



## Submission No 4

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

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## **Impact of Australian aid to the island-Pacific.**

Submission to

*The Human Rights Sub-Committee of the Joint Standing Committee on Foreign  
Affairs, Defence and Trade*

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### **Summary**

I will in this submission focus exclusively on the island Pacific, a region with which I have some familiarity. On improving aid effectiveness, I submit that: (i) law and order can be restored over the short term with force but the same over the longer terms requires economic prosperity; (ii), the Pacific island region can, with Australian leadership, under-write law and order in the member states to induce increased private investment; (iii) short-term labour mobility for unskilled workers from the island-Pacific into Australia and New Zealand has the potential to 'jump-start' a process of job and income growth in the islands; and, (iv) aid be judged effective if its need diminishes over time. On the last, aid to the Pacific has not been effective.

## SUBMISSION

Australian assistance to the island Pacific has increased significantly over the recent past. Australian aid to Solomon Islands in 2003, for example, increased five fold to US\$101 million from the average of approximately \$20 million for the previous four years.<sup>1</sup> Australian aid to Nauru more than doubled between 2001 and 2003 while that to Papua New Guinea increased by 44 percent in the same period. These trends are likely to continue given the announcement by the Prime Minister of a doubling of the total aid budget, and an allocation within the 2005-06 budget of an aid package of A\$856 million to Solomon Islands: “to restore law and order and sound public finances” (Commonwealth of Australia, 2005).<sup>2 3</sup>

Security has been the motivating factor for the increased assistance to the island Pacific. The Government had stated in its *Pacific Regional Aid Strategy 2004-2009*, launched by the Minister for Foreign Affairs on December 9 2004 at Parliament House, that:

“Australia has sharpened its focus on the region following the deterioration of security in Solomon Islands and in the context of global security increasing trans-boundary challenges and the understanding that a porous and undeveloped region is not in the interests of the Pacific or Australia.” (Commonwealth of Australia, 2004: 11).

The security rhetoric, to a very large extent, has been confined to improving law and order. The Australian government has often responded to breakdown of law and order within its neighbourhood by airlifting Australian Defence Force (ADF) and Australian Federal Police (AFP) personnel into trouble spots. These reactions in the aftermath of major breakdowns in law and order are understandable but also indicative of the failure of past (and ongoing) interventions at addressing the deep causes of these breakdowns.

Long term human security can only be built on the foundations of economic prosperity. Law and order and functioning states are critical for the modern economy to function. The interventions into the island Pacific have to date failed to raise rates of economic growth in the recipient nations. Many of the island states of the Pacific have had low, some even negative, rates of income growth. Jobs creation has often fallen well short of the number of people entering the workforce. Both absolute poverty and income-inequality has risen in several of these countries. As one example, the World Bank estimates that some 38 percent of the population of Papua New Guinea, as of 1996, lived below the poverty line. This figure is unlikely to have changed much since. Rising poverty, and increasing inequality and unemployment provide the ingredients for conflict. The ADF and AFP may be able to contain conflicts when they erupt, but sustained peace necessitates economic prosperity so that the bulk of the population complies with the laws voluntarily.

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<sup>1</sup> The figures are in nominal terms as reported by DAC.

<sup>2</sup> Sourced from: [http://www.budget.gov.au/2005-06/at\\_a\\_glance/download/at\\_a\\_glance.pdf](http://www.budget.gov.au/2005-06/at_a_glance/download/at_a_glance.pdf)

<sup>3</sup> I had foreshadowed a substantial increase in aid a year and half early; see Chand (2004) “Australian aid in the new millennium”, *Development Bulletin* 65(2): 16-21.

Competition for land for subsistence agriculture and disputes over distributions of resource rents, such as those from mining and logging, have often fuelled conflicts. For example, the four-year fighting on Guadalcanal and the decade long struggle on Bougainville were triggered by disputes over land and distribution of proceeds from mining. These pressures continue to build as populations increase and unemployment rise. Absent rapid job growth, the pressure on the natural environment will continue to increase. Aid can reduce some of these pressures, but not by creating welfare-dependency.

