



# Submission No 10

## **Inquiry into Australia's aid program in the Pacific**

**Organisation: RESULTS Australia**

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22 June 2006

Dr. Margot Kerley  
Secretary  
Joint Standing Committee on Foreign Affairs, Defence and Trade  
Parliament House  
CANBERRA ACT 2600

Dear Dr. Kerley,

I have attached the submission by RESULTS Australia to the inquiry by the Human Rights Sub-Committee of the Joint Standing Committee on Foreign Affairs, Defence and Trade into Australia's aid program in the Pacific.

In view of RESULTS' interest in the focus of the aid program on reducing poverty, the attached submission concentrates on item 2 (Improving economic management and public accountability institutions) and item 3 (Maintaining access to basic services, especially health) of the Committee's terms of reference.

Please contact Mark Rice (telephone 0421 787959, e-mail [markhr@optusnet.com.au](mailto:markhr@optusnet.com.au)) or me (telephone 0404 808 849, e-mail [mnutt@ozemail.com.au](mailto:mnutt@ozemail.com.au)) if the Committee wishes to discuss the RESULTS Australia submission further.

Yours sincerely

A handwritten signature in black ink, appearing to read "Maree Nutt", is placed on a light grey rectangular background.

Maree Nutt  
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## **Submission to the Inquiry by the Joint Committee on Foreign Affairs, Defence and Trade on Australia's Aid to the Pacific**

**June 2006**

### **Introduction**

RESULTS Australia, as an advocacy organisation with the objective of creating the will to end poverty, has sought over the last 20 years to increase the impact of the Australian aid program on reducing poverty. Therefore, RESULTS' interest in the current inquiry into Australia's aid program in the Pacific by the Joint Committee on Foreign Affairs, Defence and Trade (the Committee) is to ensure that Australian aid is contributing to meeting the most pressing needs of the poor in the Pacific Island countries.

The timing of the Committee's review of aid to Pacific Island countries is appropriate, given the following recent developments

- publication of the White Paper on the Australian Government's Overseas Aid Program (*Australian Aid: Promoting Growth and Stability*);
- the publication of a discussion paper on the overseas aid program by the ALP (*Our Generation's Challenge*); and
- the renewed unrest and Australian intervention in the Solomon Islands in the last two months.

These developments have raised the profile of the role of Australian aid in the Pacific in addressing the underlying causes of poverty and social unrest, as well as addressing the immediate security situation in a number of these countries.

RESULTS Australia's advocacy on the Australian aid program has concentrated on the allocation of aid to priority sectors (such as basic health and education, and access to credit for the poorest) rather than the allocation of aid among different countries and regions. However, as the Pacific Island countries account for 15% of Australia's total aid in 2006-07, and share a number of human development problems and challenges with other developing countries, the sectoral priorities that RESULTS has supported at a global level would also be relevant to the Pacific.

In addition, RESULTS has supported achievement of the Millennium Development Goals (MDGs) as the basis for setting priorities in Australia's aid. The Analytical Report on Pacific Island Countries prepared for the White Paper on Overseas Aid cites a survey by the South Pacific Community and United Nations Development Program which noted that the Pacific Island countries are making only slow progress towards achieving the MDGs, particularly towards goals for improving health and reducing income poverty.<sup>1</sup>

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<sup>1</sup> R Duncan and J Gilling, *Analytical Report on Pacific Island Countries*, companion volume to White Paper on the Australian aid program, page 8-12.

The proposals in the following sections address items 2 (Improving economic management and public accountability mechanisms) and 3 (Maintaining access to basic services, especially health) among the Committee's terms of reference.

### **Priority for the Pacific Region**

As the Prime Minister has committed the Australian aid program to increase to \$4 billion in 2010 (from an estimated \$2.64 billion in 2005-06), the percentage of aid to the Pacific Island countries is likely to decline (given that the Pacific Island countries contain a small percentage of the world's poor). However, given that the Pacific Island countries face a number of economic and social difficulties, and Australia's leading role in providing support to the region, RESULTS Australia suggests that the dollar amount of Australian aid should be maintained or increase slightly in the coming years. Assuming future growth in aid to the Pacific is much slower than in recent years<sup>2</sup>, it will be particularly important for Australia's aid to be targeted to reducing poverty.

