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JOINT STANDING COMMITTEE ON TREATIES

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JOINT COMMITTEE ON TREATIES

Monday, 22 March 2004

Members: Dr Southcott (*Chair*), Mr Wilkie (*Deputy Chair*), Senators Bartlett, Kirk, Marshall, Mason, Santoro, Stephens and Tchen and Mr Adams, Mr Bartlett, Mr Ciobo, Mr Evans, Mr Hunt, Mr Peter King and Mr Scott

Senators and members in attendance: Senators Kirk, Marshall, Santoro, Stephens and Tchen and Mr Adams, Mr Evans, Mr Hunt, Mr Peter King, Dr Southcott and Mr Wilkie

Terms of reference for the inquiry:

Treaties tabled on 2 March 2004

WITNESSES

FOX, Dr Geoffrey, Principal Rural Development Adviser, Australian Agency for International Development (AusAID)..... 1

MARCH, Mr Alan, Assistant Director General, East Timor, Humanitarian and Regional Programs, Australian Agency for International Development (AusAID)..... 1

MILNER, Mr Colin, Director, International Law and Transnational Crime Section, Legal Branch, Department of Foreign Affairs and Trade 1

van BRANDENSTEIN, Mr Tony, Executive Officer, Treaties Secretariat, Legal Branch, Department of Foreign Affairs and Trade..... 1

VERSEGI, Mr Peter, Assistant Director General, Policy and Multilateral Branch, Australian Agency for International Development (AusAID) 1

YOUNAN, Miss Houda, Senior Legal Officer, Office of International Law, Attorney-General’s Department 1

Committee met at 10.03 a.m.

MARCH, Mr Alan, Assistant Director General, East Timor, Humanitarian and Regional Programs, Australian Agency for International Development (AusAID)

FOX, Dr Geoffrey, Principal Rural Development Adviser, Australian Agency for International Development (AusAID)

VERSEGI, Mr Peter, Assistant Director General, Policy and Multilateral Branch, Australian Agency for International Development (AusAID)

YOUNAN, Miss Houda, Senior Legal Officer, Office of International Law, Attorney-General's Department

MILNER, Mr Colin, Director, International Law and Transnational Crime Section, Legal Branch, Department of Foreign Affairs and Trade

van BRANDENSTEIN, Mr Tony, Executive Officer, Treaties Secretariat, Legal Branch, Department of Foreign Affairs and Trade

CHAIR—I declare open this meeting of the Joint Standing Committee on Treaties. First of all, we need to move a motion relating to submissions.

Resolved (on motion by **Senator Kirk**, seconded by **Mr Hunt**):

That submissions Nos 13 and 14 and supplementary submissions Nos 11.1 to 11.3 and 13.1 to 13.3 be received as evidence and authorised for publication.

CHAIR—This is the third occasion that the committee has taken evidence on Australia's proposed withdrawal from the agreement establishing the International Fund for Agricultural Development. This morning the committee will continue to take evidence from representatives of the Australian Agency for International Development. Thank you for making yourselves available for this hearing. I remind witnesses that today's proceedings are being broadcast by the Department of Parliamentary Services. Should this present any problems for witnesses, it would be helpful if they would raise the issue now. Although the committee does not require you to give evidence under oath, I advise you that the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House and the Senate. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. Do you wish to make any introductory remarks before we proceed to questions?

Mr March—Yes. If acceptable to you, AusAID would like to correct the record on a number of comments by IFAD that we believe are misleading. I will then table a couple of documents, including the detail of our rebuttal of several points made by IFAD and then address the key point of commercial interest. If acceptable, I will then ask Dr Fox to provide some comments on IFAD's performance.

CHAIR—Please proceed.

Mr March—As noted, we have some concerns that some of the comments made earlier and statements put on record by IFAD have been misleading. I would like to make some brief comments around that. There was a claim made that IFAD President Bage went through all of Australia's concerns raised in the letter of 6 May, point by point, in his meeting with the Director-General, Bruce Davis, on 10 May. He did not. President Bage made no reference to Australia's concerns. This has been confirmed by the Director-General and the Assistant Director-General, who were present at the meeting. The AusAID formal record of the meeting notes that Bage 'seemed intent on avoiding any discussion of some of the more pressing questions about IFAD's field effectiveness and relevance in the Asia-Pacific'.

The second claim from IFAD was that Australia had given no indication of its concerns to IFAD prior to May 2002 when they received the strong letter from Mr Tapp. I will table that letter. This is incorrect. We had raised these concerns through our Counsellor, Development Cooperation in Rome on several occasions. The third claim was that James Wolfensohn, World Bank President, and James Morris, the Executive Director of the World Food Program, made representations to Mr Downer in support of IFAD in their meetings with him in February 2004. They did not. The fourth claim was that the Canadian Minister for International Cooperation, Ms Susan Whelan, wrote to Mr Downer in her capacity as the OECD convenor. However, she wrote as Minister for International Cooperation. There was no mention in the note of her role in the OECD grouping.

The claim was made that the earlier United States decrease in funding was on the expectations that IFAD would eventually become financially self-sustainable. This was a factor in the decision; however, the decrease was also due to deep US concern over IFAD management and program shortcomings. The 50 per cent pledge increase by the United States in IFAD 6 brings it back to just over half of its contribution in IFAD 3. Penultimate was the claim that other OECD donors expressed surprise at Australia's decision to withdraw. This is not the case. Australian officials at the Rome Embassy met the convenors of the OECD group on 20 May 2003 and found that there seemed to be among OECD members general recognition of and some agreement with Australia's concerns. The claim was made that the savings to Australia are illusory. If we had participated in IFAD 6 there would have been a further \$14 million required or an average of \$A4.7 million in each of its three years. The IFAD 6 savings of \$14 million are real and significant and can be directed to higher priority activities. The detail of this funding is in documents I propose to table.

