

CHAPTER TEN

DEVELOPMENT COOPERATION

Aid and Development

10.1 Whether aid is effective in bringing about development and alleviating poverty has been a contentious argument for the last twenty years. In ASEAN, most of the countries have been characterised by high rates of growth and extensive poverty alleviation. In Indonesia, poverty has declined from 60 per cent of the population in the 1970s to 14 per cent in 1995; in Malaysia from almost half the population in 1970 to less than 10 per cent in 1995; and in Thailand, absolute poverty has been reduced from over 57 per cent in the late 60s to less than 20 per cent in 1995.¹

10.2 In the debate over economic growth versus aid as the way to development, some conclusions are emerging from recent research. The current consensus on the role of development assistance in promoting sustainable development suggests that aid works where governments are supportive of development through appropriate macroeconomic policy settings; without this 'good government', aid is wasted.² AusAID's assessment is upheld by current research. Oxford University economist, Paul Collier, summarised the latest research and the views expressed provide interesting insights into both the successes of the ASEAN countries and, perhaps, the way forward in the face of the current economic crisis.

Given to governments pursuing bad policies, aid doesn't work - and may even make things worse. ... But where governments are doing the right things, the right kind of aid can make a major, positive contribution. Give advice to bad governments, but give money only to the good. [On the other hand], growth almost always helps poor people and it doesn't lead, on average, to increased inequality. But ... programs aimed at poverty alleviation are crucial to economic growth. Not only that, but countries with high rates of inequality seem less likely to grow fast and less likely to share the fruits of such growth as they do enjoy.

You need both ... sound economic policies, including openness to trade and the free market; and sound social policies, especially free primary education and basic health care. You need the social policies for economic reasons, just as you need the economic policies for their good social effects.³

1 DFAT/AusAID Submission, p. S432.

2 *ibid.*

3 Exhibit No. 47, Research conclusions reported by Fred Hiatt, Aid to the Good, *The Washington Post*, 22 December 1997.

10.3 AusAID believed that aid has been catalytic in the development of ASEAN, that it has provided the enabling environment for growth and stability, but that this has only been a complement to good macro-economic policies set in place by the countries themselves.⁴

10.4 Australia's formal development cooperation relationship with the ASEAN countries goes back to the Colombo Plan in the early 1950s and to 1967 when Australia joined the donor consultative group on Indonesia.

The Need for Development Cooperation within ASEAN

10.5 For the last ten to fifteen years ASEAN has been a region in transition. The tiger economies have been developing so fast into Newly Industrialised Economies (NIE) that they have moved or were rapidly moving away from dependence on aid programs. Singapore has achieved NIE status, Malaysia and Thailand were moving in that direction and Indonesia, the Philippines and Vietnam were growing rapidly.⁵ Indeed, in 1997, with the inclusion of new countries into ASEAN whose economies were less developed there was an expectation that ASEAN itself would be offering assistance to the new ASEANs in order to develop greater economic equity and smoother integration. While this may still be possible over the longer term, such plans have been interrupted by the economic problems that have developed in the last months of the year.

10.6 The relative development status of the ASEAN states and the new ASEAN states can be seen in the following tables:

Table 10.1: Comparative Economic and Social Indicators for Original ASEAN Members

	GNP Per Capita (\$US)		Poverty (% population)		Economic Growth (average % over period)	
	1967	1995	1970-75	1989-94	1965-73	1985-95
Indonesia	100	980	60 (1970)	17	6.6	7.1
Malaysia	290	4000	38	16	6.7	8.2
Thailand	130	2720	30	13	7.8	9.8
Singapore	600	23360 (1994)	-	-	-	9.0 (1995)
Philippines	180	1070	57	41	5.1	3.2

Sources: *Development Assistance*, OECD DAC Review, 1968; *Trends in Developing Economies*, a World Bank Book, 1996; *Social Indicators of Development*, a World Bank Book, 1992; *Economic and Social Survey of Asia and the Pacific*, UN, 1996; *Key Indicators of Developing Asian and Pacific Countries*, ADB, 1996; *Indonesia: Poverty Assessment and Strategy Report*, World Bank, 1990.

