do you have a view on how widespread this practice is? Are there real or potential problems with this type of exchange?

Mr Davis—I think DAFF probably has to have a better handle on that than we do. There are bits of North Asia where that has long been the accusation.

Dr Lake—It has long been the accusation, but I do not know—

Mr Davis—How real it is.

CHAIR—Is it not within your area of expertise?

Dr Lake—No. In a sense, it is a good partnership between us and DAFF. This is an example of the whole-of-government approach to these things. We help the overarching policy framework, but DAFF is the partner that—

CHAIR—DAFF is the agency that has more knowledge in that area?

Dr Lake—Yes.

CHAIR—I understand. We will just suspend for five minutes and come back to you.

Proceedings suspended from 6.47 pm to 6.52 pm

CHAIR—The committee will adjourn and the committee will reconvene at a future date to be advised when the committee has had some internal deliberations. I thank Mr Davis and his officers for attending this evening and for providing us with a wealth of information. We will come back to them for further work in due course.

Committee adjourned at 6.52 pm