Lastly, IFAD claims that losses to Australian businesses are around \$A7 million per year. IFAD is yet to produce figures to justify this claim. The consultants themselves claim the figure is only \$4 million. Well over \$2 million of this is through GRM, which is also registered as a company in a number of IFAD member countries and, in that capacity, would be eligible for contracts. If it is acceptable, I can table the detail of that rebuttal, a copy of the letter and also the answer to the questions on notice that we took on administrative costs.

CHAIR—Go ahead.

Mr March—I will make one more point about the commercial issues. While Minister Downer has made it quite clear that the Australian aid program decisions are not driven by commercial interests, it has been a key interest in these proceedings. I would like to make three points. We have obtained some advice from the Attorney-General's Department. I would like to address the

size and scale of the moneys to which we are referring and also the fact that we can make some reallocations. Following consultation with Attorney-General's, our position is that we fail to see the basis for Mr Prien's unequivocal assertion that, once Australia's withdrawal has taken effect, Australian firms and nationals will no longer be eligible to compete for new contracts. Our position is that their eligibility continues.

On the issue of size and scale, only a small group of Australian consultants and firms benefit from IFAD contracts. IFAD has put the figure as high as \$7 million, but it has not produced anything to justify it. Consultants themselves claim the figure is around \$4 million. I note that half of these are through a company that has the ability to access these contracts through representational offices in other countries. The quantum of assistance and the potential contracts to be won by consultants working through IFAD are only a small slice of those that Australian firms could win and do win from multilateral development agencies. Australian businesses win far more in contracts from the World Bank, which were valued at \$170 million in 2002-03, or 25 times that from IFAD, and from the Asian Development Bank, which were valued at \$133 million in the same period, or 20 times that from IFAD. In addition, each year the Australian aid program awards over \$500 million in contracts, or 70 times those obtained through IFAD. The vast majority of these go to Australian businesses.

The consultants and firms who have contracts with IFAD know how to tap into these wider opportunities. They are not resourceless. As you will recall from the hearing on 8 March, D'Arcy Gibbs, from the IFAD support group, said:

We can work for anybody—we do not have to work for IFAD; we can work for FAO, the World Bank or ADB.

The last point I would make before referring to Dr Fox is that the savings from not contributing to IFAD will be directed to higher priority activities, which will open up further opportunities for Australian businesses in our other programs. The Minister for Foreign Affairs has made it clear that he does not see that remaining a non-contributing member is a solution. Membership brings with it responsibilities to contribute. We are either in or we are out. With your agreement, I will ask Dr Fox to address the issue of performance.

Dr Fox—I will provide my background as far as commenting on the issues and effectiveness of IFAD. I started working with IFAD way back in 1976 or 1977, when it first started. I followed that through as a member of the World Bank and finally as Director of Rural Development, East-Asia and the Pacific. So I have had a lot of interaction. Subsequent to that, I worked in a consultant capacity. So, over some 20-plus years, I have had interactions with IFAD—not all the time, I must confess, but episodically.

I will give you some very quick bullet points and, if you like, we can elaborate. There is pretty wide consensus among the people I run into that IFAD is a marginal player in rural development worldwide, particularly in South- and East-Asia Pacific. There are numerous credible institutions that have a far greater presence and impact—the World Bank, ADB, UNDP, DFID and regional organisations such as SOPAC, PREP and SPC. Coverage of those institutions is very similar to IFAD, particularly in those areas claimed by IFAD as their strength—for example, community driven development, empowerment, self-help and capacity building. Each one of those institutions is very actively involved.

IFAD is not well placed for the big gains to be achieved in poverty alleviation and rural development. Frankly, it is relatively ineffective in assisting countries to develop appropriate policies and programs that will increase rural growth and improve livelihoods. There is a pretty overwhelming body of evidence that the big gains in poverty alleviation and rural development are to be had by getting the policy and institutional frameworks right and putting in place well-integrated development programs with the appropriate safeguards. IFAD is not well placed to do this. It is project oriented, and often its projects are small, narrowly focused, spread thinly across countries and cannot be replicated, leveraged and scaled up.

IFAD's partnerships with other donors and centres of knowledge are weak, thus handicapping the quality of advice it provides on good practice in project development and implementation. Partnerships are sorely lacking in the areas of governance, social protection and off-farm income generation. There are more, but those are the key ones. The disconnection between IFAD, other donors and NGOs has made it difficult to achieve the desired complementarities and synergies in strategy development and lending support. I will give an example. The World Bank and AusAID are currently not involved in the development by IFAD of the Asia-Pacific strategy and outlook paper. IFAD, although it is making efforts to improve it, still has a very weak field presence and a delegated management structure. This, as is evidenced by the various reviews, has made it somewhat slow to learn from its own mistakes. It has constrained the innovative qualities of an institution, and it is a poor communicator of the lessons learned through its projects.

Finally I come to AusAID's experience of working with IFAD. There are two that I am reasonably familiar with. I have made some effort to find out from the project officers, although I was not personally involved in them. However, I did review the first one. The PNG phase 1 and phase 2 agriculture development projects in Simbu Province in Papua New Guinea had serious problems, which resulted in AusAID pulling out during phase 2. The ongoing IFAD-GTZ World Food Program's community based rural development project in Cambodia is doing much better—mainly, I am told, because of the support of GTZ and the World Food Program.

CHAIR—Before we proceed to questions, we need to move a motion.

Resolved (on motion by **Mr Wilkie**, seconded by **Mr Adams**):

That corrections from AusAID to statements made by IFAD representatives and stakeholders during hearings on 8 and 9 March, a letter from Charles Tapp and responses to questions on notice from the hearings be made submission No. 15.

CHAIR—Onto questions: firstly, what does AusAID say to the argument that Australia should have waited until the external review of IFAD was completed?