10.7 Notwithstanding the impact of the current economic problems, the need for assistance for some countries and some sectors in most countries had continued in 1997; now, especially where the IMF and the World Bank have been called in, the need has increased. Some of the South East Asian states have lost years of development in the economic crisis. Australia had begun to phase Thailand out of bilateral aid programs. This process of phasing

4 AusAID Transcript, p. 7.

5 DFAT/AusAID Submission, p. S432.

out is now likely to be delayed. Brunei and Singapore, however, already receive virtually no development assistance.

Table 10.2: Select Economic and Social Indicators for an Expanded ASEAN

Income Group	Country	GNP per capita (\$US) 1995	Population (millions) mid 1995	Life Expectancy at Birth (years)	Infant Mortality (per 1000 births) 1989-1994
High Income:	*Singapore	23360 (1989-1994)	3 (1989-1994)	75 (1989-1994)	5
	*Brunei	14240 (1989-1994)	0.28 (1989-1994)	75 (1989-1994)	7
Middle Income:	*Malaysia	4200	20.1	71	12
	*Thailand	2720	58.7	69	35
	*Philippines	1070	67.5	66	39
	*Indonesia	980	193.3	64	51
Low Income:	Cambodia	260	10.2	53	108
	Laos	350	4.9	52	90
	*Vietnam	250	73.5	68	41
	Burma	-	45.5	58	80

Note: Income groupings based on World Bank Atlas method. *ASEAN members.

Sources: Data from *Trends in Developing Economies*, a World Bank Book, 1996; *Social Indicators of Development*, a World Bank Book, 1996; *Key Indicators of Developing Asian and Pacific Countries*, ADB, 1996.

The Simons Review

10.8 In 1996, the Government commissioned a review of the aid program by an independent committee headed by Mr Paul Simons. The review, *One Clear Objective: Poverty reduction through sustainable development*, April 1997, recommended a simplification of the aims of the program to one objective - the alleviation of poverty through sustainable development. The recommendations associated with the achievement of this objective included a narrowing of the geographic scope of the program and a diminution in the number of countries receiving assistance, especially where very small programs were involved, an untying of the program from Australian businesses, greater evaluation of the development impact of the program and an evaluation of the effectiveness of the NGO program. For many years the international community has set a target of 0.7 percent ODA/GNP for developed countries. Australia has never met this target and internationally aid as a percentage of GNP has declined. It was suggested that a new and more realistic target be set by the Government. Other aspects of the report dealt with organisational and management issues within AusAID.

10.9 The Joint Committee responded to the Simons report as part of the Government's consultation process. The Committee held a seminar in Parliament House on 11 July 1997. The report of that seminar outlines the Committee's view on the recommendations.⁶ It is largely supportive of the conclusions of the Simons Review, particularly in its overall proposition that it is important to concentrate on the development outcomes of alleviating poverty and that the aid program remain strongly focused on the region. The Government responded to the recommendations of the review in November 1997.

10.10 From the point of view of this inquiry, the most significant feature of the Simons report is its confirmation of this region as the primary focus of development cooperation.

The Size and Focus of the Australian Development Cooperation Program

10.11 In development cooperation policy, as in foreign and defence policies, Australia focuses on the region. The total aid budget for 1997-98 was \$1429.9 million which represented 0.27 per cent of ODA/GNP and one per cent of government outlays.⁷ Over 85 per cent of Australia's total aid budget is spent in the Asia Pacific region. In 1997-98, \$A260 million or 18 per cent of the aid budget went to ASEAN countries. Australia currently contributes six per cent of its total aid flows to the region.⁸

