



Australian Government
Department of Foreign Affairs and Trade



JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE

**INQUIRY INTO THE STRATEGIC EFFECTIVENESS AND OUTCOMES OF
AUSTRALIA'S AID PROGRAM IN THE INDO-PACIFIC AND ITS ROLE IN
SUPPORTING AUSTRALIA'S REGIONAL INTERESTS**

DEPARTMENT OF FOREIGN AFFAIRS AND TRADE SUBMISSION

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1. THE FOREIGN POLICY WHITE PAPER AND THE AID POLICY FRAMEWORK

Why Australia gives international development assistance

Australia's international development assistance program is a whole-of-Australia commitment to reducing poverty and promoting prosperity for people in developing countries, predominately in the Indo-Pacific region.

Australia sits in a region that is home to countries with significantly different economic growth prospects. While some of our partner countries in Asia are experiencing dynamic economic growth and a growing middle class, many still struggle with significant pockets of poverty, rising levels of inequality and domestic unrest. Other partner countries, including in the Pacific, have fewer prospects for sustainable high economic growth and instead look to countries like Australia to assist their economic integration with the broader region and help build greater economic resilience. Eleven of our top fifteen bilateral development partners are fragile and/or conflict affected. Our region is home to 40 per cent of natural disasters and 84 per cent of people affected by natural disasters worldwide.

The increasing mobility of goods, capital, people and information as well as a growing interdependence of production and delivery systems means that challenges can increasingly transcend borders. Global and regional health, climate and conflict shocks will continue to require global institutions, governments and communities to respond in a coordinated, flexible, adaptive and timely way.

How Australia targets its international development assistance

Australia's \$4.2 billion (2018-19) development assistance program is one of the ways Australia can respond to these pressures. While our development assistance cannot guarantee a stable region, it can support stability in many of the region's weaker states by advancing economic reforms, opening markets, improving governance and countering transnational crime (including violent extremism).

Investment in our region supports partner governments to build healthy, educated and skilled populations, supported by the necessary infrastructure and governance frameworks to foster prosperity.

Australia's international development assistance delivers on our national interests

Australia's development assistance magnifies the influence that Australia brings to bear on regional and global problems, including efforts to meet the 2030 Agenda and Sustainable Development Goals (SDGs). The development assistance program also provides an opportunity to promote Australian expertise and to develop deep links with countries in our region.

More broadly, Australia's development assistance program gives us soft power, influence, credibility and leverage in our region. It enables us to project Australia's values – including political, economic and religious freedom; liberal democracy; racial and gender equality and mutual respect – while supporting our national interests. Through working closely with partner governments - by being flexible, attentive and responsive - and by providing high-quality development assistance, we can support stability and growth and become a deeply trusted partner. Australia's aid program is managed by the Department of Foreign Affairs and Trade with cooperation from other Government agencies, and forms part of broader whole-of-government

engagement in our region which promotes our interests through strengthening security, stability, good governance, the rule of law and sustainable development.

The policy context for Australia's aid program

Australia's security and prosperity are intrinsically linked to the Indo-Pacific. Australia's 2017 Foreign Policy White Paper (the White Paper), the blueprint for Australia's international engagement for the next decade, identifies the peaceful evolution of the Indo-Pacific as our most important objective. The White Paper commits Australia to pursuing an active agenda, integrated across our diplomatic, security, economic and development policies, in support of our vision for the Indo-Pacific: an open, inclusive and prosperous region in which the rights of all states are respected.

Australia's aid program is delivered in accordance with the Australian Government's policy, *Australian aid: promoting prosperity, reducing poverty, enhancing stability* ('Australian aid'), released in July 2014. It is part of Australia's broader foreign policy, as articulated in the White Paper.

Australia's development assistance is firmly grounded in the 2030 Agenda for Sustainable Development, which includes the Sustainable Development Goals (SDGs) and the Addis Ababa Action Agenda, agreed in 2015 as global blueprints for action to end poverty. The SDGs reflect and support the government's international and domestic priorities. Within all of Australia's bilateral development assistance programs, we are prioritising assistance to partner countries to meet the SDGs¹.

Over the 15-year span of the 2030 Agenda, each member state will produce two Voluntary National Reviews assessing progress. By July 2018, we will deliver the first Voluntary National Review of Australia's contribution to implementing the 2030 Agenda internationally and domestically, involving a truly whole-of-government process and including broad consultation with other stakeholders and civil society.



¹ DFAT's Submission to Senate Foreign Affairs, Defence and Trade References Committee inquiry into the SDGs is available here: https://www.apf.gov.au/Parliamentary_Business/Committees/Senate/Foreign_Affairs_Defence_and_Trade/SDGs

Where Australia delivers its development assistance

Ninety per cent of Australia's country-attributable development assistance is directed to the Indo-Pacific region. The diversity of the Indo-Pacific region demands that we tailor our development assistance to the realities of regional and country contexts. Our approach cannot be the same for small island developing states (SIDS) in the Pacific, with small and geographically dispersed populations, as it is with our populous Asian neighbours with a growing urbanised middle class, strong civil society and a productivity-oriented private sector. For example as countries become more capable and prosperous, and have access to a greater quantity and range of other finance, our approach needs to shift to support reform, and to consider how Australia can be a credible partner on key policy or institutional reform issues.

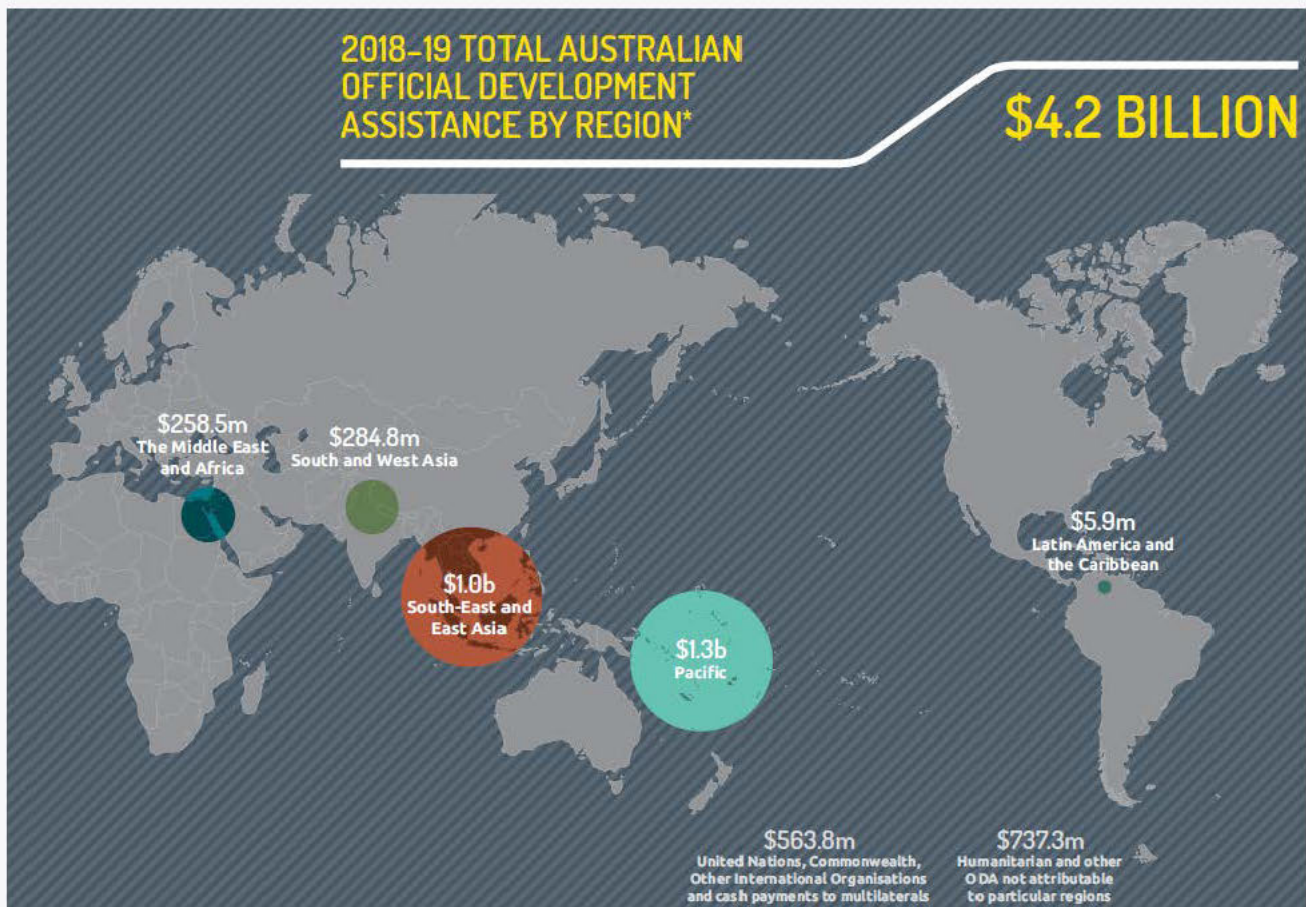


Figure 1: Where we give aid – 2018-19 Total Australian Official Development Assistance by Region (source: 2018-19 Australian Aid Budget Summary)

How the Australian aid program is delivered

Australian ODA is currently delivered on a grant basis. DFAT has different ways of working that help us respond most effectively in different contexts under the current policy framework. Bilateral programs allow DFAT to respond directly to priorities identified jointly with partner governments. This also allows DFAT the most direct oversight.

At the same time, there are other development challenges that are best managed in cooperation with other international partners—whether they be other bilateral donors, multilateral development banks, expert international organisations, parts of the United Nations (UN) system or international civil society.

DFAT achieves greater impact through partnering with other donors through multilateral organisations that specialise in tackling particular global problems and which can pool resources from a range of sources (alongside Australia's). In this way Australia's funding can achieve more in conjunction with other resources and pooled expertise.

Regional and sectoral programs are used most frequently where there are cross-border issues that can be best tackled through a common approach across several countries. Examples can include regional health security to avoid pandemics; water management in river systems that cross borders; or gender equality efforts where stakeholders can learn from the experience of their neighbouring countries.

Australia's aid program, and the way it has been implemented, has undergone significant changes over the last four decades as the global context has shifted, and as both Australian and international experience on how to maximise development effectiveness has deepened. The aid program continues to be dynamic and responsive, working in partnership with countries across our region.

Addressing poverty through economic partnership in Indonesia

Indonesia has reached middle-income status and achieved substantial development - but high levels of poverty persist with at least 100 million people living on US\$2 or less per day. Through an economic partnership, Australia assists the Indonesian Government to target public spending more efficiently. In 2016, we helped Indonesia improve its targeting of social protection programs, including by updating a unified database comprising 25.8 million households. In 2017, Australia supported the Indonesian Government's reform of electricity subsidies to benefit the poorest 40 per cent of households. The reported US\$1.6 billion in savings from this reform is now available for construction of electricity infrastructure in poor and remote villages.

2. THE STRATEGIC FRAMEWORK OF AUSTRALIA'S AID PROGRAM

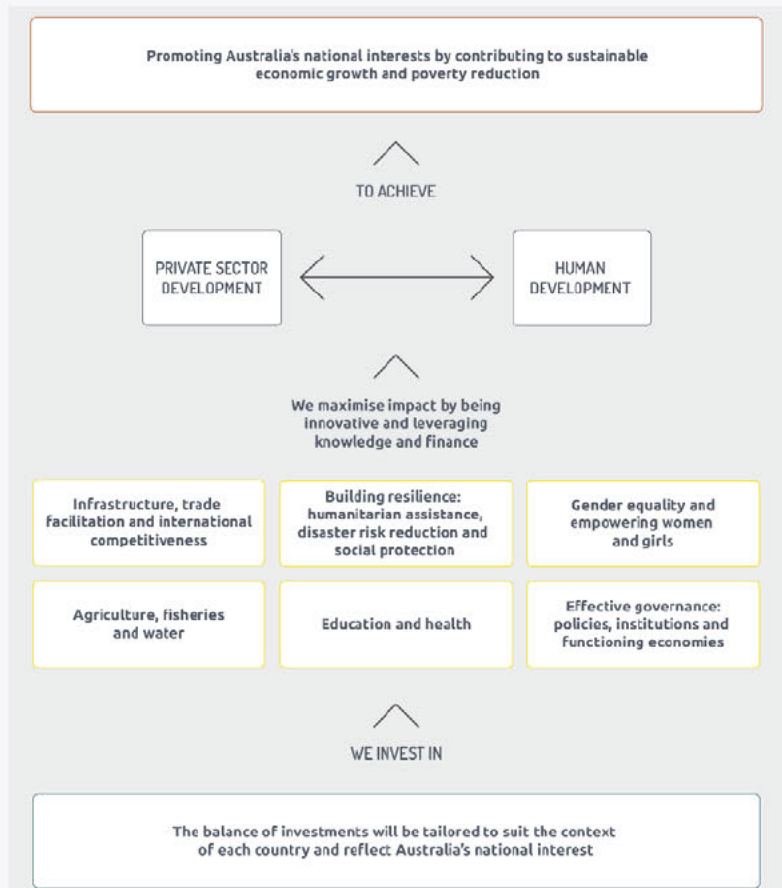


Figure 2: DFAT Aid Policy strategic framework (source: Performance of Australian aid report, 2016-17)

The Strategic Framework for the Australian aid program explicitly and unambiguously links Australia's national interests with sustainable economic growth and poverty reduction, especially in the Indo-Pacific region. The pursuit of gender equality and the empowerment of women is a primary and overarching enabling principle behind all our development efforts.

