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**JOINT STANDING COMMITTEE**

on

**FOREIGN AFFAIRS, DEFENCE AND TRADE**

**SEMINAR**

**Reference: Review of the Simons report**

**CANBERRA**

**Friday, 11 July 1997**

**OFFICIAL HANSARD REPORT**

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*Review of the Simons report*

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PROCEEDINGS

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**CHAIR**—I welcome you all and declare the seminar open. As you know, this is in part a product of the consultative process included in the two-stage response which the government has decided is the appropriate way to respond to *One Clear Objective*, the report prepared by Mr Simons, Ms Hart and Professor Walsh. We welcome each of them here in our midst today.

The Minister for Foreign Affairs and Trade, Alexander Downer, and Andrew Thomson, his parliamentary secretary, have expressly asked that I extend their apologies. They are involved in a ministerial economic forum in Cairns and it was a bit difficult trying to work out whether we could change one or the other. It was decided we should proceed in spite of their being unable to attend.

In terms of the seminar concept, it is always difficult to allow adequate consideration of matters of such significance as those covered by the Simons report. We decided to conduct this seminar—it is one of several that are being held—on the basis of generally allowing either one or two presentations, followed by a discussion period. Questions are welcome from everyone. We have tried to provide access to microphones by putting them at each end of the audience galleries.

It is difficult in this place to find a room that is ideal for the purpose. We thought of going into the main chamber, but this room seemed to be somewhat preferable. As many of you would know, this is the second chamber of the House of Representatives, which is a forum used customarily by the members of the House of Representatives for debate on issues which are referred to it from the main parliament.

The Joint Committee on Foreign Affairs, Defence and Trade is represented here by a number of our members. We have both the chair of the Foreign Affairs Subcommittee, Mr Bill Taylor, and the chair of the Human Rights Subcommittee, Mr Peter Nugent. In addition, we have a number of senior officers of the Department of Foreign Affairs. I note Ms Penny Wensley is here as are a number of other senior officers, as well as members of the staff of AusAID. There will be a lot of people here who have a great interest in outside input. For that reason, I hope we can encourage reasonably wide debate and, from that, try to reach some conclusions on where we go from here with the recommendations of the Simons report.

The preparation of the whole-of-government response is scheduled to be presented during the next parliamentary session. It will probably not be at the beginning of the session, which begins towards the end of August, but later on in the year. This seminar is to be an important part of the process. We have tried to present the whole report so that we can analyse sections of it and we want to keep to time as much as possible because to give any component of the report too little time will make it difficult.

Our first session is to be opened by an overview by the chair of the Simons inquiry, Mr Paul Simons. I would particularly like to welcome you here, Paul, and to

thank you for the work you did on behalf of the government. It was a very significant undertaking. All of us, having read the report, commend you for the analysis and the extent to which you did give consideration to the broad range of subject matter that is imposed within the provision of Australia's development assistance aid. The Minister for Foreign Affairs has said of your report:

The report represents the most important contribution in over a decade to the public policy debate in Australia on the nature and role of our aid program.

All of the review committee, as well as yourself, are to be commended for the dedication you have shown in concluding the inquiry and for the quality of the final report. I invite you to give an overview of the report to open the first session.

### **Overview of the Simons report**

**Mr SIMONS**—Thank you very much. All of you here today, no doubt, have a copy of the committee's report and have read it thoroughly I am sure. The response to the report in the media has generally been good. There have been some contentious issues which have attracted criticism, notably our recommendation that there should be an untying of aid and the dropping of 0.7 per cent of GDP as being the amount of aid that Australia should be aiming to spend. There has also been some questioning of our recommendation to focus our bilateral aid more on our immediate region, and that criticism has come from people who have particular interests with African aid.

Before going on, I would like to thank my fellow committee members Professor Cliff Walsh and Ms Gaye Hart. Both put an enormous amount of work into preparing this report and spent a lot of their private time which would otherwise have been used on their own business. They were patient and diligent and used every bit of their energy to get this thing done pretty much on time in April. The period we took for the review was fairly short, from July 1996 through to April 1997, and the terms of reference were fairly broad, so you can understand there was a terrific amount of work that had to be done to produce the document that you now have. I would like to thank the secretariat that was provided by AusAID in getting the report finally printed and presented in the way that it has been.

Now for my own impressions—and some of these are not contained in the report. As you go about this kind of business you pick up vibrations and I would like to share my impressions with you. Later on, of course, Cliff will be talking to you about untying aid and Gaye will be addressing you on geographic focus.

As far as the AusAID agency is concerned, I asked myself the question: is it a good, bad or average agency on the world scale of donor agencies? We did not have a lot of exposure to other donors. I had some to the Japanese people. Cliff went to Denmark, the Netherlands and England and spoke with agencies there. We also met representatives of those agencies as we went about. From the observations I made, I would grade AusAID



as above average.

I was influenced by the book, *Lords of Poverty*, which I would suggest people interested in the aid business should read. Happily, *Lords of Poverty* makes no mention of AIDAB, as it was known, or AusAID, but there is some very interesting information contained in that book—and I do not think the author has been sued, so it must be pretty accurate. It draws attention to the risks involved with the aid business: the corruption, the fraud and so on, which have been pretty rampant in some parts of the world using aid funds. In our review of AusAid we saw no evidence at all that would suggest there was any sort of corruption or fraud or extravagance at the top levels, which I was quite pleased to see and so were the other members of the committee. They run a fairly tight ship, it appears.

As for efficiency and effectiveness, we certainly concluded that there are shortcomings in the way in which our aid moneys are spent and administered. I could give you some examples of fairly significant projects where quite a substantial amount of money has been spent for very little or no return, or where the project has just simply failed. I do not think I should itemise those unless I am asked to, but our inquiries suggested that those which failed, or failed to yield the expected outcome, were poorly planned, hastily planned, badly executed and that there was inadequate monitoring of the progress of the project once it had commenced.

We have stressed in the report the critical importance of a thorough feasibility study in conjunction with the recipient government before projects are undertaken. Unless projects have the support and are in line with the recipient government's priorities, then the chances of failure are very high. A detailed project plan and critical path would be essential. The tendering by consultants and companies must, of course, be open and only offered to companies with a proven track record and resources to do the job. Of course, once the job commences there must be effective monitoring of the project to see that it is on track. It is quite clear from the comments we have heard from consultants and contractors, and even from some AusAid staff in foreign posts, as well as diplomatic staff, that projects have in various ways been mismanaged. By no means all of the projects fail, but if effectiveness is to be improved one must learn from failures to avoid the risk in the future.

We feel there are three major weaknesses in AusAid's management and structure. There is inadequate sectoral expertise in the areas of health, education, and civil engineering. There is one area where they have quite considerable expertise and that is in agriculture through the sub-agency ACIAR. They have a poor MIS system. Information is incomplete and untimely. We all know that today, if you are running a business you must have access to information to guide you from day to day and month to month to ensure that you are on track for your targets and objectives. Finally, it tends to be overcentralised with most of the senior resource being based here in Canberra.

If we talk about excellence in the areas that we have mentioned here—we have talked about sectoral expertise—the agency must either have high quality in-house expertise in health, education and civil engineering, for example, if we are talking about water projects, or alternatively the services of centres of excellence specialising in research and development in these key sectors.

With regard to the issue of whether we take the route of external centres of excellence with funding from AusAID, we had disagreement in the committee about this. We did not have a clear consensus. I sort of ran a lone battle here. I can get my word in today, and no doubt Cliff will later. If we do take the course of having liaison with centres of excellence rather than in-house staff, these centres could be used for training people from the recipient countries to carry on the work which aid agencies previously have been expected to do and then withdraw. It is terribly important to build up capacity in recipient countries. If we have the right approach to developing excellence in centres here in Australia, I personally think that would be a step in the right direction.

We have recommended a clear focus on a limited number of sectors where Australia has strong capabilities recognised worldwide. AusAID should be disciplined in confining its spending to these sectors—as I said earlier, health, education and agriculture, civil engineering, water management, and so on, were doing exceptionally well—in order to achieve the best value for the dollar and to minimise the risk when engaging in projects.

Some of the projects which we saw, which appeared to have failed, were projects which Australia probably should not have attempted because we are not expert in those areas. But, under the DIFF scheme, if a person made an application for funding to take on the project, if they had no track record and no resources but had to start from scratch, there was a high chance of failure.

As I say, Australia has achieved extraordinarily good results from agriculture through ACIAR, which is an excellent example of what can be done. If through AusAID Australia becomes the leader in the development of education, health, water and sanitation programs, it is possible, even likely, that other major donors would use Australian service providers if we are seen to be the best in the world and the most competitive.

At this point, we should also mention our feeling that there needs to be very much stronger donor coordination in the aid industry. We saw several examples of where there was a lack of communication between donors, so that one donor was providing this, another providing that and another providing something else again, none of which was coordinated. An example was Goroka Hospital, which was very run-down and the basic needs were not even there—things like disinfectants for the wards and basic essential drugs were lacking. Yet they had the very latest piece of equipment for pathology, and they did not have a pathologist trained to that standard. They had a newly installed X-ray

developing machine when the X-ray machine itself was out of action. All of that seems to point to a hell of a waste of money whereas, if the donors operating—for example, in Papua New Guinea—carefully planned their joint efforts, there would be better outcomes.

Whilst in Japan on other business, I called in to see the agency people there. They expressed a wish for greater coordination and indicated that they felt Australia would be able to deliver services that they were unable to. My own experience in a very competitive business convinces me that there is no substitute for excellence. One must strive by every means to be the best in whatever business one is engaged. Near enough should never be good enough.

We move on now to MIS. As I say, no business can run successfully today without timely and useful information on its performance relative to its objective. I will not lecture you on this particular subject because I am not very smart at computers myself other than that I have used a lot of information that computers produce to deliver results, so to speak. Whether the system is out of date or needs upgrading or whatever, I believe the AusAID management is certainly hampered by an inadequate MIS or management information system and that needs urgent attention.

We come now to centralisation. Internationally almost every major business in the past couple of decades has realised that centralised management and control is outdated. To some extent, decentralisation has been made more easy by the advances in communication so that you are on-line almost daily to any part of your business.

Better results come from devolution and delegation of responsibility and decision making. What are the proven benefits of decentralisation? Firstly, decisions which are made, to use the buzz word, at the 'coalface' have the benefit of local knowledge. The decision makers are there; they know the customers.

Secondly, there can be a quicker response to local market conditions, to swiftly changing conditions. If you have your management empowered to change, they will change before head office gets any vibrations of the need to change.

Thirdly, it motivates management and employees. That is terribly important so as to harness the energy of your staff throughout the organisation. The further down the line that you push decision making and responsibility, the better is the productivity of the people in the organisation. You have better control because it is localised and responsive. It spreads risk because if you have a bad decision at head office, and everything is directed by head office, everyone suffers the results of that bad decision. Localised decision making minimises risk. Finally, if you decentralise management responsibility it builds great depth in the strength of management who are building people and building capacity.

What does central do in this changed environment? It allocates capital, coordinates

training, develops strategy, reports to the shareholders and, in this case, the Australian taxpayer through the government, and works the business network: the associations, the ODA and all of these other organisations that are involved in this business.

I do believe there is a strong case for devolution in AusAID, and I think my colleagues agree with that—I am sure they do to some extent. The extent of it is something for management and government to decide themselves. We did not get into that detail deliberately.

Aid is business. It is known as the aid industry: \$1.4 billion is big business. It needs good management and it needs good tools. One of the criticisms we received was that we dropped the 0.7 of GDP. Australia has never had aid amounting to 0.7 of GDP. The best in the records we looked at was 0.55. Around the world, aid is falling as a percentage of GDP. Even though Japan is a major donor—I think its figure is about 0.15, the US figure is something similar—it is a decreasing percentage. That certainly does not mean to say that the world is giving up on the poor and the undeveloped nations.

Look at the statistics contained in the book and in Mr Downer's recent speech. Foreign direct investment is increasing at a huge rate. One thing we picked up as we went about is that recipient governments are much more interested in developing trade than in receiving aid in its traditional forms. They want to develop strong economies and trading links. The 0.7 per cent is meaningless today when you take foreign direct investment into account.

Finally, there is perhaps a case—we talked about this—for a small advisory board to assist the government and the minister or whoever happens to be responsible for the agency. If we look at AusAID as a business, the main board is the government, which represents the shareholders, who are the taxpayers. The government decides how much it will spend, where it will be spent and how it will be spent. The management reports to the main board through the minister.

We also felt that the time taken between reviews of AusAID was excessive. From 1984 to 1997 is a long time; it has been 13 years between reviews. If one has an advisory board comprised of four or five professionals who have knowledge of the sectors that we are going to be working in to advise AusAID management and the main board and the minister on the direction that aid should be taking, that could be done on a rolling basis. The meetings certainly need not be monthly; they might be four-monthly or six-monthly. It would be very important to have the right people doing this for the government and monitoring policy implementation and reviewing evaluation and audit reports.

In the report, we stress the need for better accountability and evaluation. Very little is published about what AusAID actually does and how successful it has been. We need better evaluation in audit and assisting the director-general with policy development and strategy. We need liaison with the universities and centres of excellence that might be

used in the future. If established, such an advisory board would report to the minister.

In conclusion, the purpose of the review was to come up with ways of improving AusAID's performance. It was not, and is not, our intention to simply be critical of the agency and its people. As I said earlier, by international standards, we concluded that AusAID is better than most and has done well in many ways, despite having to contend with a variety of conflicting objectives. That is one of the reasons we came down with the one clear objective which the director-general can now work to.

Any review, be it in a corporation or an agency, will find something. I might think my old company is 100 per cent okay. If we were to invite somebody in to review it, however, the truth of the matter is that it would probably be found to be 80 per cent okay. Twenty per cent would come up in the review. You just have to take that, use it and do your best to react to that review. I have had that happen to me.

If our recommendations are implemented, particularly the one clear objective for poverty reduction through sustainable development, a better geographic focus of our bilateral aid, a clear sectoral focus and restructuring and devolution, the task of the agency will be simplified and performance will be improved. That was the purpose of the review. Do we have time for questions?

**CHAIR**—Yes, we certainly do. Thank you very much indeed, Mr Simons. You have opened up a number of issues that will generate some debate. We have about 25 minutes for questions. Who would like to start?

**Prof. HUGHES**—I really value the summary; it makes much clearer what the committee is recommending. But I would like to make a comment. I think that you did not quite represent your own report in the sense that the report recognised that overall policy in a country is tremendously important. You can develop education, health, water, et cetera, only if the country is going in some sort of sensible direction. So the macro-economic aspects—macro in the overall economic directions—are very important because if a country has had very bad overall policies, like PNG or the islands, it is not going to grow. You can bust yourself doing good projects and they will run into sand. So I would like to add the footnote that both in the dialogue in collaboration with other donors—which is a bit of ganging up, but justified ganging up, I think—and in Australia, in training people from developing countries, we should not neglect the overall framework. I am not contradicting anything you are saying; I am just trying to bring an aspect of the report which, perhaps, you did not have time to cover.

**Mr SIMONS**—True. I think that it is in the report and it was something which people were very concerned about with the domestic policies in recipient countries. One has to be fairly sensitive because of the foreign policy considerations. There was more I could have said, believe me. But it is vitally important that countries that are receiving aid firstly agree that the project is of high priority and, secondly, that they have policies in

place which encourage later development, that they have law and order and good policing and good fiscal policies. Without those—and that is one of the reasons, of course, that the Africans have done so very badly in recent times compared with South-East Asia—you cannot put money where it is not going to work.

**Prof. DUNCAN**—It is a pity to just concentrate on the title of this report, but the committee does keep repeating this title over and over as though it is providing some sort of way from which AusAID can operate. It really does not say that it has one clear objective. It has actually two objectives. In the first place, it goes against Tinbergen's primary rule about policy as one objective, one policy. Here you have got two objectives and no policies. The whole concept of sustainable development in any gathering anywhere is just something that you can never get agreement on. It is just not a concept that has any useful meaning and certainly nothing in terms of giving explicit directions of how an aid agency operates.

Secondly, in terms of what Mr Simons said about projects being in line with government priorities, again that is not a terribly useful thing under which AusAID can operate. A very recent World Bank study has just shown that only in those few countries in the world that have good policies has aid been effective. It is just a handful of countries. That means that most countries in the world that are receiving aid do not have good policies. So, in most of the countries in which AusAID people are going to be working, they are going to be dealing with priorities that we do not agree with. You just cannot take the countries' priorities—99 times out of 100, they are going to be wrong. It is going to be AusAID's primary task, in fact, to convince them that the policies are wrong.

**CHAIR**—Thanks, Professor Duncan.

**Prof. WALSH**—I understand and partly agree with some of the things that Ron Duncan has just been saying. In saying that there is one clear objective, at least what we are trying to do is to peel away some of the layers of confusion that have beset the program. By having the so-called triple mandate in which foreign policy, trade policy and developmental issues were argued to be, if not of equal importance, at least all weighed in determining the direction of the program, our judgment was and remains that that was very much a source of confusion. It was potentially a cause of—if I can find the right word—a lower standard of excellence in the delivery of aid as directed at poverty alleviation as a result of that confusion. So we are very keen to rip away those layers and to say that we focus on poverty alleviation, essentially through economic and broader community development, as the fundamental objective.

I agree with the view about putting in words like 'sustainable', and in fact we mean sustainability in at least two senses. One is ecological sustainability and the other is sustainability in a more practical sense: that when we finish funding a project, we want the impact of that to continue for it to be sustainable too. So it is very much about

community involvement in aid itself.

But we do go on beyond just saying that it is about sustainable poverty alleviation. We do actually provide in recommendation 4.2 some indications of the framework within which we think AusAID does actually have to operate in order to achieve that objective. You may disagree with the particular issues that we have identified there as key focuses—programming priorities as we call them—but they do constitute an attempt to provide a blueprint. It may not be the one ultimately adopted, but we are saying that you do need to set that out very clearly in order to turn this overarching objective into something which is meaningful so that the outcomes of your actual strategies can be evaluated.

Your final point about us being by and large in conflict with recipient countries about the right way to go comes back to part of the point that Helen was raising. I think that it is quite a strong message of the report, at least in my view, that here is an area in which we believe a reasonably strong form of conditionality is actually required. Having decent economic policies, whether they are macro-economic management policies, or what we would call micro-economic policies, in relation to regulatory frameworks and so on is a condition precedent for countries actually benefiting from the development assistance that we give to them and we should find ways in which we increasingly encourage them to adopt those policy frameworks. If they are not willing to do so, then at the end of the day the Australian taxpayer would have a reasonable right in saying that the aid money was not being used in the way that the Australian taxpayer intended and that the ultimate objective was not actually being achieved. I would be prepared to define our report as actually saying that economic policy has a strong element of conditionality which would apply within our aid program and which probably should be used much more vigorously than it has been in the past.

**CHAIR**—Would you like to respond to that, Professor Duncan?

**Prof. DUNCAN**—Only to say that the obvious contradiction has just come out. To say that it should be in line with government priorities is contradicted by saying that there should be strong conditionality.

**Mr WURCKER**—Mr Simons, one of the areas that I found of interest was looking at trying to get some bipartisan approval for taking the aid out as a political football, and also some sort of committed funding over a period of time. Would you like to talk about that as a priority and what benefits you see in that in the quality of the aid program?

**Mr SIMONS**—Did you say bipartisan support?

**Mr WURCKER**—Bipartisan support, and also some sort of committed funding over a period of time so it is not a knee-jerk reaction.

**Mr SIMONS**—We believe it is very important for AusAID that there should be a longer period for planning than one year. Certainly, projects which start up do last much longer than one year, but they should have some certainty that their funding is guaranteed for a period—rolled over, say, every three years or something like that—in much the same way as a business operates with accrual accounting and the like.

Whether we were correctly informed or not I do not really know, but there was an impression given to us that towards the end of the financial year there is a rush to spend the money, as in most government departments, in order that they do not get a reduction in the following year's budget. I do not think that is good policy. There needs to be an agreement between the parties that this agency should have X amount of dollars; if they are uncertain about its performance they could cut it back a bit more and see how it goes. But there should be certainty in continuity, and on a rolling basis three years out possibly, or some period which is determined by the government. Does that answer your question adequately or not?

**Mr WURCKER**—I would strongly agree that they give some sort of certainty and not cause an annual spending spree, and also that they try to get some bipartisan support.

**Mr SIMONS**—For example, in a business you have certain benchmarks which tell you how much capital you have—your cash flow, et cetera. They have no cash flow in AusAID, except what the taxpayers provide at the government's discretion, but in a business you have certain benchmarks which tell you the level of capital spending. I come from that background where you say what it is going to be, in our business or another business. For an agency I think it is rather difficult to work hand to mouth year to year.

**Mr KANALEY**—Quite clearly in this sort of discussion I have got to be somewhat restrained in what I say.

**Mr SIMONS**—I won't take offence.

**CHAIR**—That is why we put you in the position of being the opposition!

**Mr KANALEY**—The government will be making its response to the report's recommendations and I really cannot be put in a position where I am saying something that pre-empts that, but I would like to make a couple of general comments. Firstly, I think the report is a very good report. You can disagree with different recommendations in it, but I think the general thrust of the report is extremely solid. Part of that was really summarised by Mr Simons towards the end of his statement where he referred to a concentration on excellence in the program. The words he used in the report were to get a more 'outcomes focus' for the organisation. I would agree with those two points completely.

Going through the report itself, one thing that is in my mind as a question is to do



with the nature of the model that is put forward for delivery. It is very much a business model. That does not cause me, as the head of the agency, a particular problem, but it does have implications for the nature and structure of the agency which I am not sure are fully worked through in the report. To give an example, at the moment the agency is very much a Public Service agency, and that is exactly what it should be. It is part of the portfolio of Foreign Affairs and Trade. It reports directly to a minister. A lot of the agency's time is taken up with what I would call normal public servants' business, which is advising the minister, preparation of possible parliamentary questions—the normal day-to-day activities of the Public Service which you would find across every agency in Canberra.

The model that is being put forward really draws out one of the great conflicts, and that is that centralised structures are actually quite useful for producing that sort of what I would call ministerial service. But there is a conflict there with project agencies which tend to be more horizontal in structure. I think the report really throws this one up in the air and that we are going to have to look very hard at those two parts, if you like, of our work. They are clearly related parts, but they are two parts that have quite different organisational implications to them.

In terms of some of the comments about different levels of expertise and some of the points that Mr Simons made, I think the question of sectoral expertise is a very interesting one for the agency. In a world where the agency staffing has gone through major reductions over time, it is clearly not a viable proposition to think we are going to employ sectoral experts as public servants. It is also quite clear that, even if we tried to, we probably could not offer salaries which would attract the best in the private sector to move across. That clearly implies that the model for sectoral expertise, whether it is centres of excellence or whatever, is going to be a model that is a contracting model of one form or another. I make that as an observation because I do not believe that the option of an in-AusAID Public Service model fits within the constraints that presently exist within the Public Service.

On the MIS system, I agree and disagree on the point Mr Simons made there. Two or three years ago we did not have a management information system at all and I think the steps we have made to introduce the Activity Management System have gone a long way towards answering the MIS point that you have made. I certainly would not sit here and pretend the system is complete, but I would say it is at the order of 75 per cent and we need to work very quickly to complete that other 25 per cent. So, yes and no; I certainly agree with the point that we need a better MIS.

The centralisation question—this is the devolution point—again raises this question of the role of the agency vis-a-vis advising the minister and delivering an aid program. I have just spoken to senior officers at all our posts at two regional meetings and we see a range of problems in the devolution point. I accept some of the strengths, but it also has problems in providing quick advice to a minister on particular aspects of the agency's

work. What technology has done is open up a highway as they say—a super highway. It has two factors to it: one is you can devolve some things; another is that it makes it easier to centralise some things. It simply does not work as a one-way street; it is a two-way street. I think that one of the management issues the agency has to face following the report is what should go out as decentralised and what should possibly be even further centralised.

A last point—I do not know how to make this one politely—is that Mr Simons made the point AusAID should be disciplined in pushing spending to too many countries and things like that. The answer to that, I have to turn around and say quite clearly, is that it is not a question of AusAID needing to be disciplined. AusAID implements the policy of the government of the day and right through the report there are a range of comments that AusAID should do this or should do that. In many cases where those comments are made AusAID simply does not have the flexibility to do this or that. It is not something which is our prerogative; it is a prerogative of the government of the day. Whether we are located in 108 countries, or whether we follow the Simons prescription and are located in 20, my role is to try and deliver the best program, whether it is 108 or 20. Some of those big policy questions are ones we might provide advice to ministers on, but they are not ones where we have any executive prerogatives at all.

**CHAIR**—Thank you, Mr Kanaley.

**Mr SIMONS**—Perhaps we should have said that the minister should be more disciplined. We can say that without fear.

**Mr KANALEY**—I can't.

**Prof. WALSH**—Can I add a couple of observations about things that Mr Kanaley just said which I found quite interesting. I understand what you are saying about business models versus Public Service models, and I think we were aware of the tensions. To some extent the reason we ended up by saying all we are doing is pointing in directions rather than providing a clearly specified model was precisely recognition about that.

I am not entirely sure, in this age of information technology and so on, that the degree of centralisation which is necessary in order for you to be able to meet the minister's needs in a responsive way is necessarily as high as it used to be. That is open for debate.

The more important point I want to make is in relation to sectoral expertise. It was part of the debate—which Paul alluded to earlier—that we had within the committee itself. I take the view that, while I am very much in favour of outsourcing models, the biggest mistakes that have been made in the public sector in relation to outsourcing have been due to a lack of recognition of how much insourced information expertise is needed in order to be able to manage that process. You need people who have sufficient expertise to be able

to ask the right questions, interpret the answers and understand the advice of the model that is being offered. Part of the reason we ended up with the emphasis we did was simply because we wanted to say, 'Even if it is expensive, you cannot outsource without having that level of expertise within the agency to protect you against potential failure or misunderstanding of what it is that you are getting from your outsourced sources of advice.' That said, if we can create other mechanisms by which we can draw on a wider range of expertise from outside the system, I am perfectly happy about that.

Finally, on AusAID doing what ministers want to do, one of the reasons we argued for a focused objective—and, potentially, an advisory board—was to help to build in at least a couple of things that might provide some barriers to deflect at least some of the worst cases of choice of locations or choice of projects that would come out of political rather than rational decision making—or a different sort of rationality.

**Mr TAYLOR**—These are personal views. The first point I would like to make is that this is a very valuable document for governmental reform. I hope that government will look favourably on a lot of what it says. I agree with what Mr Simons had to say about the 13-year gap. The time between reform processes is too long. The time between Jackson and Simons is far too long, and I am in favour of some sort of review process. Trevor might disagree with me, but I think there is scope for internal management initiative changes, and they can be worked through in due course in the context of this report.

The main point I would like to make at this stage is that the report does have an unrealistic sense about it. I cannot agree that poverty reduction—and we would all agree with that sort of general thrust—can be isolated from the diplomatic and commercial dimensions of international relations. In that sense, it is a bit unrealistic. I also have some reservations about the untying, but we can leave that until later on. In general terms, it is an overdue report, but I have to say that it has, in my view, a sense of lack of realism about it, in terms of international relationships.

**Mr CARLTON**—I would like to revert to the issue of management—which is something I have taken quite an interest in over the years—and the natural reaction of an agency when a report comes in which is mildly critical of an existing structure. We have to recognise that the kinds of management changes that started occurring in private enterprise about 30 years ago only started about 10 years ago in the Public Service. In NGOs they are starting even later.

I got an external review to look at my finance department recently. My people there were absolutely stunned when the reviewer said that current best practice for management information reports was one day after the close of the accounting period. They did not have to be accurate, but they did have to be there so that managers acted on them and were not looking through the back window. That scared the pants off the people in my finance department because they thought three weeks after the event was perfectly

satisfactory—and it had been for years. So we are applying new standards, and the agency should not feel defensive about this in any way, because the way people have expected things to happen in the past has led to those sorts of structures. I am pleased to say that AusAID is taking a very positive view about where it can go in relation to this report.

The second thing I would say is that a report like this gives ministers an opportunity to re-examine the way that they run things. This is a two-way street. Departments often think that ministers require a lot more information a lot more quickly than they actually do. Ministers or their staff often think that they need a whole lot of information which they do not need. Therefore, the relationship between the minister, the minister's office and the department in relation to day-to-day events has to be re-examined, particularly in an agency of this type. If it is the Department of Foreign Affairs and Trade itself, where things are happening in Cambodia right now, it should be different. There should be a shorter time frame for ministerial reaction than there is in an overseas aid agency.

I will illustrate that by way of an example. In 1969, I was part of a McKinsey review of the New Zealand post office, which in those days ran telecommunications, posts, a bank and agency services. It was one of the biggest businesses in the country. When we examined what the top management were doing, looked at the levels and coloured in all their blocks in the organisation chart as to what percentage of senior management time was spent in answering and preparing ministerials—that is, answers to ministerial questions to the Postmaster-General—we found that about one-third of the time of the total top block of management was devoted to this. In the re-organisation of the post office which we suggested, that was all put into one little box on one side. There was direct reporting to the minister's office with the authority of the Director-General of the post office but with a capacity to present information which did not have to go through six different levels before it was signed off by the head of the department.

Admittedly, that is a 1969 example. AusAID is not like that. There is still a tendency on the part of ministerial staffs to expect more than they should of this kind of material. There is a tendency on the part of public servants to be over-responsive, in my view, to those kinds of demands. A report like this gives you an opportunity to take a leap forward in organisational as well as policy terms. I just thought that might be useful.