Bilateral Development Cooperation

10.12 Aid is primarily channelled through bilateral programs; three quarters or more of any of the total flows of aid to any of the ASEAN countries are directed through the country programs. The largest recipient in ASEAN is Indonesia; in 1997-98 total aid flows were \$A88.9 million. Particular focus has been given to Indonesia's eastern provinces and to five sectors: education and training, agriculture and rural development, economic and social infrastructure, environmental management, and health. Vietnam and the Philippines are the next largest recipients in ASEAN with total aid flows in 1997-98 of \$66 million and \$57 million respectively. In Vietnam, the sectors addressed are health, education, social and economic infrastructure and natural resources and environmental management. In the Philippines, aid was concentrated in the southern provinces and directed at education, health, agricultural improvement, water sanitation and governance. A smaller aid program exists between Australia and Thailand. In Thailand, a program of \$22.5 million in 1997-98 concentrated on health, particularly HIV/AIDS prevention, education and training as well as energy and the environment.⁹

6 For details of the Committee's view, see JSCFADT, *Sharpening the Focus: Report on a Seminar on the Simons Committee Report*, October 1997.

7 AusAID, *Aid Budget Summary, 1997-98*, p. 1.

8 AusAID Transcript, p. 8.

9 Exhibit No. 55(c), Source of information on aid flows: DFAT Country Briefs, 1997-98.

Table 10.3: Total Australian Aid Flows to ASEAN 1992-93 to 1996-97

Table-v.doc

Regional Assistance

10.13 However, a small proportion of aid to ASEAN (\$A5.9 million out of \$A260 million) is delivered through the regional mechanism of the ASEAN-Australian Economic Cooperation Program (AAECP). There are further small region-wide programs: the Mekong Basin Sub-Regional Program (MRC) (\$A3.9 million in 1996-97); the South East Asian Regional Program (SEARP) (\$A11.4 million in 1996-97); and the Asia-Pacific Economic Cooperation Program (APEC support program at \$A2.4 million in 1996-97).

10.14 The nature of Australian aid to the region can be seen in the case studies presented to the inquiry by AusAID in Box 1.

The World Bank and the Asian Development Bank (ADB)

10.15 Multilateral development programs are delivered by the multilateral financial institutions, the World Bank or the Asian Development Bank and its associated funds, or the Commonwealth or United Nations development agencies. The role of the multilateral banks is one of providing development funds; assisting in the coordination of bilateral and regional development cooperation, notably through managing and supporting donor consultative groups; undertaking and disseminating high quality research on economic and sectoral issues; and helping developing countries to design and implement social and economic policies to promote sustainable development.¹⁰

10.16 Australia contributes through subscriptions and replenishments to the multilateral banks - the International Bank for Reconstruction and Development (IBRD), the Asian Development Bank (ADB) as well as to their lending and insurance arms - the International Finance Corporation (IFC), the International Development Association (IDA), the Asian Development Fund (ADF) and the Multilateral Investment Guarantee Agency (MIGA). In 1997-98, Australia's contribution was \$230.8 million to these financial institutions.¹¹ The contribution to the UN development agencies was \$67.5 million and to the Commonwealth development agencies \$9.3 million. To international health programs it was \$9.7 million and to international environment programs \$13.6 million.¹² Through this involvement, Australia gains a place in the deliberations over development policies and direction adopted by these institutions.

10 DFAT/AusAID Submission, p. S441.

11 See Table 9.4 below.

12 AusAID, *Aid Budget Summary 1997-98*, p. 4.

Box 1: Case Studies from Bilateral and Regional Programs to ASEAN¹³

Improving Land Titling/Administration

Improvements in land titling can benefit the poor in ASEAN countries, who have greatest difficulty in establishing legal ownership of the land they work. Enhanced land titling can lead to security of tenure which encourages improved land resource management, contributing to enhanced productivity and higher incomes for the poor.