Encouragement of private sector development and support for human development throughout the Indo-Pacific region are central to the White Paper's core themes of opportunity, security and strength and are the two key pillars of Australia's aid policy. A vibrant and growing private sector underpins economic growth, generates revenue for public provision of goods and services and creates the jobs necessary to lift people out of poverty and address inequalities. This can enhance regional prosperity and security. Investments in sectors such as infrastructure or governance, or to address constraints in particular markets, such as barriers to women's entrepreneurship, assist our partner countries to overcome some of the impediments to private sector development.

Approaches to human development - across priority sector interventions in education, health, building resilience and gender equality - are essential to achieving the White Paper's themes of opportunity, security and strength. Australia is committed to promoting poverty reduction and economic and social participation by the most disadvantaged, including women and girls, people living with a disability, indigenous peoples and the

extremely poor. This requires understanding who is in the poorest groups and helping to address the multiple and intersecting forms of disadvantage experienced by these groups.

The Strategic Framework for Australian Aid identifies four tests that guide our investment choices, namely:

- Is the investment in our national interest?
- Will the investment promote inclusive growth and reduce poverty?
- Does Australia's contribution add value and leverage other resources?
- Will the investment deliver results and value for money?

INFRASTRUCTURE, TRADE FACILITATION AND INTERNATIONAL COMPETITIVENESS

- *Investments in the infrastructure, trade facilitation and international competitiveness sector help achieve SDGs 1, 2, 7, 9, 13, 14, 15 and 17.*
- *Over the period since 2014 investments in infrastructure, trade facilitation and international competitiveness have rated above the aid program average for effectiveness. 85 per cent of all investments in this priority sector were rated as effective in 2016-17, this represented a slight drop over the previous year.*
- *A\$768.9m in 2018-19 or 19.9 per cent of ODA.*

Aid for trade

What is aid for trade?

Aid for trade is a global development initiative that was launched at the 2005 Hong Kong World Trade Organization (WTO) Ministerial Conference in recognition that additional resources are needed to tackle trade-related constraints and to enable developing countries to fully benefit from trade openness. Aid for trade supports developing countries to access international markets by helping them address internal constraints to trade, including:

- lack of private sector capability, including poor access to finance and distribution channels, and a lack of a skilled workforce;
- weak public sector institutions, including in formulating economic policy and regulations, and negotiating trade agreements; and
- poor infrastructure, including roads, ports, and information and communications technology.

Aid for trade is central to Australia's aid program. Australia has a clear value-add to offer in aid for trade, especially in the areas of trade facilitation, digital trade and e-commerce, small business capacity building and economic empowerment of women. The *Strategy for Australia's Aid for Trade Investments* was launched in 2015 and identified the following eight priority areas for aid for trade: trade and investment policy and trade facilitation; global value chains; economic infrastructure; private sector development; economic empowerment of women; knowledge and skills development; agriculture; and services. These eight areas are closely interlinked.

Aid for trade can have a direct and immediate impact on the poor and disadvantaged through the creation of jobs, increased business opportunities and incomes, greater food security and education and training. To realise these benefits, it is critical to build the capacity of the private sector. Aid for trade can help establish conditions that make it easier and cheaper to do business. This is essential as the private sector generates 90 per cent of jobs and funds more than 60 per cent of investment in developing countries. However, trade alone is not sufficient to achieve sustainable economic growth or to reduce poverty. Complementary factors, such as macro-economic stability, the application of the rule of law and presence of developed financial systems, are also crucial.

The SDGs recognise trade as an engine for inclusive economic growth, poverty reduction and an important means to achieve the SDGs. Of the seventeen SDGs, aid for trade is explicitly included in SDG8: 'Decent Work and Economic Growth' with the aim of increasing aid for trade support for developing countries, in particular least developed countries. Aid for trade has a key role in eight other SDGs.

Trade Policy and Regulatory Reform

Aid for trade can help to improve regulatory settings that are essential to creating a competitive and market-based environment in developing countries. The right regulatory environment includes clear and transparent rules that apply to everyone in an equal manner, and that are consistent with international trade rules. Predictability in the rule-making process is crucial.

Promoting gender equality through better factory conditions

Across Asia, approximately 80 per cent of garment and footwear factory workers are women. Women working in these sectors often do not earn enough to meet their own and their families' basic needs. Women are also often frequently subjected to sexual harassment in the workplace and have little or no access to labour rights. To support the improvement of labour standards in the garment and footwear factories, Australia is working with the International Labour Organization, through the 'Better Work Program', to improve workplace standards, including wages, working hours, maternity leave and labour relations. The program is operating in 1300 factories that together employ more than 1.6 million workers in seven countries. Australia supports projects in Bangladesh, Cambodia, Indonesia and Vietnam.

Supporting countries to participate in the multilateral trading system

The aid program is partnering with the World Bank to assist developing countries with regulatory reform in support of their participation in the WTO Agreement on Trade Facilitation. This includes identifying existing constraints; designing and planning for the implementation of reforms; and increasing the predictability, transparency and harmonisation of systems and procedures in line with international standards. The program is delivering very good results, for example, reforms in Bangladesh have reduced the time to import at Chittagong Port from 11 to 8.5 days; and in Timor Leste has reduced the time to import at Dili Port from 16 to 9 days. These improvements in processes have reduced trade costs.

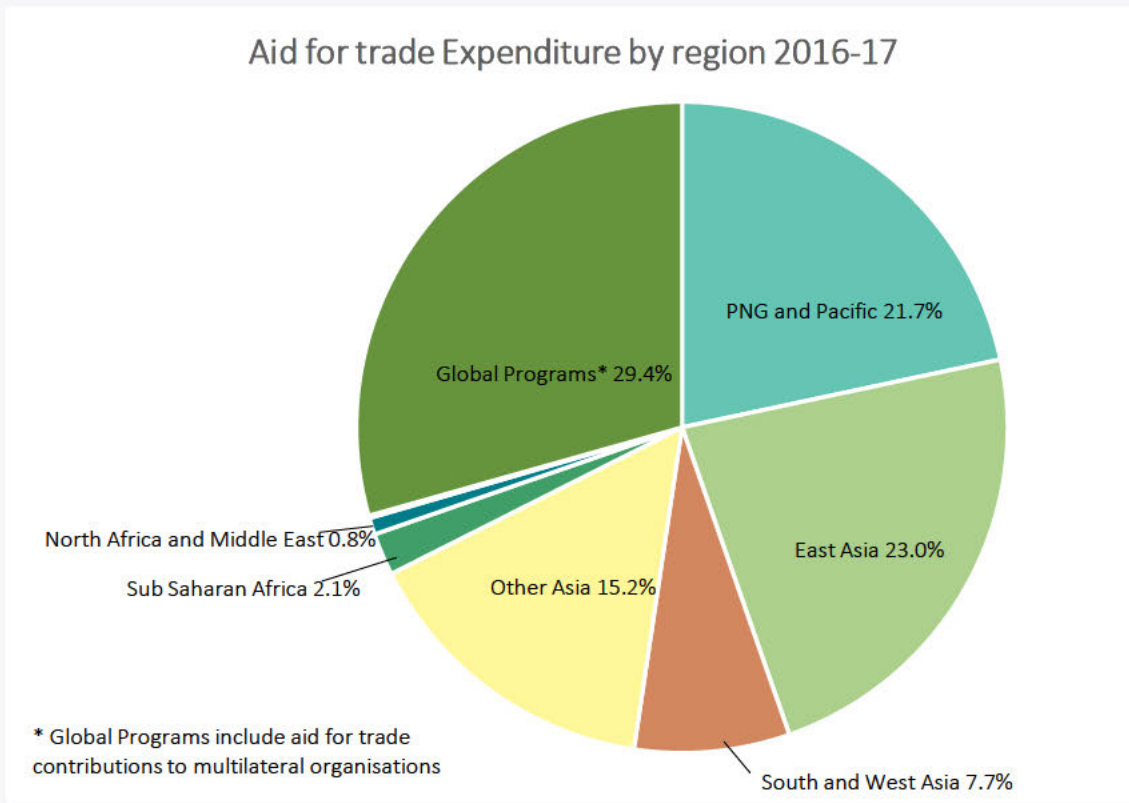


Figure 3: Aid for trade expenditure by region 2016-17

The role and integration of cooperation chapters in free trade agreements

Australia has incorporated development cooperation and capacity building assistance in trade agreements with developing countries to assist them to become more active partners in, and optimise the benefits from, these agreements. *The Australian-ASEAN-New Zealand Free Trade Agreement (AANZFTA)*, which entered into force in 2010, was the first FTA in which Australia included an Economic Cooperation Chapter. Australia and New Zealand are supporting developing ASEAN Member States with regulatory reform to implement AANZFTA commitments on goods, services, investment, competition and intellectual property. Among other things these have led to the enactment of competition laws in Lao PDR, Myanmar and the Philippines; assisting Cambodia and Lao PDR to accede to the Madrid Protocol on trademarks; preparation of new laws covering investment in Lao PDR and Myanmar and streamlining certificate of origin issuance processes.

The Pacific Agreement on Closer Economic Relations (PACER) Plus includes a Chapter on Development and Economic Cooperation and an accompanying Implementation Arrangement which will identify needs for assistance, prioritise activities and evaluate progress throughout implementation. Australia and New Zealand are jointly funding a Readiness Package of A\$4 million to support parties in their preparation to ratify the Agreement. Activities will include legislation drafting, customs modernisation and revenue planning. Australia and New Zealand will provide additional joint funding (of A\$19 million and NZ\$7 million) once the Agreement enters into force. This will focus on supporting Parties' obligations including on Rules of Origin, Customs, Sanitary and Phytosanitary Measures, Technical Regulations, Standards and Conformity Assessment, Trade in Services, and Investment.

Australia seeks to take account of developing country interests in our approach to global trade policy. For example, this is reflected in our approach to providing complete duty-free quota-free access for imports from Least Developed Countries (LDCs). Some LDCs have seen substantial increases in their exports to Australia

since the introduction of the duty-free quota-free access preferences in 2003. For example, the value of imports from Bangladesh increased from A\$43m in 2003 to A\$850m (2017), and Cambodia from A\$4m to A\$175m (2017).

Pacific Horticultural and Agricultural Market Access Program

Australia established the Pacific Horticultural and Agricultural Market Access Program (PHAMA) for the period from 2009 to 2018. New Zealand co-funds market access activities in the region. PHAMA is designed to provide practical and targeted assistance to help Pacific island countries manage regulatory aspects associated with exporting primary products (including fresh and processed plant and animal products). This includes gaining access for their products (such as sawn timber and fresh vegetables) into new markets, and helping to manage issues associated with maintaining and improving existing trade. Australia and New Zealand are markets of major interest, along with export markets beyond the Pacific. The core countries assisted through PHAMA include with a particular focus on Papua New Guinea, Fiji, Tonga, Samoa, Vanuatu and Solomon Islands. In PNG, PHAMA has been working with Paradise Foods Ltd (PFL), an existing export-ready processor, to confirm market access requirements and test pathways for high end processed spices. PHAMA assisted Paradise Spices, a division of PFL, to export trial shipments of spices. Paradise Spices is now exporting to Australia and New Zealand markets with potential opportunities in the United Kingdom, Taiwan and China.

Reaching target percentage for aid for trade investments

As part of the changes to Australia's aid framework announced by Foreign Minister Bishop in June 2014, an aid for trade target of 20 per cent of the total aid budget by 2020 was set from its then level of 13 per cent. This target was achieved ahead of schedule in 2016-17 when aid for trade investments represented 23.3 per cent of the total aid budget. The target has been beneficial in setting a benchmark for development assistance investments across the department and in aligning foreign, trade and development objectives. With nine out of ten aid program strategic targets now achieved, a review of aid program targets set out in the 2014 document *Making Performance Count* (including the aid for trade target) is underway.

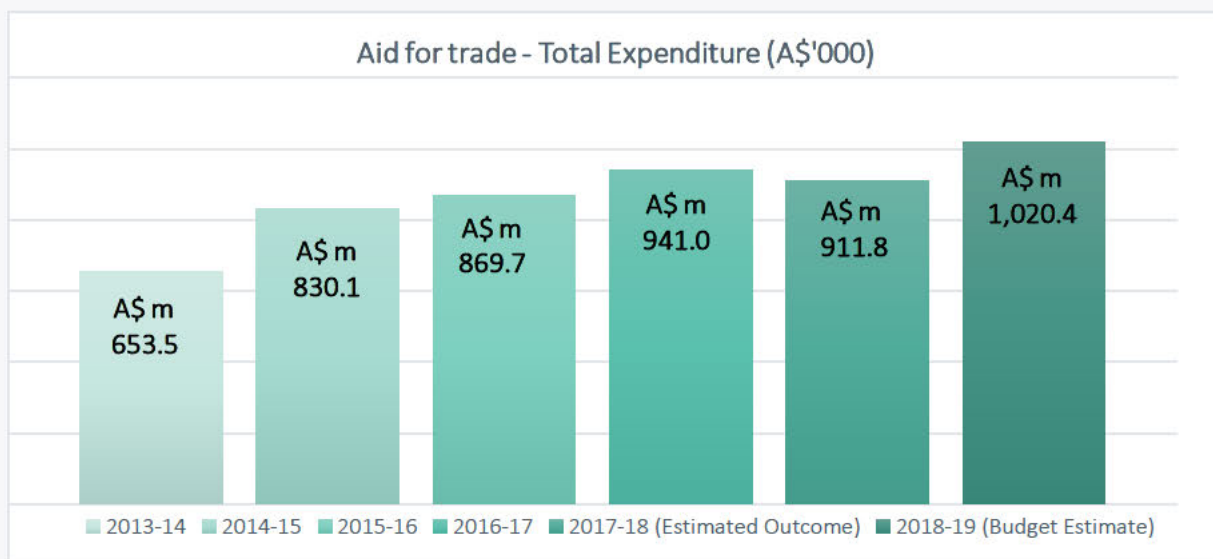


Figure 4 : DFAT's Aid For Trade Total Expenditure 2013-2014 to 2018-2019

Infrastructure

Approximately A\$397.3 million in 2016-17 – representing 40 per cent of Australia's aid for trade investments - was dedicated to infrastructure (including transport and storage, communications and energy supply and generation). Of this, approximately A\$103.2 million (or 27.2 per cent) was dedicated to the Pacific region.