Mr March—The IFAD independent and external review is welcome, but it is long overdue. Even if it provided a resounding endorsement of IFAD's current practice—and we doubt that that will be the case—it still would not make IFAD relevant to our aid program objectives in South-East Asia and the Pacific. The evaluation itself will not address the fundamental issue of its relevance in the region. None of the countries planned to be evaluated are in South-East Asia and the Pacific. This gives us cause to state that, yes, holding the external evaluation is good—it is long overdue and we would expect that from time to time all credibly managed international organisations would have external reviews—but we were pressing for this and it is still not going to focus on issues that we find germane. The other point is that we have waited quite some time

for this review. Our dealings with IFAD do not give us confidence, should there be findings for reform and further change in IFAD, that these will be taken forward.

CHAIR—What does AusAID say to the argument that we should remain a member but a non-contributory member?

Mr March—To stay and not pay, which I think has been put before, is not the Australian way of doing business. There are obligations of being even a non-participatory member. There are administrative costs and other imposts that would be placed on the aid program. Putting aside the issue of performance and effectiveness, Australia is facing development challenges in South-East Asia and the Pacific, including our strengthened engagement in the Pacific, which have placed AusAID and others on a particularly proactive footing. We are a major part of a whole-of-government engagement in these priority challenges for Australia in the near region. To make this work, for it to be more effective, we need durable partnerships with key and relevant organisations. Frankly, IFAD does not cut it—it is not key, it is not relevant and it is marginal. For us to be engaged with IFAD at a time when we have significant demands on our corporate resources and our intellectual engagement in the region, static from an agency that is not core to our priorities is a distraction that we feel we can ill afford.

CHAIR—On the issue of GRM International Pty Ltd, the NIA says that it estimates its income from IFAD projects in 2002-03 at \$2 million. That would be the major Australian consulting firm that is getting revenue from IFAD.

Mr March—From the records that we have been able to obtain from IFAD—and they are sketchy—yes, they are the single largest recipient that we are aware of.

CHAIR—GRM is registered in Europe and North America. Can you clarify their status if Australia does leave IFAD?

Dr Fox—My information comes from the Internet, so that is the full extent. GRM's head offices are in Brisbane. It has offices in Jakarta and Oman and is currently active in 35 development projects, employing about 150 professional staff. It has two arms. GRM is the project management and trading arm and comes under the Austrex brand of the Consolidated Pastoral Company, which is part of Consolidated Press Holdings. GRM is the management group, which has Austrex and GRM International. GRM International is the consultant arm, and Austrex provides machinery and equipment, usually for project based activity.

CHAIR—If Australia is not a member, is there any question at all about the ability of GRM International to apply for IFAD projects?

Mr March—It is not something that the aid program has exhaustively studied, but it is our understanding that, as it has offices in countries other than Australia, it could tender for business through offices in Australia or through other countries.

CHAIR—Is it incorporated in Europe or North America?

Mr March—I would have to take that on notice. I am sorry, but I do not have those details.

CHAIR—This is a pretty important question. We have been told that GRM will still be able to apply, yet I cannot get a definitive answer as to whether they would be able to apply.

Mr March—I am not expert on GRM's status.

CHAIR—Can you take this question on notice so we get a definitive answer on the status of GRM International if Australia is no longer a party to IFAD. My last question is about New Zealand. Did the Australian government, or AusAID, give any consideration to doing what New Zealand did?

Mr March—No. The Australian government took its decision based on its own assessments and its own consideration of the issues. We did communicate our decision to our New Zealand colleagues, but we did not use their approach as the basis for ours.

Mr WILKIE—You said that if we were members we would be under an obligation to pay. Aren't we already paying anyway? Don't we have ongoing contracts that mean we will be paying money into IFAD over the next few years?

Mr March—Yes. Because of the draw-down schedule for the replenishments that we have participated in, we will be making financial contributions to IFAD until July 2007.

Mr WILKIE—So, even if we did not pay any more money in—if we remained non-financial contributors—but remained on the board, we would still be paying money in. We just would not be paying any additional money.

Mr March—That is correct. Australia would meet the obligations it has made in the past.

Mr WILKIE—I am interested in following up the issue about companies from Australia missing out on contracts. We received evidence that Austarm Machinery are looking at business worth over \$1 million per year. How would they be affected, given that they are an Australian registered company based in rural Australia? Would they suffer great losses if they lost this contract.

Mr March—Let me refer back to my first point on commercial interests. We did consult with Attorney-General's Department. Our position is that we fail to see the basis for Mr Prien's unequivocal assertion to this committee that, once Australia's withdrawal takes effect, Australian firms and nationals will no longer be eligible for competition for new contracts. Our position is that this eligibility will continue.

Mr WILKIE—Doesn't the agreement with IFAD specifically preclude non-member countries from supplying goods and services to IFAD funded projects and programs?

Mr March—We have had that position looked at. Our position is that eligibility continues.

Mr WILKIE—But is that a position backed up by fact or is it just a legal opinion based on what the Attorney-General's Department has been looking at?

Miss Younan—Our position on the basis of an analysis of the agreement is that the agreement does not preclude eligibility for contracts after withdrawal from the fund.

Mr WILKIE—That would not necessarily mean that they would continue to purchase those goods or services from Australian companies.

Miss Younan—I am not in a position to answer that question as a matter of fact.

Mr WILKIE—I might come back with some more questions later.

