

Australian Government policy

- 4.1 Throughout the recent Asian financial crisis, the Australian economy has remained strong, however, many of the countries in our region did not fare so well. The result of the crisis was not only hardship in the region, but hardship in the economies of developing countries that rely on exports of raw materials and other commodities. During this period of strong economic growth in Australia, the amount of Official Development Assistance (ODA) relative to Gross National Product (GNP) has declined further. The Australian economy did not unduly suffer from the effects of the Asian financial crisis and these benefits could be better shared with poorer nations. The two methods that the Australian Government has pursued, ODA grants and additional funding for the Highly Indebted Poor Country (HIPC) initiative are both commendable, although both will require additional resourcing.

Australian support for the HIPC initiative

- 4.2 The Parliamentary Secretary to the Minister for Foreign Affairs, the Hon Kathy Sullivan MP outlined the Australian Government's position on debt forgiveness:

...the Australian government supports the HIPC initiative as the most credible to achieve debt sustainability and it also supports the HIPC review. Australia is definitely a supporter of multilateral debt relief frameworks, such as in the World Bank and the IMF, and in the Paris Club in particular.¹

- 4.3 Mr Pearl of the Department of the Treasury noted the shortcomings of the original initiative, although supported its general purpose and the HIPC review process:

1 The Hon Kathy Sullivan MP, Transcript, p. 9.

While the fundamental features of the initiative—its comprehensive nature, its focus on the poorest countries with the most serious debt burdens, and its linkage of debt relief to sound policy track records—are sound and should be retained, we accept there is scope to improve and simplify its operation in practice. For these reasons the government supports the current review of the initiative being conducted by the World Bank and IMF staff which is expected to result in concrete proposals for enhancement in the near future.²

4.4 For a country with little complicity in creating the debt crisis, the Australian Government is to be commended for supporting for the HIPC initiative with additional funding of A\$30.5 million above the existing aid budget as announced by the Treasurer, the Hon Peter Costello MP, in June 1998.³

4.5 On 27 September 1999 at the most recent meetings of the International Monetary Fund (IMF), the Treasurer announced a further A\$35 million towards funding the HIPC initiative. At the time of writing, it was unclear whether this money was to be in addition to the existing aid budget, or whether it would be sourced from the aid budget. At the seminar the Hon Kathy Sullivan MP told the Committee that the:

One thing that must be remembered is that debt relief is not a substitute for the development of aid of the type provided by Australia directed specifically at areas such as primary health care, education, women and the environment.⁴

4.6 It is opportune for the Committee to remind the Government that unless the Treasurer's pledge is additional to the existing aid budget, this commitment it is merely an act of clever accountancy.

4.7 While the original HIPC initiative had its failings and the revised HIPC initiative could still be criticised on similar grounds, it does provide a predictable framework to assist the poorest nations to invest in their social and economic infrastructures. Compared to the uncertain alternative of unilateral debt repudiation or the cost of the Jubilee 2000 proposals, the HIPC initiative is a preferable part of the solution to the debt problem in HIPCs. The Committee believes that the HIPC initiative after the review process holds hope for relief from the burden of excessive debt for the world's poorest nations.

2 Pearl, Transcript, p. 28.

3 Muir, Transcript, p. 9.

4 The Hon Kathy Sullivan MP, Transcript, p. 4.

Recommendation 1

The Committee recommends the Government's continued support for the HIPC Initiative and Review.

Official Development Assistance

- 4.8 Australian development assistance as a proportion of GNP has been declining for many years. In 1975, Australian development assistance stood at 0.65 per cent of GNP. At the time of the publication of the Jackson Committee Report in 1984, Australian development assistance stood at 0.55 per cent of GNP. This ODA level has continued to decline since then, and stood at 0.25 per cent of GNP in the 1999-2000 Budget.
- 4.9 In the report on the seminar on the Simons Committee Report, this Committee recommended that the Australian Government determine an ODA/GNP target, and establish a timetable for meeting the revised target by 2002. This was based on the view expressed in the Simons Committee Report that the long held commitment to an aid volume target of 0.7 per cent of GNP was no longer credible. However, the Government response to the Committee's report rejected this recommendation, preferring instead to retain 0.7 per cent of GNP as an indicative target for development assistance.
- 4.10 Because of population pressures and the detrimental effect of bad debts on developing countries' fragile economies, the need for additional development assistance is greater now than it was in 1975. This is despite the downward trend in the proportion of GNP that Australia and other Organisation for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) countries are committing to development assistance. The Committee suggests that without proper resourcing, the Government's continued commitment to a goal of development assistance of 0.7 per cent of GNP is a hollow one.

Recommendation 2

The Committee recommends the Australian Government give consideration to increasing substantially the current levels of Australian ODA, consistent with its endorsement of a 0.7 percent ODA/GNP ratio.

Bilateral debt owed to Australia

- 4.11 Australia has very little bilateral debt, largely because of the way that Australian development assistance has been delivered since the Jackson Committee Report. The grant only nature of the Australian aid program does not add to the debt of heavily indebted poor countries.⁵
- 4.12 The bilateral debts that are owed to Australia have accumulated because of loans made under the now defunct Development Import Finance Facility (DIFF) scheme, and by the Export Finance and Insurance Corporation (EFIC). These outstanding debts include:
- A\$14.0 million owed by Ethiopia for an aid loan made in 1991 under DIFF, for sugar cane milling equipment;
 - A\$62.0 million owed by Vietnam for eleven credit loans made in 1990 by the EFIC, for a fruit and vegetable processing plant, an abattoir, a coal plant, metallic telephone cabling, sugar cane milling equipment, and a digital automatic data processing machine; and
 - A\$5.5 million owed by Nicaragua for credit by the EFIC made in 1993 for sugar cane harvesting equipment.⁶
- 4.13 However, all of these debts to Australia are currently being serviced, and are thus not bad. As Professor Inder stated at the seminar:
- The four countries we are talking about are actually meeting their payments on their particular loans to us but it is clear, if you look at a broader analysis, that they are not meeting their payments to many other debt obligations they have. If we were to take the initiative and cancel these debts, then we would be able to see a great move ahead in their ability to repay other debts.⁷
- 4.14 The Committee believes that it would be counterproductive to forgive outright those bilateral debts made under the DIFF scheme and by the EFIC. This decision is based on the Government's consideration of a new soft-loan scheme as recommended by the Simons Committee Report, and by the Australian Government continuing to underwrite loans made by the EFIC. Writing new loans, while forgiving loans that are currently being serviced by borrowing countries, would send an ambiguous message to future borrowers.

5 The Hon Kathy Sullivan MP, Transcript, p. 5.

6 Senate Hansard, 11 May 1999, Page 4794; House of Representatives Hansard, 30 June 1999, Page 8032.

7 Inder, Transcript, p. 26.

- 4.15 However, we accept that those countries that are genuinely in need of bilateral debt forgiveness should have access to it, and Australia should be a part of that process.

Recommendation 3

The Committee recommends that Australia offer its bilateral debt to be considered as part of any future contributions to the revised HIPC initiative, where those countries are permitted and agree to meet HIPC conditions.