The significant infrastructure gap in the Asia-Pacific region, estimated by the Asian Development Bank (ADB) at approximately A\$26 trillion to 2030, is preventing countries from fulfilling their economic potential. Public funding alone cannot bridge this gap, and the aid program is committed to catalysing private investment in infrastructure. Australia is working with other donors, multilateral banks, and institutions to mobilise the necessary funds for key investments, including using public-private partnerships and blended financing, as envisaged by the Addis Ababa Action Agenda. Consistent with the White Paper, the aid program prioritises infrastructure development and investment that reinforces an open, global economy based on: strong and transparent rules; the promotion of fair and open competition; non-discriminatory, predictable and enforceable regulatory systems; robust social and environmental safeguards; genuine need; and the avoidance of unsustainable debt burdens -- a particular concern in small island states of the Pacific region. We work closely with partner governments and multilateral agencies to achieve our infrastructure objectives, including by using our technical assistance to promote strong standards.

Australia has a significant stake in infrastructure development in the Indo-Pacific, and in 2018-19 expects to provide A\$493 million to help address economic infrastructure development challenges in the Indo-Pacific through:

- core funding payments to concessional financing arms of the World Bank Group (WBG) and ADB, as well as capital payments to the Asian Infrastructure Investment Bank (AIIB), a proportion of which are reportable as ODA;
- bilateral country programs that support infrastructure development and maintenance. This includes (non-core) co-financed investments for specific infrastructure projects implemented by the Banks; and
- multi-donor infrastructure development facilities.

Australia brings a high level of commitment and expertise to infrastructure in the Indo-Pacific region. Our recognised domestic expertise in Public Private Partnerships (PPPs) and “asset recycling” – providing financial incentives to state governments to sell or lease their assets – are of significant interest to our regional partners. We use grants from our aid program to help make finance from multilateral development banks for infrastructure development more efficient and effective for borrowing countries in the region. For example, we provide grants to improve project readiness, help borrowing countries comply with safeguards requirements and procurement standards, and expedite and strengthen project implementation. DFAT also supports a number of project preparation facilities that seek to increase the supply of “bankable” infrastructure PPPs in the Indo-Pacific region.

This approach recognises the value that Australia's ODA grants can play in leveraging funding from sources, including multilateral development banks, with access to larger pools of funds and technical expertise. Investments in the Global Infrastructure Facility (WB) and the Asia Pacific Project Preparation Facility (ADB) both aim to address the shortage of infrastructure projects ready for investment. Australia is also investing in the Private Infrastructure Development Group which, through its GuarantCo Facility, provides local currency guarantees to mobilise debt and equity financing for infrastructure by reducing elements of risk for potential investors. For example, GuarantCo has issued guarantees facilitating over USD3.8 billion worth of private

sector investment in water, road and rural electrification projects in Asia and Africa, improving access to critical infrastructure for local populations and creating local employment.

The aid program also directly invests in infrastructure. Investments in infrastructure can help improve the business-operating environment in developing countries, increase the productivity of different sectors and help to facilitate trade. Disadvantaged groups such as remote communities and women gain from infrastructure investments by improving their security, independence and connectivity to markets.

Cao Lanh Bridge, Vietnam

The Mekong Delta is the third largest industrial centre in Vietnam and contributes 70 per cent of Vietnam's agricultural and fishery exports. However, poor road networks and vulnerability to natural disasters have prevented agricultural and industrial investments that would lead to increased economic activity and improved living standards for local communities. Australia has supported the design and construction of the Cao Lanh Bridge to replace slow ferries and improve 25km of interconnecting roads. The bridge, opened on 27 May 2018, creates a new transport link to spur economic development by connecting the 18 million people in Vietnam's Mekong Delta to markets in Ho Chi Minh City and provides a link to Thailand through Cambodia on highways upgraded by the ADB with Australian support. The Cao Lanh Bridge is the largest single Australian aid activity in mainland Southeast Asia (A\$160 million, 2011-18).

In the Pacific, the maintenance of priority infrastructure, particularly roads, is a significant challenge. For example, in PNG, the task of keeping crucial road networks operational is affected by factors such as geology, topography, high levels of rainfall, and budget pressures. Climate change is expected to increasingly affect the resilience of infrastructure, especially in the Pacific. Australia, through its long-term investment in road management in PNG is providing critical technical assistance and support to help overcome the costly culture of build, neglect and rebuild that has been prevalent in the Pacific in the past.

Infrastructure supporting the future digital economies of Papua New Guinea and Solomon Islands

For countries struggling with development challenges, slow and unreliable internet connections are an obstacle to economic growth. As part of Australia's 'Step Up' in the Pacific, as outlined in the White Paper, work is underway to lay high speed telecommunication cables from Australia to Papua New Guinea and Solomon Islands. World Bank research has found that improved internet access and connectivity could translate into additional GDP of more than US\$5 billion and close to 300,000 additional jobs in the Pacific by 2040. This project will support Papua New Guinea and Solomon Islands' development of entrepreneurship, digital skills and their further integration into the global marketplace. It is also a realisation of *Australia's International Cyber Engagement Strategy*, which sets out Australia's approach to help bridge digital divides across the Indo-Pacific.

AGRICULTURE, FISHERIES AND WATER

- *Investments in the agriculture, fisheries and water sector help achieve SDGs 1, 2, 6, 12, 13, 14 and 15.*
- *Over the period since 2014 there has been a significant improvement in the effectiveness ratings for agriculture, fisheries and water investments which had been performing below the aid program average. 96 per cent of all investments were rated as effective in 2016-17.*
- *A\$378.9m in 2018-19 or 9.5 per cent of ODA.*

The agriculture, water and fisheries sectors are key sources of jobs, incomes and exports and will continue to play an important role in economic growth and poverty reduction across the Indo-Pacific region. A projected 60 per cent increase in global demand for food in coming decades will create significant economic and business opportunities across the region, but will also present major challenges. Strains in access to food, energy and water, exacerbated by climate change, may limit prosperity, impact on health through undernutrition, and in some cases contribute to the potential for conflict and instability.

Australian Water Partnership

Australia has long and broad experience to share in managing water as a scarce economic good. DFAT established the Australian Water Partnership in 2015 to share Australian water expertise with countries in our region. Through the Partnership, Australia is supporting major river basin planning reforms in Myanmar; a new water information system in India based on Australian technology and is helping to shape the ADB's irrigation strategy. The AWP is working directly with several countries to share water expertise, including through a highly accessible framework for decision-making, WaterGuide.

Australia is a highly efficient agricultural producer with extensive expertise in agricultural policy, agronomy, research, marketing, conservation, fisheries and agribusiness management. DFAT leverages this Australian expertise to support sustainable economic growth in the region's agriculture sector – which has a high impact on poverty alleviation – and to reduce our neighbours' vulnerability to food shocks and nutrition insecurity. Drawing on global scientific partnerships, the aid program in turn helps Australian farmers access new techniques and technologies for tackling emerging pests and diseases, improving yields, reducing pressures on the environment and addressing climate risks.

Through the aid program, as well as agricultural research (driven by the ACIAR), Australia is helping link thousands of poor smallholder farmers to more profitable agricultural value chains. As well as raising incomes and creating jobs, our investments are increasingly seeking to build the resilience of smallholder farmers to climate-related shocks and promote more nutritious food systems. The aid program draws on the power of the private sector, NGOs, scientific bodies, producer organisations, UN agencies and multilateral development banks to deliver on the immense challenge of SDG2: eradicating hunger and doubling smallholder incomes in the face of mounting constraints to resources such as water, soil fertility, climate and biodiversity.

Improving water and sanitation in the Pacific

The Pacific Water and Wastewater Association (the Association), based in Samoa, is improving water and sanitation in twenty Pacific island countries. Both the Chair and CEO are female and are committed to ensuring gender equity is a priority in the decision making and delivery of water and sanitation services in the region. With assistance from DFAT and the Australian Water Partnership, the Association is strengthening the capacity of the water and wastewater management utilities across the Pacific.

EFFECTIVE GOVERNANCE, POLICIES, INSTITUTIONS AND FUNCTIONING ECONOMIES

- *Investments in the effective governance sector help achieve SDGs 8, 10, 16 and 17.*
- *Over the period since 2014 effectiveness ratings for effective governance have tracked closely with the aid program average. 89 per cent of all investments were rated as effective in 2016-17.*
- *A\$811.8m in 2018-19 or 20.4 per cent of ODA.*

Weak governance and corruption wastes the scarce resources of developing countries, deprives populations of their basic needs, and renders states more vulnerable to economic and environmental shocks. While many formerly poor countries have made impressive development gains over recent decades – and continue to stabilise and prosper – others still languish. Poor governance, instability, weak institutions and repeating cycles of conflict and violence make for a volatile mix. Of our largest fifteen development partners, eleven are fragile or affected by conflict. Our experience in Solomon Islands, Timor-Leste, Southern Philippines, Cambodia and elsewhere meant Australia had substantial credibility and influence when we made the case for the inclusion of Sustainable Development Goal 16 on peace, justice and effective institutions in Agenda 2030.

Globally, there have been fundamental shifts in thinking about governance and development over the last decade that have implications for both the areas we target in our programming and our ways of working. Today, we have a much deeper understanding of the complexity of institutional change in our partner countries, and the centrality of power and politics in the development process.

There is no 'handbook' for achieving effective governance. It will look different in different places and is always dependent on local context. World Bank research over the past three decades demonstrates clearly that institutional change is a "long game" - a historical process that is often messy, usually incremental, vulnerable to setbacks, and never finished.

Pacific Leadership and Governance Precinct

The Pacific Leadership and Governance Precinct is a joint PNG - Australian government initiative to support the next generation of leaders in PNG to equip them with core public policy and economic skills, and instil leadership values and principles. The Precinct is delivering executive-level public sector ethics and leadership courses; certificate, diploma and undergraduate programs in public administration and management; in-service training; and research on public policy. PNG private sector representatives are participating in many of the courses and the Precinct is supporting greater engagement between the public and private sectors. Over 3,782 Papua New Guineans have benefited from the Precinct. Additionally, Australian National University academics have taught 291 students at the University of Papua New Guinea.

Provided we maintain our own situational awareness about the interests and incentives which drive decision-making in each partner country where we work, Australia's development assistance can promote effective governance, quality institutions, transparency, accountability, anti-corruption, pluralism and democratic values. We have helped build budgeting and public financial management capabilities in countries like Samoa, Timor Leste, Indonesia and Solomon Islands. We have assisted women to rise to leadership positions in many countries in the Pacific and Southeast Asia. We have assisted numerous countries to run credible elections processes. We have supported partner countries to establish justice systems that can prosecute corruption and criminality, but also provide fair and equitable access to justice by the less powerful (including women, people with disabilities and young people). For example, Vanuatu's Governance for Growth program includes partnerships and informal mechanisms to support institutional and regulatory reform, central government

policy and decision-making, including sensitive and contested reforms such as the liberalisation of telecommunications, establishment of a utilities regulator and reform of revenue policy and administration.

We have learned that our programming should be realistic about what is possible and equipped to identify and respond to transformative opportunities when they appear. The recognition that reform efforts must be driven by local actors and constituencies raises a challenge to the international community to target policy experimentation to discover local solutions to development problems.

Public Financial management: mobilising domestic resources for development

A recent project in PNG worked to strengthen compliance and improve early collection of tax debts between May and December of 2017. This investment of A\$1.2m of aid funds helped raise A\$125m. This represented three per cent of total tax revenue. Australia's aid has played a direct role in increasing Kiribati's tax revenues and compliance. Australia funded a tax advisor who supported the implementation of a Value Added Tax and an automated tax system to replace the manual system in Kiribati. This contributed to an estimated 23 per cent increase in Kiribati's tax revenue in 2015 over 2014. Combined with the instrumental role played by the International Monetary Fund's Pacific Financial Technical Assistance Centre program (largely funded by Australia) in the design of Kiribati's new tax policy and legal framework, Australia's efforts have resulted in Kiribati's revenues increasing by over 105 per cent between 2014 and 2017.