Mr HUNT—I would like to follow up two lines of questioning. The first is in relation to there being three options that are being presented almost as if there were two. The three options are: firstly, to remain a contributing member; secondly, to remain a non-contributing member; and, thirdly, to withdraw entirely. Most of your argument was in relation to remaining a contributing member. Speaking for myself and not for other members of the committee, I have no problem with Australia making choices as to its allocation of funds and where its priorities are—that is fine, and I have no problem with that—but the nub of this question is whether we are giving away a right that we have earned for Australian businesses. As somebody who has trained and practised in international law, I have a real problem with the assertion, without any legal evidence, despite the express words of the agreement that tenders will be confined to members and contrary to the views of the leadership of IFAD, that Australian firms will be able to tender. What is the legal basis for saying that the express words of the IFAD constitutional arrangements do not apply? It is nonsensical, with respect. It is a weak legal argument to pretend that the words of IFAD's constitutional arrangements do not exist. How do you justify saying that either the document does not exist or that IFAD has given contracts to any countries which are not members? Can you identify a single contract to a single non-member state or to a company from a non-member state?

Mr March—I will respond and then ask my colleague from A-G's to make some additional comments. You said there were three options. AusAID is putting forward the option that has been agreed by ministers, which is to withdraw.

Mr HUNT—What we are interested in is the New Zealand option, for the reasons of protecting Australian business.

Mr March—You then made a second point about right of access for business. I can only state that, following consultations with Attorney-General's, our position is that eligibility continues.

Mr HUNT—Let us test it and ask for a review from Attorney-General's.

Mr March—As to whether there are examples of companies that were not financially participating members?

Mr HUNT—Who are not members at all—companies from non-member countries that have received contracts.

Mr March—I would have to take that on notice. I do not have that answer now.

Mr HUNT—I bet that you will not be able to produce a single one, because it is in violation of their constitutional arrangements.

Mr March—I would have to take that on notice too.

Mr HUNT—I ask that you do. It is a challenge to show that there is a single company from a non-member state that has received a contract. I do not believe you can do that, and I do not believe that you believe that to be the case. I would really like to test the Attorney-General's Department on the legal basis for your blanket statement.

Miss Younan—We can only say that, on the basis of an assessment of the agreement, there is no provision in that agreement that attaches eligibility to compete for contracts to membership of the fund. That provision is not present in the agreement.

Mr HUNT—I think you will find that it is. I challenge your legal analysis on that. It is a common practice throughout the international development agencies. It is both a common practice in the documentary establishment and in the awarding and tendering of contracts.

Miss Younan—With respect, common practice may be one thing but a legal analysis of the document is another.

Mr HUNT—Will you be able to provide us with that legal analysis?

Miss Younan—No, I am not in a position to provide that analysis in view of the fact that it is not the practice of this government nor of previous governments to provide legal advice on such matters.

Mr HUNT—Mr March, can you guarantee to this committee that Australian rural agricultural firms will be able to compete?

Mr March—No, I cannot.

Mr HUNT—These are actual Australian jobs that we are talking about. There is no question in my mind, and I speak only for myself, that AusAID can make all the decisions it wants about where Australian dollars should go, but here we have a right that we have already earned. There is no additional cost to Australia in that. That brings me to the second point. You assert here that there is a compliance cost of \$100,000 if Australia remains a non-contributing member. According to the figures here, putting out on average \$3 million over each of the next two financial years, there will be zero compliance costs in monitoring that \$3 million. Is that correct? Would there be zero compliance costs in monitoring the \$3 million as a non-member but \$100,000 compliance costs in monitoring zero dollars if we withdraw? So we will not spend \$1 monitoring our \$3 million a year, but we will spend \$100,000 a year monitoring nothing?

Mr March—Can I trouble you to repeat that question?

Mr Versegi—It is a fair question.

Mr HUNT—How much would we otherwise spend monitoring the \$3 million a year?

Mr Versegi—The \$100,000 is based on an ongoing engagement with IFAD, which looks at the future as well as the current. I think it is fair to say that the process of withdrawal will provide some monitoring but certainly not the level of engagement and dialogue that we would have had if we continued to be a fully participating member. So we are looking beyond 2007. Clearly there will be some monitoring costs, but I do not think that we would make the decision that we would put in the extent of effort that we would have done, because we are looking at winding up our engagement. If we continued as a member, we would be looking beyond that 2007 time frame. So there will be some monitoring costs, but from a risk management perspective I do not think we would make the same decision about where to put our resources of \$100,000.

Mr March—Charles Tapp has written to IFAD indicating the sorts of reports that we could expect to be provided with, so we would receive documentation on IFAD's performance and programs should we not be a member. We have raised with them the sort of reporting we would expect to receive.

Mr HUNT—It would be interesting to see how much New Zealand expends as a non-contributing member. Do you think that it is an onerous cost on them?

Mr March—I have no idea. I am sorry, but I cannot answer that.

Mr HUNT—Would you be able to explain the New Zealand rationale for going to non-contributing stage but not going to withdrawal stage?

Mr March—I cannot venture an opinion on a decision of another sovereign government.

Mr HUNT—AusAID has not had discussions with them about that?

Mr March—We have only had discussions about informing them of our position, and they informed us of their position.

Mr HUNT—And you have no idea whatsoever as to why they would take the intermediate route?

Mr March—It is a decision for the New Zealand government.

Mr HUNT—It has not been explained publicly or privately to AusAID?

Mr March—No, it has not.

Mr WILKIE—Do you have any understanding as to whether they are making ongoing contributions whilst being a non-financial member?

Mr March—Could you repeat that, please?

Mr WILKIE—Australia will still be making contributions but not current or future ones. Is New Zealand in the same position? Do we have any idea whether they are still putting drawdown money into IFAD?

Mr March—I will have to take the detail of that on notice. Each of the participating countries agrees to a drawdown schedule against their commitments. Ours is over the period ending July 2007. I am not aware of the detail of New Zealand's drawdown schedule. The right exists for any country to pay 100 per cent on the knocker or to have a drawdown schedule. Most have a drawdown schedule. I would imagine that that is the case for New Zealand but I do not have details of their drawdown schedule. I could seek those and, if they choose to provide them, I could provide them to the committee.

Mr WILKIE—I would have thought that IFAD could provide that to us, given that we are still members.