**CHAIR**—Would you like to respond, Mr Simons? We might then switch to Mr Kanaley to present his paper.

**Mr SIMONS**—I was going to ask you a question rather than just respond. What sorts of questions do you mean? We justify centralisation on the basis of people having to answer heaps of ministerial or parliamentary questions. What do they ask you as an aid agency? What would they be asking you now about Cambodia? I thought that the ambassador in Cambodia would be doing most of that.

**Mr KANALEY**—I got back from Nara in Japan a day ago, so I have not looked at my PPQ folder. PPQs occur right across the Public Service. Ministers are looking for advice on questions that may be asked in question time in the House. Those questions cover anything that is believed to be topical on that day. It requires a fair amount of work on the part of public servants to actually prepare that documentation. This is not unique—I must make that clear to AusAID—as it occurs in Treasury, Finance and in every department of state. If a PPQ is going out today, I would think that the question of aid to Cambodia would be high on that list.

**Mr PRICE**—It becomes even more critical if a minister is accident prone.

**CHAIR**—That is Roger's version.

**Mr SIMONS**—Surely you are able to say, 'Let me know what you want to have and I'll get it done in a couple of days.' I think that is what Jim is saying.

**CHAIR**—As much as one would wish to be able to do that, I can assure you that, in that sense, politics is a little different from commerce.

**Mr KANALEY**—Devolution is a very important point in this debate over centralisation versus the decentralised model. The turnaround time for a possible parliamentary question can in an urgent case be 15 to 30 minutes. The scope for finding an officer in Zimbabwe who may be out in the field but who is responsible for that activity is almost zero. I am not arguing for the present parliamentary model; I will let other people in the room argue for that. I am simply pointing out the realities of the way that a public servant works and the realities of what ministers expect of their public servants.

**CHAIR**—We have run out of time on this part. As Mr Kanaley is our next speaker, I do not want to intrude unduly on his segment by an interchange between you. I thank you very much, Mr Simons, for your input. I hope that you might be able to engage in both responses and perhaps even some interrogation later through the seminar.

**Mr SIMONS**—Thank you.

### **The Australian aid budget 1997-98**

**CHAIR**—Most of us would remember a comment by Beris Gwynne of World Vision at last year's seminar conducted by the committee about the multiplicity of objectives and agendas that had to be managed by AusAID. Beris thought that it was a bit akin to riding a chariot with 12 horses. Bill Armstrong, who is with us morning, towards the end of the day thought that Trevor might be able to hand over the reins to the review committee to see whether the committee could get them running in step and make his ride smoother. It remains to be seen whether the review committee has managed to do that.

Trevor has indicated that he is in somewhat of a difficult position. He is both running the program and managing AusAID. He is also a public servant. He has done it through a period of uncertainty while the public consultation process continues. We have asked him to speak on the aid budget for this financial year. He might wish to comment briefly about the strategy that AusAID is adopting in response to the Simons committee. I hand over to Mr Trevor Kanaley.

**Mr KANALEY**—Thank you, Mr Chairman. First, I thank the committee for organising this seminar. With the release of the Simons report, the government is allowing a period for consultation on the recommendations. Clearly, this seminar is one of the high points of that consultation process.

The aim of my presentation today is to provide an overview of the 1997-98 aid budget. I also want to talk a little about the international development funding environment and the areas of possible flexibility and constraint for future aid budgets. This latter point is particularly important, bearing in mind the Simons report, as many of its recommendations have substantial resource implications.

Let me start with an overview of the 1997-98 aid budget and aid volume. The aid budget for 1997-98 is \$1,430 million. It is a reduction of \$16 million on last year's level, or one per cent in nominal terms. The reduction in real terms is three per cent. Aid spending remains just over one per cent of total government outlays. In terms of major outcomes of the budget, it builds on changes introduced in 1996-97 to strengthen the overriding humanitarian focus of the aid program. Importantly, core programs in Papua New Guinea, East Asia and the South Pacific have been maintained.

Total aid flows to Papua New Guinea and the South Pacific are expected to remain at 1996-97 levels. Australia's treaty obligations in Papua New Guinea will be met. Program aid is now nearly two-thirds of total Australian aid to Papua New Guinea.

Country program assistance to most east Asian recipients will be maintained at 1996-97 budget levels. This includes programs to Indonesia, China, Vietnam, Laos, Cambodia and the Philippines. I have arranged for two charts on resource issues to be distributed to participants here today. The first chart in this package provides a comparison of the geographic distribution of aid funding in 1996-97 and in 1997-98. This shows that our longstanding aid priorities in Papua New Guinea, Asia and the South Pacific have been maintained in this year's budget.

Assistance provided through the AusAID non-government cooperation program, or ANCP, will be increased by \$3 million, or 17 per cent in real terms. Volunteer programs will continue to be funded at 1996-97 levels. Funding for emergencies and refugees will be maintained at similar levels to last year. Support for agricultural research programs will continue through the maintenance of funding for ACIAR at \$40 million.

Let me talk a little about program constraints. These outcomes have been achieved in an environment where several major program commitments will be absorbing increasing resources. In particular, Australia's obligations to the multilateral development banks have risen to \$231 million, which is an increase of \$26 million. Australia's commitments to the key international environment programs—the Montreal Protocol and the Global Environment Facility—will be met at \$13.4 million, which is an increase of almost \$8 million. Our obligations to provide 300,000 tonnes of wheat or wheat equivalent as food aid per annum under the food aid convention must continue to be met. There has been a minor decline in the aid budget in volume terms, but there has been increased pressure in terms of the level of commitments. So funding reductions are the inevitable arithmetic outcome of pushing up the level of commitment within a declining budget figure.

I turn to budget reductions. Country program assistance to Africa has been reduced to \$32.2 million, which is down from \$38.4 million. Despite this reduction, the former Prime Minister's pledge to provide \$10 million over four years for HIV-AIDS prevention and control activities will be met. However, the new Africa NGO program, ANGOP, will not be able to proceed. The South East Asia regional program has been reduced by \$2 million. Funding for UN organisations will be reduced by \$3 million. This follows quite sharp cuts in the UN agencies in the previous year.

A significant change in the structure of the aid program concerns arrangements for administering scholarships overseas. Funding for scholarships has been folded into country allocations. One of the reasons country allocations show an increase is that we have simply put one pot of money into another. This fits in quite closely with the Simons recommendations that we should be trying to run the programs through a country program approach with as few outside separate pockets of funds as possible.

While it is not possible to predict the precise sectoral distribution of the aid program in 1997-98, we will continue to see major contributions to social infrastructure and services. This includes education, health, water supply, sanitation and government capacity building. There is also economic infrastructure and services and food aid. In line with government policy, we are likely to see growing attention to basic social services and assistance for human rights, economic management and some of the areas of trade policy capacity building in recipient countries.

The standard international measure of aid volume performance is the ratio of ODA to gross national product. Australia's 1997-98 ODA GNP ratio is expected to be 0.27 per cent. This is down from 0.29 per cent in 1996-97. This is above the average for all donor countries, which now stands at 0.25 per cent. Something that Mr Michel will be talking about later is the international picture for ODA. Quite clearly, over the last few years, while our ODA GNP ratio has been going down, the international average has been declining faster than we have.

Total global ODA has fallen from \$58.8 billion in 1995 to \$55.1 billion in 1996.

While there is some volatility in different country arrangements, there is a clear downward trend in international ODA levels. Nonetheless, net financial flows from developed to developing countries now stand at over \$US300 billion, which is up from \$232 billion in 1995. This includes \$US234 billion in private flows. Private flows have significantly increased over the last few years: we have at the moment roughly \$55 billion in aid and \$250 billion in private flows. I certainly would not accept the logic that \$55 billion is an insignificant amount in terms of total resource flows to developing countries. It is still a major part of the picture. This is quite clearly pointed out when you look at chart two, which has been distributed.

The private flows are quite heavily centralised. Around 70 per cent of all private flows go to 12 countries. One of the key tasks for ODA at the moment is to really create an enabling environment in those countries that are not recipients of private capital flows. I think it is brought out very clearly in the Simons report that the game for ODA in the 1990s is certainly not to undertake activities which can be undertaken by the private sector. The nature of this game has changed quite dramatically and it really is to create an environment where private sector flows can occur. That reflects the relative change in balance between ODA and private flows and the very rapid growth of private flows to developing countries.

Let me go on to future resource flexibility. Obviously, I cannot speculate on future budget policy but I can say where we are and what is in the system. The formal indicator of planned resource flows for aid, as it is for any other government program, is the forward estimate for the aid program, and it is publicly available. Importantly, the forward estimate from 1998-99 onwards is set at the same real level as 1997-98. In definitional terms, this means that existing government policy—and let me make that ‘existing government policy’ at this point in time—is that aid flows, after going through a reasonably sharp decline last year and a more modest decline this year, actually plateau out in the forward estimates for the forward years. Obviously, the achievement of such an outcome is entirely dependent on prevailing fiscal policy and priorities as we move into each budget cycle.

Another key factor in relation to future resource flexibility is our level of commitments. Australia has a range of formal multilateral and bilateral commitments which must be met each year. Prominent examples include our commitments to the multilateral development banks, the food aid convention and Australia’s treaty arrangement with Papua New Guinea. Furthermore, in implementing bilateral programs, these often involve multi-year projects and project pipelines so that we are always in the business of working in a pipeline environment. At any particular time we have about \$1 billion in contracts already let and in operation, so they themselves form a formal commitment in a very real legal sense.

If I look at our lock-ins, overall, while they are large, they are actually expected to decline in 1998-99. Because of the nature of pipeline activities, you have them very high



in the current year or in the forthcoming year and then they start to slowly decline. What this indicates is that, where we start from this year's budget, we are expecting there to be a slightly lower level of forward obligation in the program from next year's budget. That obviously assumes to all things being equal and the aid budget staying at its forward estimate figure.

I would make one other point about the budget and that is to do with the running cost allocation itself. This comes on to some of the points of the Simons review and the point that Cliff Walsh made earlier about where resources might come from for sectoral expertise. Over the last couple of years, agency staffing has declined from 590 to 540 at the start of this financial year. It will decline by another 10 this financial year to 530. This is in accordance with service-wide policies, but quite clearly the implementation of either efficiency dividends or further reductions in staffing has implications for what things you are able to pick up in areas such as sectoral expertise. To the extent we hire sectoral expertise under a contracting model, that can be done through our program allocations. To the extent we hire it through a running cost model, they become, if you like, Australian public servants. Clearly, there is not a pool of funds there that is going to accommodate that sort of staffing increase. At this stage, there is strong pressure on running cost allocations not just in AusAID but for all public sector agencies.

I hope I have given you a brief idea of how the budget actually works. We have got the budget itself and we have got the forward estimates system. What we have is a system of obligations that build up and, in any particular budget, the amount of headroom you are going to have is really just the difference between the budget outcome and your level of forward obligations.

In implementing the Simons report, probably the hardest issue is not the issue of total volume. It is the issue of how we handle some of these increased resource requirements for AusAID that quite clearly come through as recommendations in the report itself. Mr Chairman, I might leave it there and open it to questions.

**CHAIR**—Thank you very much indeed, Trevor. Are there any questions to Mr Kanaley?

**Mr ARNOLD**—Trevor's question is partly based upon some of your comments earlier in the question time on Paul Simons' section on devolution. Paul Simons, in his comments this morning, indicated that members of the committee had not had extensive access to overseas aid agencies with respect to their practice, though there had been some contact, particularly in Scandinavia, Japan and some other parts. What is AusAID's knowledge about how other aid agencies in comparable situations to Australia structure themselves, particularly with devolution? You have made some comments about how you see devolution operating here, but does it operate more extensively elsewhere with or without success? I am asking, obviously, for a subjective opinion on this—clearly I understand that is what it will be. But what does AusAID know about what is happening

elsewhere?

**Mr KANALEY**—Firstly, let me say that my comments on devolution may have been a bit misinterpreted. I am certainly not opposed to devolution. Like anything else, it is a matter for analysis. You analyse the situation and you make do within your resource constraints as best you can. My position is not one of being at all defensive on the devolution question. It is simply a question of it being subject to analysis, as is every other recommendation.

In terms of what is happening internationally, we are having a very close look at that now because we are trying to weigh up how the agency would respond to the devolution recommendation. The answer is that it is a very mixed bag out there in the international community. If I take a 10-year period, we know that many agencies have devolved and then they have recentralised. They simply have not been able to wear the costs of having a highly devolved model.

That does not mean that we should not look at that model. I am just giving you the international picture. Right at this moment, the United Kingdom has quite a decentralised model. The United States is moving from a decentralised to a more centralised model. Canada is moving from a more decentralised to a more centralised model. The World Bank is moving from a more centralised model to a more decentralised model.

If you ask me what I make of all this, the simple answer is that I think the international evidence of what others are doing is showing that there is not a simple right answer to the problem. What it is showing is that we need to analyse the issue very carefully and look at the countries that we are providing assistance to. Clearly, where we have large programs, we have a substantial base of staff. The ability to devolve is much higher than in some countries where we might have relatively small programs and we do not have the volume of staff to do it. To be fair to the committee, they did not mean it to be a simple plank. What we are doing is subjecting the recommendation to a degree of analysis. We are looking at what others are doing and we hope to have an answer out which is one that is suitable for this sort of organisation with this size of aid program. It may well be an answer that is not a simple A or B. It may be a bit of A in some countries and a bit of B in others.

**Prof. HUGHES**—The question of devolution is very different in an organisation that has 6,000 staff members, like the World Bank, and 600, like Australia. You can exploit economies of scale in the World Bank. You can regionalise. They are working on four continents and all that. But you cannot apply those lessons to Australia. The interesting part is that the Canadian and Scandinavian organisations which tried to decentralise have all gone back the other way because it makes no sense in a small organisation, particularly, to decentralise to other countries—to have staff in other countries taking decisions—because you cannot afford the staff of a level. With respect, it is different from running different grocery stores.

To go back to Mr Taylor's remarks, you have not got the staff who can have a meaningful political dialogue with a country and master the expertise for a variety of programs—I think that is what Trevor Kanaley is trying to say—even if you limit yourself to three sectors. I would say the experience is really two track. What the World Bank and the International Monetary Fund are doing is really very different because they are so large. What the national agencies—and Germany too—are doing is centralising rather than decentralising.

**CHAIR**—Before I call on Mr Michel, who wants to intervene, I must say how pleased we are to have Mr Michel with us. He is the Chairman of the Development Assistance Committee of the OECD. One of the reasons we are staging this program today is that Mr Michel is in Australia. We are very delighted that you are able to join us.

**Mr MICHEL**—Thank you very much, Mr Chairman. I really appreciate the opportunity to participate in this extraordinary dialogue. I hope I can contribute something as an outsider to this Australian process, and at the same time, can avoid intruding in what is very much an Australian process for making national decisions.

On the subject of devolution, in talking about worldwide trends, I will talk about a model that has been agreed upon. We are in a process of trying to figure out how to make work in practice among major donors a model that is shared by many developing countries and their representatives and by a lot of scholarly research.

The idea of coordinated international support in the form of a partnership puts a premium on local ownership and tries to coordinate international support so that it is not doing the kinds of things we heard about in the example of the hospital with uncoordinated activities. Those kinds of things put an enormous strain on limited capacities of local authorities and local institutions, if they are trying to build up but are spending all of their time chasing around all the visitors and trying to deal with all the donors who are operating independently. That is especially so in some of the poorest countries that have the largest numbers of donors. They have the least capacity to manage all of that.

When you are talking about that kind of model, you are putting a premium on policy dialogue and coordination in country. It creates certain advantages having people who have the authority to respond to those local situations. There is a virtue ideally in having that capacity in terms of what you are trying to accomplish. If we all agree that that is a model of development cooperation that offers the best prospects for achieving the results, which is another important aspect of the thinking about development cooperation.

The reality is that it costs about three times as much to have a staff person in a developing country as it does to have them in headquarters, when you take everything into account. I think of those examples that Mr Kanaley and Professor Walsh just mentioned of national agencies that have pulled back. The Canadian example is a particularly apt one

because it is a relatively small agency. It started, in the interests of effectiveness, decentralising and budget constraints caused it to have to recentralise. I would offer an outsider's observation that it would really be an unfortunate thing if you started off decentralising then decided you could not afford it and turned around and recentralised. That would really be wasteful in terms of impact and the use of public resources.

There are advantages to be gained from devolution. But once the decision is taken, you better be sure that you are going to be able to follow through with it, and not have to change your mind next year and spend a lot of money undoing what you have done. These are some very practical considerations that others have run into in wrestling with this difficult question.

**Mr TAPP**—I find the devolution debate quite fascinating after having seen how this has occurred for many agencies over the last decade. It is important to look at the reasons why the devolution occurred and then the recentralisation. The Canadian case is very apt because this is the third time they have been through this. Often, the decision for decentralising, and then certainly the recentralising decision, is caused for political reasons rather than necessarily for some of the reasons of implementing an effective aid program. This comes down to the issue of whether one is actually going to give responsibility and authority for decision making to the people out at post.

I also have a problem with an organisation which has 530 staff because it is impossible to have a very decentralised model in that case. That is the case if you are looking at 110 countries and multiple sectors. Patently, it is impossible to do it in those terms, but if one looks at some of the recommendations coming out of the review committee and which have been also raised by Jackson and been discussed considerably, we are looking at a much greater focus geographically and within sectors.

To me it is palpably logical that you are putting some of your decision making, if you are going to have one clear objective, closer to the field for some of the key areas of decision making within the aid program and some of the up-front work, some of the policy dialogue work, the coordination and also the monitoring of the program. I think it is essential that it can only be out in the field. If that means some thorny decisions in relation to cutting back in certain areas to be able to do that, I consider that to be innately logical in the context of some of the recommendations from Simons and I think in having an effective aid program.

**Mr NUGENT**—I have got the same question for Trevor Kanaley and for Paul Simons and it really has got to do with the balance between multilateral contributions and other aid flows. Given the direction of the committee's report of effectively narrowing the focus both in terms of number of destinations and specialising in perhaps some very limited sectors, have either of you—either the committee or Mr Kanaley's department—done any work in terms of looking at the effectiveness of or whether the balance should be changed in where we put our money in terms of the large proportion that goes to

multilateral contributions at the moment, and whether some of that actually ought to be deflected in other directions, or whether there should be more going into the multilateral area given that we may not operate in some specialist fields? I am not expressing a view, I am really asking a question as to whether any work or consideration has been done and what outcomes you may have come up with.

**Mr KANALEY**—The issue of the bilateral-multilateral breakup is something that we are looking at constantly. You can see the outcome in this year's budget, so it is not something that is not under fairly constant review. Quite clearly, to the extent that you were to accept the Simons recommendation on geographic focus, one of the issues that would come from that would be that if we wished to be involved more generally in other countries, would we want to use a multilateral model for that sort of involvement.

I can give you an example, and this is not one from the committee necessarily. It would be possible, if Australia wished to have an involvement in Africa, to completely abolish all our program funding to Africa, completely abolish all our NGO funding to Africa, and increase our IDA contribution of which we know 80 per cent, roughly, goes to Africa.

So if we wanted to have an involvement still in the broader development game internationally, there are some models which might use more funding for multilaterals. They would see, if you like, the program to Africa being delivered through different sorts of channels. I am not saying we should go down that route, I am just saying that one of the implications for me of this concentration focus, assuming that that focus is acceptable to government, is that it certainly does open the box on whether we should have a broader international involvement through the multilateral system where we do not have the same administrative costs as we do through the bilateral system.

**Mr SIMONS**—I really cannot add anything to that. That is logical and that is the way we felt about it when we were doing the review, that if we bring our bilateral programs into closer focus then the other countries which are being displaced by that policy would be taken care of by the multilateral organisations. But how you balance that is a job for the Director-General and the minister, possibly, to decide how the moneys are expended.

**Mr NUGENT**—Have you looked at the effectiveness of the two streams of flow in terms of outcomes at the other end?

**Mr KANALEY**—The answer to that is yes. There have been ongoing reviews of the multilateral system in the Australian government, not just through AusAID but through other departments as well. There have been ongoing reviews, probably for the last five or six years, of different agencies' performance. So there is quite a bit of feedback, both formal and also informal, in watching their projects in the field, as to the quality of different organisations.

By the same token, we have also got a reasonable handle on our own quality of operations. The report says we need to do more in the area of what I would call quality control right through the project cycle, from monitoring, ex-post evaluation and probably at the appraisal stage. I would agree with that recommendation of the report. I believe that we do need to strengthen quality control in our own program. That is a truism. That is the push for excellence, that is the nature of the business. Certainly, we need to do more in those areas.

**Mr NUGENT**—I am talking about the effectiveness between the two channels, or do you not see a direct competition?

**Mr KANALEY**—I do not think there is a direct competition in that sense because they achieve different sorts of things. You could have an excellent water project that you might be funding through IDA. You could have an excellent water project that you might be funding bilaterally. You could have exactly the same project; in fact, in some cases you do, because we co-finance an activity with the bank. What you have is a very different flow-on in political benefits from the different mechanisms that you are choosing. The bilateral one clearly has a very strong resonance with the recipient country that you are dealing with—far more of a resonance than if you are doing it through, say, an IDA co-financing arrangement.

By the same token, there is also politics, not at the bilateral level, but at the international level—the multilateral level. In that sense, the political benefits at that level, by using the multinational channel, have more resonance than a bilateral activity. So there are pluses and minuses in this. You do not come out with a clear balance sheet of A or B; you come out with a balance sheet that says we need to balance our involvements in these two areas.

**CHAIR**—I call Ms Gaye Hart. Welcome, it is good to see you here.

**Ms HART**—I note the Director-General's comments about the political balance in the decision making; that is an important point because of the sense of the donor country identity in the recipient country. But leaving that aside, the point that Mr Nugent has raised is an important one. The committee made its comments about evaluation and the availability and interpretation of evaluative data. The committee might have been remiss in not looking in more detail at the evaluative data on multilateral versus bilateral, but as I recall, since the Pearson commission of the World Bank, something like 30 per cent of DAC members contributions are through multilateral agencies.

**Mr MICHEL**—I could provide a factum on that. Australia's bilateral budget is about 80 per cent of the total official development assistance and about 20 per cent of that total goes through multilateral channels. When you take all DAC members, about 70 per cent is spent bilaterally and about 30 per cent is through multilateral institutions. I cannot think of any country offhand that provides all of their aid through the multilateral

channels. Most donors have some bilateral as well.

**Ms HART**—Perhaps I have not said that as clearly as I might have. I do not think we have seen a great deal of data about the effectiveness of a multilateral outcome versus a bilateral outcome.

**CHAIR**—Within Australia, there is a good deal of uncertainty about the directions and actual benefits, as we might see it, of our multilateral programs. We will adjourn for morning tea.

### **Short adjournment**

[11.10 a.m.]

### **Overseas trends in development assistance**

**CHAIR**—As I indicated before, we are very pleased that Mr James Michel, who is the Chairman of the Development Assistance Committee of the OECD, is in the country and is able to participate with us this morning. I think it is particularly appropriate because of the question that Mr Nugent asked a moment ago and the relativity of our multilateral and our bilateral commitments. It is a subject which I can assure you within government over the years has generated a good deal of discussion on both sides of the House.

Mr Kanaley suggested in the July 1996 seminar that the international consensus and what constitutes the precondition for development will affect the focus of an aid program. I think we can summarise these as sound and stable policy frameworks, market based policies encouraging globalisation and emphasis on social development, participation, good governance and environmental sustainability.

It was also observed that the private flows of investment should not be underestimated. Indeed, chart 2 that Trevor Kanaley distributed before demonstrated that. They are both greater in quantity and have more significance in achieving development. The trouble is to get the spread that is absolutely essential, if you are going to view it across the board in each continent, in each country.

I would like now to invite Mr James Michel, the head of the Development Assistance Committee of the OECD, to make his contribution to our seminar this morning.

**Mr Michel**—Thank you. I think that most people are probably familiar with the committee and its work, but I have a large box of documents and publications that I really do not want to carry with me back to Paris, including a little sheet on how the Development Assistance Committee works, and some other things in there. I hope there is enough to go around to those who are interested in it.

I will just say very briefly that we are a body within the OECD that seeks to foster integrated, effective and adequately financed international cooperation and support of sustainable economic and social development. We do not have an operating budget. We do

not carry out programs. We are a policy coordination mechanism. The members of the committee are the 21 members of OECD, who are the principal donors, with permanent observers from the World Bank, the IMF and the United Nations Development Program. A lot of the activities engage developing countries, research institutions, universities, NGOs and the regional institutions as well. We try to reflect what the donor countries who make up the committee learn, not only from their own experience but also through their dealing with others in the international community. I think we reflect probably a donor perspective, but we try not to have too narrow a view of the world either.

I am speaking not in an authoritative way on behalf of the 22 members of the committee, adding the European Commission to those 21 countries. I have no brief to speak for them; they are all sovereign states. But I would rather try to bring a perspective from their deliberations and my experience in sharing the work of the committee that involves all of those countries as members.

The authoritative statement of the Development Assistance Committee is in the report called *Shaping the 21st century*, the contribution of development cooperation which comes out of a rather remarkable experience in which development ministers and aid agency heads themselves spent about a year in communication and collaboration producing this report.

The message in it is: looking at this very complex world and looking at some of the phenomena in international cooperation for development like the emphasis on people that we have seen coming out of the whole series of United Nations conferences in the 1990s, the need to focus on people as the subjects of development, the need for participatory approaches that are locally owned and the need to recognise that there has to be a local responsibility.

Professor Hughes talked about macro-economics, but I think it is actually much broader than that. The internal actors are the ones who will really determine what happens in development. The external actors have a different role. It is a division of responsibilities, a division of labour, in which the external actors can only complement local resources and initiative and can foster capacities for self-help, but they really have to do it for themselves. That is one premise of the work of the DAC.

The other premise is the rapid globalisation of the economy that is going on and the extraordinary growth in international financial flows—that \$234 billion of private money going to developing countries, which is unprecedented—and the flows of information, technology, and goods and services of all kinds but also the risks that countries and people who do not have the capacity to participate in that process will be marginalised and left behind. What are the implications of that for everybody else?

The committee looked at the early 21st century in its report. It started with that as a background and came out with a couple of things. One is a set of goals to have a sense



of what we are trying to accomplish. It did that by looking at the particular goals that were identified by that series of UN conferences and tried to pick a few of them that could help to form a shared vision of economic wellbeing, social development and environmental sustainability.

It then looked at a concept of how you advance those goals. It took that much used word 'partnership' and tried to build a description of how that might work through what we ended up describing as 'compacts' that allocate responsibility, respect local ownership, try to strengthen local capacities, foster participation and move toward self-reliance and away from aid dependency. The Simons report, I think, fits very well with that approach of trying to foster partnerships and trying to put a focus on results, on outcomes, rather than on inputs as basic orientation for development cooperation.

I should quickly identify the goals that were singled out from among the many that the conferences have talked about. In the economic wellbeing field, the DAC selected the idea of poverty reduction. The Copenhagen summit said that poverty should be eliminated, eradicated. We said we should put a somewhat more concrete fix on that in terms of time and in terms of numbers. We came up with the idea of reducing by one-half the proportion of people living in extreme poverty in developing countries by the year 2015. There was a lot of analysis and discussion that went into that. The conclusion was that that was ambitious, but do-able.

We picked more than one social target: universal primary education; gender equality, eliminating the disparity in enrolment by girls in both primary and secondary schools; dramatic improvements in health, as measured by infant, child and maternal mortality as indicators of overall public health; and, with respect to the environment, getting those national strategies for sustainable development that we talked about at Rio really being implemented everywhere by the year 2005 so that you would be able to see by 2015 some observable reversal of the loss of environmental resources.

So the goal is to look forward to 2015, not trying to gaze too far into the crystal ball but to set some concrete measures of progress, recognising that these may help to form a global vision. But you do not work on them globally; you work on them country by country, again with this idea of local ownership and the realisation that each country—its government, its institutions, its people—have to decide what their national goals are and pursue them. Then you look to see if you have enough common ground to enter into a partnership relationship in which the donors and other international institutions try to support those efforts.

The focus of the Simons report on poverty reduction as an objective, on results, on evaluation—to see what you are learning, the idea that you try to have some indicators of success; you do not wait until the end of the process but you are able to measure as you go along to see if you are getting there or not—concentration on core business, core countries, are all things that we talk about when we review the programs of member

countries in the Development Assistance Committee all the time.

The last review of Australia was a little over a year ago, and we published these reports. There was a question about comparison. We published all of these. We have been around the full cycle now and, of the members of the committee, we have published them for all but Luxembourg. We are into the second cycle now, so there is publicly available literature that allows some comparisons to be made of how different countries manage their programs. Questions of concentration results and how the program fits into what others are doing and how it fits into this sense of partnership and local ownership are questions that come up increasingly in that process.

The Simons report's emphasis on governance, on capacity development—including capacity within the civil society and social capital—are all issues that are treated in this DAC report as well, so you can see a lot of convergence. We like to think that the strategy report that was developed by the DAC does represent converging thinking in the international community and, in that sense, I think Mr Simons said you pick up a lot of vibrations. We think that there are a lot of vibrations that are compatible here.

Of course, there are lots of questions beneath the surface. At the risk of getting caught up in arguments about whether a choice is more or less poverty focused, I have been in situations in another life in a development agency where we organised a meeting of finance ministers to talk about regional efforts to reduce inflation and somebody said, 'You could have instead spent the money digging more wells, which is more likely to reduce poverty.' You do not want to get into a situation where you have too finely rigid a set of criteria that make the argument about whether you are complying with that criterion or not rather than trying to make practical judgments in the circumstances of individual cases.