EDUCATION AND HEALTH

- *Investments in the education and health sectors help achieve SDGs 3, 4, 5 and 6.*
- *Over the period since 2014 education investments have achieved above the aid program average in effectiveness ratings. Ninety per cent of all education aid investments were rated as effective in 2016-17.*
- *Over the period since 2014 health investments have been at or slightly below the aid program average in effectiveness ratings. Ninety per cent of all health investments were rated as effective in 2016-17.*
- *Education is A\$637.2m in 2018-19 or 16 per cent of ODA.*
- *Health is A\$435.7m in 2018-19 or 10 per cent of ODA.*

Australia's education system is well regarded in the region, making our policy and technical advice and scholarships highly valued. Education contributes directly to poverty reduction and economic growth, and can have a direct impact on reducing inequality. A quality education is transformational. At a country level, a ten percentage point increase in the share of students reaching basic literacy has been associated with 0.3 percentage points higher annual growth, and a ten percentage point increase in the share of top-performing students has been associated with 1.3 percentage points higher annual growth. Recent research shows that quality primary schooling was the most important factor in economic growth experienced in the second half of the 20th century.

Australia supports access to a quality education in the Indo-Pacific region by improving basic education levels, providing opportunities for vocational training, as well as scholarships through the Australia Awards. These programs help to create an educated workforce and future leaders within the region. Australia Awards are prestigious international scholarships for advanced degrees and short courses. These build Australia's long-term influence by empowering a global network of leaders, advocates and change-makers with positive and enduring links with Australia.

Investment in health protects Australia's national interests and those of our region from major health threats, which have an impact on economic, trade, and political interests. These may be a result of infectious diseases and other health challenges. Our investments in health are context-specific, aligned to every partner country's priorities, results focussed, and based on Australian comparative advantage (for example technical expertise or geographic proximity). Our core priority is to influence partner country decisions on health policy, strategy, and domestic resource allocation for more efficient and effective use of resources.

Australia's investment in health focus on building country capability to respond to immediate needs and to prepare for, and respond to, emergency public health threats. Our investment recognises that good health is both an outcome of, and a contributor to, economic development. Healthier adults are more able to work and children free of disease are better able to learn at school and gain the skills needed to break out of poverty. Globally, between 2000 and 2011, about 24 per cent of the growth in income in low and middle-income countries resulted from improvements in health. Conversely, inadequate access to clean water and poor sanitation and hygiene in such countries results in yearly economic losses of US\$260 billion, largely due to increased health care costs and decreased productivity. In 2003, severe acute respiratory syndrome, an infectious viral respiratory disease, was estimated to have resulted in a US\$40 billion global economic loss. Investing in increasing the capability of our neighbours to respond to emerging infectious diseases such as avian influenza, swine flu and rabies contributes to better health outcomes for them, and shores up our own health security.

Health Security Initiative

In 2017, Australia launched the A\$300 million Health Security Initiative for the Indo-Pacific region to help prevent avoidable epidemics, strengthen early detection, and support rapid, effective national and international outbreak responses. Estimates are that for East Asia and the Pacific economic losses from a pandemic could be as high as 0.7 per cent of GDP. As part of the initiative, the Indo-Pacific Centre for Health Security was established and an Ambassador for Regional Health Security appointed to provide greater leadership and technical support for our investments in this area.

Australia's Health Security Initiative contributes to Indo-Pacific health security by accelerating research on new drugs and diagnostics, expanding partnerships to strengthen human and animal health systems and deepening people-to-people linkages that build health security capacity. This includes helping countries to determine what they need to do in order to comply with international norms and mobilising Australian public health professionals to undertake targeted capacity-building placements in the region.

BUILDING RESILIENCE, HUMANITARIAN ASSISTANCE, DISASTER RISK REDUCTION AND SOCIAL PROTECTION

- *Investments in the building resilience sector help achieve SDGs 1, 11 and 13.*
- *Eighty eight per cent of all investments in this priority sector were rated as effective in 2016-17.*
- *A\$690.9m in 2018-19 or 17.3 per cent of ODA.*

Climate Change

The White Paper identifies climate change as a key political, economic and security challenge over the longer term, particularly in the Indo-Pacific region. Climate change has direct implications for Australia's economy, trade and security. Climate change impacts can impede economic development, drive additional displacement of people, and, if left unchecked, add to global stresses on the supply of food, water and energy. Climate change is increasingly seen as a stress-multiplier with implications for national security as severe climate impact impacts can add to social, political and ethnic tensions.

Australia's support for the response to climate change will help to ensure that climate impacts do not erode development outcomes. Australia has extensive experience in climate science, policy and institutional capacity building; governance and economic reform; reducing emissions through renewable energy and land use; early warning systems and disaster risk reduction; and adaptation for enhancing food and water security. Climate change mitigation can also provide opportunities for the region, including new technology, additional finance, and more sustainable cities and management of resources. For example, access to renewable energy can promote economic growth and human development in remote and vulnerable areas.

To assist countries in our region, Australia is providing at least A\$1 billion to developing countries over five years from 2015 to address climate challenges. The forthcoming Climate Change Action Strategy will provide a framework for the integration of climate change across all of Australia's development policy and programs. The Strategy is being informed by the findings of an evaluation by the Office of Development Effectiveness (ODE) into our past climate assistance (due to be published in August 2018).

Case Study – Adapting and building resilience in the Pacific

Australia recognises that Pacific island countries are particularly vulnerable to the effects of climate change and is investing in a range of initiatives to help build greater resilience to climate change and disasters across the Pacific. The new Australia-Pacific Climate Change Action Program is a key part of meeting the Prime Minister's 2016 commitment to spend \$300 million over four years on building climate and disaster resilience in the Pacific. The program helps the Pacific adapt and build resilience to climate impacts by ensuring that aid investments are climate informed, and that climate change information is relevant and influential in government and community decision making.

Fragility and conflict

In addition to its terrible human toll, violent conflict can adversely affect economic growth. It is estimated that by 2030 over half of the world's poor will live in fragile and conflict-affected countries. Civilian deaths from

violent conflict doubled between 2010 and 2016², and 80 per cent of humanitarian assistance is provided in support of people affected by conflict. Women and girls experience conflict differently to men and boys (see Gender section on page 23).³

The World Bank estimates that between two and eight per cent can be lost in annual GDP growth because of conflict. Countries that border conflict zones can also suffer, with 1.4 percentage point declines in GDP and 1.7-percentage point rises in inflation⁴. Conflict and violence is estimated to cost global GDP US\$13.6 trillion a year⁵, so prevention can be cost effective. The World Bank estimates that in the most pessimistic scenario, up to US\$5 billion is saved per year when spent on prevention rather than response, while an estimated US\$70 billion is saved per year in the most optimistic scenario.

Our region is characterised by state fragility across the Pacific, and long-standing sub-national conflict in otherwise strong states in Asia. In the Pacific in particular, we have the experience, capabilities and are expected to lead on crisis response, peacebuilding and stabilisation, including through shaping regional responses. The cost of responding to instability or governance failures can be high to Australia. For example, from 2003 to 2017, the Regional Assistance Mission to Solomon Islands (or RAMSI) cost Australia A\$2.8 billion. Although our aid program cannot guarantee a stable region, it provides significant ballast against instability in many of the region's weaker states and fosters political economic, social and resilience. In the long run, this also saves us money.

Australia's investments in Mindanao

Australia was an early provider of assistance to the Philippines after the Marawi siege in May 2017 which resulted in large numbers of displaced people, active conflict and instability across the region. By engaging early and meaningfully in peace building efforts, provision of humanitarian supplies, education programming and technical assistance supporting rebuilding, we are helping to manage and positively respond to a situation that has displaced over 300,000 people.

Humanitarian assistance

When disasters strike, we help to save lives and rebuild critical infrastructure. There are now more than 65 million people displaced globally as a result of persecution, violence and human rights abuses – the highest number ever recorded. Providing humanitarian and longer-term assistance as close to their homes as possible and supporting education, health and income generation, so displaced people can return home when conditions allow, reduces unregulated mass migration and is in Australia's domestic and international security interests. Australia continues to support countries hosting large numbers of refugees and displaced people.

The increasing frequency and intensity of disasters in our region means it is important we work with partner governments to build community resilience to withstand these events and capability to recover. This will help

² United Nations; World Bank. 2018. *Pathways for Peace : Inclusive Approaches to Preventing Violent Conflict*. Washington, DC: World Bank. <https://openknowledge.worldbank.org/handle/10986/28337>, p.25.

³ World Bank. 2011. *World Development Report 2011 : Conflict, Security, and Development*. World Bank. <https://openknowledge.worldbank.org/handle/10986/4389>, p.60-61.

⁴ World Bank Group, The Economic Cost of Conflict, March 1 2018 <http://www.worldbank.org/en/news/infographic/2018/03/01/the-economic-cost-of-conflict>

⁵ Institute for Economics and Peace: 2016. *The Economic Value of Peace: Measuring the global economic impact of violence and conflict*. Sydney: Institute for Economics and Peace. P.4.

ensure losses to hard won development gains in these countries are minimised. There is a high expectation among our neighbours that Australia will play a leading role in response and recovery efforts in support of Pacific countries. The White Paper focuses Australian humanitarian action on the Indo-Pacific region, where we invest significantly in local capabilities for disaster preparedness and mitigation, including under the “Pacific Step-Up”.

For each Pacific state there is, on average, a 20 per cent chance of a natural disaster each year and eight of the 20 countries in the world with the highest average annual disaster loss scaled by GDP are in the Pacific. The effects of climate change are expected to exacerbate these disasters both in frequency and in intensity. In these contexts, Australia is working to strengthen national and local capacities for preparedness and response with accountability to affected populations. Australia supports implementation of the UN Sendai Framework for Disaster Risk Reduction through a range of initiatives designed to build resilience and reduce vulnerability to natural hazards. This includes comprehensive screening for disaster and climate risks across Pacific investments and taking a ‘build back better’ approach in our recovery assistance.

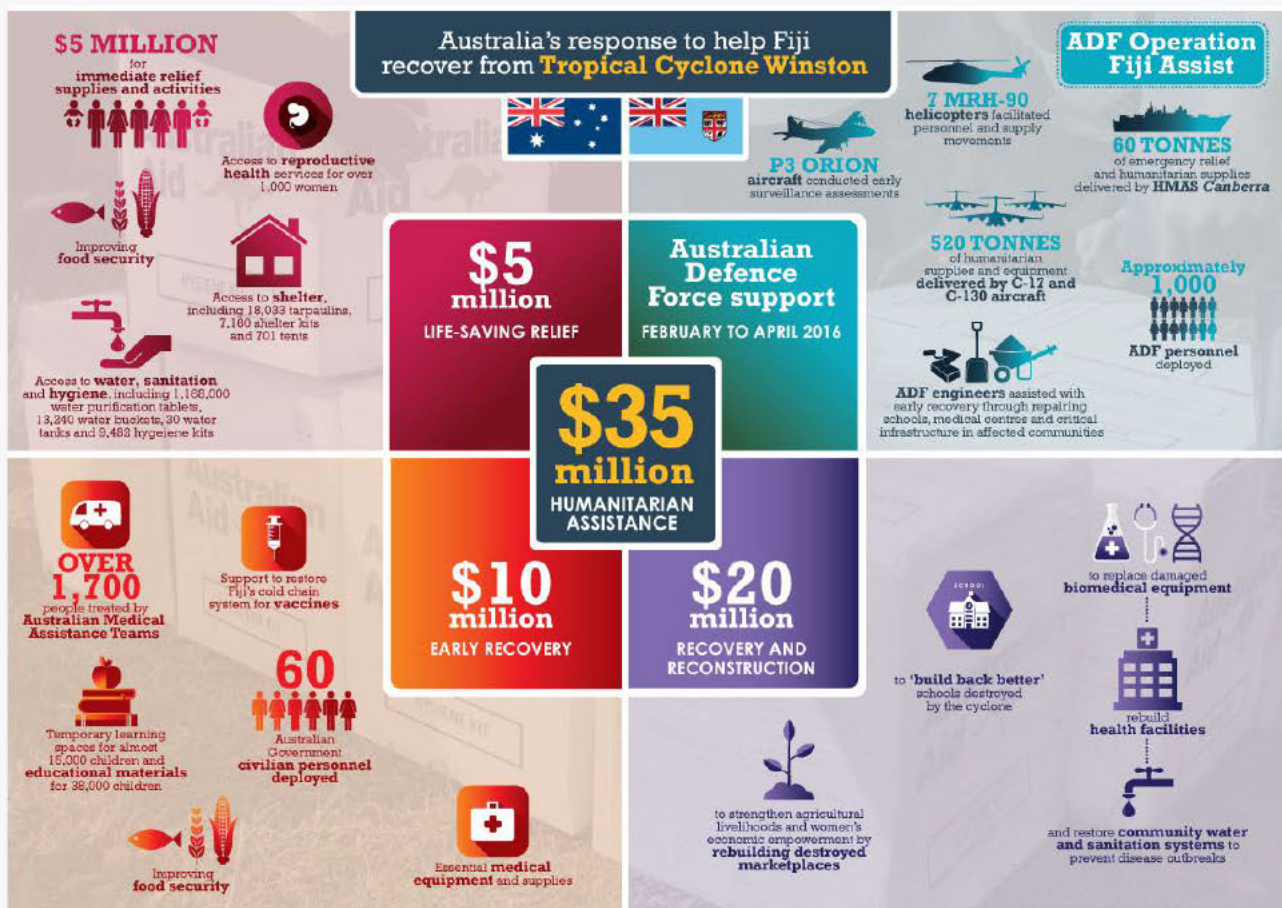


Figure 5 – Australia's response to Tropical Cyclone Winston in Fiji

Australia's response to the humanitarian crisis in Cox's Bazar District, Bangladesh

Australia combines humanitarian funding to address the immediate needs of those most vulnerable, including host communities, as well as policy and political advocacy to address the drivers of the crisis. For example, since August 2017, nearly 700,000 Rohingya fled to Cox's Bazar in Bangladesh following military operations in Rakhine State in Myanmar. This is placing a significant burden on Bangladesh, a country where almost 1 in 4 live in poverty. Cox's Bazar now hosts one of the densest concentrations of refugees in the world and tensions between refugees and host communities are on the rise.