***Can donors, even those with the best of intentions and with unlimited resources, help in creating human security?***

The answer to the above would have to be in the affirmative, but the literature provides little guidance on how this might be done.

The international literature on Official Development Assistance (ODA) is in a state of flux. There is the one set of results from cross-country analysis that shows that aid is effective, but only in good policy environments. There is yet another set of findings that shows that aid is effective regardless of the policies of the recipients. Yet, a third set of results suggests that aid is ineffective, period. This debate is unlikely to be resolved soon, and definitely not soon enough to be of much value to this Committee.

What is clear, however, is that a mere scaling up of existing programs funded via aid to the island-Pacific is unlikely to improve the effectiveness of ODA. The ongoing experiments with 'interventionist' aid to the island Pacific, moreover, will have lessons for others. Given the little guidance from the past on how the effectiveness of aid may be improved, much of the learning would have to be done on the run. Importantly, such learning would have to be part of a deliberate strategy rather than a coincidental by-product.<sup>4</sup>

The ODA budget, in nominal terms, is due to be doubled by 2010. What guarantee that this will deliver greater security? There is now the possibility that the expenditure target will get surpassed should the recent troubles in Dili and Honiara be any guide to the future.<sup>5</sup> With the benefit of hindsight, there was little choice but to deploy soldiers and police to Honiara (in April) and to Dili (in May 2006). The Government, the AFP, and the ADF deserve credit for the rapidity with which they responded to these emergencies. I do, however, have strong misgivings about the efficiency of the intelligence gathering apparatus in Honiara and the capacity of RAMSI to pre-empt crisis. The Australian taxpayer would have been spared the extra cost, and the ADF and AFP the additional effort, of the deployments if the authorities on the ground were able to contain the breakdown of law and order before it spun out of control. I am reliably informed by several commentators that the riots in Honiara were planned and meticulously executed. Similar reports are now arriving from Dili in relation to the May riots there.

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<sup>4</sup> This is part of ongoing research within the Pacific Policy Project at the Australian National University.

<sup>5</sup> I do not have actual figures on the costs of the recent deployment of soldiers and police to Dili and Honiara, but they must be large in relation to the ODA budget.

Every dollar of ODA spent on containing breakdowns in law and order is a dollar less for expenditure on other items including those for growing the economy. While I strongly believe that the restoration of security both in East Timor in 1999 and Solomon Islands in 2003 were long overdue, the success with resuscitating their economies to date has been disappointing. I had canvassed the challenges of development and particularly those of resuscitating the Solomon Islands economy on the eve of the deployment of the Regional Assistance Mission to Solomon Islands (RAMSI).<sup>6</sup> The looting and burning of businesses in Honiara last April and in the presence of RAMSI raise questions on the credibility of this mission.

***With the above as background, I submit:***

1. that security can be restored with force but only over a short span of time and within a narrow space of geography;
2. that long-term security requires economic prosperity; and,
3. that aid is effective only if and when it achieves the latter.

These propositions raise three specific questions: how can aid be made more effective; why has past aid not been more effective; and how can the effectiveness of Australian aid to the island-Pacific be judged. These are addressed next.

***How can aid to the island-Pacific be made more effective?***

I am proposing a three pronged strategy to making aid more effective in terms of achieving human security within the island Pacific. The first of these involves under-writing law and order in the island-Pacific region. I am proposing that the members of the Pacific Island Forum, as a collective entity, under-write law and order in each of its member states. Australia, as the largest and richest member of this forum, can have a pivotal role in this initiative. A credible commitment to restoring law and order if and when it breaks down in any member state could be enough to deter such disruptions. Australian backing to such a commitment and her willingness to lead a mission should the need arise is critical for this strategy to deliver on its intent.

The second, and a longer-term strategy, would be to creating the conditions for voluntary compliance with the laws of the state by the majority of her citizens. The incentives for such compliance has to be founded in the belief that the rewards of complying with the rules and regulations of society, even without the threat of punishments by outsiders, far outweigh the costs of doing anything less. This requires raising the prospects of development for the region such that the incentives are for value-adding effort rather than those for predation. If economies grow sufficiently to absorb those requiring work and be in a position to provide opportunities for sustainable livelihoods for the majority, then prosperity would be the girder on which peace and stability could rest. Furthermore, a sufficiently large tax base would allow the nation state to control crime with its own resources.