In reading the report I was struck that it acknowledged that Australia was doing pretty well in dealing with the environmental dimension. It mentioned the various targets that we have that correspond pretty much to your list of the factors that go into successful development strategies in the policy environment, the investing in people, the good governance, the environment and so forth. It did not say very much more about that, and I wondered if how the environmental dimension is dealt with is something that will require some more consideration, because, if you look at projections globally about where the world is going, the environment is looming larger and larger as an issue.

A major issue that we have been focusing on in terms of the trends in the international community is the issue of coherence. Maybe in an effort to avoid getting the development issues confused with other policy issues, there is not much about that, but to have credible and effective aid efforts I think that the members of the DAC have pretty much come to the conclusion that you have to deal not only with capacities of developing countries to participate in this globalising economy but also opportunities. That means that the industrialised countries have to look at their trade policies, their agriculture policies

and their environment policies in terms of the opportunities that they are providing, so that you do not get a disconnect between trying to help a developing country build its capacity to do something and then maybe closing the markets so that you are telling them, 'Well, now that you are able to produce that we will not buy it.' I think that a set of issues that needs to be thought about in terms of the effectiveness of the aid program is how it fits in with a broader policy framework within which it must operate.

That also relates to the issue of aid volume that was discussed a little earlier this morning in terms of budget. Again, one of the papers I brought with me is the just released statistics on aid and other financial flows for 1996. We are always a year behind because it takes a while to collect the documents. It is like trying to answer those parliamentary questions in a timely way. We always are a little late with this, but that is the nature of data collection and analysis.

I would point out that there is a significant drop, with respect to Australia from 1995 to 1996, of 15 per cent. First, that kind of volatility in a program itself is a matter of concern and, second, I would say that again when we are talking about the credibility of a partnership approach where we go to developing countries and say, 'We are trying to talk partnership and you should be accepting more responsibility for your own future and let us talk about priorities and where we can support your efforts to help yourselves—by the way, we are cutting our budget,' that does get in the way of credible policy dialogue.

The conditionality versus partnership idea was discussed this morning, and I guess I would say I am somewhat sceptical of the effectiveness of conditionality in the sense of saying, 'We'll impose conditions under which we on the outside will tell you what you should be doing, and will give you something you want—money—if you do the things we want you to do, even though you do not necessarily believe in them.'

That is the kind of thing that Mr Dollar's study for the World Bank said was not effective—I am getting a head shake here—but I think that, on the other hand, the partnership approach has to be one in which the donors retain their own judgment; it is not a matter of saying we will do anything. If poverty reduction is not a priority for a developing country, your investment in it is not likely to produce very much that is worth while and then the aid program bears the risk of being found ineffective.

I would rather the partnership idea where you would have a dialogue and see if you have a basis for working together or not. Rather than putting money into things that do not reflect local ownership, maybe you should be doing other things at another level, trying to reach a point where there is more of a policy commitment and where there is more of a capacity supported by international community that can allow for more local ownership and for less of an expectation of what the contribution of aid is to the overall development process.

Trends include, as I mentioned, the declining volume in aid, which has been

discussed here by several participants. One of the factors there is that there is more of an examination going on of the role of official development assistance as one instrument in a broader range of development finance and how that limited scarce resource can be more effectively used in ways that help countries to improve and deepen their financial systems and financial markets, better mobilise domestic resources and have banking systems that intermediate so that efficient investment comes from that source—I think in most cases it is still the domestic resources that provide more resources for development than the external—and, secondly, how those economies can attract some of that almost \$300 billion in private flows that is out there and participate in this globalising trade system.

Sometimes I use the example that, if a poor region like sub-Saharan Africa could get another one-tenth of one per cent of global trade, that would amount in itself to \$4 billion and that would be a big way towards dealing with issues of poverty in Africa. Rather than think we are going to find another \$4 billion in aid, maybe it is more practical to think in terms of how aid can be used in ways that would make the capacity to participate in the world trading system better in some of the poor countries that are not presently well equipped to attract investment or to produce and export into international markets.

There has been a lot of work looking at policy coherence issues, trade capacity and the opportunity to avoid exclusion of countries and people in this process of globalisation. A lot of work is going on looking at issues of governance—the role of people, the role of the state. The new world development report published by the World Bank revisits the question of the role of the state, and I think that is an indication of a lot of thinking going on about that right now. Corruption, as a subset of that, is a very hot topic in the international community and is being worked on in the OECD, among other places. The idea of using all of the tools and incentives that we have to try to advance this idea of results country by country is very much a contemporary fact of life in the international community.

Finally, I would like to mention the need for humility—again, the recognition that the primary determinants of what happens in the developing countries will be the decisions and actions of the people, the institutions and the governments of those countries. We need to find ways that the international community can work together in a way that supports the policies moving in the right direction and that supports the capacities of the human capital being developed to allow those countries to participate in the world and not assume that any one aid program or all the aid programs together can themselves make the difference. They can only be supportive.

The challenge is to be as effective, efficient, well coordinated and integrated with other policies as possible to do the best job you can and not get to the point where we think, if we do all of those things right, we will as donors make all the difference in the future of the developing countries. Rather, we can be an important catalytic force and an importance force in supporting the efforts of countries, societies and economies to help

themselves.

**CHAIR**—Thank you.

**Mr LUKE**—I would like to ask James about priority basic human needs and the amount of funding going to those from different aid programs and how Australia is going in that regard. What proportion of the Australian budget and other OECD country aid budgets is going to priority human needs and do you think that is enough?

**Mr MICHEL**—Maybe I had better let somebody else talk about the Australian budget, because I cannot speak in any depth on that. I can say that investing in people is seen as a priority. We have had statistical inadequacies in measuring that. When we look at the elements of sound policy, of an enabling environment for the private sector, when we look at governance, the development of human resources is one element that is seen as very high. I think the idea that investing in primary education has a very high return is widely accepted in the international community.

We are trying now to pick up and measure better in the statistics. It is one thing to say that everybody is supporting education or everybody is supporting health, but to what extent are those expenditures going for universities which benefit, primarily, an urban elite and to what extent are they extending literacy broadly through the population? To what extent are the health expenditures going into hospital care in major cities? Again, that reach may be a very limited population. To what extent are those expenditures going into improving the quality of primary care that will have some impact on survival of children and, as a result, perhaps demographics in the rural populations and, again, broadly throughout the developing countries?

I cannot put a set of numbers on this. I can only say that the recognition of the importance of investing in people in a broad way and in a way that is participatory and involves those people in the planning, as well as the execution, of the programs is very much recognised. Within the DAC, there are some who favour the 20:20 compact idea of the United Nations, and there are some who say, 'No, that is artificial. Maybe 20:20 is right in one country. Maybe it ought to be 18:18 in another. Maybe it ought to be 22:24 somewhere else.' I am a little bit reluctant about the automaticity that you would spend 20 per cent on social services. So there is no real consensus within the DAC on a precise number. There is a recognition that it is a very important part of this overall set of integrated strategies that are important to success in development.

**Prof. WALSH**—I wanted to raise a couple of things. There is one I am sure Helen will come back to. Since I explicitly used the word 'conditionality', I thought I should come back on at least one point you made there. It seemed to me that the sharp distinction you wanted to make between partnership and conditionality is probably somewhat over-strong.

The first point that I was trying to make earlier was that it does seem to me that ultimately a donor country has to be able to make a judgment about whether the policies that are pursued, or capable of being pursued, by recipients are likely to produce sustainable poverty reduction. If at the end of the day they are not, we are going to have to be willing to take it tough. How you get there in practical terms raises a different set of issues. In the report, we certainly encourage continuation of, and perhaps expansion of, an approach which AusAID developed in the Pacific with its policy and management reform program, which received a good deal of praise from the ADB and others as we went around.

So there can be carrots as well as sticks involved in conditionality. I do not see that as inherently contradictory in partnership. Ultimately, if anything like a 50 per cent reduction in poverty is to be achieved by the year 2015, then the DAC must believe that there are a hell of a lot of countries in the world that have been very poor in terms of their economic policies—let alone anything else—are going to change their minds rather dramatically and rather quickly. That strikes me as mildly unbelievable.

The second point I wanted to make was that hearing about all the goals reminds me of something that we worried about a great deal at various stages during the review process. I have forgotten who it was now, but somebody described it as ‘goal congestion’. The aid program is being asked to bear the burden of a huge number of different goals. Forget the distinction between poverty alleviation, foreign policy and trade policy once we whip in the environment agenda and all sorts of other things which clearly are important. We cannot ignore them, but it does seem to me that there is a real danger that we will have aid programs which sink under their weight.

One of the reasons why what we have to say about the environment is so relatively slight in a sense is because we thought the most dramatically important point we could make there was to say that, in relation to environment, there are some things which are clearly a global agenda which are not, strictly speaking, associated with the aid program. Global warming and so on is way beyond the problems of development. There are some environment issues which are inherently associated with development. Let us be very clear about the distinction and make sure that the only burdens which the aid program is asked to bear are those that are associated with that.

I would be interested to hear what you have to say about goal congestion because it seems to me that maybe it is time the international community accepted it needs to strip back many of the things that it is asking development cooperation programs to play when they should really be about getting economies moving and getting poor people into a position where they can benefit from that movement.

**Mr MICHEL**—First of all, on conditionality, I do not have much of a quarrel. The point I was trying to make was that there came into the literature and into the thinking to some extent the idea that you could, by what the external donors had to offer,

compel policy changes by withholding assistance. What has come out of the World Bank report, among other reports, is to cast a great deal of scepticism upon that assumption that you can do that, that it is just a flat, 'We can force these changes.' Partnership contemplates more of a dialogue towards it while, at the same time, not suspending judgment and not doing what has been at the other extreme, which is sometimes saying, 'We know that these countries know best and therefore we will give them resources without questioning what they do with them,' which has produced a lot of waste and which has little to show for it in a number of cases I can think of.

Rather, it is looking toward how you decide you are both working toward a common purpose and then trying to decide how much support is needed and what support can be provided but in a coordinated basis where you are not looking to one donor necessarily for all of it and where you are not having different donors doing different things that are uncoordinated and creating unreasonable burdens on the developing country itself.

As far as goal congestion, we have a little bit of a dilemma here. We recognise that political and economic stability are important for development. Sound macro-economic policies are important, good governance is important, investing in people is important and the environment is important. All of these things are reality occurring at once. They do not come at you sequentially; they come at you all at once. What each donor does is a different question. I do not mean to suggest in any way that Australia has an aid program that has to cover all of those matters any more than I would suggest it has to be in every sector. I do think that all of those aspects of development have to be dealt with somehow, not necessarily by every donor in every country. You are right on goal congestion. You are dealing with a complex subject. Somebody has to be thinking about the various elements that go into it.

**Mr DAVIS**—Mr Michel talked about good governance. Professor Hughes said that if we do not have good economics it is like pouring money into the sand. Professor Walsh said good economics was a condition precedent. I would go back one step and say that good governance is absolutely essential before you even get to those two points. How important, in DAC's view, is good governance? How do you measure it? How do you handle a conflict if you see poor governance but genuine need?

**Mr MICHEL**—Each donor has had its own experiences with this. People have different levels of tolerance. They can think, 'This is a hopeless situation. We can't deal with it,' or they could think, 'It's a difficult situation but a challenge. We have to try to manage.' The DAC has come together with some guidelines that try to help donors sort out some of these things. Again, there is no cookbook; there is no formula. On any short list of what the key elements are, this is on the list. Again, I would refer you to the new World Bank world development report which returns to the idea of the role of the state.

There is still a lot of sorting out and dialogue going on about the roles of the

markets and the state, but it is coming to some balance now. There is a recognition that governments have been doing a lot of things—running factories and so on—that it did not make sense for them to be doing and that, on the other hand, poor quality of governance—not providing basic economic management, a minimum of stability, law and order, protection of property rights and human rights, or not providing them well—has been a big cause of the failures of development. So there is no question that good governance is high on the list of that multiple set of issues that has to be dealt with in an integrated set of development strategies.

**Mr KILBY**—I would like to continue the conditionality discussion. This morning Professor Hughes, Professor Duncan and Professor Walsh have suggested that there should be a hierarchy of conditionality whereby the macro-economic circumstances of a country become a higher order condition for providing aid. But, likewise, in terms of the governance debate, the social conditions which exist in that country are arguably as important. If the aid program right through the DAC countries, as the Simons Report also suggests, is to be directed to more direct poverty focused basic human needs type of activities, surely a government's policy towards those social needs and how it recognises the human rights of its people—both social-economic as well as civil-political—would have to become a condition in itself, a consideration for an aid program. So I have a bit of a problem with a hierarchy of conditions being placed. We can take Burma, as an extreme case. No matter how good Burma's macro-economic situation might be, the social circumstances in Burma are such that one cannot really consider an aid program for that country. I would like some comment from not only Mr Michel but also members of the committee.

**Mr MICHEL**—It is not a question of giving a passing score or not giving one, of saying, 'If all of these things add up, we will say that they are doing well enough and we will give them aid or that they are not doing well enough and we will not.' Usually the issues take into account a sense of national interests and a judgement as to the prospects for making progress or not in addressing development objectives, and are about what kind of aid we should give, how much aid we should give, toward which purposes the aid should be directed and with whom we should work in the country to which we are giving aid.

For example, if you do not have a government that is committed to improving the welfare of the rural poor, it is a waste of taxpayers' money on the part of the donor to put a lot of investment into an agricultural extension service that is not really serious. But you might do something else—maybe work with NGOs that are providing information to rural farmers which will help them to improve their standard of living and their appetite and demand for better government services which may help the government decide some day that it will improve that agricultural extension service. You might do that, and you might do less of it than you would do if you had the capability and the wellbeing evidenced in the country that would make a larger investment sensible. These are often matters not of yes or no but of what you do and how much and with whom.



**Prof. HUGHES**—I think we need to distinguish between relief and development assistance. I absolutely agree that you might give relief to people in Burma because they are starving, or in Rwanda and Burundi, but you would not give any of those countries development assistance, because it would be stupid to do so in the present circumstances.

I agree entirely with Cliff; there is no difference between conditionality and partnership. In UN speak, the language has developed through conditionality to cooperation to dialogue. Now it is partnership, but it is the same thing. At end of the day, is the government interested in raising standards of living or is it not? The donor has to make the judgement. This parliament has to think about the taxpayers' money, after all. It is the fitter in Wollongong who is contributing this. We have to think about their money, and conditionality is very important. I do not think we can weasel out of it. There is a tendency to weasel out of the basic responsibility to our taxpayers by talking about cooperation and partnership, saying you can do a bit here, you can do a bit there. That is weaseling out of the basic responsibility for our taxpayers.

There is a lot of weaseling going on and that is demonstrated in Dollar's study. What Dollar's study demonstrates, after torturing the facts and the figures and all the rest of it, is that for the World Bank in several periods—particularly under McNamara, not under Bill Clausen, but again under Wolfensen—lending has been more important than the effect of lending, because they think they are president of the world rather than president of the World Bank. We have to avoid that because the World Bank has not exercised conditionality in Latin America, for example. It has poured money into Latin America and there has never been any conditionality. As a result, development in Latin America has been limited and of poor quality, and it is becoming a crime-ridden continent because of that. The bank has never said, 'No, we're not going to lend till you change your policies.' There has been talk about reform—'reform this' or 'reform that'—and they are constantly reforming but they have never taken the basic steps.

Because we are concentrating on East Asia and South Asia perhaps, we are in a much better situation. But there are some areas in East Asia that have taken a Latin American pattern of development, and I would say the biggest danger is in China. I think that politically and in terms of delivering the program we must not do what the World Bank has done. We must do what the Simons committee has recommended and what Cliff has stated very explicitly and it concerns conditionality. Finally, the only indicator of conditionality that ultimately counts is the welfare of a population and you can measure it in various ways.

**Mr MICHEL**—I agree with the last point, but I would try to introduce a distinction between partnership and conditionality that is more than weaseling, to this extent. We have seen countries where they explain internally to their own people, 'We do not believe in this conditionality. We do not believe in these policies but we had to do it to get the money.' I suggest this to you: show me a case where that is what the president of a country says to his people and I will show you a country that is not going to stay

with the program.

Partnership is an effort to persuade the country that it needs to and should reform for the interests of the country—not to get something from the World Bank, the IMF or AusAID, but for the interests of a country and its people. It is that difference that makes it a little bit more than weaseling.

**Prof. HUGHES**—That is sheer semantics. Every country, in my experience, always said, ‘We don’t want to do this but the World Bank or the International Monetary Fund has forced us.’

**Mr MICHEL**—Those are the losers.

**Prof. HUGHES**—But they did not carry out proper policies. They said, ‘We are doing this’, but the World Bank never told them to do that. No international organisation told them to balance the budget at the cost of the poor; they just did it. The fact that they said that shows that it is a case of bad governance. It is no different.

**CHAIR**—I am just trying to keep it moving along. We have run over time now.

**Mr KANALEY**—I will stay away from that one! In relation to some points that Professor Walsh made a bit earlier on, there is a real issue for an organisation like AusAID as to how much you see yourself as a project agency and how much you see yourself as an international development agency. I would certainly hope that we see ourselves as the latter and not as the former. That provides some of the answer to the goal congestion question, not completely but some of the answer.

Another point here is this question of what is ODA and what is not and what fits under the program and what does not. I will make just one point on this, and that is that you have to keep in mind the global nature of the Australian aid program under both this government and the previous government. It goes back a long time. One of the benefits of having a single agency involved with ODA as a budget concept is that it enables effective trade-offs to be made within a fixed budget constraint.

I am not making an ad for AusAID here. Regardless of which agency does that, I think there are major benefits to government—while maintaining a global approach to the budget—in everything that constitutes ODA being in that bucket, because otherwise you can have a situation where the trade-offs that are made really are not done on the basis of the total array of possible expenditures but on particular one-off items.

That actually causes me some real concerns. You mentioned the global environment funds. If the global environment funds go up—I am not saying they should not but let us say they do—by 50 per cent next year, the effect of that will simply be a reduction in the remainder of the aid program, whether it be to country X, Y or Z, by that

amount of money. I think a real decision for government is what the trade-off is between the environment programs and the bilateral programs that are being run. I think having those made in isolation from each other just simply leads to poor government decision making.

**CHAIR**—Perhaps Mr Michel might like to sum up. I am sorry but we will have then run out of time for this session. Mr Michel, would you like to sum up for your session and then we will proceed.

**Mr MICHEL**—I guess the one point I would like to come back to in summing up is that, while of course you are trying to create the most effective and efficient improvements in the system for Australia, you need to look at this within a context of lots of actors out there. There is a need for coordination with those other actors—the developing countries, the other donors and the multilateral institutions.

There is also the coherence issue of consistency of policy for development and other policies of this government and other governments so that the development work can fit into a context that has creditability and that makes sense and is not something that is done in isolation and therefore less likely to achieve the results that everybody is now setting up as their basis for management.

**CHAIR**—Thank you very much, Mr Michel. I do not want to unduly abort discussion, but we are running out of time. We are already about 12 minutes over.

### **Refocusing the aid program: geographic spread and sectoral emphasis**

The Simons report, as you know, has advocated a reduction in the number of countries to which Australia provides development assistance. That in fact was a decision that was echoed somewhat earlier, as many might remember, in the Gordon Bilney emphasis which was produced within the terms of the previous administration. It is not a new concept but it is one that I think needs analysis.

The report certainly identified a number of key sectoral areas, and they have been repeated this morning: health, education, infrastructure and rural development. To open the discussion on this topic, I invite Ms Gaye Hart to make her comments.

**Ms HART**—During the last hour we have enjoyed some fairly substantial debate and discussion which has been broad ranging and, at times, esoteric. Earlier we in fact addressed some of the geographic and sectoral issues, so I am able to keep my comments fairly brief.

As you suggested, like the Jackson committee, this Simons committee also noted the very large number of recipient countries. I think Jackson—and others in the room will remember this better than I—described the Australian aid program as having a big body

and a very long tail. That situation has not changed, except really to say that there are now a few more recipient countries.

It is worth, though, looking behind the sheer number of countries because there is a degree of focus within the program, and 80 per cent of the bilaterally programmed funds is received by 62 countries. I think around 90 per cent to 95 per cent of this is received by about 22 countries. However, the Simons committee did take the view that it could be focused and reduced even more.

Indeed, if you look at the chart which was handed out as part of the director-general's presentation this morning and look at 'other', my guess is that 'other' is the significant number of countries which, at the time the committee was meeting and reporting, we identified as receiving about \$45 million of the aid program. It is not in itself a substantial amount but a significant proportion of a declining aid budget. I think it is significant to note that 'other' is greater than is involved with Africa or, indeed, South Asia. I think that that is a matter of concern.

The focus, in geographic terms, has been discussed. The issue is not so much the geography—focusing on PNG, the Pacific and East Asia, with a particular focus on Cambodia, Laos and Vietnam; on the poorest regions of Indonesia, the Philippines and China; and on assistance to South Asia and Africa, which is carefully targeted and focused. I think the issue is about maintaining the tightness of geographic focus. The director-general commented earlier this morning that this is a comment that might be directed more at government than at AusAID as the agency. I do believe that, in the report, the committee had every intention that these comments be directed at governments rather than at the agency. I might also say that there was a high degree of support in the submissions for this degree of geographic focus and for a narrowing down of the focus.

The committee did encourage flexibility and responsiveness. An issue that has not been raised this morning is what the committee had to say about graduation policies. I think that is a significant recommendation of the committee and one which will enable some redirection of resources over time.

This was also discussed this morning. It was in the context of geographic focus—or it was one of the variables that the committee gave some considerable thought to—in taking its position that Australia should be an active supporter of the key multilateral development agencies.

I think the committee made a fairly bold attempt, and certainly a debateable one, to establish a framework—the framework being debateable, not the degree of the committee's attempt—for the allocation of Australian aid both within and beyond our immediate region. That is spelled out in the report in terms of relative need, effectiveness and efficiency and other donor involvement.

The committee was also quite clear in acknowledging that that in itself is an inexact science. Listening to the debate around the room this morning simply confirms that it is an inexact science, not least of all because the various criteria pull, and will continue to pull, sometimes in different directions from each other.

Nevertheless, I am of the view that that framework does provide a fairly sound and practical basis for reducing the number of recipient countries. I know that this provokes some fairly vigorous debate, but let us not forget that the committee actually suggested that the number of recipients of bilaterally programmed assistance should be reduced to something like 10 countries.

I am also of the view, from listening to the debate this morning, that the limitation of the geographic spread may, in fact, provide part of the solution to the decentralisation debate. I think that that is the point that Charles Tapp was making this morning. Clearly, it is not an easy exercise to rule out countries if you are going to reduce to 10. It is not easy on the grounds of logic. After all, if these are poor countries, why should they be excluded?

The committee was also fairly pragmatic in acknowledging that the geographic allocation of Australia's aid will reflect the long-term foreign policy interests. So the committee did not see the aid program as being totally divorced from Australia's foreign policy interests.

The committee also went over, several times, Australia's place in the region. It is quite true to say that, unlike most other donor countries, we do live within a developing part of the world where we can and should have a significant role to play. However, if you get beyond the Pacific region, then Australia is a relatively small player in international development terms. Whether we are talking partnership, cooperation or conditionality, I think Australia will be regarded by recipient governments as a meaningful development partner, and will be significant in those debates and that dialogue, only if we provide a significant amount of assistance.

Although the nature of the bilateral relationship and the perceptions of Australia's expertise will come into play, whether we like it or not, the level of our assistance is usually a key determinant of our status as a donor. If Australia seeks to maximise the effectiveness of its aid development cooperation and takes it for granted or assumes that it must be built on a firm partnership with recipient governments and communities, then our status as a donor is important.

With regard to the sectoral focus, we have identified fairly clearly in the report the sectors to which the committee believed priority should be given, and they have been enumerated here this morning. But before taking our position on the sectoral focus, the committee clearly reaffirmed the primary importance of country programming. I think as we debate and discuss the sectoral focus, we should be cognisant of the prior importance

of country programming. While a careful consideration of the sectoral focus needs to be factored into the provision of Australian aid, if it is given a major influence there is a danger that it distorts the aid program, making it based on our perceived strengths rather than on developing countries' needs or the sectoral investment returns in so far as they can be identified.

We have made the point, and there has been some discussion this morning, about the need for AusAID, the agency, to find ways of addressing that need for increased sectoral expertise. While we are talking on sectoral expertise, I appreciate the difficulties that AusAID will have in developing that sectoral expertise, because it is as much subject to debate as some of the issues to do with geography.

The committee received any number of submissions presenting Australia's comparative advantage. My view about those submissions is that quite often the notion of comparative advantage reflected a very strong sectoral lobby rather than an understanding of the relative development impact of particular types of activities. It is very difficult to measure the degree of comparative advantage, or to apply that notion, which is fundamentally, as I see it—I am sure an economist will correct me on this—an economic term based in trade relations, in development terms.

An examination of the sectoral composition of Australia's aid program indicates that it is already more concentrated than the average of other donors. One does need to get beyond or below the notion of the geographic spread, and indeed the sectoral spread, and look at what happens in reality, and recognise that within those areas there is the opportunity to make it more focused and more effective in both areas.

Very early in the discussion today, I think Professor Hughes made comment about the need for sectoral focus to be considered within the context of overall direction and macro direction. The comment, I think, was also made by Mr Michel. Indeed, I do not think the committee disagreed with that in any sense, but specifically, it is important to read what the committee said about sectoral focus in the context of good governance, of environment and of gender. My colleagues on the committee would be terribly disappointed if I did not say this, Mr Chairman, but on the matter of gender it is my view that, with poverty twice as prevalent amongst women as it is amongst men, consideration of gender and development issues is fundamental to addressing poverty reduction.

I am very glad to have had the opportunity to contribute to the debate and the discussion. I look forward, as most others do, to the government's response. But more generally, and I am not sure it is not more importantly, what I hope the report does is enhance and encourage the debate about Australia's commitment to development cooperation. It is a personal comment to say that I found the level of debate and discussion during the consultative process something that I believe could have been improved and could have enhanced the findings substantially. I hope that the debate continues. I agree that the next review should take place sooner than this one did after the

Jackson report.

**CHAIR**—Thank you very much indeed, Ms Hart. I now invite Mr Bill Armstrong, the President of the Australian Council for Overseas Aid and Chief Executive of the Overseas Service Bureau, to comment on the same subject, again from the position of opposition.

**Mr ARMSTRONG**—Thank you, Mr Chairman, that is probably true. I want to say at the beginning that I think the committee's work is a remarkable achievement given the time frame they had and the complexity of the situation—and you know, just from the last hour or so in this room, how complex this is. It is not a thing that can be boiled down to a 'Simons says' event at all. It is an extremely complex area. I want to congratulate the committee on their work, if for no other reason—but for many other reasons—than the last point that Gaye made, that is, that it has opened up the debate.

Tomorrow it will be 40 years since I left Australia to go and visit some of the developing countries. I do not think we have really ever had a good, serious debate about the whole development and aid issue—we drift. I wonder whether we have not drifted a little bit back. We are also now talking about the Australian aid program. During the 1970s we started talking much more about Australia's development cooperation program. I was very interested in Trevor's comment about hoping that AusAID is an international development agency and not an aid agency in that sense. There is a lot of work for us to do in that regard.

I want to say where I come from in terms of the geographical spread. I generally do not have any problems with the spread that is referred to in the report. It is true that it is a good idea to concentrate much more on our bilateral aid program. One of the things I would have liked to see the report do, and you would expect there to be a but, is put aid in that much broader context of international development cooperation, to show that aid has a part to play in that regard and then work out what that part is in relationship to the other extremely important parts of international development. One example is the whole question of the private capital flows.

A simplistic view of our aid program could be that we are told often that the market, the private capital flows, are where the actual development, trade, et cetera takes place. They are the things that produce economic growth. Therefore, it would seem reasonable to say that the \$1.4 billion that we have, a very small amount of money, could be directed to social development, to people capacity building, to community development areas or to community rural development—concentrating much more on people and capacity building in those areas where we know that the private flows do not go and we know that the massive aid programs find it very difficult to get to.

I agree in general terms with the sectoral approach that has been taken. Primary health, primary education, gender, women and children: the sectoral areas in the report. I

do not think one can argue with that, but I would like to add to what I regard as the cross-cutting areas, using those sectoral areas as part of capacity building at local community and rural areas of countries.

The way the report has suggested that we should be working with countries that show the capacity to grow raises all sorts of questions for me about what happens to the rural poor and the urban poor in countries very close to our shores which have massive economic growth, like Indonesia. I think we have a responsibility to be directing our assistance and our cooperation towards those sorts of situations much more than the report has actually stated.

Janet, no doubt, will talk more about the role of NGOs. I should say that I am talking for Bill Armstrong and not ACFOA or the Overseas Service Bureau at the moment. We will put in our submissions as organisations. I would have liked to have seen the report say more about the integrated role between the private sector, the community sector and the government sector. I think that that is one of the areas that we do need to work very hard on, that is, to bring together the various sectors. It is very much that they are in competition rather than in cooperation.

When we start talking about geographical focus and about particular countries that need to graduate, one that comes to mind is Thailand. We would be saying now we should move our aid program out of Thailand. I think there is a very good argument for Australia continuing to maintain its contact with Thailand and to work with the Thai people in rural development, in the area of refugees and in the area of HIV-AIDS. They are all of common concern to Thailand and Australia to work in partnership.