Australia has provided approximately A\$44.5 million in humanitarian funding to Bangladesh since September 2017 for response efforts in Cox's Bazar, including the immediate needs of women and girls. Australia also co-sponsored resolutions in the UN Human Rights Council and UN General Assembly Third Committee on the human rights situation in Myanmar.

Australia has taken carefully calibrated and targeted roles in conflict and stabilisation situations. We direct financial contributions and expertise through what we now regard as a strengthened, effective and fit-for-purpose international humanitarian system. In these contexts, our multi-year humanitarian packages reduce vulnerability and, where possible, build resilience (Syria A\$220m, Iraq: A\$100m; both over three years).



Figure 6: Australia's Humanitarian Assistance 2015-2017

Social protection

Social protection helps to address vulnerability, inequality and poverty through a system of cash or in-kind transfers to people. In doing so it can also strengthen the foundations for sustainable economic growth. Australia partners with governments in the Indo-Pacific region to improve the effectiveness and reach of their national social protection systems. This is particularly important as countries develop their economies because social protection can lead to increased household productivity, labour market participation, and provide a safety net for poor households.

GENDER EQUALITY AND EMPOWERING WOMEN AND GIRLS

- *Investments that address gender equality help achieve SDGs 1, 5, 8, 10, 16, 17.*
- *Seventy seven per cent of all investments across DFAT effectively addressed gender equality during implementation in 2016-17, regardless of their objective.*
- *The Gender Equality Fund will invest A\$55m in 2018-19.*

Gender inequality persists in our region, undermining economic growth, peace and security, human development and poverty reduction. Globally, women are still paid less than men. In most countries, women earn on average between 10 to 30 per cent less than men for the same work. It is estimated that women could increase their income by up to 76 per cent if the employment participation and wage gaps between men and women were closed. This could add to US\$17 trillion to global gross domestic product. Women continue to be under-represented in elected office. Only six per cent of parliamentarians in Pacific island countries are women compared to the global average of 23.8 per cent as at 1 April 2018. Rates of domestic violence are alarming, with approximately two in three women in some Pacific countries experiencing physical and/or sexual abuse by their intimate partner.

Lessons from DFAT's programming

Despite good efforts, DFAT is yet to reach its 80 per cent target of investments, effectively addressing gender issues in implementation (77 per cent in 2016-17). Retrofitting gender equality is difficult - development initiatives that intend from the outset to promote gender equality are far more successful. Considering gender equality in early (investment/concept) stages leads to better gender equality outcomes. Effective interventions need to respond to existing power structures and complex influences and pick the right partners – host governments, civil society organisations, the private sector or religious organisations can all play a role.

Efforts to advance gender equality must be based on strong analysis of the issues facing women and girls in any given context; this is integral to longer-term success. Moving into 'non-traditional' sectors like economic reform, trade and investment, infrastructure and security requires new skills and innovative approaches to effectively address gender equality. Entering these sectors, particularly in middle-income countries, often involves different delivery models working with new partners with less exposure to gender equality principles and commitments.

The Australian Government recognises gender equality is critical to development, economic growth and stability. The White Paper affirms gender equality as an Australian value and a top foreign policy priority. DFAT's *Gender Equality and Women's Empowerment Strategy* makes it clear that gender equality and women's empowerment are a core part of the foreign policy, economic diplomacy and development work of the Department. Advancing gender equality cannot, and should not, be done through development efforts alone. In 2017, 77 per cent of our investments satisfactorily addressed gender in their implementation. Of our Aid for Trade sector investments, 78 per cent effectively addressed gender equality in 2017, an increase from 67 per cent in 2014-15. This significant improvement is in large part a result of a heightened focus on women's economic empowerment objectives, increased prioritisation of scarce technical support to this sector, and improved understanding of opportunities and gaps to be addressed.

Women's Economic Empowerment

Through the Investing in Women Initiative (A\$43.8 million, 2016-2019), Australia is promoting economic growth, business development and gender equality in South-East Asia by strengthening employment practices for women, and increasing investment in women-led small and medium enterprises. This includes demonstration of innovative models for gender lens impact investing and the launch of women's business coalitions to promote gender equality in the work place. Our A\$10.5 million contribution (2016-2020) helps Women's World Banking, a global non-profit network of 40 financial institutions reaching 24.5 million low-income women in 29 countries, to roll out innovative financial products and services for poor women, including savings, credit, micro-insurance and financial literacy.

In 2017, the Australian Government helped Asia Impact Investment Exchange launch the Women's Livelihood Bond, one of the world's first listed bonds with an impact mandate, on the Singapore Exchange. The Bond has raised US\$8 million for three social enterprises in Southeast Asia to improve access to services and finance for 375,000 women.

Australia is committed to responding to and preventing violence against women and promoting women's leadership and participation in decision-making, working with the UN, women's organisations, civil society and government in our region and globally. To this end, Australia is leading on the promotion of the Women, Peace and Security (WPS) Agenda, both internationally and in our region. WPS highlights that women and girls experience conflict differently to men and that they should be active participants in conflict prevention and resolution efforts. Australia hosted the first ASEAN-Australia Women, Peace and Security Dialogue in Melbourne, 17-19 April 2018.

Tackling violence against women and girls

DFAT is helping to end violence against women in the Pacific by expanding counselling, health and legal services for survivors; strengthening the responsiveness of the law and justice system; and working to prevent violence through advocacy and outreach. DFAT supports women's crisis centres in Fiji, PNG, Solomon Islands, Marshall Islands, Vanuatu and Tonga - our biggest and longest investment on gender equality - in recognition of the impact of violence on all aspects of women's lives. We are also supporting improved domestic violence legislation in Cook Islands, Nauru, Tonga, Solomon Islands, Samoa and Kiribati.

Australia's investments in Pakistan and Afghanistan are achieving results despite the challenging security environment and sensitivity of the program area. In Pakistan, we have supported services to 2,882 survivors of gender-based violence and contributed to implementation of key legislation in the provinces of Sindh and Khyber Pakhtunkhwa. In Afghanistan, Australia has been working hard to empower Afghan women since 2001 and we are the only country with a bilateral 'Ending Violence Against Women' program. Phase One provided 5,251 women survivors of violence and their children with support services. The program also funded UNFPA to train 3,766 police officers, 294 judges and 554 prosecutors in gender-based violence awareness, prevention and response - training that the Afghan Government has now adopted.

Without good gender data it is difficult to devise policy and programs that respond to the differences in experience of men and women in developing countries. In partnership with ANU and International Women's Development Agency, DFAT is investing A\$9.5 million over four years to develop the Individual Deprivation Measure, the first gender-sensitive and multidimensional measure of poverty. This will enable governments and organisations to address inequality and poverty more effectively. We are also building global evidence and

data collection capacity, through partnerships with UN Women and the World Bank, to facilitate better tracking of progress on SDG 5 on Gender Equality.

Pacific Women Shaping Pacific Development (Pacific Women)

Pacific Women Shaping Pacific Development is Australia's flagship gender equality investment in the Pacific, supporting women in 14 countries to participate fully, freely and safely in political, economic and social life. Greater gender equality, especially in leadership and decision-making, improves economic circumstances at the country, local and household level. This is a multi-stakeholder initiative, working with a range of partners from governments, civil society organisations, the private sector, regional and multilateral agencies. The focus on leadership, economic empowerment, ending violence against women and enhancing agency emphasises a number of the SDGs, while the anticipated outcomes are also evident across a range of the SDGs. In its first five years, the initiative has seen 10,605 women take on leadership roles at the community, provincial and national level; 5,964 women access financial literacy training and financial services; and more than 526,000 people participate in community awareness sessions on violence against women.

3. FOCUS ON THE INDO-PACIFIC

Australia's security and prosperity are intrinsically linked to the Indo-Pacific. The White Paper observes the region is undergoing a strategic transition as profound as the economic transformation that preceded it. In this context, it commits Australia to a more active, integrated agenda to shape a regional order in the Indo-Pacific that is open, inclusive, rules-based and resilient. The Indo-Pacific continues to drive global growth. Within 15 years, four of the world's five biggest economies in purchasing power parity terms are likely to be in Asia: China, India, Japan and Indonesia.

Many economies in the Indo-Pacific require difficult-to-implement reforms to unlock the next stage of economic growth. For countries in the region to reach their potential, governments will need to facilitate stable macroeconomic conditions and well-functioning labour and capital markets. There will need to be major investments in infrastructure and institutions as well as in human resource development so that populations are healthy and educated to meet labour market demand. In addition, governments will be required to make tough policy choices in a context of increasingly complex local and global challenges, such as rising inequality, climate change and structural changes in the labour market arising from technological change. In the event that governments are not able to respond to these challenges, there may be a large group of underemployed and disaffected youth in these regions with potential implications for stability and security.

While economies of the Indo-Pacific have significant opportunities in this region of growth, challenges remain to bolster prosperity by driving economic integration in the region. Building resilience within the Indo-Pacific demands greater connectivity between the countries of the region. Australia will look to do more to facilitate quality infrastructure investment by development partners. In addition, we will maintain opportunities to deliver high-impact economic infrastructure, such as the undersea cable from Australia to Papua New Guinea and Solomon Islands.

PACIFIC

The stability and economic resilience of the Pacific are of fundamental importance to Australia. Australia's foreign policy, economic, health and security interests intersect in the Pacific: a secure and stable neighbourhood supports a secure Australia. Equally, regional security is fundamental to sustainable development.

In 2018–19, we are stepping up our support for a more secure and prosperous Pacific. We will increase our development assistance to the Pacific to \$A1.3 billion - our highest ever contribution to the region. Our long-standing development assistance has helped address many of the acute challenges facing the region over many years including economic vulnerability; climate change and natural disasters; disease outbreaks; governance and capacity constraints; lack of education and employment opportunities; gender inequality and transnational crime. In addition, Australia's support to the Pacific includes non-ODA activities which directly affect development outcomes—examples include working with the banking sector to lower the cost of remittances, and improving access for Pacific countries to Australian facilities to improve the quality and reliability of pharmaceuticals. Australia and Pacific island countries are longstanding partners, with strong links through our common interests in economic progress and regional stability

Smaller Pacific island states share some unique characteristics. They are more remote, more dispersed, have a higher risk of natural disaster, less access to global capital markets and fewer options to diversify their economies than countries in most regions of the globe. Real average income per capita has increased by less than 10 percent since 1990, compared with about 150 percent in Asia's emerging market economies. Those

in paid employment represent a small proportion of the total population, and often less than half of the labour force, the remainder being in subsistence and unpaid work. Opportunities for paid work are limited for those people living in remote regions, for women and for people with disabilities. Pacific island economies are some of the most severely affected by disasters in the world. Average annualised losses from natural disasters are estimated to be six per cent of GDP for Vanuatu and four per cent of GDP for Tonga.

Australia recognises these complex challenges demand deeper engagement, integrated policy and fresh ideas to drive transformative change in the region. Stepping-up Australia's support for a more resilient Pacific is one of the five priorities in the White Paper. Australia is committed to intensifying our engagement in the region, focused on three priorities:

- promoting economic cooperation and integration;
- stronger partnerships for regional security, with a focus on maritime issues; and
- strengthening people-to-people links, skills and leadership

Australia's new labour mobility policy stands at the centre of our policy approach to helping Pacific island countries develop. It is a key means for Australia to achieve deeper economic integration with the region. This policy will draw on Australia's strong reputation for high-quality skills development in the region that spans decades. It links our long-term investment in technical training, including through the Australia Pacific Technical College (APTC) and our highly regarded scholarships program with the new Pacific Labour Scheme.

Labour mobility

Increased international migration for work offers critical opportunities for the Pacific and its people. Relatively low levels of job creation together with a large youth bulge in the region is a pressing problem. Australia's Seasonal Worker Programme (SWP) provides opportunities for nine Pacific island countries and Timor-Leste to access seasonal work in Australia. Participation in the SWP significantly increases worker earning potential, with incomes on average 4.3 times higher than available within the Pacific. On average, SWP workers save and send home over A\$8,850 per six month placement. Through these remittances SWP households achieve improved human development outcomes including increased school enrolment and attendance for their children. Tonga, the largest provider of seasonal workers to Australia, has gained A\$99.4 million in net income since the beginning of the program. In 2016–2017 alone, net income from the program was A\$26.2 million, more than double the A\$12.4 million generated through Tonga's exports.

The 2016 Defence White Paper highlighted that Australia's security and prosperity will continue to be tied directly to the security and stability of our region. It stated that it would be crucial that Australia help to support the development of national resilience in the Pacific region to reduce the likelihood of instability. Responding to the priorities of Pacific leaders, the Defence White Paper and the White Paper, Australia is establishing an Australia Pacific Security College to deliver regional and whole-of-government focused security training at the leadership level, and support regional and bilateral security and law enforcement policy development.

ASIA

The contexts in Asian countries are extremely diverse. Although the region has experienced strong economic growth, this has also been accompanied by rising inequality, and pockets of political instability, conflict and terrorism. Some countries continue to lag behind. Many still have large numbers of poor and near poor. Our region still hosts almost half the world's poorest people (327 million people live on less than US\$1.90 a day).