While under-writing law and order in the individual states will lower the risk premiums for private investors, the increased investment will be realised only after investors are convinced that the commitment will withstand the test of time. Thus, the

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<sup>6</sup> This paper was published as Chand, Satish (2003), "Resuscitating the Solomon Islands economy", *Pacific Economic Bulletin* 18(2):29-38.

rise in growth of income and jobs from an assurance that law and order will prevail can only be a long-term strategy. The urgency for job growth now calls for a short-term strategy with the potential to ‘jump-start’ the process of job creation and growth of production.

The process of job growth can be triggered by allowing Pacific island states short of employment opportunities the facility to export their excess labour. Australia (and New Zealand) could, for example, allow temporary access to unskilled workers from the island Pacific. Such access, even for ten thousand workers, could act as the circuit breaker between the unemployed engaging in socially disruptive behaviour at home that leads to a deterioration of the domestic investor climate with lower investments and even fewer jobs being created. Furthermore, access to jobs in Australia will enable the migrant workers to learn the discipline of earning a living from value-adding effort and allow them to remit income back to their families at home. They would, in the process, have transformed themselves from being a liability to an asset for their societies.

The Pacific islands cannot rely on exporting all their people (or problems) to Australia, however. The mobility will provide short term respite to island nations burdened with growing youth unemployment. The individual island states would need to work on improving their own domestic environments for growth of enterprise. People remain an important, and for many, the only resource. Temporary access to unskilled workers from the Pacific islands into Australia can thus be part of a package that includes commitments by the island governments to improve the conditions for growth of their own economies.<sup>7</sup> The commitment to improve governance would be a critical component of such a package.

The Pacific islands can reap greater rewards from their people by raising the productivity of their workforce. This necessitates investment into skills acquisition. Pacific islanders continue to remit income back home, thus the incentives for further training would be raised through access to the Australian labour market. The points system for permanent migration provides the incentives for workers to up-skill themselves for the global marketplace. Temporary labour mobility for the unskilled could provide the cash to invest in skill-upgrading, thus igniting a virtuous effect of investments for growth of income. Aid could help speed such a process but is unlikely to be a substitute for the above.

The third strategy towards improving investor climate within the island-Pacific entails subsidising the provision of public goods and services within the region. I see a strong case for subsidies targeted at improving access to basic health and primary education services and into improving communications and transportation infrastructures. The debilitating effects of malaria and HIV/AIDS rob several of the Pacific island states of their most productive resource. These communities remain impoverished because of the burdens of malaria, TB, and now a ravaging HIV/AIDS epidemic.<sup>8</sup> These afflictions have trapped those unfortunate

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<sup>7</sup> Withers (2006) “A curate’s egg? Australia’s immigration and population policies” *APSEG Discussion Paper* 06/06, while in general being critical of guest-worker scheme for unskilled workers, notes that the Pacific Islands as an exception in that such a scheme “as part of a carefully constructed economic development package” (page 18) has merit.

<sup>8</sup> The first two of the above is due principally to geography.

enough to live in regions prone to the above into poverty. Aid specifically targeted at reducing these afflictions could enable the effected communities to peddle out of poverty.

Poor communications and transportation infrastructure continues to lock out a large proportion of the population into subsistence agriculture and away from the potential gains of modern commerce. A family living on an isolated outer island in Marshall Islands, for example, has irregular shipping as the only contact with the outside world. Coffee from the Highland of Papua New Guinea gets lifted out by air as the villages remain inaccessible by road, even in the 21<sup>st</sup> Century.

Improving access to basic education has to remain a priority if the people of the region are to be able to utilise the benefits of modern technology. Nearly a half of the PNG population is illiterate, thus ill-equipped to participate in the modern economy. I do not see any of these illiterate workers volunteering to come to work in Australia should such an option be on offer. Modern technology is apt at preventing teenage pregnancies, eradicating death due to complications from childbirth, reducing the prevalence of diabetes, and containing the spread of sexually transmitted diseases (STDs). People, however, need to be able to access this technology. Improving access to schools and basic healthcare, therefore, has to remain a priority. If anything, even greater effort should be placed on these two sectors.