I am not opposing the withdrawal of the bilateral aid program; I am suggesting that that is only one component of the link that we need to have. I think it is also true when we narrow the geographical focus for bilateral aid that there is a tendency for us to say, therefore, no development cooperation, capacity building or relationship building will be done throughout Africa or in certain areas of the world.

It has been suggested this morning that the multilateral agencies is where Australia can have a world view and take responsibility as a nation in the world without spreading our bilateral aid across 100 or 150 countries. But through the multilateral agencies and through the non-government sector we continue to have a contact with parts of the world that are extremely important for us to be in contact with as a nation in the long term.

My own organisation - the Overseas Services Bureau - has 100 Australian volunteers funded through the aid program in Africa. It costs the Australian aid program something like \$2 million for what is a very cost-effective, high quality, technical assistance program. There are ways of doing that.

When we put conditions that the country must comply with our own political and



economic standards, I have some questions there. My own experience in Cambodia and Vietnam showed that the Australian government had great foresight. Politically, it was unable to work in those countries for all sorts of reasons, but through low level, low key, very cost-effective and very effective programs through Australian non-government organisations it built a very good base for the future relationship between those countries and Australia.

What I want to argue for is a narrowing of the focus for our bilateral aid because of cost effectiveness, management and so on. But put that in the context of a much broader relationship between Australia and the whole world, and our need to be able to build relationships; particularly taking up the one clear objective—poverty focus—where we can work with people who really are suffering—not just in terms of welfare but working with them in cooperation and in partnership.

I wrote down, for discussion, ‘conditionality or partnership’. I would have thought that any partnership is based on conditionality. Any partnership that is equal—has a quality in it—is based on conditionality. It is based on agreement between the partners. I would like to see more emphasis on that area in our aid program.

Finally, I would like to see a lot more emphasis on what Mr Michel was talking about, coming out of the OECD, which I think has been very progressive. This little document *Participatory Development and Good Governance*, I would like to see used as a gospel for some time because it talks about community capacity-building as being absolutely basic for future development.

**CHAIR**—Thank you very much, Mr Armstrong.

**Mr TAYLOR**—In the light of the report’s emphasis on poverty reduction and in the light of Bill’s comments about people emphasis, I would like to ask both: from an Australian perspective, would you see the Friendship Bridge—the Mekong bridge—as a thing of the past?

**Ms HART**—The committee makes a recommendation with infrastructure as one of the priorities, but I think the evolution of thinking and the development concept that is emerging out of the DAC writing with its emphasis on people, in my view, would not see another Mekong bridge. It is a personal view.

**Mr ARMSTRONG**—I do not think that we can afford those big infrastructure programs, and I think I would put it into that context. I do not think it is the most cost-effective way to use the \$1.4 billion worth of Australian aid. But I understand the other side of it, from the aid management point of view. Larger projects are much easier to manage and the kind of thing that I am promoting is very difficult to manage because it is small scale and you have many, many projects and programs involved.

One of the things that I am fearful of in my old age is paranoia about 'accounting-ability'. I think accounting-ability is extremely important, and it is one of the components of accountability, but it is only one of the components of accountability. Coming through our parliament more than anywhere else, I think there has been a very large degree of paranoia in that area and that has pushed us to have much larger projects because they are easier to account for.

**Ms PHILLIPS**—Thank you for that overview. Going back to some discussions we had in this forum prior to the Simons report, in the consultative stage, the group spent some time talking about the need for us, as a community group, to assist the Australian community to come with us in terms of loyalty and constituency building for a development program. We talked about having to build the perception of community confidence. In some cases, as we are seeing them unfold, we are seeing a greater and greater lack of community confidence in some of these issues.

My comment here is that, while in other contexts there may be some flawed arguments in the Simons report, I agree with this particular geographic and sectoral focus for the purposes of building community confidence in Australia and bringing a population who will support, with us, the need for Australia to continue to have an overseas point of view and an unclosed policy in this part of the world.

I think having a sectoral focus that is clear and appealing, like health, education, water sanitation, agriculture, in defined areas, very near us, where we have the confidence of our community; and some degree of knowledge is very helpful for those of us in the aid business in trying to encourage donor support on a private sector level in terms of individual donor level, and also just building up for the long-term haul of keeping Australia in this aid business. In the conversations we had in this forum prior to the Simons report, that was being identified as being a threat to us, that there is a growing lack of confidence for Australians to be spending money offshore when we are bleeding at home and substantially taking cuts to our own charity at home and so on.

I want to thank the Simons report and the committee for their focus, because I think that does assist the community to help us to use this as a platform to build that long-term constituency we all need to assist us, and our politicians, and our market forces, to sustain their interest in development.

**CHAIR**—Thanks, Gaye. Can I have Trevor Kanaley, Cliff Walsh, Peter Steele and then Roger Price.

**Mr KANALEY**—I do not want to get into a debate about bridges but I would just make a couple of points on it. This is not in relation to the bridge, these are general generic points. Firstly, forgetting the conditionality non-conditionality debate, we work in partnership with other governments. I think a good starting point in looking at project activities is, what do our partners believe are important priorities in their own

development? I find it very interesting that we can talk about partnership models in HIV-AIDS but, when we talk in partnership models in infrastructure, we have somehow crossed some imaginary boundary. Personally, I don't think that makes a lot of sense.

Let me go on. The real issue, regardless of whether we are talking about a HIV-AIDS project, a bridge or a rural development project, gets down to the priority with the government you are dealing with and, secondly, the quality of the activity itself. There may be a third one: are there other alternative sources of financing for undertaking the activities in question?

What I would ask is that people who are looking at activities put them through those sorts of hoops and then make judgments as to whether it should be a bridge, a rural development project or something else, rather than making what I think are very simplistic ones: whether bridges are good or bridges are bad. Bridges are neither. There are quality bridges and there are bridges that are total failures. What we ought to do is build good bridges—assuming that is the priority we are talking about.

Another thing I point out here is that there can be a view of Australian expertise which does not show up in the contracting process. I do not disagree at all with what the Simons committee has done in terms of talking about particular sectors, or even with the sectors that have been outlined. I think that is very arguably the way to go. I think, though, that we have to keep in mind a couple of points here. It gets back to the point that Gaye Hart made earlier, and that is that, if you ask, say, the health sector, 'Do you have expertise?', the answer is a loud yes. If you asked the agriculture sector, it is a loud yes. In fact, you can virtually go across the Australian community and you would get a chorus of loud yeses, depending on the interests of those involved.

I am on a different side of this equation. I put activities out to contract, so I get a pretty good idea of the reality of that expertise vis-a-vis the statement of intent. The number of Australian health professionals that we have, taking one area, who are experienced in community health—I am not talking now about the high-tech end of health—who have had any involvement in developing countries whatsoever is very small. We do not want to in a sense delude ourselves—I am not picking on the health sector here; it actually goes across sectors—that there is this enormous mass of expertise in the sorts of technologies we are talking about, and in the sorts of situations that we are talking about. It actually is a relatively small part of any sector in Australia, whether it be agriculture, health or whatever. The sector might be large in Australia, but the group that is actually relevant to developing countries can be a very minor subset of that. What we are finding in the contracting business is that, while the statements of expertise are one side of the equation, the reality coming through in the contracting process is usually often a very small subsector of it.

**Prof. WALSH**—First of all I would like to agree with part of what Trevor was just saying. If you think about the question of whether we should build big or little

bridges or whatever within the aid program, then you see that the answer that the committee has given implicitly is that it depends on what contribution they make to poverty alleviation relative to other things that we could be doing. I do not think you can say, 'Because it uses up a lot of money, a large infrastructure project is necessarily a bad thing in an aid program which has relatively limited funds.' We do have to deal with it case by case.

The point we particularly wanted to make, however, was that, in relation to infrastructure, there are opportunities for much more private participation, including the possibilities of private funding through tolls, fees and so on. We must be acutely aware of those and make sure that we are not putting public sector money in where private sector money would do equally well. I guess that is the strongest point I would want to make about that.

The second point, briefly, is on graduation. Graduation is really quite an important issue. It is obviously a very tricky issue in a broad political sense. I agree with part of what Bill was saying. But I do think we have to be clearly focused on this again. At the end of the day, the purpose of an aid program or a development cooperation program—I agree that it is unfortunate we have slipped back into that language—is to do itself out of business. It is going to take a helluva long time to get to the point where all development cooperation agencies have appropriately done themselves out of business. But, given the limited funds that are available, we are going to have to make some tough choices at various moments in time. I suspect that Australia has a few more coming up in the very near future than the couple that it has made in recent years. I take Bill's point to be that what we have to do is really make sure we are building our bilateral relationship on other bases with those countries as we wind back from the aid relationship. I think that is absolutely critically important.

Finally, in this context, we struggled a little bit with issues of geographical priorities—not so much because we did not know where we thought the geographical priorities should be but because we were trying to be completely honest in terms of the focus that we said the aid program ought to have: poverty alleviation. If you are absolutely completely serious about that, then we should have a list that starts with the poorest country in the world and works its way down. We should then build in all sorts of other criteria and, at the bottom, drop out those which are very poor, in which we have some sort of expertise to offer and so on. That might give you a substantially different pattern.

This comes back to the point that I think Peter Nugent was making earlier. I do not think we have been completely unreal about the role of foreign policy and so on. We actually said, 'Here is an area which, at a macro-level, foreign policy is going to help to make some broad decisions about where we do it.' What we do not want foreign policy to do, what we do not want commercial policy to do, is to drive what we do and how we do it in those countries that we are doing it in. In the long run, our argument is that we have

much more to benefit out of an approach like that, even commercially, in terms of health and in terms of security than one in which we allow this complete intermingling of foreign policy, commercial policy and everything else in the selection of individual projects and programs.

**Mr STEELE**—I am not going to talk about poverty reduction. I do not have any problems with that. What I wanted to address was something which comes up as a sector in terms of humanitarian relief. I would like a response perhaps from someone from the committee and also from AusAID. I was very pleased to see that the cardinal principle listed is that, in relation to humanitarian relief, priority of response has to be based on an assessment of the degree of relative need. I thought that was fantastic—really good. But then, when I looked at the executive summary, I found something a little bit different, almost an apparent contradiction which I would like someone to respond to. Getting into more detail, it says:

Priority for responding to sudden emergencies should be focused on our own region and, for protracted emergencies, priority should be given to those countries where country programs are already in place.

I can understand too. But there is an apparent conflict there. In 1994, the Australian public gave \$30 million to Rwanda in response to sheer need—and that was fantastic. I understand the geographic focus—and this is why I am coming in on this aspect—and I think there must be some flexibility in the ability of the government to give a flexible response on the basis of need rather than simply in the emergency humanitarian relief field being limited to a group of countries.

**CHAIR**—Gaye, would you like to respond?

**Ms HART**—Fairly simply, I suppose. I do not think you have seen an inconsistency but rather an attempt to address just that issue of the need for some flexibility. Nevertheless, the committee emphasises at several points the importance of maintaining a geographic focus. In terms of support for an emergency outside our immediate region or outside those priorities, the Australian public is a relatively generous public; it will respond, especially to television images. It does not say it should not; it simply says that in an either/or situation the geographic focus that we recommended is in fact a preferred focus.

**Mr PRICE**—If I could just pick up the Rwanda thing, when the public donate and we send peacekeepers there, I believe we should have a pipeline of development that cements that involvement. If we cannot have a pipeline of development, do not go in there at all.

I would like to make a plea that we are citizens of the world and that Australia will always want to be a participant in something like the Middle East peace process and

to be so more than just verbally. On the bridges, I am not going to mention the new bridge in Vietnam. That would obviously be too political.

We have heard a lot this morning about conditionality and partnership. Our largest recipient country is PNG. It says a lot about conditionality in partnership when Premier Theodore Miriung was assassinated and we did not really make a response. Then, with the mercenaries, we still do not seem to have made very much of a response. I think we had the opportunity to give notice of termination. I am interested in the committee's views about what size you see that budget being in the post-2000 environment.

**CHAIR**—Would one of the members of the committee like to respond? Gaye.

**Ms HART**—I think I speak for my colleagues in saying no, I do not think we do want to respond on this matter of size of budget.

**Mr SIMONS**—I think it is the governments who have to decide how much money is allocated. To be bound by a treaty we felt was very restrictive and undesirable. It does tend to hamper the government in what it is trying to do.

**Mr MICHEL**—I wanted to have the opportunity, before we get from this general session into more specific items to follow, to address very briefly this question that was raised at the outset, and that was: how good is Australia comparatively? Mr Simons asked that.

It is not for me—and indeed it would be irresponsible for me—to try to list opinions as to who is good and who is bad of the donors, but I would like to put into the record of this proceeding that Australia more than pulls its weight in the international deliberations that are done in the Development Assistance Committee and makes a tremendous contribution.

The fact that you are looking, through this very public process, at what is done well, what is done not so well and how you might do better, I think should be recognised as an asset and something that is very positive about Australia and its role in development and development cooperation. The fact that not everything is perfect is not a reason for denigrating what is being done and being done pretty well.

**Mr BARRY JONES**—I wanted to comment on the thing that disturbed me when I read the report—that is, the disappearance virtually of the 'h' word. The word 'humanitarian' is referred to very casually and then there is a bit of shuffling around, and I am not quite sure who is responsible for that on the committee.

For example, I was very interested that, when Mr Steele made the comment about principles underlying Australian humanitarian relief, he mis-spoke, I must say. Because if you look at page 283, that is not what the committee said, it is what AusAID is doing

now. What the committee says is, 'Yes, that is all right'. But in fact when you look at their recommendations in chapter 18, the 'h' word never appears. So the result is we question whether the report really talks about humanitarian considerations—which, incidentally, were in the minister's terms of reference. The minister actually uses the 'h' word in the terms of reference. You refer to it nowhere in your recommendations. In other words, what I suspect is that humanitarianism has been privatised. Where is it?

What I would really like to ask is whether you are explicitly rejecting humanitarianism as a goal, because it really looks like it. On page 2 in the overview, for example, they said, 'The principal motivation for overseas aid is based on humanitarian compassion,' and that is the last time you hear about that. Then it said there ought to be a single and unambiguous objective. It said that once their objectives were humanitarian, foreign policy and commercial interests. They say, 'That's no good. We can move on from that'. The result is that somehow the 'h' word has simply disappeared.

**CHAIR**—Mr Simons, do you want to comment on the 'h' word?

**Mr SIMONS**—Thank you, Barry, for reminding us of the importance of humanitarianism. The committee took the view that, if we had one solid, clear focus, as we have called it, on poverty reduction through sustainable development, we would be doing more humane things than we might—by building large bridges, for example.

**Mr BARRY JONES**—Yes.

**Mr SIMONS**—Improving people's basic health, improving people's basic education and fitting them to become employees in industries which have been established by private enterprise seem to us—and it might seem very rational—to be the very best way that Australian aid money can be used. Is that not humane?

**Mr BARRY JONES**—Absolutely. All you need then is a sentence to say, 'Poverty reduction encompasses humanitarian goals,' but you do not say it. You may say it is implicit, but it is certainly not explicit.

**Mr SIMONS**—I am sorry for those who cannot see through this.

**Mr BARRY JONES**—You have to use the 's' word as well as the 'h' word.

**Prof. WALSH**—I would like to say that not only have we not privatised the 'h' word, we have not even outsourced its management, as far as I can see. I agree exactly with what the chairman has said. At the beginning we are quite clear. The fundamental rationale for an aid program we say consists of a wide variety of things, of which humanitarian concerns are a fundamental component. That 'h' word, it seems to me, is one of those words that has been used in all sorts of different ways to the point where continuing to use it is simply a source of confusion. When the minister, God bless him,

talks about the objectives of the aid program being humanitarian, it seems to me it is unclear whether he is saying they are focused on emergency relief or various other things, small projects here and there, or what.

Really, to a certain extent, I think we almost explicitly wanted to move away from that word. Look at how emergency relief is described. It is often called 'humanitarian'. That is why you found that quote on page 283. So what we have done is try to bring it all back into the core here and say, 'What does humanitarian concern consist of? It consists of attempting to reduce poverty for those who are most in need.' We do not need to use the 'h' word in order to get our message across.

**CHAIR**—Finally, for the defence but really to sum up for that session, Gaye and then perhaps Bill.

**Ms HART**—Chairman, can I have one word on humanitarianism?

**CHAIR**—You certainly can.

**Ms HART**—You do not have to go to page 213 to find it. Actually in chapter 1, where you start out, the talk in the very principal is about 'humanitarian'.

**CHAIR**—You never begin at the beginning, Barry, that is the trouble.

**Ms HART**—I think it has been a very useful debate on both the geographic and sectoral focus which illustrates the difficulty that the government and the agency will have in responding to these particular terms of reference. Nevertheless, I think the committee would continue to have a very strong view that a more effective aid program with better outcomes will come from a more focused program, both geographically and sectorally.

**Mr ARMSTRONG**—I would agree with that, with the proviso that we distinguish between the mechanisms we have available—the bilateral, multilateral and others, including NGOs. Secondly, I would want to argue for much more partnership between those sectors and much more policy formulation and development between those sectors—that is, partnership at home as well as partnership overseas. Thirdly, I am going to watch with interest on Sunday when Cliff Walsh argues the geographical neighbourhood being Asia and the Pacific, and not the Indian Ocean, South Asia and Africa, while he and I are discussing this very subject in Perth. Who are our neighbours? It is a very interesting question. The people in that part of Australia have a different view from the people of Darwin or the people of Melbourne.

**CHAIR**—Thank you all very much. It has been a very worthwhile session.

### **Luncheon adjournment**



**Soft loans/concessional financing**

**CHAIR**—My apologies for not being with you over the luncheon break. Unfortunately, we also have a Japanese parliamentary delegation in town, so I had to look after them.

I think our discussion this morning has certainly opened up a number of areas where there is certainly reason for us to take note of both what the committee has recommended and the observations of those outside. I commend all those who participated. For those who have not yet done so, I hope that there will be some opportunity this afternoon. Our intention is to try to open the debate as widely as possible and get as many views as we can for, in so doing, I think it gives the government a far better opportunity to reach positive conclusions and outcomes.

As I said before, although the minister and the parliamentary secretary are not with us, there are quite a number of others here today who are taking note of the recommendations. A *Hansard* report is being compiled. Those who make contributions will each have an opportunity to view their remarks. If they feel they wish to make grammatical corrections—I hope no more than that—they can do so. Finally, the report will then be put together, perhaps with some comments by the committee, and then be tabled in the parliament. So your contributions today are not just for the sake of a discussion here. They will be for a much wider purpose and hopefully, therefore, can be a meaningful component of the consideration of the Simons report by the government itself.

We are going to move from the more general discussions, as Mr Michel defined them before lunch, to soft loans and concessional financing and a particular consideration of a component within the report and the present Australian aid program. The Simons review recommendation was that DIFF not be revived, as we heard this morning. Instead, it recommended that a new untied concessional loans scheme should be considered, which might allow the financing of larger projects. It could draw in and use private funds in combination with aid. It could harden terms on which assistance is provided to countries graduating from the Australian aid program. The key requirement, of course, would have to be that it was integrated into country programs.

To speak in this session we have three particular speakers—all of whom are well known in this city and around Australia. They are Professor Helen Hughes, Professor Malcolm Dowling and Mr Stephen Wolkowicz. First, Professor Helen Hughes will open the dialogue. Thank you.

**Prof. HUGHES**—Thank you, Mr Chair. The Simons committee made 79 recommendations. Obviously, they all have to be costed because, if they were all implemented, they would—on the back of the envelope calculations—quadruple the administrative costs of AusAID. AusAID would change from being one of the most efficient administratively—that is, having one of the lowest proportion of administrative to

total cost—to being one of the least efficient administratively. So I am going to look at the loans suggestion, mainly from a financial point of view, because it has to be costed.

First, the demand for loans as opposed to grants has been falling. The committee says from 20 per cent to 11 per cent of development aid is the fall in loans rather than grants, and that is absolutely true. That is in spite of the fact that Japanese aid is a larger proportion of total aid. The Japanese—for ideological reasons, which are not always easy to understand—are committed to loans. They subsidise the loans very heavily directly and through subsidised credits in order to maintain the fiction that all their aid is loan aid rather than grant aid.

I am going to take two aspects. First, there is the demand for concessional loans. No country wants to use concessional loans for social projects. This is a very serious problem in the ADB and in the World Bank. They are finding it difficult to find borrowers and they are highly concessional, particularly through their IDA and the other soft projects. That is for a very good reason: social projects are very risky and they have very long-term returns. The developing countries are not willing. Besides which, for education health, if they have the policy, they can find the money. It is not a problem of having to have foreign exchange. So they are not willing to borrow. That is why these loans have declined.

For infrastructure, the developing countries can get as much capital inflow as they want. The inflow is not only private direct investment but also bank loans. The bottleneck is not money. The bottleneck is the regulatory framework which makes it possible to privatise energy and distinguish what is private sector and what is public sector. For example in energy, you can produce energy in the private sector. You can distribute it wholesale, but you often cannot distribute it retail. That is something for the public sector to continue to do.

As in Australia, the bottleneck in privatising is having an appropriate regulatory framework. Telecommunications is an excellent example. What they really need is technical assistance for infrastructure—not infrastructure, but technical assistance. I think Australian aid could be very helpful as the ADB and the World Bank provide this—but not on loan terms, on grant terms. It could flow on to Australians then competing for the actual projects in the commercial market.

By and large, the countries that can borrow prefer to borrow commercially because they prefer the money without the lecture. It is worth two or three percentage points to them not to have to listen to all that partnership and conditionality and just to be able to do it. I am very sympathetic to all that. They can deal without the national and international public servants and do it.

On the demand side, on the other hand, you cannot imagine Cambodia, Vietnam or Burma, which have difficulties borrowing internationally, being clients for concessional

finance because there is also risk management on the supply side and that is a very considerable cost. It would mean that, if it were done through an existing commercial bank, AusAID and EFIC would have to make an enormous input to help them with the risk management, and the costs would probably be higher than the cost of the concessionality.

Managing the risk of loans is a really serious problem because there would be nothing worse than adding to silly developing countries' debt. I would not recommend that we get the ANZ to manage this, for example, because they got themselves into terrible problems through Grindlays. Risk management is a real cost. It is not something that you can wish away. It is a very real cost. I would suggest that it would mean that the actual costs of concessional loans would be higher than the cost of grants. That is why small countries either never went into loans or got out of them.

The economies of scale are quite significant. Given the total Australian aid budget and the proportion that could go in bilateral loans, there are not enough economies of scale to make it worth while for AusAID, EFIC or a bank to take it on. It is not a minor additional sum to take on. The risk management costs would be very high.

I am totally in agreement that we should not be in subsidised credits. There is a large amount of literature which shows that that is a subsidy to domestic producers which in the end stops them from being competitive rather than encourages them to be competitive. This is not a way to subsidise loans like the Japanese do to make it efficient and effective.

I agree with untying aid, but I think we really have to think carefully about what it would mean to have an international competitive bidding system for as small a program as we have. It is again the World Bank and the ADB. It is manageable for very large sums, but it takes a large administrative structure and it would mean raising the cost. That does not mean to say that there are not ways of encouraging much more competition, and untying and preventing the sorts of stupidities like the Tonga desiccated coconut plant. There are ways of introducing much more competition without going to a full sort of international competitive bidding.

I may have missed it, but I did not see what you do about local bidders. Both the ADB and the World Bank have an elaborate system by which local firms get a preference. That is right; they should get a preference to encourage local bidders. By the time you factor that in and find out which of the local bidders is a subsidiary of some Japanese firm or an American firm, that is an additional angle of cost. I would say on the grounds of both existing and likely demand and on the cost of supply, both focused around risk management—to put it in the Simons committee terminology—this is a grocery store I would not open.

**CHAIR**—Thank you very much indeed. It left it on an interesting note, I suspect,

for the chairman of the committee. I move on and introduce Professor Malcolm Dowling. Professor Dowling has a very interesting background and I have little doubt he will contribute significantly to a better understanding of where we go in this particular field.

**Prof. DOWLING**—Thank you, Mr Chairman. At the risk of alienating my old friend Helen Hughes, I would like to disagree with her on both counts and to argue, as a champion of the report, that there should be an untying of aid, there should be international competitive bidding, and a facility which offers loans at concessional rates should be considered.

I have been around a while and I have seen many tied aid programs, and the overall costs of those tied aid programs, both to the donor country and to the recipient country, in terms of loss of economic efficiency and distortions in resource allocation I think are very high. So the cost of introducing an international competitive bidding system would have to be put against those considerable costs of resource allocation failure. In my view, despite the fact that the AusAID program is small, the costs would be lower to administer a system of this type, international competitive bidding, than it would be to continue a system where Australian suppliers were given exclusive rights to supply any of the inputs to the aid program. This is something that we do not really have any evidence for but it is something that one has a prior feeling about. Helen has one prior feeling, I have another prior feeling. My feeling happens to agree with the committee, and I am looking at the committee members when I am saying this. So I am supportive of that recommendation, given my experience working for the Asian Development Bank for some 15 years.

Again, as we heard this morning, it is not a cut and dried situation. In any of these issues there are things that have to be carefully looked at and considered. I would think, in deliberation of this report, the experience of other countries and other tied aid programs in terms of the costs incurred in these programs in the loss of efficiency and misallocation of resources should be considered; not from the point of view of Australia alone but from the point of view of the recipient as well.

Turning to the second point, Helen has made a big deal or talked quite a bit about risk management, but I think Australian aid has risk management problems all the time because it is taking taxpayers' money and it is making grants to these countries and those countries have been spending the money. Whether the Australian electorate gets a return on its money or not depends upon the evaluation of the projects. So projects which are funded by grants need to be evaluated in the same way that projects that are funded according to some concessional lending window have to be evaluated. All projects need to be evaluated.

The way projects in the social sectors are evaluated is very difficult. The returns are hard to measure and they take place over long periods of time. The costs of the program are easier to calculate in monetary terms but the financial and social rates of

return are very difficult. So many donors simply say, 'Let's not worry about what those benefits are, let's simply see whether we are attacking the kind of groups that we need to in order to satisfy some humanitarian objective or some social objective.' But I think it is very important that we try to develop frameworks where these projects can be evaluated in some systematic way either with respect to financial returns or social returns or both.

The economics profession and financial profession are working on these problems and have made some progress. There is a lot of work at the World Bank and at ADB in trying to address these issues. By having a concessional window, so that you would have to get money repaid to you, it would make the imperative to develop these kinds of evaluation techniques even stronger. So the risk management is there, whether you have a project which is grant financed and it fails, or whether you have a project which is funded in a concessional way and it fails. In both cases the taxpayer is losing, Australia is losing and the recipient country is losing as well. I do not see a distinction between the way in which the project is financed and the way in which we evaluate the desirability of those projects.

Economists also believe that more choice is better than less choice. My argument would be on this basis: to have another window somewhere between grant and market rates of interest, financed with the help of the Australian banking system, would give countries another choice in terms of borrowing at concessional rates; borrowing at commercial rates, or choosing grant finance.

From the ADB's experience, countries are unwilling or are reluctant to borrow at market rates of interest for social sector projects. But in some cases, we have been able to persuade countries—for example, China and India—to borrow at market rates for these projects, even though the rates of return are hard to calculate, there are long periods of time involved and the social rates of return are much higher than the financial rates of return.

But for the concessional window, where we charge a very low rate, just the service charge, but the loan is repaid—it is not grant finance—countries are lining up to borrow money from this admittedly highly concessional loan window. It requires just a service fee but the loan is repaid over 30 years or some grace period. So it is very highly concessional, but it is a loan.

What kind of window the Australian government, AusAID and the Australian people in the final accounting decide on is up to them. But to have a one or two per cent interest charge, and a loan to be repaid over a 30 to 40 year period with some grace period, would attract, I think, a very large number of borrowers in the countries on which the Simons report would like to focus—that is, the Pacific and the poorer countries in Asia. So I am very strongly supportive of such a window, and I think the terms that that window would have would depend upon the ability to raise funds in the financial community and the amount of concessionality that you would get. Certainly, at one

extreme, there is a service charge plus repayment of the loan, which is what the ADB and the World Bank do, and at the other extreme, there are the commercial lending rates, so you get to pick somewhere in between those two.

Certainly, there would be additionality. You could fund projects which you would not be able to fund otherwise. Many of these countries do not have recourse to commercial lending. They cannot borrow from commercial banks. So they have either grant finance or nothing. We know that grant finance in the World Bank and the ADB is drying up. It is getting smaller. I think that is one of the reasons for the reduction in lending that Helen is talking about, from 20 to 12 per cent of total concessional lending.

For Australia to introduce, like Japan has, a window of this type, and at the same time to pursue evaluation of all projects in terms of looking at the economic and financial rates of return, is a very good way to focus the aid program in Australia and also to ensure that those funds are invested in viable projects.

**CHAIR**—Thanks very much, Professor Dowling. The third speaker in this section is Mr Stephen Wolkowicz, who spoke to us at our first seminar. He managed to generate a little debate from the NGOs and others. He is currently Chairman of Austenergy, and also has some considerable practical experience in obtaining finance for projects.

**Mr WOLKOWICZ**—Thank you, Mr Chairman. I am here to represent Austenergy and also the Australian Infrastructure Projects Group. I sit on both organisations. Representing industry, I am unashamedly in favour of concessional financing—there is no use trying to hide the fact—and tied aid. There is no shame in helping others while at the same time helping oneself. I cannot see any conflict there.

From personal experience on previous concessional schemes over a number of years, I can only say that, without the ‘soft loans’ or mixed credits, we would not have had a chance to enter the markets that we have entered. It is easy for certain sectors to enter the market because they happen to be competitive—and competition is what it is all about. In other areas we have to have some assistance. Whilst the costs are higher in concessional financing, it is a fact of life—which Professor Hughes mentioned here—that money is available for infrastructure projects.