As some countries in Asia grow and approach upper middle-income status, they face increasingly complex development challenges that require more effective and efficient state institutions and policies. Building these institutions requires tackling a broad range of difficult political and economic reforms in a coordinated fashion. Countries in the region also need support to adopt the right policies to take advantage of their young populations and grow their middle class. There is no guarantee that Asia's development trajectory will be smooth. Entrenched structural issues and development challenges have seen few countries successfully make the transition from middle income to high-income status. Of the 101 middle-income countries that existed in 1960, only 13 had achieved high-income status by 2008 and many had fallen back, at least for a period, into low-income status.

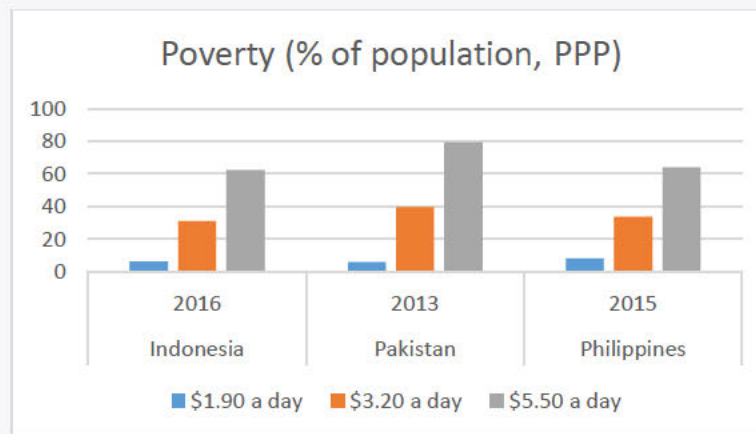


Figure 8: Poverty (percentage of population, PPP).

While we work to promote sustainable economic growth in Asia, we are also responding to the reality of partner countries being increasingly able to finance their own development. A number of key countries in the Indo-Pacific region – including Indonesia and Sri Lanka and Vietnam – are experiencing strong economic growth with ODA now representing a tiny fraction of their GDP. As countries in the region develop this trend will continue. In emerging economies in the region like Indonesia, Philippines and Vietnam, our development relationships have changed to a knowledge based approach where we increasingly seek to influence policy development and leverage additional finance from both international and domestic sources.

We work with partner governments to improve investment settings, including regulatory frameworks and taxation systems, as well as enhance the management of natural resource revenues, women's participation in the workforce and the economy, and the design and good management of national budgets. We assist efforts to boost productivity by supporting human capital investment, policy reform, education and training. We are increasingly focussing on policy change, institutional development and influencing partner countries to use their own resources for maximum development impact.

South Asia, on the other hand, is a region of contrasts. The region has the fastest economic growth rate in the world (estimated at 6.5 per cent in 2018). The relatively poor quality of trade-related infrastructure (for example, ports, roads and storage facilities), as well as of energy production and distribution networks, are key constraints to growth. Greater levels of cooperation will be needed to manage shared resources to ensure their long-term sustainability and capacity to support economic growth and to maintain regional stability. Climate variability, competing and increasing demands from agriculture, industry (including in energy production) and population growth will impact water availability. Conflict and instability in the region has resulted in one of the world's most protracted humanitarian crises.

The following pie charts demonstrate the changes in the aid program's sectoral investments in Asia over the period 2014-15 to 2018-19.

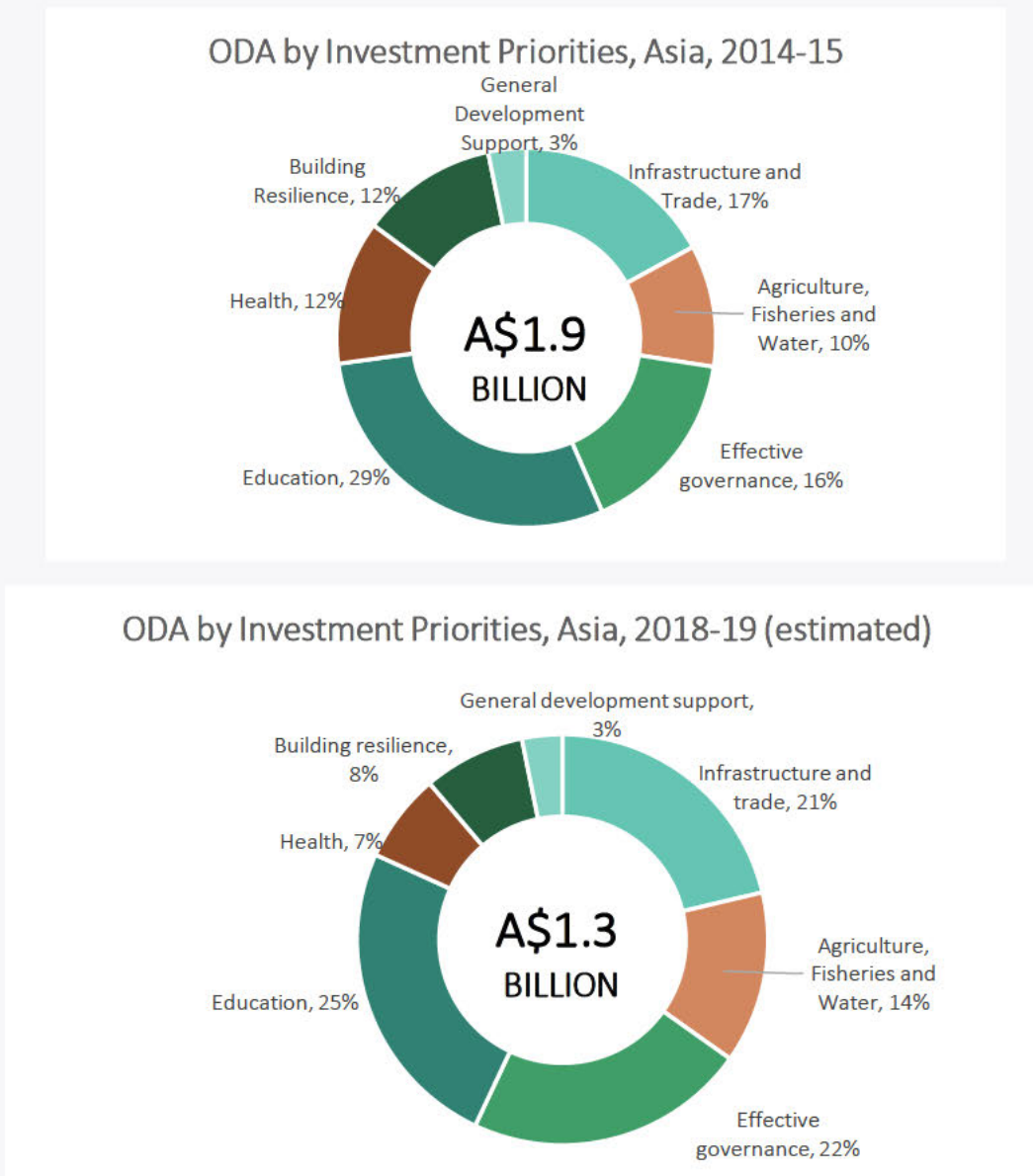


Figure 7: ODA investment priorities in Asia 2014-15 compared to 2018-19

Being influential – Findings from the ODE Evaluation on Economic Partnerships in Asia

The ODE evaluation of Economic Partnerships in Asia (to be published in August 2018) supports the continuing evolution of Australian assistance in the region, from the funding of development outcomes to the provision of knowledge-based assistance that seeks to influence policies and leverage other resources towards critical development challenges. In recent decades, only a handful of countries have managed the transition from middle to high-income status. High quality knowledge based assistance can support the difficult reforms needed for this transition. The evaluation found that influence comes from long-term engagement and by being relevant to partner government priorities. When this is done, the results achieved through knowledge-based assistance can be substantial.

Outcomes were less satisfactory when engagement was focussed on short-term or tactical considerations, without a clear development rationale. The evaluation confirms that the aid program cultivates broad and deep relationships with emerging market economies in Southeast Asia. These relationships facilitate access to key decision-makers, helping us to prosecute our interests.

4. WAYS OF WORKING

INNOVATION

Across the aid program, DFAT is exploring new ways to address challenges and opportunities and is fostering a culture of collaboration, experimentation and informed, prudent risk-taking. An ODE study on Innovation (February 2017) confirmed that DFAT is embracing innovation through new technologies, partnerships, financing mechanisms, aid program modalities and different approaches to evidence generation. To build on success to date a new innovation strategy is soon to be launched so that we can continue to demonstrate impact, learn and improve. A Chief Innovation Officer drives the uptake of innovation across all of DFAT.

DFAT's innovationXchange (iXc), launched by Foreign Minister Julie Bishop in March 2015, commenced work with a high profile internal "Ideas Challenges" in 2015 (and repeated in 2016 and 2017): something completely new for DFAT. The Ideas Challenges allowed staff from anywhere in the department to bring forward their creative solutions to issues encountered in DFAT's work. This generated over 600 ideas, of which over 100 proceeded to implementation.

Collaborative partnerships

Early objectives of the iXc were to collaborate with, learn from and leverage finance from new, innovative partners for DFAT. One such partnership with Bloomberg Philanthropies on improving Data for Health has led to exciting changes that are improving quality of life and saving lives in seven countries in the Indo-Pacific. For example, providing information on location and cause of death in countries such as Bangladesh, Myanmar, Philippines and the Solomon Islands helps policy-makers and planners provide better services more efficiently.

From the first Ideas Challenge, McKinsey Group commenced a new performance-based tax collection trial in Punjab, Pakistan utilising a A\$500,000 iXc grant. In the second Ideas Challenge, an initiative named "Women Trading Globally" resulted in the delivery of the first dedicated training course for female Pacific entrepreneurs in partnership with the Export Council of Australia. The course was extremely popular – course stories and pictures reached 45,000 people through Facebook, far exceeding expectations.

Since its creation, the iXc has supported 106 innovative programs in 32 countries in the Indo-Pacific region. Nearly all of these programs are still underway, with many showing encouraging early results. The iXc has enabled DFAT to embrace innovation in the design of high profile initiatives with greater scale. For example, the ASEAN Smart Cities Initiative, announced during the ASEAN Summit in 2018, will help fund the application of new technologies to support the development of more liveable cities in ASEAN. There will be an emphasis on linking target ASEAN cities with Australian companies capable of delivering needed services and products.

WORKING WITH THE PRIVATE SECTOR

Millions of people have been lifted out of poverty by economic growth which creates jobs and which improves standards of living. Economies grow when resources are used more productively—when individual businesses can start or expand in response to new opportunities and when workers develop new or improved skills. Economies grow when the private sector expands and the public sector enables and supports this expansion. Australia sees the private sector as a vital partner. With the majority of the world's resources under private control, engaging the private sector is key to not only promoting development outcomes, but also to achieving the economic growth objectives at the core of our domestic and foreign policies.

The Addis Ababa Action Agenda recognises the large gap in financing in order to meet development goals and the SDGs, and looks beyond ODA to domestic tax resources, trade and the private sector. Using ODA in a way that leverages all sources of finance, including private finance, for development is an essential part of delivering the 2030 Agenda and achieving Australia's development objectives in the Indo-Pacific region.

In 2015, the Minister for Foreign Affairs released the *Ministerial Statement on Engaging the Private Sector in Aid and Development – Creating Shared Value through Partnership* (the Statement) and the *Strategy for Australia's Aid Investments in Private Sector Development* (the Strategy). The Statement called on government to collaborate with the private sector to create shared value – delivering both economic value and sustainable social impact in developing countries. The Strategy requires all new investments to explore innovative ways to promote private sector growth or engage the private sector in achieving development outcomes. This is being achieved with nearly three quarters of monitored investments engaged with one or more private sector partners.

Innovative Financing Models

Under Australia's new approach to using its ODA in more innovative and catalytic ways, DFAT is using more innovative financing mechanisms to deliver outcomes in developing countries. The Emerging Markets Impact Investment Fund (EMIIF) is a A\$40m 'fund of funds' which will help to grow the market for impact investing in South and Southeast Asia. The EMIIF will use non-grant instruments (guarantees, equity, loans) to invest in small and medium enterprise (SME) investment funds that provide capital to SMEs that benefit poor communities through their products, services, supply chains or employment practices. The EMIIF will also provide technical assistance to investment funds and to underlying SMEs to strengthen business practices and embed development impact considerations.

DFAT is also incentivising collaboration with the private sector, including promoting women's economic empowerment and implementing impact-investing approaches, through a range of innovative programs. These include the Business Partnerships Platform, Scaling Frontier Innovation, Investing in Women, Pacific Readiness for Investing in Social Enterprises Facility, Emerging Markets Impact Investment Fund, and Market Development Facility. The Business Partnerships Platform (BPP), launched in 2015, is the principal initiative through which the department collaborates with business. It brings in the expertise and competitive advantage of the private sector in contributing to development through matched co-investment (up to A\$500,000 at a minimum 1:1 investment ratio from business). This Platform has leveraged A\$14.32 million in private sector funding from Australia's A\$7.6 million contribution. For every A\$1 that the Australian Government has contributed, the private sector has contributed A\$1.87. Improving the economic empowerment of women and girls is one of four key criteria for assessing BPP applications.