RESULTS has suggested some medium-term expenditure targets for particular services for the region, although the actual levels of expenditure would depend on the needs of countries in the region and agreed priorities between Australia and each country. The following sections use a benchmark for the Pacific countries' share of total assistance to health, education and access to clean water of around 10%. This is based on expected growth in Australian aid over the next five years (which would be to about \$4.5 billion) and Australia's total aid to the Pacific being maintained or slightly increased in nominal terms.

In the longer term (eg, over the next ten years), RESULTS suggests that the Pacific share of Australia's aid could decline further, within a growing overall aid program. This trend reflects the small share of the world's poor in the region, while still taking account of Australia's responsibilities as the largest contributor of assistance to the region.

The sectoral priorities for the aid program in the Pacific Islands set out in the next sections would address the needs of Pacific Island countries which the analytical report prepared for the White Paper on the Overseas Aid Program had identified. These measures would supplement other programs which are intended to improve economic performance and governance (and therefore capacity to improve services and living standards) in the Pacific.

### **Health**

Progress in improving health standards in Pacific Island Countries has been patchy with life expectancy increasing in most countries, some reduction in child mortality (with the largest reduction in Vanuatu) and a relatively low but increasing incidence of HIV/AIDS.

The White Paper on the Overseas Aid Program foreshadows a doubling of support for health from 2005-06 to 2010 (to approximately \$560 million).<sup>3</sup> It may be appropriate for up to 10% of Australian aid for health (or about \$50-55 million) to be devoted to Pacific Island countries by 2010, with priorities for basic health care and action to combat AIDS, tuberculosis (TB) and Malaria.

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<sup>2</sup> Australian aid to Pacific Island countries has increased from \$172 million in 2002-03 to an estimated \$434 million in 2006-07. Source: Budget Paper on Australia's Overseas Aid Program 2006-07.

<sup>3</sup> *Australian Aid: Promoting Growth and Stability* (White Paper on the Australian aid program), p. 49

The current aid program is giving some recognition to these priorities for the Pacific. For example, the Australian Government is providing \$1.2 million in assistance for the TB Epidemic Control Project in Kiribati, which has a high burden of TB. This 3 year project, commencing in July 2006, provides support for the provision of increased numbers of hospital beds for TB patients, the training for community health workers, operational research and capacity building within the Kiribati health sector. It will be important for the Australian aid program to include other initiatives in the region to address infectious diseases.

## **Education**

Participation by school-age students and primary and secondary school completion rates in Pacific Island countries vary significantly, but progress is falling short of the MDG target for universal primary education participation in a number of countries.

The White Paper on Australia's Aid Program has identified objectives of reversing a slide in education quality in the Pacific, as well as the development of the Australia-Pacific Technical College.<sup>4</sup> The White Paper has foreshadowed a trebling of assistance to national education systems by 2010 (to approximately \$600 million). It may therefore be appropriate for annual aid to the Pacific for education (including the Australia-Pacific Technical College) to increase to approximately \$50-60 million over this period.

## **Water and Sanitation**

The analytical report on the Pacific Island countries noted that access to clean water and sanitation varies widely both within and between Pacific Island Countries. In particular, the access of the poorest people to clean water and safe sanitation in Kiribati is very low.

As the White Paper on Overseas Aid has signaled an increase in support for infrastructure, a vital role for Australian infrastructure support for the Pacific would be to assist a number of countries in the region achieve increased access to clean water and sanitation. An appropriate medium term goal for Australian assistance for access to clean water in the Pacific would be \$30-35 million per year. This goal is based on Australia's estimated share of the cost of achieving the Millennium Development Goals for access to clean water and improved sanitation (\$350 million per year) and a share for the Pacific Island countries of around 10%.

## **Microfinance**

One of the issues identified in the analytical report on the Pacific Island Countries prepared for the White Paper is that a key concern for the poor in Pacific Island countries is the lack of jobs and income-earning opportunities. Microfinance has great potential to assist the poorest people who cannot access credit and other financial services through the financial system, and who wish to start or develop a business. Recent World Bank research<sup>5</sup> has also shown broader access to financial services through development of the financial sector within a country 'triggers more rapid increases in the incomes of the poor, relatively speaking, as it stimulates growth for the whole economy'.