The problem is the repayment period. No private bank will go beyond 15 per cent of the total project. They expect the EFIC people to take the remainder. They do not want to take the risk. Under the OECD terms, the projects are financed for 10 years plus construction costs. If you take a large project, the countries either cannot afford to repay over a short period of time or do not wish to do so. That is a great impediment to obtaining projects in the area we are talking about. There is no money available, and nobody is willing to take the risk of a 30-year term loan—that is our experience, at any rate.

The question is: what is reduction in poverty—and sustainable reduction? Can we say that provision of electricity is not reduction in poverty, if you have to cook on a wood-burning or kerosene stove in a little humpy? There is a definition there which needs to be looked at realistically. The previous comments—the Simons report brought these up—criticised AIDAB and AusAid. A lot of the criticism was due to historical data, which has improved. The schemes and procedures have improved significantly in the last two years of the scheme.

The criticism that I have come across of DIFF—as it was; DIFF is a word we no longer use—was that a few companies were getting the projects and did not allow some other companies to enter the field. From experience, it took me—and I will explain how—six years to get one substantial project of around \$80 million in Indonesia. It took me four years to get another project—of around that magnitude too—in another sector. My costs to the company were a quarter of a million dollars per year in round figures, give or take a little bit. One of the criticisms was that smaller companies do not get a leg in. They cannot afford that sort of expenditure. Once a project of that magnitude has been won, numerous subcontractors benefit from it. That does not say that no small companies could enter it nor that big companies should be eliminated, but there must be a balance, because there is no way that a small company can afford that sort of expenditure.

In terms of bad projects, I would suggest that, if a private supplier supplies, he takes much greater care in making sure that the project is good once it is established than if it is a publicly funded project. That is a personal opinion: it is one's own money or shareholders' money rather than government money. Bigger companies with good reputations normally—I say 'normally' because everybody has a stuff-up every now and again—manage to do the project and stand by the project if necessary if something goes wrong.

In terms of criticism of the higher costs, when we looked at the projects in Indonesia, straightaway there was a five per cent fee to EFIC before we did anything else. So you already had built in a significant factor in the financing to the recipient country. But, then again, the recipient countries preferred that because they got a 30-year term and they could repay the loans much easier.

There was a question of single supplier. As I viewed, and I think AusAid and AIDAB viewed, the recipient country as the client, it was the recipient country that had the major choice as to which projects they wanted funded, obviously with an agreement with AusAid or the Australia side. But, if the technology that they chose was limited to one supplier, that basically said, 'One supplier only.' In a seminar of the Asian Development Bank here late last year, they themselves said that, if a company will bring a project and process it through the system, they would fund a single supplier project as well. So we are not the only ones if it comes to that.

In terms of the procedures, they are very long. As I indicated before, one took six

years and one took four years. The question can be raised, 'What took such a long time?' The long time was not in trying to bring the project through the system but taking a project that was on the list—if I talk about Indonesia, most probably everybody knows there is a blue book; the blue book is a shopping list consisting of billions of dollars and it is a question of which project is chosen with available repayment money to be put on the priorities list. So it is a question of managing to work through the system in Indonesia and work through the system in Australia where, at that time at any rate, we had to produce feasibility studies—which was quite an expensive business; produce them and get them approved. With the new OECD rules, in one case we spent a lot of money and it got knocked on the head. Everybody here agreed that it would be a worthwhile proposition to put forward. We went to Paris and it got knocked on the head. I think it took a minute or so to get knocked off.

I can only say that, without these concessional soft tied loans, we would not have been able to establish ourselves in those countries. As a big multinational company, we have two impediments. One is the price. Contrary to what some people feel—that it is a subsidised price—the price of the project actually has to be on a competitive bid. The financing or the soft loan grant is a financial facilitation, if you like. I spent five weeks in China. I was discussing pricing and negotiated for five weeks for a relatively small contract. That basically was market prices of Chinese products. So we as a company did not get any advantage out of that. But, without the facilitation of finance, we would not have a chance to get it in.

Furthermore, not only do we establish a credibility within the recipient country, but also on a multinational company basis we establish credibility within the group itself. So, whilst the parent company—and this is going to happen in Indonesia now—is going to bid through a World Bank project, they will come to us because we have shown that we can do the job already in Indonesia. When we win a project of that nature, part of the deal is to get the people over to Australia to train them. Those people, in time, become the decision makers. They are not on the very bottom level. They are middle-level people. Over the years we have found that they move up the scale in the various countries and we have a very good rapport. Obviously, we have got to do a good job in the first place. We have a rapport at high levels where people know us. They know what we can do. Subject to the projects being available, we stand a much better chance than if we did not have any experience in the country.

At the same time, there is the issue of technology transfer. The countries do not want just to be sold a product. They have to maintain it. That is one of the conditions of a soft loan. In conclusion, I would say that I feel, whilst one should not work on either extreme, there should be a certain portion of the aid project, in whatever form, given to tied soft loans.

**CHAIR**—Thanks very much indeed, Mr Wolkowicz. I submit that international comparisons always make life difficult, but I can see they are fairly important in this area.



**Mr SIMONS**—Helen, I was interested in your back of the envelope estimate of quadrupling of costs. Could you be a little more precise in how you arrived at that figure?

**Prof. HUGHES**—I looked at the establishment of the loan facility per se, which I think would be very expensive. Secondly, I looked at untying and going all the way to international competitive bidding and preferences for developing countries, trying to sort out which was the subsidiary of an international company and so on.

I am not against untying. I think Malcolm is battling against a straw man. We want further progress along lines which AusAID has already gone along to choose the best and most competitive suppliers, and not necessarily to set up something like international competitive bidding, but to look at the costs of that.

Another cost that I looked at was stationing more staff abroad. I think Mr Michel said that this would be three times the cost. We are all for evaluation. There are some things, like motherhood, poverty reduction and evaluation. When I see what is done in the name of objective evaluation of social project, as an economist, I think a lot of that is just sheer bull. People take social weights off the ceiling and you can make any project produce any result. To evaluate is fine, but there is a difference between financial evaluation, which is pretty stiff, and social evaluation. You can only judge soft loans on financial terms. You cannot judge them on social terms. Nobody is going to borrow because poverty is going to be reduced by some.

I thought about evaluation and what it means. I am much more in favour of your proposal that you have post-evaluation monitoring feeding back into the next project than really raising evaluation to the silly point, which it gets to in some World Bank projects and where it got to in the ADB, where there were protests that people were cooking the figures.

They were the main ones. I figured that administrative costs would be quite substantially changed. I take your recommendations to be of a general nature, to be saying, 'Do things better, closer to these objectives', rather than 79 particular recommendations of, 'Do things this way'.

**Prof. WALSH**—I just follow up on that for a moment. There are a number of different points that I want to make. First of all, in relation to specifically the soft loan scheme, we are quite clear that, if this thing is too damned expensive to justify itself, do not do it. Maybe we made a mistake initially by putting some of those design parameters into a box at the end rather than into the formal text. I think a number of people missed that there is an important set of design parameters, and one of them is very much about whether this is feasible in cost terms.

In relation to other costs, certainly we would not want to do useless sorts of evaluations. I take it by that that you really are talking about ex-ante appraisals, I mean

some attempt to get a grip on it. But, by the same token, we do want an appraisal framework, presumably. I think it is a very important recommendation of the report and one that we are not formally discussing today as to the whole sort of evaluative framework. In a sense, the key recommendations of the report are really about that—outcomes, orientation, evaluation, culture in the organisation, continuous evaluation and lesson learning.

On the question of costs more generally, the position that I would take on it—and I could not bolt down the feet of my chair, or even Gaye, on this sort of issue—is that it is not obvious to me that the amount that we spend on administration is anything like the optimal amount to be spent on administration. Okay, we have a bit of a fight potentially with the system in getting the point through.

However, if it costs more to run the program but we get greater effectiveness from taking money out of program and project outlays and putting it into better evaluation, better administrative procedures, surely that is what we would want to recommend, and we would want to fight damn hard against the politicians who want to say otherwise. It was interesting to hear Trevor this morning saying that we could outsource the expertise—and that would not count as part of our administrative costs as sectoral expertise bought on contract. But the moment we bring it inside, that is a different story.

It seems to me that this is the stuff of totally irrational decision making or perhaps, as I said this morning, other rationality in the political system, or whatever it may be. Let me put on the record: for my money—and some of it is mine—if we end up spending more on running the aid program, but with that making it a hell of a lot more effective than it was, I will vote hard and fight hard for that.

**Prof. HUGHES**—It is a cost benefit issue, isn't it?

**Mr SIMONS**—Sure.

**Prof. HUGHES**—For the additional cost, what benefit do you get?

**Mr SIMONS**—There were a number of projects which we learnt about either during the course of the review or shortly after, strangely enough, when people came along and said, 'Well, look, this is a bit of a shame; this project worth \$26 million has gone down the sink. Can you help us get more money from AusAID?' That has been passed on to the proper authorities, and I am sure they will make the right decision.

But the management of some of these projects seem to me, as a business person, to have been completely inadequate, and the monitoring was very, very slack. With some of the food aid business, you will remember that one of the NGOs got into serious trouble. But one of the things that influenced the untying of aid there was that, having lost several hundred thousand dollars worth of product which had been supplied from here, the same

product was able to be obtained from another source at half the price. To me as a business person, that is very, very strange. If you do not go to open tendering, you are exposing yourself to severe overpricing—and I do not think there is any alternative to open tendering.

Your other concern about open tendering, international tendering, and so on, relates to being certain that a company is not a subsidiary of some multinational. Stephen's is a subsidiary of a multinational and is working out of Australia.

**Prof. HUGHES**—No, this is a different point.

**Mr SIMONS**—We cannot exclude multinationals.

**Prof. HUGHES**—No, this is giving preference to firms in Indonesia, Thailand and others, which you have to do if you go to international tendering—

**Mr SIMONS**—Yes.

**Prof. HUGHES**—and then finding that the Indonesian firm is a front. It is not really a subsidiary; it is a front.

**Mr SIMONS**—I do not think that would be a concern, would it? If it is employing Indonesians and it is foreign investment—

**Prof. HUGHES**—But it is not. They are up-front firms which are set up to get contracts. This is business, if you can make a buck out of it; you cannot be simple minded about this or you could get taken.

**Mr NUGENT**—You would not understand that, would you?

**CHAIR**—Professor Ron Duncan.

**Prof. DUNCAN**—I just want to make a precautionary point, supporting Helen's view, about evaluation. That is, you cannot go overboard on how much AusAID spends on this.

**Mr WOLKOWICZ**—I just wanted to make a comment about Indonesia because of the references there. It is mandatory unless there is a soft loan to have an Indonesian company actually bid for the contract. We cannot bid from Australia; it has to be an Indonesian company that bids.

**Mr SIMONS**—For which there is a small fee.

**Ms FILLING**—MTIA believes that you can deliver an aid program which meets

the development needs of recipients while at the same time benefiting Australian industry. Our member companies tell us that they cannot get a seat at the negotiating table for major international contracts unless they can have access to competitive finance. It does not matter how competitive their product is in terms of design and quality; it is the competitive finance that will get them a seat at the table.

Clearly there is a need for concessional finance. World Bank estimates put the infrastructure needs of South-East Asia and East Asia over the next decade at \$US1.5 trillion and not all of this can be met by private aid flows or other kinds of private funding. We believe that, yes, there is definitely a role for concessional finance and, yes, concessional finance should meet the development needs of recipients. But also at the same time it can play an important role in assisting Australian industry.

**Mr KANALEY**—For reasons that will be apparent, I do not want to put my views on the table on either untying or on a loans program. I would like to raise a couple of general points around the subject. One of them gets down to Professor Hughes's point about the costs of it. What concerns me in this sort of discussion is that AusAID and I personally do not get left up the creek without a paddle.

It has very high administration costs moving to an ICB framework and we should not kid ourselves. I do not know if it is four times. I am not going to try and put a figure on it, but it is a very much more substantial sort of operation. Let me give you an example of why. Firstly, there is simply checking out the bona fides of firms that are bidding for contracts. We have firms that could come from such diverse places as Ethiopia or North America and you have to think about the work that is involved for our posts in actually having to go out and check on both the technical bona fides and the financial bona fides of those firms, so that there is an immediate ratcheting up in costs.

Another point I would make here is that you have to look at the size of our contract profile. You may well make a good argument why for a \$20 million contract it makes a lot of sense to go to ICB, but to do this for a \$1 million contract is simply not worth the candle. It gets back to the point that you were making, Cliff, that in the end the committee does not recommend A or B. It actually says, 'Look at the costs.' But I have a sneaking suspicion—and I have not done the analysis—that there is some figure, and it may be for a contract size of \$1 million and less, where to go to ICB would simply not be worth the cost. It could well be much higher than that. It could be \$10 million or \$20 million. I just do not know the figure, but there is some trade-off point there where it is simply not worthwhile.

On the issue of other costs associated with it. Contracts are exactly that; they are legal documents. So there is the question of enforcement. If we have a firm from anywhere, for example, North America, Thailand or Ethiopia, which has won a contract and for whatever reason the contract is not working out in practice, the legal remedies become an absolute headache. They are a headache anyway; they are a headache if they

are domestic. But, if they are in an international marketplace, again it ratchets the cost up substantially higher.

As to loans, again the question of risk was raised, and we have to factor in what happens with bad debts, because there will be bad debts. It is the nature of the business that we are in. Quite clearly, if that risk is borne by AusAID and directly out of the aid program, then the sort of sharp adjustments in forward obligations that we discussed when we discussed the budget item, would clearly come into play in this area. We could well have a budget outcome for a particular year where there was a fair bit of head room for whatever reason—for discretionary programs such as the UN system, NGOs or whatever—and we found that a loan had gone bung. It had to be handled by AusAID and we essentially carried the can for it. That would mean immediately that that \$50 million would hit the concessional parts of the program. So you could have very violent swings from year to year with a concessional loans program if AusAID wears the risk.

The next thing I wanted to say on loans is the economies of scale issue that was raised earlier. The idea of a loans program which is not at least \$100 million of grant financing—which is roughly \$300 million of loans—is simply, I believe, probably not worth the candle. You are not turning over a sufficient amount of business to be of interest to the Australian banking system in joining you in a partnership—or to be of interest to anybody else. Here are just a couple of factors I think have to be weighed in. You can make an argument for or against loans, but there are some very hard-headed practical considerations that have to go into that analysis, as well as simply a consideration of the theoretical point whether they are useful or not.

**CHAIR**—Would any one of the committee like to comment on that?

**Prof. WALSH**—Particularly in relation to the loans, when talking about design we do acknowledge those sorts of issues. We say quite explicitly that, if cost effectiveness and risk management options are not available, do not get into it. I hope what is still open is the question of evaluating whether there are some mechanisms by which it might be made workable. If it turns out not to be so, then so be it, but at least let us not presume that these things are going to be incapable of being designed into a workable system.

If I could make just one other point. A couple of speakers have alluded to the need for concessional financing to enable Australian firms to actually get to the table. What worries me about that and continues to worry me about that is that, again it seems to me, what we are doing is providing what is in effect an export market subsidy or an export market development grant through the aid program. We get there because this is where there are expanding opportunities relative to lots of other places, but also because we happen to have a little pot of money sitting here. It is very hard to get a similar pot of money out of the trade portfolio or somewhere else. Although in practice, if the export grant went to someone doing business in a developing country, it might get counted as ODA anyway, so recommending that this be part of the trade portfolio does not solve the

problem.

But my view about these things personally—and I think again it is reflected by us as a committee—is that, if we want to get into the business of export or trade subsidies, let us do it as an explicit program which is available for any business that wants to get into this in any market that it wants to get into. Let us not do it through overburdening yet again the aid program with an objective that it should not have and that possibly has nothing to do with poverty alleviation. It is more likely to be a subsidy to the business to get set up than a subsidy to the country and the people for whom we are setting it up.

**Mr KANALEY**—I just wanted to assure Professor Walsh that no decision in any way has been made on this. I was just trying to point out some of the very hard-headed questions that have to be answered. As an organisation, we are presently in discussions with some banks trying to work through some issues and what that shaking of the can is going to deliver I simply have no idea.

**Ms HUNT**—I would like to reinforce some of the things that Professor Walsh said. I suppose that the issue from an NGO point of view is that the developing country companies ought to have some opportunity. What we want to avoid is Australia or any other country's companies coming in, doing a job or supplying a service or a good which could be available in that country. It seems to me that that is the fundamental principle that we ought to be working towards and on in an aid program or development corporation program.

If we work with that principle and then look at all your actual costings, I would have thought we ought to get to some solution to this which is sensible. What is not sensible is when perfectly capable suppliers are available in a developing country and they are not able to be used, because of a preference for an Australian or New Zealand company. That seems to me to be the fundamental question.

**Prof. DUNCAN**—That would apply to food aid too.

**Ms HUNT**—Yes, it certainly does apply to food aid as well, and most particularly to food aid because it is frequently available more cheaply in the neighbouring region.

The other comment I would like to make is about evaluation because I do think evaluation is important. A couple of remarks that have been made about evaluation seem to suggest that maybe we could do too much of it. I do not think we are anywhere near doing too much of it at the moment, and I speak on behalf of NGOs as well. We ourselves are not doing sufficient evaluation and I do not believe there is sufficient evaluation of the effectiveness of the program as a whole. I think we need to concentrate our minds on evaluation of the effectiveness and the impact, not simply the outputs, of the program. That is really important as well, to pick up the point that Gaye Phillips made earlier, in terms of public confidence in what our aid is achieving.

In thinking through these issues about tying and untying of aid, loans and concessional financing and whether things are going to be supply driven or demand driven, we do have to keep in the backs of our minds what the public is going to support because it is publicly financed assistance that we are providing. The purpose, from the public point of view, is that it is to reduce poverty.

**Mr CARLTON**—I will not enter into the political debate as to whether you should have trade promotion or support for companies operating in other countries, but from something that Mr Wolkowicz said, if that is to occur, and I make no comment on that because we do not make political arguments in Red Cross, it would be better probably to have it from a budget that was clearly devoted to that purpose than one which gave the impression that to sit at the table in a foreign country required a certain payment and that if, by an indirect means, that payment came out of the aid budget which has an objective of poverty reduction through sustainable development, that would seem to be inappropriate.

**Mr ARMSTRONG**—Jim Carlton has basically said what I wanted to say except for one point and that is that in this whole debate there is the whole question of joint venturing and partnership which is one of the things that we should be looking at. In this we think it reasonable to be self-interested in the sense that we are helping to build relationships and partnerships between Australian business and businesses in the countries we are working in, the same as it is between the community or the non-government sector as well. That is a factor that ought to be built into our thinking in this area. Whether the loans approach is the way to do it, I am not sure.

**Mr B. DAVIS**—Just to endorse some of Vivienne Filling's comments, commerce and industry just sees concessional loans as part of a smorgasbord of products. It is not meritorious or otherwise of itself, it is what you do with the money that really matters. A concessional loan used for the wrong purposes is as bad as any other mistargeted product. From our way of thinking, you work out what it is you want to do and ask does a concessional loan best fit it or not. If it is a misfit it is bad, but if it is the best fit then it is good. Like Vivienne's members we also pick up, but for many people in commerce and industry it is part of being on the paddock. It is like turning up for a football game with one shoe. You can play but you are not going to be very good.

I guess the essential issues in many cases of concessional loans are: what is actually the nature of the concession you are offering? Is it a well-targeted concession or is it a mistargeted concession? Is it liable or plus this when it should have been a little bit more or a little bit less. Is it soft terms and conditions? It is a matter of effective targeting and doing what the recipient needs rather than saying, 'Oh, my God, it is an export subsidy. I have \$200 million to spend in the next six weeks. Let's throw it away madly.' It is how effectively you use it that we would think is the most appropriate and not whether it is good or bad of itself.

**CHAIR**—To sum up the session we will have Mr Wolkowicz comment.

**Mr WOLKOWICZ**—All I wanted to say was that, as industry—for the groups that I represent—I do not think there would be any complaint if the equivalent financing scheme were available under another portfolio. It is the fact that it is not available under the other ones.

**CHAIR**—Professor Hughes, do you want to sum up that session from your own input?

**Prof. HUGHES**—I only want to make one comment—that is, we are suffering from 20 years of bad history. Australian business has not been into the multinational lending, into World Bank, Asian Development Bank and similar businesses. It has been backward. It has been uncompetitive. It has been slow. That is what all the figures show.

Now we are suffering from the history, because those firms which were competitive 10 years ago are making a packet out of that \$1.3 trillion, a large part of which is international competitive bidding. But we are nowhere, with the exception of a few firms. We really have missed the boat.

Perhaps this is a question for the government to look at in another context and say, ‘We have missed the boat. Is there anything we can do to stimulate Australian business to become active in what is, I think it worked out to be, about \$3 billion worth of business a year? Where are the Australian firms?’ The answer is that there are a few Australian firms, but the majority of them are not in it.

**Mr WOLKOWICZ**—The World Bank and the Asian Development Bank come to take business from Australia because they say we, as Australians, do not really avail ourselves of the money that we are entitled to.

**Prof. DOWLING**—I would just like to say that, if you do not price something, you are going to misuse it. I think there is a great potential for misuse on the part of the recipient and on the part of the government with grant aid. Here is this pot of taxpayers’ money that the government has allotted for this. We are going to give it away. That process alone leads to misallocation, so you have to price things. We know that in natural resources. We know that in general in the economy. I think either you put some implicit price on things on this grant aid by evaluating the projects in some sort of systematic way or you run the risk of just giving it away and not using it effectively.

### **Untying Australian aid**

**CHAIR**—Thank you very much. I think we might move on because time moves on.



Another component to that same subject—international tendering and so on—comes in the untying of Australian aid. As you would know, the report recommends the untying of aid for several reasons—partly globalisation, which you have addressed, and partly the projected image of confidence and goodwill and the genuine desire to maximise long-term sustainable development of our partner countries. In this session, we have Professor Cliff Walsh to initiate the discussion and then Ms Vivienne Filling to follow. Professor Cliff Walsh, would you like to open this session.

**Prof. WALSH**—Thank you, Mr Chair. This gives me a chance to thank the committee for the opportunity to talk at this seminar today. We have already started to a certain extent to touch on the particular topic that has been allocated to me, which makes some of my argument a little more difficult to present in the way I wanted. But I will cope with that, as always.

**CHAIR**—We are glad.

**Prof. WALSH**—Give an academic a stage and he cannot shut up. Of all of the review's recommendations, the ones that received the most emphasis in the media on the report's release were those that related to the question of tied aid. The media responses ranged from some who were simply sceptical about whether the government would have the courage to head towards greater untying, through to, in at least one case, almost outrage that we would suggest that greater untying was desirable.

I remember a phrase used by a certain journalist on a radio program that followed his media article. He referred to the whole report as something of a black alliance between economic fundamentalists and the looney left. I asked him which category he put Paul into.

When I reflected on the responses we got, I would have to say that, on the whole, I was actually quite surprised. There are at least three different reasons why I think it is appropriate to be surprised. First of all, the recommendations simply flow logically from our insistence that the Australian aid program should have a simple, single focus maximising the impact on poverty reduction. Again, to hit that particular nail on the head as hard as I can, what we are arguing is that, in the long run, this is the way that we actually maximise the potential for trade benefits and the commercial benefits to Australia and indeed for the impact that we are going to have, by and large, in foreign policy terms. We are saying that putting short-run commercial and foreign objectives in the shaping of these programs is actually likely to cost the Australian economy rather than to benefit it.

The second reason why I am surprised at the reactions is that, if you believe the statistics, more than 50 per cent of Australia's aid is already apparently untied. So what is the political problem? If more than 50 per cent of it is untied, we might as well drive it quite a little way further too. The more than 50 per cent which is untied is the multilateral contributions to multilaterals, such as, we are told, the procurement of goods and

construction contracts in particular. There is already a lot untied. I do not know why we have got into a twist about the rest of it.

The third reason why I am slightly surprised is that the recommendations we make are about as anodyne as you possibly could be in the circumstances. We recommend an independent study of the costs and benefits of tying or untying. That would logically include the questions about whether international competitive bidding was itself unduly expensive. We recommend the strategy to encourage untying by all donors simultaneously. Finally, we recommend a move in the direction of greater untying by allowing full untying in the case of the least developed countries and partially untying elsewhere by allowing procurement of goods and services from recipient country suppliers where this proves to be cost effective.

It seems to me it would be pretty hard to reject either the first or the third on the grounds of them being objectionably radical. A well structured study into the costs and benefits of tying versus untying would at least give us a handle on whether and to what extent the effectiveness of the aid program is being diminished by tying, to what extent we are subsidising uncompetitive Australian businesses rather than getting the maximum transfers to our development partners.

At a recent AusAID-NCDS seminar, Sandy Cuthbertson said that a study of this sort was unnecessary—I thought that was quite a nice line—because if it costs a hell of a lot we know we ought not to be tying and if it does not cost terribly much then it does not matter and that we might as well be untied. He thought the study would be difficult, technically speaking. This is true. Establishing benchmarks is quite tough. A badly constructed study might be worse than none. I am reminded of the Brits in a UK-ODA study they undertook. For example, they used consultancy hourly rates as a test of whether they had excess costs in service contracts. That to me seems bizarre. It tells us nothing about what the true unit cost of delivering services is. If we are going to do the study, at least let us do it right. I do think it is worth the effort to do the study.

In the process, it would also pay to get greater clarity into the issue of what is and is not tied, de facto as well as de jure, and I did not mean to look at Trevor at that moment. Since the report was released, AusAid has indicated that the work they are doing suggests that the data that they provided to the DAC, which we quote in the report, actually overstates the true extent of tying. We quote a figure of around 45 per cent on data provided by Australia, about twice the DAC average ratio as calculated. It is quite likely that all aid donors are, to some extent, either overstating or understating, depending on whether they are playing deliberate games or simply not getting it right.

On the face of it, though, the fact that AusAID is now saying that we are overstating the true extent of tying them in suggests that there is ambiguity and confusion, including within AusAID, about what is truly tied and what is untied. As we point out in the report, the de jure procurement of goods and the construction contracts are untied. But

there are reasons for believing that the system operates in ways that lead, in practice, to outcomes that are likely to be different from those that would arise if they truly were untied.

For example, current and former governments have expressed a preference for Australian goods and services in the Australian aid program. It seems that this is strongly conveyed to staff and contractors. It has been over the years. The commodities assistance program guide explicitly states that it is to help developing countries buy Australian and New Zealand goods. AusAID advertises, for the most part, its tenders only in Australian publications. There are now obviously much bigger opportunities offered by the Internet. We expect that they will expand over time. So there are reasons for believing that the proportion that operates as though it were at least partially tied is probably a little greater than what the statistical analysis based on the de jure system would suggest. There is clearly a need for greater clarity and less ambiguity in the program.

Service contracts are tied. But AusAID makes the point—I think it is reasonable—that there is flexibility. It is possible that the team is comprised of up to about 49 per cent non-Australians or non-New Zealanders. I like what they say about that at one level, but it seems to me that the flexibility provided is administered flexibility. We are adding to the complexity rather than reducing it because we allow this to happen in, for example, the health and Papua New Guinea contexts. We do not automatically allow the up to 49 per cent to be taken up in other contracts, as I understand it.

Anyway, as is quoted in the report, something like 10 contractors soak up about 70 per cent of the contracting funds. That does not sound to me like a particularly large pool, especially since you would expect some degree of specialisation, even within the contractors. Once we look across the four or five sectoral areas in which we are attempting to operate, there is some reason for believing that we have an excessively high degree of concentration. Facts are important. Doing a study and getting the facts right would help the situation enormously.

A third recommendation suggests untying completely for the least developed countries. These are the least able to afford any excess costs associated from tying. That means a relatively small number of countries. Seven out of the 108 that we quote would qualify under that. It also mentions partially untying elsewhere to allow competition from recipient country suppliers. No-one who is serious about our aid program being about assisting developing countries to help themselves to reduce poverty and increase their own economic and social development could object to this recommendation since it is such a basically obvious one.

The countries should foster greater local participation, ownership and greater private sector development. These are all prerequisites for aid effectiveness. That leaves a second recommendation that Australia should join with others in the DAC, such as the

United Kingdom, the Netherlands and Japan, who at least claim to be promoting greater untying among all donor countries. This is about the least that we could credibly do in relation to aid to be consistent with the principles and practices that Australia applies in relation to trade liberalisation in global contexts.

While the committee took the view that in principle Australia might well obtain net benefits from unilateral untying by encouraging faster development in our region, we also have much to gain by, in this context, adopting a rules based approach to the issue of tying. Australian contractors would have less to fear and more to look forward to in terms of expanded opportunities to compete in the region for work if this were part of a multilateral initiative.

We concede that there are some issues both in principle and in practice to be considered. The Australian identity of our aid program is important to many. We think we have most to gain with recipients by demonstrating that we aim to be maximally effective rather than pushing Australian goods and services. To suggest that the Australian identity would be lost by untying is to imply the defeatist view that Australian companies will not be big winners in AusAID contracts under an untied arrangement. As the Chair so nicely put it at the launch of the report, only invalid companies really have anything to fear.