Mr ADAMS—Dr Fox was giving a report when I arrived—I was late with aeroplanes. I do not know whether Dr Fox made the bullets to shoot the other group with, but you were talking about the project being the argument for making these decisions. Projects go wrong all the time, don't they?

Dr Fox—Correct.

Mr WILKIE—So this would be just one other project that has gone wrong. This one was in Papua New Guinea, was it?

Dr Fox—I think the Papua New Guinea project went badly wrong. In the World Bank they say that roughly 30 per cent of projects perform less satisfactorily than was expected. I cannot give you the same figure, because it is a very subjective assessment, in IFAD, but personally I have seen a number of projects which are pretty egregiously wrong. The issue, of course, is: when we get it wrong, do we learn the lessons? Do we have the monitoring procedures in place to internalise the outcomes of many unexpected circumstances? I think it is fairly clear from the two evaluation reports that they needed to strengthen that quite considerably.

Mr ADAMS—Is that what they have taken on?

Dr Fox—They are taking that on now. No institution ever has it perfectly in place. They were quite some way behind because they farmed out most of their supervision to others but did not have the oversight to bring it back into the design.

Mr ADAMS—I understand that. We have a set of criteria, do we? Does AusAID use a set of criteria that we make audit judgments about? For projects that we are involved with or for the money that we put out to AusAID and NGOs, do we have an audit process and criteria?

Dr Fox—There is a well-tiered arrangement for project evaluation. AusAID does it, as do most other institutions. But, in this case, IFAD were one step removed from the project, if you like. Now, they are increasingly designing their own projects and increasingly supervising their own projects. It is a resultant fact of the 1994 assessment that they have moved in this direction, but I think that they have yet to catch up on effective monitoring and evaluation. They themselves say that they are having extreme problems with replicability and sustainability. Certainly, from my limited observations—obviously, I do not know Africa well—I would agree with that.

Mr ADAMS—I think they gave evidence to that effect. They were talking about sustainability and getting there. The other argument is that they are not doing enough in Asia and the Pacific to satisfy this government's responsibility or what this government wants to do. But isn't this finding a scapegoat? The present government's policies have failed in the Pacific. Diplomatically, it is a mess. We have the Solomon Islands and we have problems with Papua New Guinea; isn't this finding someone to shoot for the government?

Mr March—The challenges in the South Pacific are significant, and this has resulted in strengthened engagement by the Australian government. That is engagement in a project sense both in putting Australian officials, consultants and technical people on the ground and in significant commitments of funds. The issue is not about failure; it is about the appropriate response in the Pacific. What we are seeing with IFAD is an agency that has no presence. It has a very chequered history of activities that have not cut it. We just do not think that they are a credible investment for the sorts of challenges and the long-term partnerships we are going to need in the Pacific. We would prefer to invest our resources, intellectual, financial and otherwise, into the key credible partners that we see as being of advantage.

Mr ADAMS—I understand your argument. Can you tell me what we are going to do with the money that we are saving from this? What projects do we have in mind? What direction are we going in?

Mr March—I cannot give you the detail of what we would do with the \$14 million saved from IFAD 6. Those decisions will be taken by the minister in the budget process. But the fact remains that \$14 million will be available for relocation to high-priority activities in South-East Asia and the Pacific. Future programming decisions have not been taken.

Mr ADAMS—That is buying back the neglect that has gone on for years.

Mr KING—That is a bit rough, Dick. Mr March, on 10 May 2002 the director-general met with the president of IFAD. Are there any minutes of that meeting?

Mr March—Yes, AusAID has a record of a meeting. We would take a record of most meetings that our director-general participates in. He was accompanied by an assistant director-general and another AusAID officer—

Mr KING—No, just of that meeting. Are there any minutes of that meeting?

Mr March—There is a record of that meeting, yes.

Mr KING—Do you have it there?

Mr March—No. I quoted from it earlier, saying that Bage:

... seemed intent on avoiding any discussion of some of the more pressing questions about IFAD's field effectiveness and relevance in the Asia-Pacific.

I do not have the full record.

Mr KING—One of the questions that were raised at that meeting concerned an undertaking by IFAD to put in place a detailed evaluation of its programs. As I understand it, AusAID thought that that was a good idea. What has happened to that evaluation?

Mr March—AusAID certainly supported regular and external evaluations of a number of agencies, including IFAD.

Mr KING—A detailed evaluation, not a number of evaluations.

Mr March—That is the external evaluation. That will not be reporting back; that is under way at the moment.

Mr KING—Now that you tell me it is under way, what I want to know is: when did that evaluation begin?

Mr March—Let me check my records. It was after the end of the IFAD replenishment—

Mr KING—Which was?

Mr March—An issue of concern for us—

Mr KING—Just tell me when it began, please.

Mr Versegi—I think it was February 2003.

Mr KING—Has it yet completed?

Mr Versegi—No; the latest planned completion date is February/March 2005.

Mr KING—I find that an extraordinarily long period of time for an evaluation to occur. In any event, you say it will be handed down in November of this year.

Mr Versegi—That is their current timetable, whether they meet it or not.

Mr KING—My concern is this: Australia has asked that such a detailed evaluation occur. What do you say are the diplomatic implications of supporting an evaluation of that kind, and then making a denunciation before the evaluation is handed down?

Mr March—We do not find that that is inconsistent. We have called for more robust evaluation of a number of UN and international agencies. There is an established Australian reform agenda across a range of these agencies. Certainly we called for this particular evaluation and we called for a number of other improvements to be made in IFAD. Some have come forward, albeit slowly—some have not made movement on it.

Mr KING—Let us just focus on this one.

Mr March—The fact remains for us that, irrespective of the time it has taken for this evaluation to come forward or the findings of that evaluation, IFAD will remain, by its charter and by its members' prerogative, focused on Africa, with a small and marginal presence in South-East Asia and the Pacific and its program history is not something that the government believes it can have faith in.