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<sup>4</sup> *Australian Aid: Promoting Growth and Stability*, p 53.

<sup>5</sup> Beck, Thorsten, Asli Demirguc-Kunt and Ross Levine, 2004, "[Finance, Inequality and Poverty: Cross-Country Evidence](#)," World Bank Policy Research Working Paper

While the current Government has gradually expanded funding for microfinance (including to Pacific Island countries), RESULTS notes that the White Paper on Overseas Aid does not contain a specific commitment to devote an increased share of the aid program to the provision of microfinance.

Any microfinance programs in the Pacific that Australia supports would need to deliberately target the poorest people to ensure they benefit. Otherwise, microfinance programs tend to benefit the only moderately poor and non poor, who are more aware of opportunities for assistance than the poorest.

RESULTS notes that the recent ALP discussion paper on overseas aid proposed the Pacific Development Trust concept. This Trust would result in a significant expansion of the role of microfinance and microenterprise support in improving the lives of the poor the Pacific and would allow approximately \$50 million per year to be allocated to microfinance in the Pacific region (once it is fully capitalised).

A significant expansion of microfinance support for Pacific Island countries, either through increased priority in the mainstream aid program or through the establishment of a separate Trust for the Pacific, should be a priority for the future Australian aid program in the Pacific. RESULTS suggests that total aid for microfinance and microenterprise development in the Pacific increase by annual increments of \$5 million to \$10 million per year in the next five years, with reviews on the impact of this assistance to be a priority for the Office of Development Effectiveness.

This growth would result in an allocation to microfinance and microenterprise development in the Pacific which is a relatively high proportion of assistance to the region (compared with role of microfinance in the total aid program). This priority reflects the earlier stage of development of microfinance in the Pacific compared with other regions.

Other international donors are supporting Australian initiatives to provide microfinance services in the Pacific. For example, ANZ Bank's "Banking the Unbanked" project in Fiji, which includes a microfinance component, has received funding from the United Nations.<sup>6</sup> This suggests the Australian Government can also increase its support.

### **Multilateral Organisations' support for the Pacific**

In addition to its bilateral and regional support for Pacific Island countries, Australia can also work in partnership with multilateral organisations to assist these countries. In the World Bank in particular, Australia would have a significant role in seeking assistance for Pacific Island countries, as Australia shares its constituency at the Bank with a number of Pacific countries.

In the 2003-2005 period, the World Bank's principal lending agencies (the International Bank for Reconstruction and Development and the International Development Association) have made new loan commitments to only two Pacific Island countries (Samoa and Tonga), and the amount of commitments has been only 0.05% of total bank lending.<sup>7</sup> While the Pacific countries account for only a small proportion of the world's poor, and the size of many

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<sup>6</sup> B Howarth, *River Bank*, Australian Financial Review Boss, June 2006, pp 72-75.

<sup>7</sup> World Bank Annual Reports, 2003 to 2005.

projects in Pacific Island countries would be small by World Bank standards, Australia could still seek a higher priority for Pacific Island countries in World Bank lending.

Specific action Australia could take would include being willing to co-finance projects with the World Bank, and assisting countries in developing project proposals for Bank consideration.

An existing example of co-financing between an agency of the World Bank and the Australian aid program is support for the Pacific Enterprise Development Facility (PEDF), which the International Finance Corporation (IFC), a World Bank subsidiary, manages.

The PEDF has assisted the Bank South Pacific in Papua-New Guinea to increase loan access in rural areas and reduce loan thresholds, and has worked with the National Development Bank of Palau to demonstrate the need for microfinance, and commence development of a microfinance unit.<sup>8</sup> The Australian, New Zealand and Japanese Governments have supported the PEDF, thereby building on bilateral support both countries provide for microfinance.

Australia could increase the effectiveness of its own aid in microfinance and other sectors through working with multilateral organisations, provided that the focus of the multilateral assistance is consistent with Australia's aid objectives.

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<sup>8</sup> Pacific Enterprise Development Facility, First Quarter Newsletter, 2005.