In practical terms, there would be increased complexities for AusAID in qualifying and accrediting foreign companies and contractors. Helen and Trevor made the point that internationally competitive bidding can be relatively expensive. Maybe this is a context in which we can do some more contracting aid. We have organisations, such as the World Bank and ADB, that have had to deal with internationally competitive bidding. Perhaps they could manage it for us too. I make that as a partly serious suggestion. The bottom line is that if we want to favour Australian companies in export markets, the argument would come back to our doing it on a broad basis through the trade portfolio, not on the basis that favours a few through aid and, in the process, may well be dissipating the effectiveness of aid.

Using aid as a form of export assistance is bad industry policy and bad trade policy. It is discriminatory. It is bad aid policy not only because it might raise the costs or lower the quality of our aid but also because it is likely to lead to supply driven aid. It is about what Australian companies and consultants do being likely to be favoured. This may not always be what most recipient countries most significantly need, want or deserve. For all these reasons, I really hope that the government has the courage to take the long view on this issue, even the anodyne version of the long view that we have offered.

There are significant economic and foreign policy benefits for good aid. They will be bigger and come sooner with a more effective aid program. Untying will help to ensure that our aid is maximally effective without penalising internationally competitive Australian firms in any way. The very least we can do is to untie the recipient country businesses and work on encouraging untying by all donors.

**CHAIR**—Thanks very much, Cliff. Would you like to give us the other side of the story, Ms Filling.

**Ms FILLING**—I certainly shall. I will start my remarks today by saying that MTIA is a very strong supporter of the Australian aid program and of its objective of reducing poverty in recipient nations. For those of you unfamiliar with MTIA, we are the national employer association representing 7,000 companies in Australia's manufacturing, engineering and construction industry. The industry sectors we represent account for approximately half of total manufacturing and 80 per cent of manufactured exports. They range from aerospace through to environmental technology, from food processing and food processing equipment through to traditional basic metals and include the foundry and forging sectors as well as civil engineering contractors. Given that I am a representative of Australian industry, it will surprise no-one that I strongly support industry's involvement in the aid program. A fundamental premise of my remarks today is that a strong, internationally competitive manufacturing sector is essential to the economic prosperity of Australia.

MTIA contends that it is not only possible to deliver an aid program which meets the needs of recipients as well as promotes Australia's foreign and commercial interests but also that it is desirable to do so, particularly given the government's objective of fiscal restraint. Some of you may consider this position to be heretical. I do not apologise for our views. We believe that these aims are not incompatible, that the achievement of one does not require the neglect of the other. MTIA believes that tying elements of the aid program within an appropriate policy framework does not reduce development effectiveness; gives Australia greater control over aid delivery and better facilitates our ability to ensure the effectiveness and sustainability of aid; delivers substantial long-term benefits to Australia; does not unduly increase administrative complexity; and, importantly, enhances Australian public support for the aid program, which is particularly important in the current economic environment.

The Simons Committee recognised that Australian aid has broad but shallow support. A critical element in public support for Australian aid is its visibility. The committee's report states that there is a strong community preference for Australian aid being recognisably Australian. This visibility also plays an important role in promoting trade and business alliances with developing countries. The 1994 survey of public attitudes to overseas aid found that the two factors considered most important by the public in prioritising aid were that the poorest countries were the most deserving of aid and that the delivery of aid should promote employment in Australia and the use of Australian goods and services. Eighty-one per cent of survey respondents supported the delivery of aid through the Development Import Finance Facility, for example.

The aid program does promote Australia's commercial interests through the direct purchase of Australian goods and services, the creation of export opportunities for Australian companies and by contributing to a positive regional environment for trade and

economic development. Australia's economic health depends on successful growth and development in the countries in our region. Therefore, we have a strong interest in assisting in their sustainable development. Continuing this line, the Simons committee found that it is not necessary to tie Australian aid in order to be assured of commercial returns from it.

Certainly the MTIA agrees that Australia will benefit from sustainable growth and development in Asia. However, we believe that the outcomes anticipated by the Simons committee from an untied aid program can be improved upon quite significantly. In the MTIA's view, a key objective of government policy must be the internationalisation of Australian industry through export-led growth and closer engagement with the Asia-Pacific region. This objective must be reflected in Australia's foreign and trade policies and in the directions of the Australian aid program. Having said that, the humanitarian objectives of the aid program must remain the primary focus.

As stated in the 1989 Bilney report, the aid program must not be about extremes. A concern for development effectiveness can be compatible with the pursuit of Australian self-interest. That is very much the view that MTIA takes. Past analyses of the aid program have shown that it has delivered development benefits to recipients while at the same time promoting Australia's interests in delivering considerable returns to us. This has not been by chance. The selection of aid activities funded through country and regional programs has been based on the needs of our aid partners while at the same time reflecting areas of Australian expertise. The much maligned Development Import Finance Facility is a case in point. I have already made it clear that MTIA is a strong supporter of the DIFF program.

Repeated reviews showed that DIFF delivered strong development benefits to recipients while generating commercial returns to Australia. The 1996 review found that already substantial commercial returns could be increased without any loss of development effectiveness. Other benefits identified by the review included the internationalisation of Australian companies, the establishment of credibility in international markets, enabling investments in plant and equipment, fostering new R&D initiatives and gaining international experience for staff. We contend that none of these benefits to Australia is intrinsically detrimental to developing countries. I do not think we have any reason to be ashamed or embarrassed about any mutual benefits that flow to us from Australian aid.

The Simons committee did find that a careful consideration of sectoral capacity should be factored into the provision of aid. However, the committee did express concern that the aid program not be distorted. We certainly agree that developing country needs must be the driving factor in the aid program. We are certainly not advocating that we supply snow ploughs to eastern Indonesia simply because we manufacture them. We believe that once a developing country's priority needs have been identified, an assessment be undertaken of how these needs can be met using Australian expertise while ensuring the delivery of strong development benefits to the recipient. Australia does have a wealth

of expertise in the sectors identified by the Simons committee as priority areas—namely, education, health, infrastructure and rural development.

MTIA also welcomes the finding of the committee that grants and concessional loans each have a legitimate role to play as tools of development assistance depending on the circumstances. The report acknowledges that it is unduly restrictive that Australia has not had a concessional financing mechanism in the aid program since the abolition of DIFF. Despite DIFF's demonstrated development benefits, it was argued in some quarters that greater benefits might be generated by re-allocating funds to more targeted programs in direct poverty alleviation, health or agricultural development et cetera. This approach fails to recognise that poverty alleviation requires a range of development interventions. For example, the poor and the near poor are particularly disadvantaged by unequal access to public infrastructure.

While today's seminar is not intended as a forum for revisiting the DIFF debate, I must say that MTIA cannot support the Simons committee's comment that DIFF was irreversibly tarnished by its origins and history and that its abolition was desirable to make the way clear for a concessional loans instrument which is unquestionably an instrument of aid and not trade. As stated in a joint submission by AusAID and the Department of Foreign Affairs and Trade to the Senate inquiry into DIFF, the facility was created partly in response to the increasing demand for infrastructural investment in developing countries in our region and partly in response to the associated financing or mixed credit programs of other OECD donors.

DIFF, like other elements of the program, was not a trade development program but an aid program which produced benefits for Australian industry as a by-product. Clearly, however, it enabled Australian companies to compete for and win contracts in developing countries against foreign aid supported competitors through the provision of the same kind of concessional finance that was being provided by other donors. Putting aside the debate specifically over DIFF, without doubt the provision of a concessional finance facility is essential if Australian industry is to compete for these kinds of projects in developing countries. As I said earlier, the intensity of competition in the international market is such that a competitive product in design and quality is alone not sufficient to win major contracts. Companies must also have access to competitive finance.

The Simons committee also expressed a concern that tied aid generates jobs and exports for individual companies in the short term at the cost of innovation and quality improvements. MTIA has documented case studies that illustrate the importance of the aid program and which show that companies have gone on to successfully expand their international activities, which is hardly a short-term outcome. Further, while we support the principle that the Australian aid program has a not only legitimate but essential role in furthering Australia's interests, to suggest that the implementation of this principle successfully shields Australian industry from international competition is simply untrue. We confront international competition in overseas markets as well as on the domestic

market in a range of areas.

I also noted with interest that the issue of untying Australian aid was addressed by the Commonwealth, state and territory ministers at their national annual trade consultations on 27 June. The official meeting communique says that the states and territories emphasise the potential adverse implications of untying for business and urge the Commonwealth to reject that approach. They also express support for the concept of a modern concessional loans scheme. Clearly, ministers believe that the benefits of tied aid extend beyond the short term.

Further, we believe that it is not necessary to untie concessional finance in order to allay concerns that such schemes might be supplier driven to the detriment of development benefits. Appropriate guidelines can and must be put in place to prevent such an eventuality. Examples are requirements that there be an emphasis on joint donor and recipient identification, selection and preparation of projects, that proposals be screened against explicit eligibility criteria, that high priority projects be listed by the recipient agencies, that suppliers prepare feasibility studies to support proposals and that there be independent appraisals of proposals prior to the commitment of funds. We also contend, as other people around the table have today, that the cost of administering the aid program would be likely to increase with untying, given the difficulties and costs associated with the evaluation, selection and monitoring of overseas contractors and the issues of how liability for performance be would be apportioned.

The Simons committee also found that a strong enabling environment for private sector development and foreign investment is a key task for developing country governments and aid donors. The Simons committee supported the continuation of a modified private sector linkages program. The PSLP is a tied element of the aid program which is strongly supported by MTIA. The recent review of the PSLP found that its development benefits had been substantial and that it enhanced the financial and entrepreneurial commitment of Australian organisations and developing country counterparts to generate mutual development and commercial benefits, with most activities resulting in joint ventures between the partners. The review concluded that the PSLP be continued in line with its current policy objectives and MTIA supports this view.

I will move very briefly to the issue of Australia's contributions to the multilateral development banks. Australia's support for the MDBs increases our capacity to respond to global and regional development issues. Very importantly, our membership enables Australian companies to compete for MDB finance contracts. MTIA has consistently recommended that the government place more emphasis on the parallel co-financing of projects with the MDBs in order to maximise the commercial benefits of our contributions, to promote trade and business links and to develop Australian industry, knowledge and experience of MDB requirements and procedures.

While the Simons committee found that co-financing arrangements can be difficult,



it also found that they can enhance aid effectiveness and that parallel financing offers a means of maximising the benefits of co-financing while minimising the administrative burden. Such projects have national visibility in the recipient economy, provide for direct contact between donor and recipient, promote industry knowledge and experience of MDB procedures and assist in the building up of in-country contacts and reputations. From my comments it is pretty clear that, far from supporting the untying of Australian aid, MTIA recommends that AusAID's country strategies be required to indicate how the proposed program first and foremost meets the needs of developing countries and, at the same time, promotes Australia's commercial and foreign interests.

**Mr WURCKER**—We are one of the 10 companies that Cliff mentioned, so it is pretty close to our bone. I am afraid my word goes with Cliff; I do not think it is a particularly big issue. I may not have it exactly right, but my understanding is that the 1994 amendments made it that New Zealanders and Australians could tender but only up to 50 per cent of the teams could be non-Australians. My understanding is that a company of any other nationality could set up an Australian base and bid for the aid program as long as they had an Australian base.

Even if it were untied, there have been very few New Zealand firms trying to enter the AusAID market because they realise that they probably cannot compete. I do not think we have a problem with any other western country consultants because I know they will not be able to compete. I do not think they would have been able to compete in 1994, especially given the price weightings that were introduced at the same time. I am sure that, given the reduced margins, they would not be able to compete now. So, firstly, I do not think it is tied to any great extent and, secondly, I do not think most of the firms are really concerned. I also remember the statement that Mr Simons made and certainly we are not concerned about competition from other western countries.

It is also important that people here know that those 10 organisations that have in the order of 70 per cent are not manufacturers, sellers of goods or whatever, most of them are project managers. They are companies whose core business is the management of development aid projects, whether that be for AusAID or other clients. For ourselves, more than 50 per cent of our international business is with clients outside AusAID. We are specialists at that and the AusAID market is a very particular market. I think you would find that other contractors outside Australia would find it very tough. New Zealand has not really tried very hard to enter the market and they would have a better chance than most.

The other aspect is bringing contractors from Indonesia or other Third World countries. As somebody has said, we are supposed to be in a dying industry. Eventually we will not be needed because local people will be able to undertake the services that we do. In principle, that is fine. We have just won a substantial contract in community health. It is a bilateral contract and probably goes down as fully tied, but I know that at least two-thirds of that is local goods and services. I am sure that what Cliff was alluding to is that the untied portion of the aid budget, when looked at properly, is well below the 40 per

cent that has been put forward.

I think that there is benefit in having an Australian firm manage the contracts. One of the first things we said this morning was that there is a clear objective that tendering should go to entities with a proven track record and resources. I imagine that there has to be a major change in the administration of the aid program for contracts to be put in such a way so that contractors from, say, developing countries will be able to really win on that sort of criteria.

There are other influences such as the face of Australian aid, the control and the administrative cost. I am sure AusAID thinks it is hard enough sometimes to keep us in line, let alone someone based outside the country. You also have to deal with possible conflict of interest. But I think the main message is that I do not think it is a particularly big issue. I think that, if a study is done, it will probably come up with some reasonable recommendations.

**Mr KILBY**—I would like to pick up a couple of things that Vivienne talked about. I have been involved in the DIFF debate for the last three or four years. The first thing you said is that the public believe that aid should go to the very poor countries, and you agreed with that. The problem we have with DIFF—all advocacy about it—is that it should be aimed at the least developed countries. In talking to government about that, the response has been twofold: one, companies are not interested; and, two, EFIC will not guarantee the loans. That is why there has been very little DIFF to Africa.

So we end up running a contradiction. If we are to be fair dinkum about aid having a poverty focus in poor countries, then it is those countries which cannot capture foreign investment which perhaps need concessional finance for infrastructure and what have you, but they are the countries that companies see as having the great risk and are not interested in investing in them. So you end up running a contraction. Also, you could argue the same for the very poorest parts of countries. How many companies are particularly interested in going to the backblocks of China to establish infrastructure or the like?

I wonder if Vivienne would like to elaborate on how Australian industry would handle that contraction. Would it really be interested in setting up in a big way infrastructure development in Ethiopia or Mozambique, for example?

**Ms KOTVOJS**—I am from ACIL Australia, one of those big 10 companies. I want to make two comments. The first is that, whilst there is a small number of major contractors who manage AusAID work, the number of companies involved is much larger. For example, we have recently put in a proposal in which ACIL is the managing contractor, but there are five other companies involved as associates: one is a company from the country that the project will be implemented in, one is an NGO and three are government departments from different state governments.

Like some of the other managing contractors, we actually specialise in implementing development assistance projects rather than specialising in a particular sector. We currently implement projects across a large variety of sectors.

In relation to untying aid, ACIL supports in principle the concept of untying aid. However, we feel that, if it were to occur, it is necessary to ensure that there is a level playing field—that the other countries open their markets to us, that competitors from other countries are not supported by the governments in their countries and that the process involved is completely transparent. The process currently used by AusAID in assessing tenders is a very transparent process, and that would have to be maintained.

We believe that the companies working in Australia are very competitive and, if the market were opened, it is quite likely that we would still maintain our position. In comparison to many other countries, in particular America and Europe, consultants in Australia have very low rates, which means that at the moment on World Bank and Asian Development Bank projects we are in a very competitive position and it would be unlikely that, if it were opened, unless the playing field were not level, the situation would change.

**Prof. WALSH**—I would like to respond to a few things that have been said, with your indulgence. Both of the companies that have responded have made reasonably cogent remarks about the nature of the market, and I have interpreted both as saying, ‘Have nothing to fear from untying. Go ahead with it.’ So we look forward to your writing that formal submission to the minister to let him know.

It certainly does seem to us that the claim that we can tie without compromising quality does need to be put to the test, and by definition at the moment it is not put to the test, because we do preclude international competition effectively from a large part of the aid program, including a large chunk of goods—as everyone agreed—the food aid part, which I did not talk about directly. So it would be good for us to do so.

To address just some of the points perhaps that Vivienne made, the point is often made that the aid program is fairly weakly supported and that we need to do all sorts of things to build public support under it, and that includes visibility. To some extent, I would have to concede that that is partly so, although, as I said as I was going along, I think we can have that visibility with untied aid too, because my assumption is that indeed Australian businesses will largely win the stuff. So it is not as if one day it is all going to be visible and the next day it is all going to be invisible, with other countries doing the work for us.

On this point about aid effectiveness being consistent with the national interest, yes, that is an important point. It is a point that we have to go on thumping, but not necessarily by insisting that we put commercial interest up-front. Over the last quite a few months I have been on this aid project I have been applying the taxi driver test consistently. The most frequent comment from taxi drivers when they hear that you are

somehow associated with this overseas aid stuff—and I have never quite been able to make clear to them how I was associated with it—has been to say predominantly that charity begins at home and it should bloody well stay at home. But once you engage them in the argument about the fact that the growth of the nations around us, about the fact that all sorts of diseases, whether we are talking about animal or human or whatever, or security issues and so on, are involved, they sort of go, ‘Why didn’t anybody tell me that before? Never thought about that as an important reason why we should be engaged in this.’ That suggests to me that we do have a very large problem, even larger than I had thought initially, in terms of getting messages out about development education. That seems to me to be absolutely critical for the future.

As for the state and territory leaders supporting tied aid, my only response can be, they would, wouldn’t they? The only thing that the states and territories can see in an aid program is an advantage to their regional businesses. It has got nothing else in there for them directly.

**Mr KANALEY**—Firstly, on the point of the figures. A number of people have made reference to the level of tying in the program. I should just say here that what is reflected there is the fact that tying has not been a substantial issue in Australia previously. So the cost at the margin of putting in another 10 per cent work to try to refine data on tying simply has not been worth the toss of putting the money in. What John Wurcker said earlier about the fact that the existing arrangements allowed de facto for quite a lot of untying because we allow a lot of local consultants or other international consultants is precisely correct. But I do not believe the present system is confusing, as you referred to earlier. What I would say is that it allows sensible things to happen. Whether it does that enough is an open question.

The reason for them not going through every contract and saying, ‘Okay, it is 45 per cent untied and 55 per cent tied,’ is the point I made earlier. It simply has not been worth the effort of doing that because it has never been a political issue that has been worth the analysis.

There are a couple of other points. Secondly, I do not think we should be thinking of this solely in terms of firms. The way the discussion has gone so far is that we have spoken about consulting firms and the purchase of goods and services. If you accept the logic of untying, then it also has to apply to students, and it has to apply to research and it has to apply to NGOs. It applies across the board. The logic is a universal logic. It is like being half-pregnant. You either go the lot or you do not do it. I think, if you are going to do it, then you do the lot.

The next point I would make is that I am not personally convinced that a study is going to be overly beneficial. It is just because of the methodological problems that Professor Walsh referred to earlier. The OECD has been looking at the costs of tying—certainly as long as I have been in this business—since 1985 and probably considerably

before that. They have done numerous studies on tying, as have other members of the OECD. Professor Walsh mentioned the UK study. The problem is the classic problem. You can never work out in the 'if not' situation precisely what would have happened. My concern with the study recommendation is that I am not sure it is going to be conclusive enough either to convince the doubters or to really support those who already believe the position.

I suppose, in terms of the tying and untying question, you could certainly make quite a strong argument for doing it, and you could make an argument for not doing it. I am not sure it is one of those ones where vacillating around the edges leads to a lot of outcomes. Maybe it is one of those things where government just has to decide yes or no, or maybe there are some halfway houses, such as allowing more local participation. Maybe the 50 per cent at present should be increased to 75 per cent. Maybe there are some halfway houses. I am not personally convinced that a lot of extra work on it is actually going to lead us very far.

**Mr McDONOUGH**—I was a bit surprised at your reaction, Professor Walsh, to the press, because in your recommendation you say:

A thorough, independent study of the economic impact of tying Australian aid should be conducted.

In your prelude, it says:

Most studies indicate that tying aid to goods and services supplied exclusively by donor country businesses or agencies diminishes development effectiveness.

It then goes on to say:

Tied aid increases the cost of the assistance and can encourage donors to focus more on the commercial advancement of their companies than on what developing countries need.

It seems to me that, if you had suggested this was going to be a consultancy, you have already told the consultant what result you want. It is in that lead-in. What I find interesting is that, as one of the companies trying to do business overseas not in the aid program, you have to have very deep pockets.

We have been in a Malaysian project now for seven years. I would not like to embarrass you with how much money has been spent in keeping that project alive to get a decision, but it is not cheap to do business overseas. It is not surprising that there are only 10 companies in there at the moment from Australia. Hopefully there could be more, but they would want to have a good bankroll to stay in there.

I think, in all of this program, we are forgetting the second customer. The recipient country is one; the taxpayer is the other. I think that with this idea—where the taxpayer might bankroll a program for which there is limited benefit in Australia, when there are

unemployment problems and other issues here—the Australian taxpayer would be looking for some return.

**Senator PAYNE**—I would like to raise an issue following on from some of Gaye Hart's encouraging comments this morning on gender specific development issues in particular. My issue, however, concerns the micro-finance and micro-enterprise development part of the report. In the review of micro-credit there is, in fact, no mention made of the critical role that women can play in advancing development through that particular sort of policy instrument. I wondered if there might be a comment on that.

**Ms HART**—I am surprised that we have not, and my mind just totally escapes me. I see Cliff nodding as well, because we certainly have discussed it at some length. Can I have a moment to look at the report?

**CHAIR**—You can have a little time. In the meanwhile, we will sum up that little session. Perhaps Cliff might like to sum it up and then we will come back to you before we have a brief adjournment.

**Prof. WALSH**—To reflect on several of the themes that came through, it seems to me that there is some tension within the business community, which is what I like to see.

**CHAIR**—It is like academia.

**Prof. Walsh**—We are happy to go out there and compete, and others are at least telling us that some of our conclusions might not be the most appropriate from that perspective. But perhaps at the core of this is actually this point about who are the beneficiaries. I agree. We have in mind two sets of beneficiaries. They are the recipient countries and the people of the recipient countries, and also Australian taxpayers. It is my hope and belief that Australian taxpayers are willing to support an aid program because they do indeed have humanitarian compassion—if I can use the 'h' word—as an important part of their make-up, and we have to increase their understanding of this because there are substantial national benefits that come out of an aid program. The question about national benefits, as I say, is really one about their timing and their impact. We still say Australia has most to gain by having a clearly focused aid program that maximises the development potential, particularly of countries in our own region, and that that is what is going to give us the biggest pay-off in terms of trade, commerce and everything else.

While I understand your angst about the size of the investment that is involved in establishing markets overseas, it sounds to me like another variant of the infant industry argument that we need to support a business while it gets itself established and in the long run it will actually work. As Bill Hayden once said, the problem with that argument was that we put them on child allowance and moved them on to the old age pension without them ever having gone through the income-earning stage in the middle.

**CHAIR**—I must take you to the cotton industry one day.

**Prof. Walsh**—As for your comment that perhaps we had given the consultants instructions about the result that we wanted, I can assure you that we will not have any role in either devising the terms of reference or instructing consultants, if there are to be consultants. On that point, I am not totally convinced by Trevor's argument. I think the importance of a study might be to help to undo some of the misconceptions that people have about whether tied aid is or is not damaging or beneficial. It just seems to me that we would probably be more likely to cut through the politics one way or the other by being able to provide some evidence even if it is difficult to undertake. I rest on that. On that point, Chair, I am happy to concede.

**CHAIR**—Vivienne Filling, would you like to add a few comments?

**Ms FILLING**—I expressed in detail the views of Australian industry. I would just like to reiterate that certainly humanitarian objectives must be the primary focus of the Australian aid program, but I do not believe that it is necessary to completely untie the aid program and remove benefits from Australia in order to meet that objective. But certainly it is possible to deliver a development assistance program that meets the needs of recipient countries while, at the same time, benefiting Australian industry. To suggest that somehow we are tainting our aid because we are benefiting Australia's foreign and commercial objectives is completely incorrect.

**CHAIR**—Thank you very much, Vivienne. Gaye, are you ready?

**Ms HART**—We have nothing specific to say except that the committee did have before it a lot of information on the effectiveness of micro-finance projects specifically directed at women. Certainly, if we have not referred to it somewhere specifically, someone should write to the minister and tell him that these are frequently very good projects.

**CHAIR**—I am sure that will be done. Barry wants to have a final word.

**Mr BARRY JONES**—Ironically, I was sitting next to somebody on the plane this morning who said, 'Where are you going?' I confessed where I was going, and the person sitting next to me said, 'It is a very great failure that they didn't really talk about the role of women in development projects on the grounds that the impact on education and the impact on the way in which domestic economies are run was likely to be very profound.' Perhaps if there could be an annex referring to the 'h' problem and also drawing attention—

**CHAIR**—What about the 'g' word?

**Mr BARRY JONES**—Exactly. There have been so many other projects—like the

Grameen Bank and what it has been doing—which are very much aimed at looking at some of those gender related problems.

**CHAIR**—We will have an adjournment for about 10 minutes. Then we will resume for our final session.

### **Short adjournment**

[3.39 p.m.]

### **NGOs and the Australian aid program**

**CHAIR**—As the graph in figure 17.1 on page 263 of the report shows, the NGOs are by no means an insignificant component of the Australian aid program. We are all very conscious of the work they do in many countries in many, diverse areas. For that reason it is very important that we have two of the principal Australian participants in the NGOs—but by no means the only two—here to tell us a little of how they see the impact of the review committee on the role they play and to talk a little about the future. I invite Janet Hunt of ACFOA and then Charles Tapp of CARE Australia to talk to us.

**Ms HUNT**—Thank you, Mr Chairman, and thanks to the committee for inviting us to address your seminar today. I have distributed a sheet which summarises the chapter on NGOs—seven or eight key points—and the recommendations about NGOs which you can have a look at as I speak. I will address those.

The committee did recognise the valuable contribution NGOs make to the program, and they recognised that there had been an increase in the role of NGOs in the AusAID program since Jackson. They noted that that was largely through the growth of so-called ‘NGO windows’ in country programs. Currently, what is called the ‘NGO reform package’ is being introduced. It is going to substantially streamline the administration and improve the accountability and effectiveness of NGO programs. The committee noted this, but they also recognised that it does not apply to the fastest growing part of the NGO program which is local NGOs in developing countries.

The committee talked about the need for a coherent policy statement about the role of NGOs in development cooperation, and that is what I am largely going to speak about today. They talked about the variation in capacity of NGOs and their diversity, and the fact that—and I mentioned this earlier—there is insufficient evaluation of whether NGO programs and projects really are as cost-effective or as effective in poverty reduction as NGOs claim. They assessed the whole question of country program windows—NGO windows—and they argued that they should remain closed as windows for NGOs, on the basis that NGOs now have to go through a fairly rigorous pre-accreditation process to have access to those and that it was not really feasible to do that to all players, and so they should proceed as is.



Finally, they looked at the whole question of cost sharing which became, as I understand it, one of the most difficult issues in the review. I found it a very small issue that this review got caught up with. But they came down with a decision to recommend against the wider introduction of cost sharing. For those of you not aware of this, there is already cost sharing in the subsidy part of the program, which is about one per cent of the aid program—it has been one per cent since Jackson. The rest of the program, which is the emergency program and the country program windows that NGOs are involved in, is not required to be on a cost sharing basis, although sometimes in the emergency area NGOs do make their contributions.

So the recommendations were that there be a re-examination of funding arrangements for local NGOs, that there be a development of a formal principle and policy statement, that there be a study of the relative cost-effectiveness of NGOs as against other channels for delivery and that the wider application of cost sharing should not be adopted. I want to run through three of those very quickly and then go to the policy question, because that is the important one.

The funding of local NGOs does need to be addressed. AusAID and Australian NGOs should sit down together and try to find some way to continue and strengthen the funding and the capacity building of local NGOs in developing countries while also being able to meet their increasingly stringent accountability requirements. So we need to have a dialogue about that and find some models—to look at some other ODA models and see what we can come up with so that that part of the program can continue and grow while the accountability requirements are met.

We welcome the recommendation against widening cost sharing, because we do not believe that was a sensible proposal. I hope that the minister will accept that recommendation. At the moment, the NGO windows—the major area that proposal was being considered for—have actually been considerably reduced because of the overall cutbacks in aid. So we hope that that is certainly only a temporary problem—and as there is plateauing out and the making available of some new funds that we will be able to see some NGO windows reopen in the future.

In terms of the idea of a study of the cost effectiveness of NGOs—it actually came out of the debate about cost sharing which we hope has now been dispatched—there still may be some value in conducting that study because we are looking at trying to have an aid program which is cost effective. NGOs do make claims, and we have very little hard data that bear those out, so perhaps it is worth us having a proper look at that question.

I want to turn to the main point which is NGO policy. I think ACFOA and our member agencies will be very, very happy to work with AusAID on a statement of policy principles and objectives for AusAID's cooperation with NGOs. The Simons committee suggests that that should be developed, recognising the strengths and weaknesses of NGOs' involvement in development cooperation. On the back of the sheet that I gave you

is a list of the perceived strengths and weaknesses of NGOs, as identified in the NGO effectiveness review which was conducted in 1995, and is drawn by AusAID from the literature looking at NGOs as against other channels for a delivery.

You can see there the sorts of strengths that have been identified by a range of bilateral donors and the World Bank: the ability to reach the poor; the ability to mobilise people locally and to mobilise local resources and organisations through which the poor can participate in their own development; relatively low cost service delivery; innovation; being able to go where governments cannot; being able to foster the involvement of developed country communities in overseas development—and we talked about that earlier; and responsiveness and flexibility, particularly in emergency situations and situations in flux. Those are some of the recognised strengths.