Mr KING—So why did you ask for the evaluation in the first place?

Mr March—It is normal and good practice for us to seek, international institutions to which we have been a contributor, to have robust evaluation services.

Mr KING—Let me ask the question again. What diplomatic consequences, adverse or otherwise, do you see of Australia supporting such a process and then, as it were, rendering it futile before its conclusion?

Mr March—I do not see any disconnect there at all. We can support, and do support, a number of enhancements and improvements in a range of activities. It is not rendered futile by the fact that Australia has now taken a decision not to be a member of IFAD. There will still be another 160-odd members of IFAD who will benefit from that evaluation.

Mr KING—So we support such a process for other people but not for ourselves. Is that what you are saying?

Mr March—No, that is not what I am saying. We supported that evaluation and we believe that it is good business practice for international development agencies to have robust evaluation processes.

Mr KING—It may be that the report will be adverse, and that will justify Australia withdrawing from it, and the world can see that we have got proper grounds for doing so. I am concerned at the delay in this report. But the mere fact that there has been delay does not of itself justify, diplomatically speaking, a denunciation. What do you say about that? I would have thought the better approach would be to find out why it has taken so long, get them moving on it, and then resolve the issue in appropriate diplomatic fashion, not by a rather discourteous—or perhaps even worse—approach that might be levelled at the Australian people.

Mr March—AusAID and the Australian government would maintain that we have not been discourteous to IFAD; quite the contrary. We have tried throughout this process to engage them and to apprise them of our views and have gone to some pains to put our concerns before them. They have not been responded to.

Mr KING—Do you have a representative on IFAD?

Mr WILKIE—They are having a review. You are saying they are not responding to the concerns. Obviously, they are if they are having the review.

Mr KING—May I make the point that this review has been a considerable time coming, and none of the object countries of that review, which is going to take an—albeit a sample—assessment of IFAD's performance, are in South-East Asia and the Pacific, an area of prime

importance to the Australian government and an area of interest that we have stressed over and over to IFAD. So we do not have a great measure of confidence, irrespective of what this review might—

Mr WILKIE—But they are putting processes in place at the moment to deal with the Pacific, and are looking at projects in the Pacific.

Mr March—Yes, they have had a visit to the region, and they are planning a workshop later this year. It would remain our contention that an offer of a meeting and a workshop in the Pacific is not robust or necessarily effective engagement in a region that is disparate and extremely difficult and expensive to travel in. This level of engagement by IFAD after the event of Australia's advice of withdrawal is, to our mind, not substantial.

Mr WILKIE—You were saying earlier, or someone mentioned that they believed, the review process was flawed. Is that right?

Mr March—I cannot refer exactly to those comments. But there is a question mark over an external review of IFAD that will present its findings to a board of governors who have a declared priority in Africa—and this is fine; we do not begrudge that one iota. But these findings will resonate with countries and members who have a declared priority in Africa. So whatever product the review process might produce will be looked at—quite understandably—through a pro-Africa lens. That is fine, but we believe that, therefore, the findings will be addressing the priorities of Africa and will be seen through that emphasis on Africa, not on the Asia-Pacific—an area of priority to the Australian government.

Mr WILKIE—If that is the case, don't we have ourselves to blame? Firstly, we did not attend any of the executive meetings where the review parameters were set. Secondly, if the review is to be judged in that light, surely we would be better off being part of that review process so that we can put forward our feelings at those meetings? If we are not part of the group, we cannot even do that.

Mr March—We have to make judgments every day on where we put our resources—intellectual, personnel and financial. IFAD is not a major agency. It is not relevant and, we believe, not performing effectively. We made decisions and judgments on how and when we would engage with it. I am also advised that we did attend all of the membership meetings up until the announcement of our withdrawal. So we would have been party to some of the discussions on the focus of the review.

Mr WILKIE—But, knowing there was going to be a review, we did not attend any meetings after that time, to set the parameters for that review. I think Mr Tapp made that comment last week—that we had attended none of the executive meetings after the decision had been made that we would withdraw.

Mr March—That is correct. We did not attend executive board meetings after our decision to withdraw.

Mr WILKIE—So we had no input, then, into the review process, or what direction that review should take?

Mr March—No; I believe we had limited input into it. Prior to our decision to withdraw and our ceasing of attending meetings we did have an opportunity to input into the parameters of the review.

Mr KING—When did we withdraw from it?

Mr March—Ministers were consulted, and the decision was advised to IFAD, in April 2003.

Mr KING—Why has it taken so long for this process to have occurred?

Mr March—It was a matter of getting it onto the agenda of this committee and of AusAID preparing the documentation for this presentation.

Mr KING—So it will be a bit embarrassing if, instead of dotting the i's or crossing the t's, you end up with a contrary view.

Mr March—We have been accused of going too quickly; we have been accused of going too slowly. We are between the devil and the deep blue sea on some of this.

Mr KING—I do not want to embarrass you. I just want to ask about GRM and the other Australian sponsors, which Mr Hunt has asked about. Where are they engaged at the moment? There are some six projects in the Asia-Pacific region. Are they involved in any of them?

Mr March—I do not have specific details on the projects and the levels of funding from IFAD. As we noted earlier, these details are tough to come by.

Mr KING—It is approximately \$4 million per annum.

Mr March—That is an estimate, yes.

Mr KING—Where are the Australian companies working?

Mr March—I will have to take that on notice.

Mr Versegi—That \$4 million came from the stakeholders themselves.

Mr WILKIE—I am curious about this. The national interest analysis says that there are three acts of parliament that would need to be repealed before we could withdraw: the International Fund for Agricultural Development Act 1977, The International Fund for Agricultural Development Act 1982 and the International Fund for Agricultural Development Act 1987. If those acts of parliament are not repealed—let us say the Senate does not pass that legislation—what are the ongoing obligations? I imagine the membership must form part of the legislation rather than it just being an agreement by government.