The 2015 Joint Standing Committee on Foreign Affairs, Defence and Trade (JSCFADT) Inquiry into the role of the private sector in promoting economic growth and reducing poverty in the Indo-Pacific region

DFAT continues to support and progress the recommendations of the JSCFADT report into the role of the private sector in promoting economic growth and reducing poverty in the Indo-Pacific region. The *Ministerial Statement on Engaging the Private Sector in Aid and Development and the Private Sector Development Strategy* took into consideration the JSCFADT report recommendations.

WORKING WITH COMMUNITIES

DFAT engages with the Australian community and local civil society in delivering its aid program. Through this engagement we are responding to the 1.6 million Australians who donate to overseas development and extending the reach of the aid program to more than 150 countries. This is done through partnership networks that are flexible and accountable. The Australian NGO Cooperation Program (ANCP) is a vehicle for DFAT to work in partnership with the Australian NGO sector. Funding supports projects across a range of sectors including education, health, water and sanitation, governance and economic development. A 2015 ODE evaluation of the ANCP confirmed that it is a successful program that enables NGOs to deliver effective development activities from the grass roots through to the institutional and policy levels.

The Australian Volunteers program builds on more than 60 years of Australian volunteering. In 2017-18 the program will support 1,112 volunteers in 26 countries with 97 per cent of these volunteers placed in the Indo-Pacific region. It helps Australians to become more globally literate and connected. The Returned Australian Volunteers Network, launched in 2015, recognises the ongoing contribution returned volunteers can make to the Australian aid program and provides networking and professional development opportunities for around 14,000 returned volunteers. A 2014 ODE evaluation found that the program is a highly visible contribution to Australia's development assistance efforts and a cost-effective form of capacity development assistance (the average total volunteer cost is A\$67,000 per volunteer per year, with placements ranging from one to 18 months).

The recently announced *Australian Aid: Friendship Grants* will engage a diverse group of Australian community organisations in the delivery of Australia's aid program. The program will support organisations from across Australia who have existing relationships and international development activities that are contributing to Australia's development goals. The Friendship Grants will provide funding for these community organisations to expand or enhance their existing aid activities in the Indo-Pacific, including through new projects.

WORKING WITH INTERNATIONAL PARTNERS

DFAT works with multilateral organisations engaged in development assistance because doing so allows us to leverage their expertise, scale of their investments, size and geographic footprint in pursuit of our development and foreign policy objectives. Australia works to influence the priorities and policies of these organisations, which play an important role in setting norms and standards on global issues such as human rights, effective governance, the rule of law and infrastructure development. Multilateral organisations also form an important component of the international rules-based order, a central focus of the White Paper.

Multilateral development banks are major partners of the Australian aid program. The World Bank Group, of which Australia is a shareholder, is also Australia's largest development partner and the world's largest development organisation. DFAT seeks to ensure that the activities of the World Bank Group target key development priorities in the Indo-Pacific region. For example, with strong Australian encouragement and support, the World Bank has increased its Pacific portfolio through to 2020 from US\$340 million to US\$808 million. By the end of 2018, there will be approximately 90 major World Bank funded projects in the Pacific. The ADB is another significant partner for Australia. It is the principal international development finance institution for the Asia-Pacific region. Through Australian funding, the ADB helps us deliver on important policy and financial reform objectives in partner countries, alongside delivering project outcomes in infrastructure, education, health and gender equality. An emerging partner for Australia is the Asian Infrastructure

Investment Bank (AIIB) that will focus primarily on narrowing the large infrastructure financing gap in the region.

United Nations agencies often play crucial development roles that no other organisation or actor can replicate because of their special mandate under the UN Charter. Well-performing UN agencies are important delivery partners for the Australian aid program. Australia remains a relatively large and influential player as one of only 13 countries that fund around 90 per cent of the UN development and humanitarian systems, and as the second largest donor in the Asia-Pacific. The UN brings impartiality, access, global legitimacy and expertise to the table, and has the benefit of scale (the UN Development Program has programs in 170 countries). It provides essential services and respond to crises, often as the provider of last resort in areas in which we have whole-of-government interests, such as Syria, Iraq, Afghanistan, Bangladesh and Myanmar.

There are a number of other multilateral organisations where Australia has made a difference and led with influence. Australia is an active donor on the boards of the Global Fund for AIDS, Tuberculosis and Malaria, and Gavi, the Vaccine Alliance. These organisations have made a significant impact on the world's major epidemic diseases and saved the lives of an estimated 9 million children through immunisation. On the Global Fund board, Australia has successfully advocated for additional funding to tackle multi-drug resistant malaria in the Mekong. On the Gavi board, Australia is closely engaged in ensuring countries in our region are able to access lower-priced vaccines over a longer period. Australia has been influential in diversifying the way the Global Partnership for Education (GPE) leverages finance for education.

In addition to our multilateral engagement, Australia works closely with major bilateral providers of development assistance, including the United States, the European Union, the United Kingdom, Japan, France, New Zealand, the Republic of Korea, Germany and Canada. Consistent with White Paper priorities, we identify opportunities for collaboration at a bilateral and multilateral level. Linked to this is Australia's participation as a member of the Multilateral Organisation Performance Assessment Network (MOPAN) where we work with other donors to assess and influence multilateral effectiveness and efficiency.

Similarly, Australia is seeking to work more closely with emerging donors, including China and India, which are having an important and growing influence on development in our region and globally. It is in Australia's interests to engage more strategically with emerging donors in order to leverage development finance and expertise for the benefit of the Indo-Pacific region; encourage constructive, accountable development and contain activity that is contrary to our interests or those of our development partners; and deepen our existing bilateral relationships. DFAT maintains regular dialogue with emerging donors through a variety of contexts. This includes undertaking shared activities within developing countries, cooperation policy dialogue through multilateral forums such as the G20, or direct engagement such as the MOU on development cooperation Australia signed with China in 2013.

LOCAL PROCUREMENT

The Australian aid program operates in a wide variety of contexts, most of which rank poorly on the World Bank's Ease of Doing Business ranking^[1]. This means that the way we spend ODA dollars needs to be flexible,

^[1] Australia's top ten bilateral partner countries, in order, and their respective ranking on the World Bank's Ease of Doing Business ranking, out of a total 190 countries: PNG (ranked 109/190); Indonesia (73); Solomon Islands (117); Afghanistan (184); Timor Leste (179); Philippines (113); Cambodia (135); Vietnam (68); Myanmar (171); Bangladesh (177).

responsive to local conditions and robust enough to meet the standards and scrutiny of Australia's policy requirements and legal frameworks in order to achieve value for money.

DFAT's direct procurement (both commercial contracts and grants) and our funding to major NGO partners tend to be larger in size and fewer in number in order to maximise efficiency and value for money for the Australian Government. Procurement at the local level, drawing on smaller suppliers in country (which delivers its own development benefits), is typically undertaken by our implementing partners who issue sub-grants and sub-contracts to implement work requested by DFAT through the aid program. DFAT is undertaking analysis on the aid program's supply chains to better understand local procurement. A new Contract Reporting Framework is due to be launched in January 2019 to do this. The aid program is reducing barriers to entry to our supply chain by launching a sub procurement portal in early 2019, which will make it easier for local firms to see what is available to bid on.

A major part of achieving stability, sustainability, capacity and community-determined goals is by ensuring the right mix of local and international staff on Australian ODA-funded projects. From 1 July 2018, all tenders for major aid contracts will have to demonstrate commitment to a range of diversity matters, which will increasingly make it easier for local suppliers and personnel to participate. There is good anecdotal evidence of the increasing rate of local staff members being placed in senior roles in Australian aid program-funded activities. This is instrumental in ensuring capacity built through these activities remains in-country.

ENGAGING WITH THE INDIGENOUS AFFAIRS PORTFOLIO

Indigenous peoples comprise five per cent of the global population but 15 per cent of the world's poor and one-third of the world's 900 million extremely poor rural people. Approximately two-thirds of the world's indigenous peoples live in Asia. DFAT and the Department of the Prime Minister and Cabinet are collaborating to advance the interests of indigenous businesses in both developed countries like Australia and developing countries in the Indo-Pacific region where Australia provides development assistance. We worked together to influence the UN Human Rights Council to undertake a study about indigenous businesses from a human rights perspective, noting the connection between economic development and poverty reduction for indigenous communities. We also collaborate in the World Indigenous Business Forum to ensure participation from indigenous businesses in Australia, PNG and Solomon Islands amongst others.

DFAT's policies and strategies are indigenous peoples in the aid program are available at this link: <http://dfat.gov.au/international-relations/themes/indigenous-peoples/Pages/indigenous-peoples.aspx>

DFAT and the Indigenous Procurement Policy

Since the launch of the Indigenous Procurement Policy (IPP) in 2011, DFAT has applied the IPP to all procurements undertaken in Australia valued between A\$10,000 - A\$200,000 and has broadened the mandate of the IPP to include the Australian aid program. DFAT looks at opportunities where Indigenous businesses can be engaged for procurements over the threshold, and how the department can work closely with Indigenous suppliers to build their exposure, capability and build long-standing strategic commercial relationships. DFAT has worked with over 125 Indigenous suppliers in over 200 contracts, worth over A\$25 million. This includes a contract with i2i Development, a 100 per cent Indigenous Australian owned business, to support indigenous communities in East New Britain in PNG to commercialise co-operatives for subsistence cocoa farmers in order to take advantage of commercial opportunities in the cocoa sector.

5. THE DAC PEER REVIEW OF AUSTRALIA'S AID PROGRAM

In March 2018 the DAC of the OECD released its peer review of Australia's aid program. The peer review was conducted by DAC experts and peer reviewers from Belgium and Japan over the course of 2017. The peer review team visited Australia and Solomon Islands as part of the review process. In February 2018, Australia appeared before the DAC to respond to the draft peer review report.

The peer review highlighted strong achievements to date and provided valuable recommendations to consider in strengthening the overall effectiveness of the aid program. It acknowledged Australia's role as an active advocate for the interests of small island developing states in the Pacific region. It found that we have set out a clear and comprehensive performance framework to accompany our aid policy and stated that Australia's commitment to mainstreaming gender equality is "particularly noteworthy" (See Appendix C for more).

The peer review made a number of recommendations to help strengthen the operation of the aid program, which included better demonstrating alignment between the aid program and SDGs; further streamlining climate change and the environment into programming; strengthening the approach to poverty reduction; and ensuring staff capability on development matches the program's ambitions.

DFAT is considering all of the recommendations of the peer review, including in light of work already underway, such as establishing new aid governance arrangements, the recent launch of the Workforce Plan, and continuation of policy work to better integrate environment and climate change considerations into the aid program. The final Peer Review report can be found at this link: <http://www.oecd.org/dac/peer-reviews/oecd-development-co-operation-peer-reviews-australia-2018-9789264293366-en.htm>

6. A STRONG COMMITMENT TO PERFORMANCE, VALUE FOR MONEY AND RISK MANAGEMENT

PERFORMANCE FRAMEWORK AND EVALUATION PLAN

Development effectiveness is a high priority for the Australian Government. The performance framework for the Australian aid program, released on 18 June 2014, provides a rigorous approach to ensuring that the department is achieving results and demonstrating value for money at all levels of the aid program:

- at the strategic level, ten high level targets measure the effectiveness of the aid program and its progress in delivering against key Government priorities
- at the country and regional program level, performance is assessed against progress in achieving country or regional program objectives and performance benchmarks and reported publicly each year
- at the individual investment level, performance is assessed annually against a range of quality criteria including effectiveness, efficiency, gender equality and sustainability
- in addition, each year DFAT undertakes performance assessments of selected multilateral organisations receiving core funding from Australia
- at the delivery partner level, partner performance assessments review how well implementing partners are delivering the services specified in agreements.

The department uses a number of quality assurance processes including:

- detailed guidance on design standards
- peer review of significant investment concepts and designs, including by a senior management committee for high value/high risk investments
- annual assessments of individual investments valued at over A\$3 million
- clear identification of risks, including safeguards and fraud risk, and strategies to manage these risks
- quality assurance of investment and country/regional program performance ratings by ODE.

These processes are complemented by a range of other checks and balances to ensure the effectiveness of the aid program. These include an Annual Aid Evaluation Plan covering:

- evaluations of individual investments prioritised by value, risk or profile, and
- larger strategic evaluations by the Office of Development Effectiveness (ODE) under the guidance of an Independent Evaluation Committee chaired by Jim Adams, a former World Bank Vice President
- in 2017, DFAT published 41 evaluations (a return of 95 per cent on the evaluations listed in the Plan). The 2018 Plan contains 56 evaluations to be published this year. These Plans, together with links to completed evaluations are published on the DFAT ODE website.

OFFICE OF DEVELOPMENT EFFECTIVENESS (ODE)

ODE is an operationally independent unit within DFAT that monitors the quality and assesses the impact of the Australian aid program. All ODE products are subject to the external oversight of an Independent Evaluation Committee, external, advisory body appointed by the Minister for Foreign Affairs to strengthen the quality, credibility and independence of ODE's work. ODE conducts strategic evaluations with a policy, sectoral, program or thematic focus.

ODE also supports program areas in DFAT to conduct their own evaluations of individual investments. ODE periodically reviews the quality of evaluations in DFAT and assesses the department's uptake of the recommendations of ODE evaluations annually.

ODE evaluation of disability inclusion

ODE is currently conducting a series of strategic evaluations of disability inclusion in the Australian aid program. DFAT is one of the first donors to evaluate its disability inclusion efforts and expects the findings to provide valuable lessons to other donors too. The evaluation affirmed that our international advocacy on disability inclusion has been credible and effective. For example, DFAT's advocacy has increased the capacity of other advocates, built coalitions and helped crowd-in other bilateral donors; contributed to the development of much-needed tools for collecting disability data; and helped build the capacity of Disabled People's Organisations and facilitated their involvement in major policy and reform processes.