Some of the weaknesses are: the limited ability to scale up successful projects; perhaps sometimes the lack of strategic perspective or understanding of the broader context; the relatively limited managerial and organisational capacity; and the relatively limited technical capacity for very complex projects.

They are generalisations, of course, about a very diverse community and a very diverse range of organisations, from World Vision, which is very large, down to some extremely small local NGOs. So we have to handle those generalisations with care. But how do they relate to the broad directions of the Simons report?

I want to look at three concepts within Simons: poverty, sustainable development and good governance and see how NGOs might play a role in all of those. In doing that I would like to say that the report did not sufficiently clarify—and perhaps it was a tall order, but it is something we need to continually work on—the respective roles of the state, the market or the private sector, and the community or civil society, in development. We need to constantly look at what our respective roles are and how that will flow through in the shaping of a range of both sectoral policies and country program policies.

To take poverty first, it is recognised that NGOs do have some expertise in relation to people who are poor and marginalised. We all recognise that poverty is actually a very complex thing. It is not simply a lack of income; it is powerlessness and it is a whole range of political as well as social and economic factors. Whilst I have recognised that there is a need for better evaluation by NGOs of how effective we are and what factors contribute to the success or otherwise of projects and programs, I think NGOs clearly have something to offer, among others, in a partnership with AusAID in developing poverty reduction strategies and policies at the country as well as the project level. This means that ways need to be found for both Australian NGOs here and Australian and local NGOs in country to participate at a policy development level, as well as at a programming or project level, in developing an aid program well targeted on poverty reduction.

The NGO programs, overall, actually amount in total to only seven per cent of our

aid program, so they are a small component of the total program. But I believe that in policy terms we have something more to offer across a broader range of activities and we need to find ways for that to happen.

Turning to sustainability, to me sustainability involves economic sustainability, ecological sustainability and social sustainability. Today I just want to highlight the latter. Participation of people is the key to social sustainability. What NGOs can do is mobilise local people and that is particularly important in programs in the social sector areas—health and family planning, education, water supply and sanitation, rural development and agriculture—on which the Simons report recommends the program focus. Participation is such a fundamental principle for effective aid in any sector that, as development partners, AusAID, contractors and NGOs need to do much more shared learning and shared evaluation of the models and processes which could foster successful participation and real local ownership of development.

I was reading the other day about a recent World Bank review of projects in some of those sectors—population health, nutrition, agriculture and social sectors—and they found that projects in those sectors which involve NGOs have a substantially lower ‘at risk’ rating than projects which have not involved NGOs. The difference is 25 per cent ‘at risk’ where NGOs are involved compared to 45 per cent ‘at risk’ where they are not. While a lot more needs to be known about the nature of the NGO involvement and so on, those findings should signal that NGOs may have something very significant to bring across a whole range of projects and that, in developing NGO policy, AusAID and NGOs need to really explore how we can use the contribution that Australian and local NGOs can make to programs beyond the existing modes—important though they are—and working with other partners. At some stage soon AusAID might usefully review the experience of NGOs working with contractors to identify what is working and what is problematic in such joint arrangements.

This brings me to the issue of scaling up which I do not think we have got right yet. There is a misperception that NGOs are only doing small scale community development projects. They are doing those sorts of projects and those sorts of projects are important. Some of you may have recently been at the seminar which World Vision and the Crawford Fund put on about NGOs, scientists and the poor where we were given a range of illustrations of projects and programs, of collaboration between NGOs and scientists, particularly agricultural scientists, which were far from small scale community development projects. They were major projects of national and regional significance making a very big difference to the wellbeing of people in Africa and in South Asia particularly.

In other instances, there are NGOs doing work in Vietnam, for example, on vocational training, and in Cambodia on health, where they are indeed shaping national policy directions. Their programs are really quite significant in providing models that can be applied and are being applied far wider than the original project of the NGO.

Where NGOs have developed successful and innovative approaches on the ground on a relatively small scale—and by that I mean, say, in one province—AusAID needs to work much more closely with the NGO in developing any proposals for scaling up or extending the project. I do not think simply tendering out a larger version to any bidder is necessarily the answer, nor can the NGO be expected necessarily to scale it up itself. NGOs do have limited capacity in organisational management, although some have much greater capacity than others.

We need to have more innovative thinking applied to such opportunities so that the NGO experience is not lost as the program ideas are applied more widely. I think there is a risk that the current trend for AusAID projects to be on a much larger scale seems to be likely to reduce opportunities for increased NGO involvement in key areas unless more discussion and dialogue takes place about how to address this difficulty.

Thirdly, I would like to look at good governance, and the Simons report places great emphasis on that. Good governance is about much more than economic policies and efficient public administration. Some of that has been talked about already this morning. It is also about democratisation and participatory development, respect for human rights and the rule of law.

A recently conducted evaluation of donor programs in the area of good governance has just been released by the DAC. In programs designed to improve legal systems and the rule of law, for example, the study concludes, among other things, that more attention needs to be devoted by donors to strategies which mobilise local support for desired changes, such as support through NGO coalitions and the commercial sector. It finds that support to legal advocacy NGOs and alternative dispute resolution mechanisms are some of the most promising strategies to widen access to the law, particularly for rural and low income people. Overall, there needs to be a greater emphasis on strengthening local communities to deal with some of these governance issues, and NGOs clearly have a role to play.

I have tried to indicate that in developing an NGO policy the government might look beyond the areas identified by Simons, which were small scale community development and areas or sectors where governments cannot go, or where it is sensitive to go, and to recognise that NGOs—Australian and local—as development partners have particular contributions to make in the areas of poverty, participation and governance, both in policy and programming.

To maximise the potential of NGOs in these areas, there will need to be continued emphasis on strengthening the capacities of NGOs—both Australian and local, improving their evaluation and their ability to learn from experience, assisting them to draw policy implications from their on-the-ground work, exploring new ways to work with development partners from the different sectors, extending successful lessons from NGO programs into wider programs and continuing to support innovative approaches by NGOs

to problems.

It must always be remembered that NGOs are quite diverse and there will need to be diverse ways in which NGOs can be involved in the development cooperation program. So there need to be diverse mechanisms to suit the particular capacities and contributions which different NGOs can make. I think we must also remember the diverse expertise that NGOs bring and, in particular, I would want to highlight areas such as HIV-AIDS, family planning, gender, environment and human rights—just to name a few areas where NGOs have really brought some new thinking and some expertise early on in program development in the AusAID program.

Finally, one area which is very important that I have not mentioned is the relationship between NGOs and the community. Simons clearly recognises that this is a strength that NGOs bring to the program and, as has already been mentioned, the report notes that broad but shallow support exists in the community for overseas aid, and it argues for a greater level of support for community education. NGO engagement in the official program is one way in which this support can be strengthened because of the connection to the community. But NGOs can also play a role with AusAID in promoting the wider aspects of the official program, particularly if that program does have a clear focus on poverty reduction. Community support will surely strengthen if the program can demonstrate that it is successfully achieving this goal and that it is doing it in a cost-effective way.

NGOs are keen to work closely with AusAID to assess public opinion and to collaborate in efforts to build a stronger understanding in the community of the need for and the effectiveness of aid. The extent to which aid contributes to building a broad range of diverse relationships between people and institutions in developing countries and people and institutions in Australia will affect the extent of community support for what remains a huge task. I think the diversity of the NGO community is a plus in this regard, as well.

That is all I wish to say, Mr Chairman. Thank you for the opportunity.

**CHAIR**—Thank you very much. I now call Charles Tapp from CARE Australia.

**Mr TAPP**—I would also like to add my thanks to that of the previous speakers for this fascinating discussion today. I think I should have learnt by now that when you are the last speaker of the day that, if you have a prepared text, you are wasting your time. It is a little daunting being the last speaker, because many people are probably wanting to get a move on now. It is getting a lot colder outside, and people want to leave Canberra before it gets too cold. I can promise you that it does get a lot colder.

**CHAIR**—You ought to be here on budget night.

**Mr TAPP**—I will remember that. I was actually wondering whether I should go to

my prepared text or not, but I will take the advice of one of my board members, Barry Jones. He said to 'wing it', so please excuse any rambling and babbling.

I think the fact that we are having this debate is terrific. I would like to add my support to the fact that I hope this debate and discussion can carry on. Having recently been in the UK at the time of the Fundamental Expenditure Review of the British, then the ODA, the level of debate was not considerable. I think the open nature of the debate that we are having here is terrific and long overdue, and it is one that I hope can carry on.

The Simons report, from CARE's perspective, is very much to be welcomed. Not only is it providing excellent analysis and a lot of fairly challenging recommendations but also it is providing succour and cautionary warnings to all of us who are involved in the aid industry. I think we ignore those warnings at our peril. I think the title of this session is 'NGOs and the Australian Aid Program'. What I would like to do here is perhaps put the spotlight back on the NGOs internally. I should add that I am speaking for myself and for CARE but not necessarily for the whole NGO community.

CARE Australia has over 1,000 staff spread around 15 countries. We have an annual contract value of between \$30 million and \$40 million. I think one of the things we have been doing recently—which has made it difficult for us to pull together a formal response to the Simons report—is that we also have been busy dealing with issues such as geographical focus, sectoral focus, how far we should spread ourselves around the world, what our staffing structures are, how we can deal and work in an extremely competitive environment, dealing with the fact that only 20 per cent of our funding actually comes from the Australian public and the Australian government.

We are actually a major contractor from the World Bank, the ADB and the United Nations. I think it goes without saying that we would support the concept of untying aid and that that should be extended. Logically, it has to be extended. We are working in an ever shrinking world, and Australian NGOs, like Australian companies, have to be able to operate and compete within that.

The bottom line of being able to compete—I suppose there is a difference in the private sector—is not just financial. It has to be on the basis of what we are able to achieve. I think that is the biggest challenge which we are facing right now, and it is one I think I might come back to in a minute. I think that we have been finding that realism, having to be brutally realistic, is a very frightening and humbling experience. I think that is a little bit of what I was trying to intimate earlier on this morning. I think that the overall Australian aid program is going to have to deal with these same issues. It cannot do all things to all people. That means there are going to have to be some very difficult, unwelcome and unpopular decisions. The results down the road, though, will justify those decisions being made.

I think one of the issues which I have been quite fascinated by, which is mirrored

in many parts of the world, is how the aid industry here is engaged in the debate. There are diverse interest groups and actors involved in the aid industry. Very often we get down to the 'us' and the 'them'. How often do we in the NGOs refer to AusAID or the consulting firms as 'them'? We say that it is unfair or this is not right or what have you. That rhetoric is somewhat alien to what it is that we espouse, which is a process which is actually one of partnership, one which is inclusive. I think that the debate that we have had today has not really been very much—and I have found it particularly fascinating because of this—of an 'us' and 'them' debate. It has been far more of a 'we' discussion, which I think is extremely encouraging and one we would want to see move further.

The NGOs are a very disparate group. The Simons committee identifies that and recognises all of the contrasts that exist amongst the NGOs. Recommendations coming out of the report are somewhat all encompassing. They are a little generic. I was trying to work out why that might be. Having not really had much of a chance to engage with the committee on that, I am thinking that perhaps the reason for this is that the NGO community has done a pretty appalling job in being able to explain clearly, cogently, to the committee what the competitive advantage is, what it is that we are able to do and what it is that we have actually achieved.

To be able to say there might be a weak recommendation here I think is actually avoiding putting the mirror in front of our own faces. As I say, I think we have been guilty of the 'them'. I also think the NGO community has been guilty of being the most prominent public face of the foreign aid program at times through the media, particularly in some of the complex emergencies.

I am not sure we have done ourselves any great favours, and I definitely can speak for our organisation in the way that we portrayed foreign aid and the way that may have contributed to perceptions in the Australian community that good money might be being thrown after bad. We have to actually get across the argument of the effectiveness of aid and why it is important. I think that is a responsibility for us all, the whole industry, but I think we NGOs have a very heavy burden of responsibility in looking at that.

I do think that we in the NGO community have to look very much at ourselves and not just rely on external reviews in the way that we go about our work—be it in terms of our professionalism, in terms of our accountability, in terms of our political engagement. I also think that fundamentally it has to be around what it is that we do and what it is that we are actually achieving.

From CARE's perspective, as I mentioned earlier, the biggest issue we are trying to grapple with right now is whether we are actually having any impact—what the effectiveness is of our programs. We are extremely good—and I am not talking for other NGOs; I am speaking for just CARE for the moment—at counting widgets. We are extremely good at measuring what we do—we have trained X number of people, we have constructed Y number of wells.

In terms of whether that has had any developmental impact, that is a very different issue. How one does that and deals with, as it were with the qualitative rather than the quantitative in working with as many countries as possible and with these rather extraordinary claims of how many people we may be actually touching is difficult. Trying to deal with the qualitative is a particularly difficult challenge and one that, though, is extremely important. I cannot believe for one moment that we can carry on 'conning' the government and the public—although I think that is the wrong word to use because I think we do some extraordinarily good work. We cannot carry on justifying receiving funding by saying, 'Because we are a charitable organisation we must be doing good work.' As an argument, that is nearing the end of its shelf life.

In our relationship with AusAID in this particular area I think there are some important ways that we can engage and work with AusAID and other actors within the aid industry in terms of looking at the issues particularly of design and of monitoring the work that we do, because this is the area that I think we are particularly deficient in. I was personally delighted that AusAID has agreed to help finance, along with us and a number of other NGOs involved in the Steering Committee of Humanitarian Response - SCIAR - a study which is trying to establish minimum performance standards in humanitarian emergencies—something which I think has been missing. A number of NGOs were involved in this and AusAID has expressed its interest and has provided some of the matching funding to it. That to me is one very constructive example of ways we can move forward.

Another thing that we are engaged in at the moment is actually looking at something that we refer to as MER—monitoring, evaluating and reporting. It is a pretty nebulous sort of title. What we have been trying to do is grapple with the way that we are able to monitor, from the initial concept stage of a project, whether what it is that we are designing and what we are doing is actually having any impact and in that process how that is affecting our decision making. Too often our decisions are made not in response to what it is we are actually achieving but other externalities. One of the things we are finding with that is, to be able to have this type of monitoring system in place, it requires a certain level of both training and information systems which are now really only available to us with the current evolutions in the computer age.

What we have also found—and it has been quite intriguing and rather frustrating that one of the countries we were piloting this in was Cambodia because just now that part of it has gone down the drain, we think, depending on what various governments decide to do in their aid programs—has been that because one is looking at the principal source of information gathering actually being at the field level, the costs of that monitoring and evaluation can be considerably cheaper than the highly expensive, glorified, well paid consultants who come in and ask those damn fool questions and ignore every bit of research and information that may be existing on the ground. So we are intrigued that this may also prove to be a cost-effective monitoring mechanism as well as being an absolutely critical management tool.



Finally, in my incoherent babbling here, I would like to finish with a comment on the issue of the NGO relationship with AusAID. Trevor and I were talking about this the other day and we agreed that it has been, and probably still is, very financially driven, budget driven both in relation to the allocation of funds and the whole issue of accountability. At times it has been pretty adversarial. In terms of being able to move that so it becomes more issue driven and more focused in that engagement between the NGOs and AusAID and the fact that there have been some movements in that area, I think is something that is important, though some of the current developments are very encouraging.

I think there is again a danger that by calling it an NGO-AusAID engagement and relationship that is also excluding some of the other key actors in some of the areas, sectors and policy dialogues that we are involved in. I am very humbled to have to admit that, for our part, in terms of forging relationships and strategic alliances, that as we were considering how we, in our response to Simons, should provide input on the whole issue of tied aid, it was not until Sandy Cuthbertson stood up the other day and was talking about tied aid—and he actually is in an office directly underneath mine in the same building—that it became clear. That was another humbling moment for me in terms of how we should be looking at some of our relationships and strategic alliances.

I would hope that it is not just an NGO-AusAID dialogue, that it is actually going to be one of a broader church but that it is also very focused on the issues that we need to be dealing with and we are not actually wasting a huge amount of time contemplating our navels and not getting very far. I think at that point I should probably stop, as the temperature is falling rapidly outside, and leave it to further debate. Thank you, Mr Chairman.

**Dr JULIET HUNT**—I am here as an independent consultant, but I also represent the International Women's Development Agency. I wanted to follow up on Janet's point about participation which I was very glad that she focused on because since Mr Michel mentioned it this morning, I have been sitting here waiting for an opportunity to say something about it. Recommendation 4.3 of the Simons report refers to the importance of participatory development, which has definitely entered into international aid rhetoric now.

What I want to say is that I would like to see AusAID take this opportunity of the Simons report to really look a bit more closely at how bilateral project management can improve performance and outcomes in the area of participatory development. Janet has given the rationale and talked about NGOs as well as bilateral aid but, as someone who has had the privilege and opportunity to examine a number of project design and implementation documents as well as being in the field, I think this really is a great challenge.

I might have said this about a year ago in the consultation process: there are significant implications in contract management, project design and project implementation

for getting participatory development outcomes. I do not think AusAID has really put the energy yet into considering what those implications are, nor have other bilateral donors.

For example, if you have only got two weeks in a country for design, what sort of participatory processes can you expect to have in place? That is a very easy example. The reality is far more complex than that. Let us have a look also at how we can strengthen these sorts of outcomes. I think it really comes into the development effectiveness chapter. That is, I suppose, where my recommendation and my response will go, along with others there.

Since I am on my feet, may I also make a couple of other comments about things that have been mentioned during the day. This experience that I have had also allows me to support and reinforce the comments that Mr Simons has made a couple of times about the fact that some projects are really not well designed, are not well implemented, are not well managed and are not well monitored. Now that does not apply to all projects. I am just putting it in the same terms as you have, Mr Simons.

I will identify one area that I think is lacking, where we do need more expertise and more effort—that is, the area of both social and gender analysis. It is really rather poor in a number of projects. I think it is this sort of analysis and its application throughout the project cycle or the activity management cycle which is an essential first step in improving social development outcomes and also in improving distributional outcomes, which is of such concern to the committee. It is not the only step, but it is an essential first step. Without this, it is very difficult to go much further.

I think this applies to all sorts of projects. It applies to the small scale community development and rural development projects. It applies to social infrastructure. I might also say, having used one of the bridges as a case study for many years in gender training, it also applies to bridges. You can improve social and distributional outcomes by doing this sort of work at the beginning and by taking it seriously and applying it through the process. Of course, the constraints are the political donor-recipient government constraints—what ownership and partnership you can develop on these and other outcomes in that sort of project, like a bridge across the Mekong. It is possible to come up with implementable, realistic and not very costly components or activities which can improve distributional impacts. I do not say that it will make them ideal projects; it will not. But it may actually get us to what I think should be the bottom line of not having projects do any damage to anyone, women or men. So that is that point.

The final point was that I was a bit concerned, Professor Walsh, when you mentioned goal congestion and gender in the same breath. I do not see it that way. I do not think gender dimensions are an aspect of goal congestion. Gender analysis, social analysis and the application of these exercises are a dimension of project effectiveness and sustainability, not of goal congestion. They are a critically important element in donor best practice.

Coming to the senator's point earlier about the lack of mention of women in the micro-enterprise development part of the Simons report, my agency welcomes the chapter on gender. We support the recommendations, but I would also say—and this will be in our response to the report—there are a number of other recommendations, and the one on micro-enterprise development is just one of them, where gender dimensions are absolutely critical. The recommendations on sectoral programming and country programming are good examples of those. I am not saying that you have to turn the Simons report into a gender and development report; what I am hoping for is that, in the implementation of those very critical recommendations, the gender dimension is not lost, as it has so often been in the past.

**CHAIR**—Thank you very much, Juliet. I have got quite a long list, but I will ask Mr Simons, who wanted to intervene, to respond briefly to Juliet.

**Mr SIMONS**—The question I have had all through this review is: why, in a country of 18 million people, do we have 120 separate NGOs receiving substantial funding from the federal government? From the numbers we looked at, it appeared that many of them were almost entirely dependent on government funding. Others were very much less dependent because of their own efforts at fundraising. Do you have an explanation for that, please, Janet?

**CHAIR**—I think we will go through the list and let you come back to that question, otherwise it will take us a while. Will you take a note of that question?

**Ms JANET HUNT**—Yes, I will.

**CHAIR**—Mr Jim Carlton?

**Mr CARLTON**—I thank the joint standing committee for this opportunity; I think it has been tremendously useful. I also thank the review committee for hearing us before they put down the report. I thank AusAID, because the relationship between AusAID and us is not always an easy one for them to handle. People in our sorts of agencies can be passionate and sometimes precious and certainly paranoid. Given the nature of the business, it is a difficult area. Of all the areas I have been in over the years, I think the genuine attempts by the agency to handle these things and establish good relationships have been very good. I would just like to put that on the committee record.

The particular matter I wanted to deal with in just a little depth was something that was quite an issue before the review started. It arose out of the effectiveness review of NGO programs conducted in 1995, published by AusAID. There was a very strong push for this so-called cost sharing which already exists with the ANCP programs. There was a suggestion that it should be extended into the country windows program and possibly the emergency relief. For those who are not across that, an idea of, say, 25 per cent of the cost of actually running the thing would be contributed by the agency, otherwise it would

not get the grant.

This was a major issue and it appeared attractive, certainly to people in the parliament, because it seemed to be a good incentive. They are out there collecting money from the public; it will give them incentive to go and collect a lot more. Given my views on competition, I am attracted to that argument. There were other arguments put forward for it: it would give a sense of joint ownership of the projects, and it would improve the independence of the NGOs, in addition to this incentive thing.

We have all had to look at it a bit more closely, and the committee has in fact come out recommending against it. Because this is a formal hearing and a report from the committee goes through to the government, I particularly wanted to reinforce on the record of this joint committee why, on examination, that particular push was not a sensible push.

The joint ownership of these projects is there anyway. If the name of the agency is tied up with the outcome, then certainly the agency has a very strong feeling of joint ownership; there is just no question about that. We worry tremendously about the name of Red Cross, for example. We worry about all the other Red Crosses around the world that might affect our name. The joint ownership idea is just there anyway.

As to independence, the view of the committee was that, although the percentage of funds coming to NGOs for overseas assistance as a proportion of their total spending had certainly gone up, it was a matter for the governance of those organisations of the strength of their attachment to their principles to decide whether they were losing independence. The general view is that they are not. Certainly, from our point of view, we are fiercely independent, as people know.

I think the incentive argument is the one that would most appeal to a number of the members of parliament. It certainly appealed to me, without my being first informed when I went into Red Cross as to what the real position was. First of all, the sharing of costs is already substantial because of the overhead and in-kind costs that are incurred by the agency. If you are going to accept one of these grants, you have to have a fully operating system, you have to have desk officers, you have to have field supervision and you have to have a payroll system.

In our case, you have to have a very expensive insurance arrangement for war zones and disaster zones, which costs us a lot of money. Also, most of us are linked into an international partner infrastructure. For example, when we send people overseas we have an international Red Cross infrastructure which costs about a billion a year to run. It is very big, it is extensive and it is pretty well in all countries. We rely on that for security, for example. We cannot send people into Afghanistan just on our own; we have to rely on ICRC security. At this very moment I have a dozen people locked up in Phnom Penh and the ICRC compound is across the road. We subcontract the security problems to

them because they are experts in it; they have the equipment, they have the radios and all that sort of thing

There is also the voluntary contribution in governance. We have volunteer governance; we have volunteers on the ground. I have an OSB volunteer locked up with my people at the moment in Phnom Penh—Bill; I hope he is all right. We also have local partners. In our case, we have 171 national societies and we operate through them. Janet was talking about local NGOs: an important part of everything we do is to build capacity in those local NGOs, which we do. All of those things mean that we are already providing a considerable partnership arrangement in genuine cash and also in voluntary activity.

But the overriding macro effect—and I must say this had not occurred to me until not long before we actually met up with Paul and his committee, and I put this point very forcefully at the meeting we had with ACFOA—of requiring 25 per cent on all those emergency and country window programs would be to reduce substantially the total NGO contribution. It might give them an incentive to go out and collect more money but they would not collect nearly enough extra money to prevent a major drop in the amount they actually contributed overall. So the macro effect would be quite disastrous. Currently, they are only seven per cent of the program, and that is not an enormous amount.

I believe that we have a duty to improve our fundraising capacity. We have a big program in train to try and do this. But to require a 25 per cent contribution would actually have a substantial diminishing effect. That is against the policy of all of the parties in the parliament because all of them have the joint objective of increasing NGO participation and therefore voluntary participation.

I am sorry to make quite a meal of this but this is a formal inquiry and it is something that goes through on the committee's recommendations. I fear that, if the parliamentarians do not get the inside story of precisely why the superficially attractive recommendation is not sustainable, then in other things such as the party room or the cabinet—dare I say, Ian—it might go astray and the Simons committee recommendations might not be accepted.

**Dr KELLY**—I always feel breathless after following Jim Carlton. I have to take a breath to catch up with him.

This is a little bit off the topic of NGOs but it has been raised by Charles and Juliet and so I did not want to let the opportunity go past to say that, while I think today has been very interesting and very informative and we have had some new debates that have not been raised so far in this whole discussion, I think we have missed one of the major parts of the Simons report that Professor Walsh referred to and that other people have alluded to: the whole question of quality and outcomes.

The Simons report actually puts a lot of emphasis—and I think very good

emphasis—on the whole direction of aid being about being able to prove quality and outcomes, and the mechanisms for doing that. It makes a whole series of recommendations about changes in AusAID and other structures in order to bring that about. But we have had very little debate about that so far today and that is a major gap in this whole discussion.

One of the reasons I think it is a gap is that, in fact, that discussion should be ahead of discussions we had about structure—like devolution, decentralisation, geographic focus and others. It actually sets much better parameters for that discussion if we start from there.

The other reason it worries me a little bit is that there has been a lot of talk about evaluation—some of it a bit simplistic in my opinion, being an evaluation person—but the very important thing that the Simons report suggests is not that it is about more evaluation but that it is about a change of culture, to a learning culture, in AusAID.

I know there is nowhere near enough detail in the report about how that is brought about and what that means in practice, but it is an enormously important statement. It actually sets up a whole different structure in thinking, potentially, for AusAID. It sets up this thought of AusAID being the leading development thinker in Australia and perhaps more worldwide and some of the structures that might have to be brought about to make that happen.

While I do not want to underestimate how difficult it would be to move from what is understandably a public service culture and a culture that is actually conditioned around certain requirements to a learning culture that actually sets up risk taking and a whole range of other things, it is a debate that we should be having about how that actually comes about. I think today has been deficient in not actually opening up some of that.

I do not agree with all of the Simons report recommendations about how that should actually happen—and in other seminars we have had a bit of debate around that—and while I acknowledge that there is talk about managerial and organisational reviews to get us there, unless some of that is actually on the agenda, a lot of the other things will just become pragmatic responses: what the best geographic and sectoral limitations are, rather than what we are actually trying to achieve here and whether we are looking for major cultural change in major different directions.

**CHAIR**—As Trevor Kanaley was next on the list, he might take some of that on board.

**Mr KANALEY**—Thank you, Mr Chairman. All I can say on that last point is that certainly the outcomes focus of Simons, I think, is one of the high success points of the report. I think it hit the nail right on the head. It sets up a significant challenge for AusAID and, of course, for all the partners we work with. I would not in any way suggest

that the agency would want to, nor is there any way we would seek to, duck that issue. As I said, it hits the nail right on the head.

Initially, I want to comment on some of Janet Hunt's points. She referred to poverty reduction, sustainable development, good governance and then came to a conclusion that we need to be consulting in this sort of area with AusAID. I do not necessarily disagree with that, but I think it left a false impression, and that impression is that consultation at the moment is somehow either not taking place or is lightweight. With your agreement, Mr Chairman, I would like to place on the record—I do not want to read it out—the list of consultative mechanisms that presently are there. It goes for a page and a half.

**CHAIR**—Maybe we should incorporate it in the *Hansard* rather than read—

**Mr KANALEY**—That is why I am not going to read it at this hour of the day.

**CHAIR**—Is it the wish of the committee that the document be incorporated in the transcript of evidence? There being no objection, it is so ordered.

*The document read as follows—*

**Mr KANALEY**—The reason I am making this point—please don't take it as a cheap shot, Janet; it is actually a very important point—is that there is a high cost to consultation. It is not a free good. At the moment we are engaging in consultation in a whole range of areas with the NGO community. If we are going to look at the area of consultation, what we have to be saying is, 'Okay, this is the envelope of resources for consultation; what falls out if something new is coming in?' I do not believe we are at a stage where our agency can tolerate just adding new layers on top, while existing layers, if they are not delivering the goods, are simply rolling on into the indefinite future.

The next point I would make is in relation to social and gender analysis. A point was made by an earlier commentator. Again, I would not try to duck that issue at all, but I would make the point that the amount of analysis that you can do on a project is directly related to the size of that project. We should not hide that from ourselves. You are not going to spend \$1.2 million designing a \$1 million project. If we are going to do a lot more of this analytical up-front work, then I am afraid it has an implication for the size of activities.

I put that on the table because there is a lot of discussion that AusAID is moving to bigger activities. One of the clear reasons that AusAID is moving to bigger activities is that, if you do more up-front work, you have to justify that through your expenditure. I am not trying to be too much of a 'managerialist' here in terms of what I am putting forward, but I think any business would understand that relationship, and it certainly applies to the public service in the same way as it does to the private sector.

Lastly, Mr Simons raised the question of the structure of NGOs in Australia. That is an issue that certainly concerns me. I think it really gets back to some of the issues of the relationship between AusAID and NGOs. Quite clearly, the structure of the NGO profile is that a very small number of NGOs spend money, and then it has a very long tail, which goes off towards infinity, of very small NGOs that spend what is essentially peanuts. I am not saying that they do not have something to contribute, but they are in a very different league from the, say, 10 or 12 largest NGOs in Australia.