Mr March—While I would take definitive advice from my colleague on my left, I believe those acts of parliament enable only the government to make payments to IFAD and are not germane to membership of IFAD.

Mr Versegi—I think we would have to check that.

Mr WILKIE—I would not mind some advice on that because the NIA actually says that the legislation would need to be repealed. I am wondering if that is making provision for ongoing commitments or the current commitments that we have.

Senator SANTORO—I received representations during the last week or so from two companies and I am sure that, given that they decided to enter the public debate by making representations to me, they would not mind my putting their representations on the record. They are Hayes & Baguley boomsprays, a company that seems to be based in Goondiwindi in Queensland, and Spring Ridge Engineering Pty Ltd, a company that is based in Spring Ridge in New South Wales. I would be interested to find out where the companies who have got contracts through IFAD processes operate. These two companies seem to be engaged in projects in Botswana and Sudan but I would be interested in having, from the results of your research, the details of what companies have contracts or are enjoying some success via the IFAD process and where they are operating. I do not know whether it is of assistance to the committee, but according to these two representations it seems to be away from the area of priority that the government sees itself as supporting—that is, activities in the Asia-Pacific region. That is the extent to which I can assist the committee from what I have been given. It is anecdotal evidence but I would be interested in a more detailed answer. Would you be happy to provide that?

Mr March—We can certainly attempt to obtain that information. Our sources would be the companies concerned, who may or may not choose to provide it to the Australian aid program, and IFAD. We can undertake to pull that information together. I do not know whether we can obtain a complete answer.

Senator SANTORO—I would be grateful for additional information. I think I know the answer to my next question from listening to some of the answers you have provided to previous questions, but is it fair to say that the review that is currently under way came into existence as a thought, and practically, after Australia signalled its intentions to withdraw from IFAD? Is that fair?

Mr Versegi—We were among those who called for an evaluation prior to the sixth replenishment. That did not happen. It happened after the sixth replenishment when a number of donors, particularly the US, pushed very hard for an external evaluation. So I guess the sense that this is just an Australian initiated evaluation is not quite true. It was pushed very strongly during the replenishment time by the other donors. That occurred at the end of the sixth replenishment after pressure from other donors.

Senator SANTORO—To be absolutely clear: it was not just Australia calling for a review?

Mr Versegi—No, absolutely not.

Senator SANTORO—Who were some of the other donors?

Mr March—Canada, the US, the UK and New Zealand—that we are aware of.

Senator SANTORO—What sparked their concerns? What prompted them to call for a review?

Mr March—That would be speculation, but from discussion with New Zealand and Canadian colleagues whom we deal with quite substantially we have a shared reform agenda on international agencies. We are looking to keep them more accountable, more financially durable and more developmentally orientated. There would be a broad reform and enhancement agenda shared by those countries, and that would be the basis for collective decisions on this.

Mr WILKIE—None of those countries pulled out?

Mr March—New Zealand, as you would be aware, has decided not to participate in IFAD6.

Mr WILKIE—They are still on the board?

Mr March—Yes.

Senator SANTORO—What are the regional priorities that a country like Canada would see as relevant to them? What are those regional priorities? Would a country like Canada decide to stay because it sees a focus on Africa as more of a priority than, say, Australia would? I think the point that was made by the deputy chair is quite relevant. We are withdrawing, presumably after listening to evidence, because, according to what you have told us this morning, the operational capacity of the companies that a country engages is not affected legally. I hear that people try to make a distinction in practice. Specifically or generally from what you may be able to tell us this morning, do we have a different set of national priorities for engagement in various regions from the countries that are staying in? It is a complex question, but you may be able to answer it.

Mr March—We will give you a double-barrelled answer if we may. Remaining in or not for commercial reasons is not a decision that the aid program makes, and that has been endorsed by the foreign minister. We have drilled into that particular issue because of interest from this committee. Most certainly, countries do have different priorities. Canada in particular has a focus on Africa. It has aid programs and a substantial engagement in Latin America, where Australia does not. Canada is withdrawing from the South Pacific. The minister has written to AusAID indicating that, because of its focus on, inter alia, Latin America and Africa, Canada will not be participating in the South Pacific.

Senator SANTORO—When you say they have withdrawn, what does that mean? What are they withdrawing from?

Mr March—It will not be funding programs and projects and it is specifically withdrawing from the Secretariat of the Pacific Community, which is a regional organisation in the South Pacific. It used to be called the South Pacific Commission, and it is based in Noumea. A number of countries around the world are increasingly making tough judgments and difficult calls about where they will put their priorities.

Senator SANTORO—Do you have any idea, just in terms of that Canadian initiative, of the amount of funds that go to the South Pacific body? Is it comparable to IFAD? Does it have a secretariat similar to the one that IFAD operates under or with?

Mr March—I do not know the exact dollar amount, but it is similarly a voluntary contribution that funds both headquarters costs—as it is based in Noumea—and project costs, be it fisheries, agriculture, health or whatever. It is an annual voluntary contribution addressing both core secretariat costs and program costs

Senator SANTORO—It is an interesting point that you make, because I think we are almost beginning to compare apples with apples. I did not see the evidence leading to this line of questioning, but from what you have said—and this is why I am asking if you could provide the committee with a little bit more advice on what Canada is doing—and putting aside the commercial aspects that I think are of legitimate concern to this committee, it seems that Canada, for presumably good reasons from its perspective, is going down the same path as we are in terms of IFAD.

Mr March—Correct.

Senator SANTORO—I would be interested if you could use the resources of the department to provide the rationale of the Canadian initiative in the South Pacific.

Mr WILKIE—Following on from that, I would also be very interested to know whether, having withdrawn, they are still making ongoing contributions due to existing contracts, or pulling out completely without any financial ties.