RISK MANAGEMENT

Australia's aid program operates in complex environments requiring robust risk management. Risks identification is the first step in investment design; all potential investments are screened for risks including safeguard risks. Identified risks are managed and where possible removed through the design process. High-risk investment concepts and designs are reviewed by specialist risk areas prior to being submitted to a senior level governance committee (Aid Governance Board).

Risk assessment and management continues throughout all stages of the investment implementation process. There is a requirement for investment risk registers to be updated at least quarterly to reflect any new or emerging risks throughout the program cycle. The [Environmental and Social Safeguard Policy for the Aid Program](#) outlines a consolidated approach to managing safeguard risks in all investments in the Australian aid program, including the Direct Aid Program. The policy sets out requirements on key safeguards. If there is a potential negative impact, a proportional environmental and social impact assessment and management plan must be developed. All investments are monitored to ensure effective implementation of safeguard measures through our aid program performance framework.

7. CHALLENGES

The business of international development cooperation is complex and results take years of consistent and carefully managed engagement across the diplomatic and programming spectrum. Every country has its own unique context and challenges. Approaches that have worked successfully in one place can fail in another. We must constantly be on the lookout for new and emerging problems, and seek better solutions to old problems through new ways of working. In an endeavour where no one has all the answers, DFAT strives to learn from others, while at the same time leading international policy and practice in areas such as gender equality, humanitarian response, governance, disability inclusion and the special challenges of Pacific small island states.

As we are working to improve the impact and effectiveness of Australia's development assistance, the relative importance of ODA as a source of global development finance has diminished for many developing countries, particularly those in Asia experiencing high levels of economic growth. Despite strong growth in the access to finance in the region, there still exists a major financing gap. The Australian aid program is increasingly focused on helping partner countries to leverage new sources of finance and allocate them effectively. Australia's ODA is now more innovative and catalytic, leveraging all the important drivers for economic and social development with an increased focus on private sector engagement. But this is difficult terrain and we need to continually evaluate and learn from what works.

We need to work harder to make sure our investments in multilateral organisations such as the World Bank and UN agencies benefit countries in the Indo-Pacific region and complement our bilateral investments. We need to continue efforts to closely track and report on development results so that we know our development assistance is having its intended impact; and if it isn't, our commitment is to end or redesign non-performing programs.

The Australian aid program has a range of policy priorities to address the complex development challenges in the region. Delivering on these multiple priorities requires staff with a wide range of skills and capabilities. The 2017 OECD DAC Peer Review highlighted internal challenges facing Australia's aid program, not least of which is DFAT's need to ensure that it can continue to attract and retain people with the right skills to plan, implement and monitor a highly effective and innovative aid program. DFAT's new Workforce Strategy addresses this issue directly, and our Diplomatic Academy now hosts an International Development Faculty offering training of international quality in core competencies like program management, development policy, and humanitarian principles and practices.

8. APPENDICES

APPENDIX A – ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ACIAR	Australian Centre for International Agricultural Research
DAC	Development Assistance Committee of the OECD
DFAT	Department of Foreign Affairs and Trade
G20	Group of Twenty (governments and central bank governors)
GDP	Gross Domestic Product
IMF	International Monetary Fund
iXc	DFAT's innovationXchange hub
LDC	Least Developed Country
NGO	Non-governmental organisation
ODA	Official Development Assistance
ODE	DFAT's Office of Development Effectiveness
OECD	Organisation for Economic Cooperation and Development
PACER-Plus	The Pacific Agreement on Closer Economic Relations (PACER) Plus
PNG	Papua New Guinea
SDGs	Sustainable Development Goals
SIDS	Small island developing states
SME	Small-to-medium-enterprise
UN	United Nations
UNDP	UN Development Program
UNESCO	UN Economic, Social and Cultural Organisation
UNICEF	UN Children's Fund
UNFCCC	UN Framework Convention on Climate Change
WBG	World Bank Group
WTO	World Trade Organization

APPENDIX B – PERFORMANCE AGAINST THE TEN STRATEGIC TARGETS OF THE AID PROGRAM

Target 1: Promoting prosperity - <i>Promote economic development by increasing Australia's aid for trade investments to 20 per cent of the aid budget by 2020.</i>	Achieved in 2016-17. Expenditure on aid for trade was 23.3 per cent of Australia's total ODA
Target 2: Engaging the private sector – <i>All new investments will explore innovative ways to promote private sector growth or engage the private sector in achieving development outcomes.</i>	Achieved in 2016-17. Investments are exploring innovative ways to promote private sector growth or engage the private sector.
Target 3: Reducing poverty – <i>By July 2015, all country and regional programs have Aid Investment Plans that describe how Australia's aid will promote economic growth in ways that provide pathways out of poverty.</i>	Achieved.
Target 4: Empowering women and girls – <i>More than 80 per cent of investments, regardless of their objectives, will effectively address gender issues in their implementation.</i>	Not yet achieved. In 2016-17, 77 per cent of aid investments effectively addressed gender equality in implementation.
Target 5: Focusing on the Indo-Pacific region – <i>Increase the proportion of country program aid that is spent in the Indo-Pacific region to at least 90 per cent from 2014-15.</i>	Achieved. Progress is reported in annual Aid Program Performance Reports published on the DFAT website.
Target 6: Delivering on commitments - <i>from July 2015, progress against mutual obligations agreed between Australia and its key partner governments and organisations will form part of program performance assessments.</i>	Achieved. Progress against performance benchmarks and mutual obligations are reported in annual Aid Program Performance Reports.
Target 7: Working with the most effective partners - <i>by July 2015, design and apply new systems to assess the performance of the aid program's key delivery partners and ensure stronger links between performance and funding</i>	Achieved. Progress is reported in the annual Performance of Australian Aid publication.
Target 8: Ensuring value for money - <i>deliver high standards of value for money in at least 85 per cent of aid investments. Where standards are not met and improvements are not achieved within a year, investments will be cancelled</i>	Achieved. In 2016-17, 90 per cent of investments were assessed as satisfactory for effectiveness and 85 per cent were assessed as satisfactory for efficiency.
Target 9: Increasing consolidation - <i>reduce the number of individual investments by 20 per cent by 2016-17 to focus efforts and reduce transaction costs.</i>	Achieved. The number of aid investments decreased from 1,319 at 1 July 2013 to 983 at 1 July 2016, a reduction of 23 per cent.
Target 10: Combatting corruption - <i>develop and implement new fraud and anti-corruption strategies for all major country and regional programs by July 2015.</i>	Achieved. Fraud Control and Anti-Corruption Strategies are in place for all major country and regional programs.

APPENDIX C – KEY FINDINGS FROM THE OECD-DAC PEER REVIEW OF AUSTRALIA

Selected quotes on Australia's strategic effectiveness: Review of the Development Cooperation Policies and Programs of Australia – The DAC's Main Findings and Recommendations 21 February 2018

"Australia actively seeks to shape the regional and international environment and to strengthen global cooperation in ways that advance Australia's interests"

"Australia uses its engagement in international settings to advocate for a set of priority issues. One example was its leading role in negotiations on the Sendai Framework for Disaster Risk Reduction. These priority issues are reinforced further through its own programmes. For instance, Australia has a robust, cross-government disaster resilience and response programme in the Pacific region. It also has an extensive toolbox and well-deserved reputation for effective delivery in sudden onset crises, especially in the Pacific region."

"Australia consistently advocates for responses to the unique challenges that small island developing states (SIDS) face, reflecting its role as the largest bilateral donor to SIDS. Australia effectively uses regional and multilateral channels to exert influence, for example by working with the Green Climate Fund to expedite the release of funds to Pacific nations."

"The integration of AusAID into DFAT has facilitated the use of selected policy levers beyond aid to advance development objectives. This is particularly true of Australia's efforts towards more ambitious trade liberalisation, including work to reduce barriers to trade and ensure preferential access for developing countries, in recognition of the mutual benefits accruing to Australia and developing countries from open international trade and investment."

APPENDIX D – 2018-19 AUSTRALIAN AID BUDGET SUMMARY

Detailed information about the Australian aid budget can be found at <http://dfat.gov.au/aid/aid-budgets-statistics/Pages/default.aspx>

Country and region*	2017-18 Budget Estimate \$m	2018-19 Budget Estimate \$m
Papua New Guinea	546.3	572.2
Solomon Islands	142.2	187.0
Vanuatu	69.8	62.3
Fiji	65.6	58.1
Samoa	37.2	35.5
Nauru	25.4	25.9
Kiribati	30.9	29.4
Tonga	30.4	27.9
Tuvalu	8.7	9.7
Cook Islands	3.2	3.4
Niue and Tokelau	2.9	2.9
North Pacific	8.0	8.0
Pacific Regional	127.3	261.3
Pacific total	1,097.8	1,283.6
Indonesia	356.9	316.2
Timor-Leste	96.1	91.8
The Philippines	85.0	85.4
Vietnam	84.2	84.2
Cambodia	87.4	83.6
Myanmar	66.4	76.9
Laos	42.3	41.3
Mongolia	10.9	9.6
South-East and East Asia Regional	53.8	238.3
South-East and East Asia total	883.0	1,027.2
Afghanistan	80.9	80.2
Bangladesh	57.9	59.8
Pakistan	47.1	49.2
Sri Lanka	27.7	28.6
Nepal	31.9	30.6
Bhutan	9.2	7.0
Maldives	3.8	2.6
South and West Asia Regional	25.4	26.9
South and West Asia total	283.9	284.8

APPENDIX E – PERFORMANCE OF AUSTRALIAN AID 2016-17

The Performance of Australian Aid report assesses the performance and results of the Australian aid program in 2016-17. The report reviews progress with the implementation of the Government's policy and performance framework for the aid program. The report:

- provides an update on progress towards the 10 strategic targets for the aid program
- summarises the performance and results of country, regional and global aid programs, and
- examines performance across the six priority investment areas outlined in Australia's aid program policy.

The performance assessments in the report were quality assured by the Office of Development Effectiveness, overseen by the department's Independent Evaluation Committee. The Committee's findings are included in an annex to the report.

The report can be accessed at this link <http://dfat.gov.au/about-us/publications/Pages/performance-of-australian-aid-2016-17.aspx>

APPENDIX F – AID FACT SHEETS FOR COUNTRY, REGIONAL AND SECTOR/THEMATIC PROGRAMS

DFAT has prepared one page aid fact sheets for each of our major country, regional and sector / thematic programs. These fact sheets have been developed to provide an overview of each program's strategic directions, program highlights, Overseas Development Assistance (ODA) budget allocations and other interesting facts and statistics. <http://dfat.gov.au/about-us/publications/Pages/aid-fact-sheets-for-country-regional-and-sector-thematic-programs.aspx>

The Pacific

- [Cook Islands \[PDF 141 KB\]](#)
- [Fiji \[PDF 148 KB\]](#)
- [Kiribati \[PDF 148 KB\]](#)
- [Nauru \[PDF 141 KB\]](#)
- [Niue \[PDF 145 KB\]](#)
- [North Pacific \[PDF 152 KB\]](#)
- [Papua New Guinea \[PDF 161 KB\]](#)
- [Samoa \[PDF 145 KB\]](#)
- [Solomon Islands \[PDF 145 KB\]](#)
- [Tokelau \[PDF 211 KB\]](#)
- [Tonga \[PDF 145 KB\]](#)
- [Tuvalu \[PDF 145 KB\]](#)
- [Vanuatu \[PDF 146 KB\]](#)

South-East Asia

- [ASEAN and Mekong \[PDF 169 KB\]](#)
- [Cambodia \[PDF 144 KB\]](#)
- [Indonesia \[PDF 141 KB\]](#)
- [Laos \[PDF 142 KB\]](#)
- [Mongolia \[PDF 144 KB\]](#)
- [Myanmar \[PDF 140 KB\]](#)
- [Philippines \[PDF 145 KB\]](#)
- [Timor-Leste \[PDF 144 KB\]](#)
- [Vietnam \[PDF 144 KB\]](#)

South-West Asia

- [Afghanistan \[PDF 145 KB\]](#)
- [Bangladesh \[PDF 143 KB\]](#)
- [Bhutan \[PDF 161 KB\]](#)
- [Maldives \[PDF 162 KB\]](#)
- [Nepal \[PDF 144 KB\]](#)
- [Pakistan \[PDF 143 KB\]](#)
- [South and West Asia Regional \[PDF 178 KB\]](#)
- [Sri Lanka \[PDF 168 KB\]](#)

Africa and the Middle East

- [Palestinian Territories \[PDF 338KB\]](#)
- [Sub-Saharan Africa \[PDF 129 KB\]](#)

Sector/thematic programs

- [Agriculture, fisheries and water \[PDF 725 KB\]](#)
- [Aid for trade \[PDF 800 KB\]](#)
- [Disability \[PDF 915 KB\]](#)
- [Education \[PDF 756 KB\]](#)
- [Effective governance \[PDF 823 KB\]](#)
- [Gender equality \[PDF 700 KB\]](#)
- [Health \[PDF 731 KB\]](#)
- [Infrastructure \[PDF 746 KB\]](#)
- [Private sector development \[PDF 609 KB\]](#)
- [Social protection \[PDF 773 KB\]](#)
- [Sport for development cooperation \[PDF 717 KB\]](#)
- [Water for development \[PDF 525 KB\]](#)