The sort of consultation that you can have with bodies that are seriously engaged in what I would call program delivery is very different from that which you can have with agencies that are down the tail of the profile. Charles Tapp referred to some of the work that CARE is doing on outcomes and on monitoring systems. We are talking to the Asian Development Bank about exactly those same issues. There is obviously a dialogue that can occur on those sorts of points. For an agency that has a budget of \$5 million, it is not worth even having the debate. You have to be spending a sufficient volume of funds to be a player in the game. I simply make the plea that, in looking at consultation, we make it meaningful, we make it sensible, and we make sure that the resource costs of it do not exceed the benefits.

**CHAIR**—Thanks very much, Trevor. We will now hear from Bill Armstrong,



Lynn Arnold and Cliff Walsh.

**Mr ARMSTRONG**—In some ways, I am picking up one of the points that Trevor has just made. I think Trevor is right: there is a lot of work to be done by us within the NGO community. We are doing a lot within ACFOA at the moment to try to work out how it is that we consult within the community itself.

I will leave it to Janet to pick up the question that you, Mr Simons, raised about the number of NGOs. From my point of view, the number of NGOs in Australia is nothing like the number of NGOs in most other countries around the world. There are thousands in some countries—certainly in developing countries. In Canada and other countries there are many more NGOs.

I am a little bit concerned that, when we talk about NGOs, we are leaving out one of the very important points of the Simons report: the need for awareness raising and community participation within Australia. It is very well stated in the Simons report, but it gets very little airing.

The original idea behind the ANCP program—the Committee for Development Cooperation—was to involve the Australian community. It was to provide subsidies from the government to as many Australian organisations as possible to give support to those organisations in their programs, to involve those organisations in the aid program, and to assist in the building of a constituency for the aid program.

My fear at the moment is that, right around the world, NGOs are moving much more towards being service providers for the aid programs. I am not against that, but I think we are in great danger of losing sight of that other side: that very important role of NGOs of building, supporting and maintaining the awareness in the Australian community at large, the advocacy roles, the people-to-people awareness raising, the quality of aid questions and the critical analysis questions. If I am critical of the NGO community at the moment, it would be because we have left a lot of that behind. We have been sucked into the service providing area.

I would like to think that, in the considerations of this report, more consideration would be given to how seriously we take that recommendation in the Simons report which talks about the need for the building of awareness in the Australian community and the building of a constituency in the Australian community.

**CHAIR**—Thanks very much, Bill. I now call Mr Lynn Arnold.

**Mr ARNOLD**—I have a number of comments that I would have liked to have made but, given the time of the day, I think it would be better if we just make sure that they are incorporated in the World Vision submission to the process. However, there is an important general comment I want to make, and then follow it with a question.

The general comment is my endorsement of Jim Carlton's comment of appreciation to the joint standing committee for having put on this seminar today. It has been a very useful exercise for us to have this. I particularly appreciate that so many members of the joint standing committee, including you and others, have given up so much time to actually listen to the whole process.

I am conscious of the fact, of course, that the committee will in its own way be feeding into the whole process. Jim has alluded to that, and I certainly endorse his comments on the cost sharing issue. The committee will be feeding into all sides of parliament leading up to what will finally be decisions by the government on this matter.

In that context, my question is really to you, Ian, and to other members of the committee. You have been listening all day—and contributing as well—during this session about the NGOs. Are there any questions in the minds of members of the committee about the NGO-AusAID relationship, about NGOs in the aid debate, that you have not heard being touched upon, that are of concern and that you think we should be making some comment about? I am really offering that opportunity by asking if that could happen now or if that matter could be specifically treated and communicated to NGOs in a future meeting of the committee because building up this relationship, this partnership, and this breaking down of the us and them approach really relies on those kinds of questions being adequately addressed by those who are involved in the decision making.

**CHAIR**—Janet, I said I would not be calling you but we have gone so far from the questions asked of you that I am wondering if you want to say anything now because we are moving on. I have still got about half a dozen other people listed.

**Ms JANET HUNT**—I will take Trevor's point first. I am sorry, Trevor, if I implied or if you heard that I was suggesting that there was not sufficient consultation. I am certainly not suggesting that. I was really trying to look at the policy basis for involvement of NGOs in the program, what we might discuss in developing an NGO policy and why AusAID or any other development cooperation program might seek to involve NGOs in its work among other development partners. I was trying to put that in a context of some of the three key concepts that seem to underpin the report.

I do think that we need to look at the current consultation mechanisms. They do need to be sharpened and improved. I think the kind of discussion that Charles might bring into your discussions about monitoring the evaluation would be extremely valuable. Others in the room might also have things to offer, and that is the sort of professional interchange that we ought to have and that we ought to have as well with ACIL, Hassells and others. There ought to be that kind of professional dialogue going on, and the consultations we have at the moment are not actually engendering that particularly well.

You are right to say that there is a small number of NGOs involved in a substantial way in the program. They are the ones that we ought to be engaging more in that sort of

dialogue. There is a large number of smaller ones. I think that following the new accreditation program—and Gerard might be able to enlighten me on this—we now have about 70 Australian NGOs involved in the program, not 120. There are about 120 NGOs but they are not all involved in AusAID funding. The large bulk of those would be seeking funding under the subsidy scheme program so that is where the government is supporting and encouraging the community's priorities and the community's support for development assistance. That is appropriate and that is probably the right mechanism, particularly for the smaller NGOs.

In the other areas, it is in fact extremely competitive in the areas of the NGO windows, and there are many more quite high-quality proposals put up very often than there is funding available to be provided. You ask, 'Why are some almost entirely dependent?' but I think one should not ask that question that way around. It should be, 'Why are some getting more funding?' One of the reasons is that some are putting up quality projects in competition with their peers and are winning. They are perhaps providing expertise in particular areas which AusAID is seeking, and they are able to do that.

If you have a look at the Industry Commission report and you compare the international NGOs with domestic social welfare NGOs or whatever, you will find that the international NGOs are far less dependent on government support for their programs than the domestic NGOs are. There are some 11,000 to 12,000 NGOs operating in Australia; so 70 operating in the international arena is not an undue number, quite honestly, particularly when you realise that, of those 70 or so, probably only 20 to 25 are really significant players in the emergency area, in the country program windows and so on.

Those NGOs have developed considerable expertise in their own areas, some in very specialist areas—I mentioned some of those earlier—but others in more general areas. I do not think it is such a big concern. It is a reflection of some of the policy directions that AusAID has taken. It is a matter for NGOs always to decide what kind of mix of support. Obviously, the more you get from one funder, the more vulnerable you are if that funder suddenly changes its mind or changes its policies or directions. So it is up to the NGO to deal with that. I think I will leave it at that for the moment.

**Prof. WALSH**—There are a couple of points I wanted to make and one was following on from what Jim Carlton was saying earlier. Clearly, as a committee, we did have quite a deal of difficulty with the question of cost sharing. There seemed to be a great deal of emotion on every side of us. What we were saying was that, when we stepped back and allowed all that emotion to drift away and we stared at this issue in the cold light of day, it seemed to us that it was the wrong solution, if you like, for what may be perceived as being some problems that needed addressing.

Certainly once the country windows had been established and that in rhetoric at least—and I assume to a significant extent in reality—the argument was put that these

were windows that were jointly supported by Australia and recipient countries as areas in which NGOs had a significant contribution to make, it seemed to me totally incoherent to then argue that there should be cost sharing in the delivery of the programs through those windows. To all intents and purposes, what AusAID was doing was purchasing from the NGOs a service in a very similar way to the way in which it is purchasing services from commercial contractors. Although they were under a different set of conditions and with other aspects of service delivery, participation and so on being an important part of the bundle, but we were, in a sense, buying services.

Ron Duncan raised the name of a particular theorist this morning. There is a sort of fundamental theorem of public policy which says that, for each goal that you want to achieve, you are going to be able to achieve that much more effectively if you have a specific mechanism, a specific tool, that you can apply to try to achieve it. If you try to achieve a lot of goals with one tool, you are only going to end up ineffective across them all.

In this context, what we were being confronted with was people saying, 'We want to get the NGOs to increase the amount of money that they raise from the Australian public'—a point Helen would still be making if she were still here—'we want to try to rationalise the structure of NGOs; we want to try to ensure that they remain independent; we want to try to improve accountability.' It seemed to me that what had happened was that cost sharing was being offered as an answer to all of those problems simultaneously. When we looked at it carefully and dispassionately, it seemed to me that that was not objectively the case—although sometimes you might be lucky and find one tool that achieves all those targets. We are not suggesting in the report that all of the issues are resolved by the conclusions that we have come to; we are simply suggesting that maybe different routes need to be sought for resolving some of them.

The second point I wanted to make concerns Linda Kelly's point. There are a whole series of things about the report that we obviously have not had time to expand on today. I just particularly wanted to mention a logical sequence of things within the report—or at least as I see it—that I would like people to think about, particularly in the context of the issue of evaluation and the evaluative culture. Important as evaluation and increasing the evaluative culture within AusAID is—and this is not a criticism of AusAID but simply saying: this is for the future where we have to go—it is not just about deciding what is the appropriate form and structure of evaluation. Some of our recommendations are obviously about culture per se, but they are also about ensuring that mechanisms are put in place to keep that evaluative culture going and growing. For example, the idea of an advisory board is clearly a part of a sequence of recommendations that are intended to try to underpin that.

The idea of a development cooperation charter is also closely integrated with that sort of focus and also with the building of bipartisanship and then development education

and development research. I see all of those as being inherently a set of a sequence of things that we need to think about altogether in order to make sure that everything works properly. Again, one of the reasons why we did not go further with those things was, essentially, we did not have time. In fact I have said on several occasions that, given the magnitude of the task, the time in which we had to do it and the support staff—as generous as AusAID was—that we had available to us, anybody who accepted the commission should have been ruled out on grounds of insanity.

The final point I would like to make is that there are some things that I think you could argue—at least with the benefit of hindsight—are not in the report that somebody ought to be talking about and thinking about a bit. One of them is the set of questions about ministerial arrangements and the arrangement we currently have with the parliamentary secretary and the workings of that versus older models and so on. I do not intend to offer a particular opinion on it, but I think it is an issue which some might like to make a contribution on in the context of the government thinking about its position.

**Mr LUKE**—I think it is fantastic that we are having this discussion. I am very hopeful of future improvements in this area, but I am concerned about the lack of feeling in the meeting today: the talk of emotions, the talk of feelings other than the brief talk about humanitarianism. I think I heard the word ‘suffering’ once. I think it is so important for us to remember that we are not talking about something like improving Australian sports performance or something like that.

We are talking about people who really are suffering and it concerns me that we keep that in mind all the time. I do not know whether we should have a projection on the wall of people who are suffering, because that is what aid, I think, should be about. I think that is what all the surveys say the majority of Australian people think it should be about. That leads me on to my concern about the effectiveness of the review: what sort of impact it will ultimately have.

On reading it, I was very positive about it. I really think that the major recommendation and the second recommendation, which tries to specify a bit more about what poverty reduction requires—those three areas of focus—is really very positive. But I am concerned that it is a bit like a motherhood statement: it might not get us very far. If we forget that it is about poverty, we forget that there are 35,000 children dying a day. Then it is very easy for us to say, ‘Oh well, we’ll continue to put the money under just one of those categories, which is increasing economic growth in countries. We’ll forget about poor people, we’ll forget about direct services to the poor and basic needs.’ I think only 10 per cent of the Australian aid budget now goes to priority basic needs.

I have worked in aid for 10 years and I cannot understand how we could possibly justify that. I used to work in the area of juvenile justice. They have a central goal, in both adult and children’s services, which is that goal is the last resort. But you get a room full of judges and magistrates—as many people as there are in this seminar—and they

would all say, 'I only use gaol as the last resort.' But, of course, there would be a huge variation in their use of that. Until we actually operationalise these things more concretely, then everybody can say, 'We're helping the poor. We're providing sustainable poverty reduction.'

I think that we have to start talking about spending, at least, a minimum part of our budget—30 to 40 per cent; I do not know what—on providing direct services to poor people. I think we have to remember, as people working in this area all the time, that that is what we are. They are our clients and it is very important that we are servicing those people. It is terrible that still today so many people are dying every day from essentially technically solvable problems because governments are not spending their aid money effectively.

**Mr KILBY**—I work for Community Aid Abroad. I just want to follow up a few people who are identifying gaps. I have another 'h' word for Barry, and it is 'human rights.' I think the report is quite weak in the human rights area, not only in the civil and political rights, which are at the front of everybody's mind, but in the economic, social and cultural rights, particularly where it says that all aid is about improving development; therefore it is about improving people's human rights.

I think the first recommendation of Ian's committee of last year said that we should look at the impact of globalisation and the growing gap between the rich and the poor and how that is affecting people. I hope the government response to the program is to start looking at the aid program and the sorts of rights it is dealing with—the economic, social and cultural rights—and to start using some of those hooks to hang off how it delivers its basic services and what have you.

It is important because they are obligations we have signed up to—even though governments of both parties have tried to wheedle out of those obligations at a domestic level—and I think they should be at the forefront. There are human rights obligations in our program, and we should use the aid program to promote that as a positive.

**Mr KANALEY**—I want to pick up on the speaker who mentioned that something like eight to 10 per cent of the program was spent on basic human needs. I am coming back to this only because I do not want it to stay on the record. The figure is over 20 per cent at the moment. There are lies, damn lies and statistics, and I am not going play with the figures here, but the last figure that I saw was that it was well over 20 per cent. The point I want to make here though is that Australia has not signed on to the idea of 20 per cent as a target for basic human needs. The reason for that is that essentially all it does is to lock your program in from doing sensible things.

James Michel, when he was here, made the point about whether a one per cent reduction in inflation will have as big an impact on poverty as building 100 latrines for poor people. The answer is that putting that money into, say, a treasury strengthening

project in Western Samoa that has a one per cent reduction in inflation might well have a better impact on poverty than going forward with a basic human needs approach. A program has to have a bit of balance in it, but the 10 per cent figure, as I understand it, is nowhere near the actual expenditure at the moment.

**CHAIR**—I propose to wrap up this session. We have run into the second session. I am going to call on Janet and Charles to conclude that. We shall then see if anybody has any other matters—and there are plenty of others that we will not have time to discuss—and then call on each of the members of the committee to say something. And, Trevor, you might want to say something to wrap up the whole session. We will start by inviting Janet and Charles to wrap up that particular session before we proceed.

**Ms JANET HUNT**—There is really not a lot to add. I just want to reinforce for Trevor that I was really talking about the policy basis for NGO involvement and that I think it is important. I also want to pick up and reinforce what Charles said, which were some illustrations of the principles that I was talking about, which is that it is about partners; it is about looking at the different strengths of the companies, of the NGOs, of different partners—local and Australian—and trying to get the mix and the relationships right so that we can have a really effective aid program. That to me is what is essential. I was just pointing out some areas where I think some NGO work can be taken forward and explored further. That would contribute to the effectiveness of the program, but we need to find ways to do it which are different from what we have got at the moment.

Lynn Arnold has gone, but the seminar that World Vision did with the Crawford Foundation a few weeks ago gave us some very good examples of how, if you team up NGOs with others, you can get some fantastically successful results. That is what I think we ought to be starting to explore.

**Mr TAPP**—There are three final points that I would like to make. I was asked by somebody the other day in the office—it is a bit like going onto a desert island and having to pick one record to take—about which of the recommendations of the Simons committee I would pick as most important to me. What I come down very firmly in favour of—and I think CARE would come down very firmly in favour of, because it encompasses the one clear objective, the single focus—is the whole issue of being outcomes focused and outcomes oriented. To me and to us, that is the single most important dialogue and discussion that we should all be engaged in.

Having also worked in many parts of the world and having come across many aid organisations, I would add my comment that the Australian aid program is certainly above average. The fact that ‘average’ may not be a very good standard by which one would want to measure oneself is another matter, but I think one must not lose sight of the fact that one is actually working from a pretty good and pretty solid starting point. A lot of our discussions can lead us to get pretty depressed.

I would finally like to make a comment in response to the senator earlier on—she has now left—in terms of micro-credit and the focus on gender in that circumstance. I will give a very simple example which comes from being responsible for running a micro-credit program in west Africa, in Niger, which I think is now the poorest country under the human development index of the UN.

We made an important policy decision when we changed our program from being a project to being a credit program which was there to survive—to make money—and setting up a rural banking institution. Our agents immediately said, ‘There’s one thing we’ve got to do.’ We said, ‘What’s that?’ They said that we have got to change our clients from being men to being women. We said, ‘Why is that?’ They said that the women will repay and the men will not. The result was quite extraordinary: as soon as you had a credit program actually focused on being self-sustaining, the percentage of female clients went from 25 per cent up to 75 per cent and the overall repayment rate went from 60 per cent up to 98 per cent. That is just a small example.

**CHAIR**—Thank you. Unfortunately Lynn Arnold has gone but, before we close the session on NGOs, I would like to identify for him some of the issues that I know parliamentarians generally are concerned about regarding NGOs—and they are obvious. They are the same qualities of governance that apply to the delivery of aid itself and the extent to which the percentage of funds spent on administration is balanced by the percentage of money allocated directly to the field in which they work. It is quite apparent that that is an area.

Then, of course, there is the effectiveness of their service delivery. The ordinary criteria in determining how organisations function and how effective they are in measuring NGOs are obvious factors which, in a way, the Simons committee report is seeking to apply to AusAID. Much the same self-scrutiny, to which I think several of you referred from the NGOs earlier in the day, applies at a parliamentary level to our consideration of the role and function of the NGOs. I think it is quite apparent that, at a time of changing relative financial availability, those factors become even more critical.

What I propose is to see if anybody has any other burning issue they wish to canvass. There are a number of matters we have not canvassed; I am going to identify a few of them if they are not raised before we close. Is there anybody else who has anything that they wish to add which has not, to date, been specifically identified? Goodness me, you have satisfied them all!

I just want to identify a couple, and I was going to call on Trevor and then perhaps each of the members of the committee in wrapping up. One of the things that has long concerned me is that, as a politician, I do not think there is one marginal seat in Australia which would be won or lost on the subject of aid. I think that is a problem. I know that, in the perspectives given on television to which reference has been made or in the scrutiny of efficiency, you can justify what you do, but the taxicab test to which Cliff Walsh



referred before applies very much, I can assure you, in the back bar of every hotel that I have visited and certainly in most political meetings.

The first thing is that, while there are a number of people who look at the quantum of aid, they certainly look at it from different perspectives. And you are right, Garth, in looking at the fact that there are some quite appalling humanitarian and, indeed, human rights cases out in the world. But, unfortunately, the average preoccupation with most electors is what it means for them rather than what it does for somebody else. So you have that first problem which I think needs to be identified—and I think that that needs to be registered.

The second is that there are a lot of other issues which are important and which are not specifically within the terms of reference of Paul's report. For example, as one who has administered the defence cooperation program over the years, there is a lot of work done in that program that we have not identified today. Some of it is humanitarian relief and yet in the electorate you will get those who will say, 'Why do we have a defence aid program?' In fact, much of the defence aid program picks up, because of the availability of service personnel and service aircraft, help for people as a result of floods or fire or cyclones. That really cannot be handled in any other way, and that needs to be put somewhere in the program.

As somebody who in another incarnation was involved in FAO and world food programs, the duplication of multilateral effort worries me. We have a number of programs where there is some duplication of administration and government from both sides, rightly I think, are concerned about that. Although many of these multilateral programs undoubtedly can produce on-the-ground results, I am not too sure that the duplication of effort in producing those results is necessarily justifiable.

There are other issues, and I will just mention them briefly. One of them is the lifting of world trade barriers. Over the years, and again in another incarnation, I found that trade barriers preventing access by the developing world into the markets of the developed world inhibited economic development and the alleviation of poverty. There is little doubt that it has been a major impasse and to the degree to which the World Trade Organisation is removing some of those barriers, I am not too sure that that is not doing more for the alleviation of poverty than any form of direct aid.

In looking at alternatives, I think you do need to assess how outcomes can be attained. The criteria that the Simons committee has set down need to be looked at in a lateral sense and not just in a vertical sense because there are many other programs that, in my view, contribute to it.

There are a number of subjects, particularly in the sector delivery, that we have not looked at that I would have liked some discussion on. I have long been questioning in my mind the extent to which educational aid is better provided as in-country aid or out-of-

country aid. We have had some emphasis today on primary education. There is no doubt that there is also significant advantage, both for Australia and for those who benefit, by coming into this country.

One of the recommendations we put into a defence report some years ago was that when we provide defence training to those who come from other countries, if we include some elements of human rights attitudes as presented by Australians and as adopted by most of us into that defence training program, you can do an enormous amount to try to change the generally accepted attitudes there are from the normal type of defence training in other countries or in some of the countries in our region. In that sense, in-house training has an unquantifiable benefit that we need to identify and consider.

In other forms of education, there is no doubt in my mind that our Colombo Plan training has been of enormous advantage to Australia. Those who trained in Australia see Australia as a place from which they want to source material, they turn to Australia for reference, they come here for postgraduate study, they send their children here, and they have associates here. We have a flow-on benefit that is immeasurable but it does not flow necessarily if you send educational aid overseas. As I say, that is another factor we have not dealt with.

There are many others but, in terms of government structures, Cliff Walsh has identified part of the other problem. We all know that in providing any service from government there are a number of components. There is a degree to which a budget is provided. There is a degree to which the particular aid delivery is provided through particular areas, and the attitudes of governments change as do the attitudes of ministers. The structure within government is particularly important because the extent to which somebody is available in order to provide supervision and direction can often mean that you get a different outcome.

That just does not mean in the sense of having somebody to talk to who is involved in the hands-on delivery of aid. When you are having a cabinet discussion, if you have a relatively junior minister, as Barry and Jim Carlton will confirm, the chances of that minister swaying senior ministers to outcomes are minimal. If, on the other hand, you have a senior minister involved and that senior minister is able to exercise what he sees is his own preference, then that is far more likely to get the outcome you seek. I remember in the Malcolm Fraser days, which Jim might recall, we had what we called an 8:6 vote. It meant that, whenever Malcolm felt particularly strongly on an issue, that is where the eight went and the rest of us generally fell into line.

There are a number of other issues. I am only trying to canvass the fact that I think that what the Simons committee has done is open the field rather than close it. I hope from our dialogue today that we do not feel that all those subjects are closed. Before I call on the four principal participants to sum up, is there anybody else who wants to add anything, briefly or otherwise? If not, I call on Trevor first.

**Mr KANALEY**—I have nothing to add to discussion at this late time of the day. I would like to thank the committee for holding the seminar and you, Mr Chairman, in particular, for chairing this seminar. We have covered a whole range of issues and a lot of ideas have been put on the table. These will all feed back to the minister and into the government's response to the Simons report. That response is due to take place later this year. I think this seminar has made a major contribution towards the government's response, so thank you very much.

**CHAIR**—Thank you, Trevor. Mr Simons, would you like to add anything?

**Mr SIMONS**—I do not have much to add either, Mr Chairman. It has been interesting for us who have put the report together. Of course, we had heard a good deal of what we heard today previously in our consultations, in submissions and so forth.

I offer my sympathy to Trevor, who has the job now of picking up those parts of the report which you and the government consider useful. We realise quite well that not all of those recommendations will be accepted or are practical, but we have confidence that the agency under your direction and with the support of the government will come to the right conclusions. We would like to thank you for having us along today and thank everyone who came along to express their views.

**Ms HART**—I too would like to thank you for this opportunity. It has been of a great deal of interest, having, in effect, put the report to bed some weeks ago, having had time to ruminate a little and then hearing today's discussions. Mr Jones just asked me whether the report would have been different if we had had today's discussions earlier. I do not know what the answer is on that, but it does lead me to four quick points I would like to make.

Firstly, the discussion we have had about evaluation. We have talked a lot about the good words; we have used all the rhetoric of enhanced accountability, of effectiveness and of improved performance. But the point I most want to stress is the point made briefly by another speaker: evaluation is fundamentally about a learning organisation that is seeking to continuously improve what it does and is prepared to look creatively for new ways of doing things. It goes back to the point that Trevor made earlier today: the aim of the aid program is development; it is not just good projects. Hence, I think we need a lot more debate on what evaluation and performance accountability mean. Personally, I would be very disappointed if the focus were on projects rather than on the outcomes of the aid delivery.

Secondly, something that did not get a lot of discussion but which has inherently contributed to the process is public debate and community information. I think the taxi test and the bar test are healthy contributions to that debate and that discussion, but unless that level of discussion is enhanced and better informed, I believe there is a real danger that some semblance of bipartisan support for an aid program will never be achieved. It may

not ever be achieved in totality anyway, but an aid program is in itself a risky program; development cooperation is a risky business. I would encourage anything that contributes to an informed debate and a diminution of debate from ideological standpoints.

I was glad that Charles Tapp gave that example of micro-finance, gender and sustainability, having emphasised gender importance as a fundamental issue in development earlier in the day. I appreciate the opportunity to come back to the issue of micro-finance. It is a very detailed one at this point in the day, but it does lead me to say something about the two things. One is that, whilst I would promote above all the gender involvement in development issues, it should be subject to the same rigour in project design and accountability as other elements of an aid program.

The committee—and I knew we had said it somewhere—did comment on micro-finance, particularly with reference to sustainability. For the enthusiasts rushing in to micro-finance areas, there are lessons to be learned—and huge lessons of success. There have also been failures. We should do it with some degree of caution, with the emphasis on sustainability. Finally, I note that I have welcomed very much the comments that have come from today's participants with regard to human rights and humanitarian issues.

**Prof. WALSH**—Thank you, Ian, and thank you to your committee for organising today's meeting and giving us this opportunity. I have, possibly, been at a few more follow-up events than some of my colleagues. For me, today has been one of the best in terms of getting a focus and a spread of views. I have very much enjoyed it. In a sense, for us it is all dead. We have had our say, we have handed it over and it is now for others to get their messages across. All we can do is to try to help make sure that what we were trying to say is not misunderstood and that, if there is something that arises that people do not understand, we can make a contribution to it. I hope we have been able to do that in part today.

I have had sufficient opportunities to say lots, and I should shut up and let people take their aeroplanes and have their glass of wine, except for one thing—and there always is at least one thing. Charles asked, 'If you had to select the one recommendation which is central, which would you select?' I would not dispute what he is saying, but, in a sense, that is the wrong question to ask.

An interesting question to ask would be: If you had to put together one sentence that told you what the key focus of this report was, what would that be? For me, it would be a simple phrase: sharpening the focus—I heard somebody guessing, ahead of my saying it. All the way through this report, sharpening the focus is what we are emphasising—the focus on a clear objective, the focus on evaluation, the focus on learning, the focus on everything that will help to create excellence in our aid program.

Again, I would like to say—very clearly—that I am not in any sense having a go at AusAID in saying that. I have said in public before that when I started the process I

was sceptical about what we were likely to be achieving through our aid program; I ended up full of admiration for the professionalism of the agency and for what the program has actually done. That is not to say that we cannot do more, and I am sure Trevor has been champing at the bit for considerably more than a year to be allowed to get on and do it, and I am looking forward to seeing that unfold in the future. Again, Chair, thank you.

**Mr ARMSTRONG**—On behalf of the Australian Council for Overseas Aid—the 95 organisations that make up that council, Mr Simons—I want to say thank you to you, Ian, and to your committee for putting this on. I want to say thank you to the Simons committee for the work they have done in opening up this discussion and this debate at this time. It is an extremely important debate. I agree with all those who say we must continue this. I want to assure Trevor, AusAID and the government that the NGO community looks forward very much to working in partnership in order to move towards the implementation of these recommendations.

**Mr CARLTON**—All I wanted to say is that, when I moved from New South Wales to Victoria about three years ago to take up this job with the Red Cross, I noticed in the code down there a notable absence of goal congestion compared with New South Wales codes.

**CHAIR**—Finally, thank you all very much for participating today. My particular thanks go to the committee—Mr Simons, Ms Hart and Professor Walsh. This has been a very worthwhile addition to the public consultations that are essential before the government finally makes its report. As I mentioned earlier, there will be a *Hansard* transcript of today's discussions. Subject to your address being available to the committee, a copy of that will be sent to you. It will eventually be published—either with your alterations or without your comments—together with some comments, after consideration by the joint committee.

I would also like to thank Trevor Kanaley who I know has been travelling a little. It has been very important to us that you and your team have been here, because, although Trevor is sitting at the front desk, there are a good many others of AusAID or Foreign Affairs and Trade affiliation who are in the wings, as it were. They are certainly taking note of the debate, and, therefore, these proceedings are particularly important.

In his absence, I also wanted to say to Mr James Michel that I was delighted that he was able to be here today. One of the important parts of our consultation has to be liaison with the international community. It is particularly important that people like Mr Michel are able to contribute at a time when we ourselves are looking at where we are going.

I would also like to thank all those who, whatever their background, have participated in or sat in on today's discussion. In particular, there have been a number of ambassadors and high commissioners. It is important that we look at aid not just

subjectively but in terms of how, overall, in a constructive way—as a partnership as it were—we can join in looking at the delivery of these services. I thank you all very much for your participation.

Last but by no means least, I would like to thank the members of the joint committee and the staff—Joanne Towner, Margaret Swieringa and all the others who are here. Without you this would not have been possible. To Lynn Arnold, I am afraid I answered your questions on the record in your absence. I will tell you what the answers were later. Thank you all for your participation.

**Committee adjourned at 5.22 p.m.**