#### ***Why has aid not been more effective?***

I have been told repeatedly by Australian public servants posted into recipient-country bureaucracies of the difficulties of working in these environments. How could I, they question me, expect them to do any better. While working in another sovereign state is difficult, this is less of an excuse when recipient nations such as Nauru, Papua New Guinea, and Solomon Islands have permitted these officials to hold senior positions and given them access to the senior most managers. Having worked for several Pacific Island governments over the past two decades, I would dispute the claim that Pacific Islanders are either inhospitable or inept at taking good advice. Australian public servants working in inline positions in host nations, moreover, have the backing of their law enforcement agencies and the resources of their home-departments. Absent re-colonisation, there is little more that these officers posted from Australia can expect.

Given the above, there is every reason for the Australian taxpayer to expect a lot more from their aid dollar in countries with Australian personnel. The out-posted officers should tell the taxpayers on what more is needed to make them more effective at doing their jobs.

#### ***How can the effectiveness of aid be judged?***

The interventions into Nauru, Papua New Guinea, and the Solomon Islands were promised:

“to pre-empt economic collapse, improve security, reduce corruption and promote strong economic growth.” (Commonwealth of Australia, 2004: 11).

These are tangible outcomes. Progress on each of these promises can be monitored and should be used to judge the effectiveness of Australian aid. The billion

dollar question, given the amount of resources spent on these missions, is as to whether these promises have been fulfilled. As a taxpayer and commentator on aid to the Pacific, I am not sure if this has indeed been the case.

Aid could be judged effective if its need diminished over time. Let me use a medical analogy to help conceptualise when aid could be deemed effective. How does a doctor assess his/her effectiveness in treating a patient diagnosed with anaemia? The doctor, after establishing iron deficiency in his/her patient, prescribes medication as a first step in bridging the deficiency. Whilst doing the above, the doctor continues with tests to locate the cause of the deficiency.<sup>9</sup> Suppose subsequent tests reveal that the ailment is due to repeated malarial attacks. The doctor then prescribes treatment to flush the parasite that caused the ailment in the first place. The medication and monitoring (that is, rehabilitation) continues until the body is able to provide for its own needs without 'external assistance'. At this stage, the treatment is considered complete. Success is established when (and if) the need for medication expires.<sup>10</sup>

The posting of ADF and AFP personnel to quell violence during the riots in Dili and Honiara is akin to providing the medication; rehabilitating the body such that it is able to deal with these deficiencies is akin to reviving the economy such that it is able to provide for its needs without external support. The medical analogy would imply that aid, this being the external assistance, is to be considered effective once its need expires. The expiry of such need diminishes slowly over time, thus progress (or regress) can be monitored. On the last, none of the countries recently intervened in have reached a point where they are free from the need for continued Australian assistance. The riots in Honiara and Dili suggest the opposite in that law and order in these cities is now more dependent on the presence of ADF and AFP personnel than ever before.

I concede that it could be a bit too early to pass judgement on the success of the recent interventions into the island-Pacific; there is little reason for complacency, however. The Timorese intervention is nearing its seventh year while RAMSI is approaching its third anniversary and neither nation is in the process of being weaned off aid.

A necessary condition for improved aid effectiveness is that its impact is monitored on an ongoing basis and those responsible for its delivery are held accountable for their actions. The last calls for independent and regular reviews of the effectiveness of Australian aid. In this light, I have argued for an adequately equipped Australian National Audit Office (ANO) to take up the last task.<sup>11</sup>

Finally, I wish this Committee every success in its deliberations and would be grateful for a copy of the report once it is made public.

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<sup>9</sup> This is motivated by 'Clinical Economics' as argued in Sachs (2005), *The End of Poverty*, Penguin.

<sup>10</sup> There are cases where medication, as for diabetes, may be required on an ongoing basis. This would be akin to creating aid dependency; a situation that would amount to aid being ineffective. The example used here, moreover, is for illustrating the best possible scenario; but note that I do not have any medical expertise.

<sup>11</sup> See Chand (2004) "Australian aid in the new millennium", *Development Bulletin* 65(2): 16-21.