Mr March—I doubt that there would be ongoing commitments to the SPC, because there is not a draw-down schedule over a number of years—annual funding decisions are made, not commitments over multiple years. We can certainly find out about the money involved and we can attempt to find out from the Canadians the rationale. We will take that on notice.

Mr ADAMS—Has there been a bit of a carve-up, with top level countries making decisions about where they are going and where they are going to put their aid? Is that what is going on?

Senator SANTORO—Are you suggesting a conspiracy?

Mr ADAMS—I am not suggesting a conspiracy. Decisions are made by countries. There does not seem to have been any public decisions but there seem to have been decisions made on where people are going to put their efforts. Let us explore that.

Mr Versegi—I do not think there has been any high-level meeting where it has been decided to carve up the world, but each country makes its own decisions based on its own national interests and priorities. It is fair to say that we are doing that. We are one of the few voices in the international community that is arguing for assistance to South-East Asia and particularly the Pacific, as are New Zealand and Japan. Everyone else is basically very much pro-Africa, which is fine. Africa has enormous development problems; we do not deny that. But we want to have some sort of balance in that arrangement. We keep talking about the needs of the Pacific and the region, and we need to continue to focus our efforts on that theme because everybody else, probably quite rightly, is focusing on Africa. Other countries such as the Germans have indicated that they are seeing the weight of their responsibilities as being in Africa—post-colonial but also development needs. They are making indications that they are going to be withdrawing from the

region as well—more and more. Countries are making these decisions very much on the basis of their own national interest needs. So we are not unusual in that sense.

Senator MARSHALL—I have some questions about aid diversion which have been partially answered. I will come back to those in a minute. What percentage of AusAID activities are outside the South-East Asia and Pacific region?

Mr Versegi—A lot of our aid is not allocated to regions but is contributions to actual organisations. On the figures I have in front of me, between 1997-98 and 2001-02, on average we gave two per cent of our assistance to the Middle East and North Africa and 3.4 per cent to sub-Saharan Africa compared to around 25 per cent for South-East Asia, 30 per cent for the Pacific and nine per cent for the rest of Asia. That is a rough breakdown.

Senator MARSHALL—So there is 5.4 per cent outside the general region and we are rebalancing \$14 million across to there. What difference does that make at the end of the day?

Mr Versegi—It would probably not be substantial. Because the numbers involved are so large, I do not think there would be a very large change in the percentage.

Senator MARSHALL—Indeed. Given that part of the strategy is to put more money in this particular region, is there going to be more withdrawal from Africa and other areas such as the Middle East?

Mr March—Decisions on the allocation of the aid program are made in the context of the budget. South-East Asia and the Pacific are clear priorities. I am not aware of more decisions, either pending or under discussion, for reallocation from Africa.

Senator MARSHALL—So the extent of our rebalancing is this particular issue before us today?

Mr March—Yes.

Senator MARSHALL—I am interested to know what weight you put on the commercial interests that we have talked about on a number of occasions in making decisions about aid allocation. I think you indicated that it was not a consideration, but I am interested in formalising any structure. Does it get any weight whatsoever?

Mr March—Mr Downer indicated in his ministerial policy statement, and subsequently, that the aid program does not use Australian commercial interests as a basis for decisions on aid programming.

Senator MARSHALL—So this decision would have been made in isolation from those commercial interests?

Mr March—That is correct.

Senator MARSHALL—And that is a consistent approach across all aid allocations?

Mr March—That is correct.

Senator MARSHALL—I wanted to pick up on the aid diversion issue because, while I understand that the need in this particular region is great, there are many countries, European countries in particular, that give aid in this area. This would be seen as a rather small percentage and does not really refocus or rebalance Australian aid in any significant way into this region—it is only \$14 million overall. What analysis have you done of the potential downside? Countries for which South-East Asia and the Pacific are way out of their sphere of influence may say, ‘Well, if Australia is moving to look after that area, that is fine; that enables us to withdraw our resources from that area and concentrate in areas of Africa which Australia is withdrawing from.’ I am wondering what the mathematics of that is. Do we potentially lose far more to the region in aid diversion because of this decision than we gain by refocusing our \$14 million—which is probably the extent of it—into this region?

Mr March—That is a difficult question. We cannot control decisions of other sovereign governments on where they allocate their funds. So, while we will continue to lobby hard for—

Senator MARSHALL—But there are actions and consequences, aren’t there?

Mr March—Yes, there are. We will continue to lobby hard for donors and the international community to remain engaged in the Pacific and South-East Asia. Let me give you an example. We are seeing, according to reporting from the DAC, the Development Assistance Committee of the OECD, that if the Monterrey targets are met in Africa, there will be a doubling of ODA to Africa over the next couple of years. So there are significant aid flows going to the Africa region. We are concerned to do whatever we can, even if it is in small amounts, to keep the aid flows going to South-East Asia and the Pacific.

Senator MARSHALL—Do we have any projections on increased aid from other countries coming into the region that we are interested in or does the refocusing intend us to pick up that burden?

Mr Versegi—I can add to Mr March’s comment. The chairman of the Development Assistance Committee of the OECD, which is the peak body of the bilateral donors, did a survey of all the countries just prior to a senior level meeting at the end of last year about levels of funding—particularly based on Monterrey, where a number of donors made commitments to large increases in their development assistance—and where it might be going. He was particularly interested in the impact of Afghanistan and Iraq on diversion flows. What came out of that—and this is still fairly sketchy—was that in broad terms the aid going to sub-Saharan Africa will double in three years. Aid to Asia and the Pacific will remain basically the same. There was no great science but he surveyed people and that was the outcome.

CHAIR—On behalf of the committee I would like to thank you for appearing to give evidence this morning.

Resolved (on motion by **Mr Wilkie**, seconded by **Mr Santoro**):

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.

Committee adjourned at 11.14 a.m.