As a world leader in land titling systems, surveying, mapping and associated technology, Australia is well placed to assist ASEAN countries in this area. Australia is currently supporting two land titling projects in the ASEAN region:

- the *Indonesian Land Administration Project* (\$A26m). The project aims to accelerate land titling through the use of modern surveying techniques and by strengthening Indonesia's national land agency; and
- the *Thailand Land Titling Project Phase III* (\$A7m). The project aims to accelerate the production of cadastral maps and the issue of title deeds to land holders throughout Thailand.

Supporting Education and Training

ASEAN Governments have traditionally placed a high priority on education and training, recognising it as the cornerstone of economic development. The region's need in this area will continue to escalate as populations expand and economies grow in size and sophistication.

Australia, with its mature economy and well educated population, is well placed to assist the countries of ASEAN to expand their skills base. Australia's scholarship programs to ASEAN are the most visible efforts in this area, with some 10,500 students from ASEAN countries graduating from Australian educational institutions since 1989. Most development activities undertaken by Australia in the region have significant education and training elements.

Australia has also provided assistance to ASEAN countries aimed at directly enhancing their own capacity to deliver training. In Indonesia and the Philippines, in particular, Australia has substantially assisted in upgrading their technical and vocational education capacity.

Increasing Food Security*

Rice production provides the people of South East Asia with around a third of their calorie needs and employs more than 20 million families. Land to expand production to feed an increasing population is very scarce.

Since 1980 Australia has been supporting efforts to expand rice production in the South East Asia region through the Integrated Pest Management Project (IPM), contributing over \$A4m to the current five year phase. The IPM project aims to improve food security by creating a sustainable increase in rice production. Pesticide use is restricted and farmers are encouraged to conserve the 'natural enemies' of rice pests which provide effective biological control.

The project has provided benefits to all participating countries. For example, Indonesia's annual rice yield per hectare increased by 10% following adoption of a national IPM policy in 1986, and its annual production of pesticides decreased by 60% (between 1986 and 1993).

* 1 Key aid consultancy groups (generally chaired by the World Bank) in which Australia participates include: Indonesia, Cambodia, the Philippines and Vietnam.

Table 10.4: Contributions to International Organisations 1993-94 to 1997-98 (\$m)

	Expenditure			Estimate	
	1993-94	1994-95	1995-96	1996-97	1997-98
Multilateral Development Banks					
Asian Development Fund	1.3	39.3	78.5*	75.7	107.8
International Development Association	139.2	113.1	109.9	127.4	121.5
International Fund for Agriculture Development	0.4	2.2	0.2	1.6	1.5
Total Multilateral Development Banks	140.9	154.6	188.6	204.7	230.8
United Nations Agencies					
World Food Program	48.3	50.0	51.9	54.0	50.3
Other United Nations Development Agencies*	32.1	33.7	33.9	20.2	17.2
Total United Nations Agencies	80.4	83.7	85.8	74.2	67.5
Commonwealth Organisations	11.2	10.2	10.6	8.8	9.3
International Health Programs	7.1	12.6	13.4	10.3	9.7
International Environment Programs	7.5	12.9	8.5	5.9	13.6
Total UN, Commonwealth & International Programs	106.2	119.4	118.3	99.2	100.1
Total	247.1	274.0	306.9	303.9	330.9

* Includes contributions to UN Agencies such as UNDP and UNICEF.

Source: AusAID, *Australia's Overseas Aid Program, 1997-98*, p. 56.

10.17 Australia is represented on the ADB by an Executive Director, Mr Eric Thorn, and an Australian, Mr James Wolfensohn, is currently President of the World Bank. Australian views on development are brought to these institutions through this representation and through direct contact with Bank staff, meetings with other member countries and groups of members, including for funding replenishment exercises. Australian representatives at the Banks are briefed by and consult with a number of Commonwealth departments including Treasury, AusAID and the Department of Foreign Affairs and Trade in order to 'encourage a

commonality between Australia's development cooperation and foreign policy objectives and the policies of the Banks'.¹⁴

10.18 The focus of the Banks has changed in the last five years, largely as a response to criticism concerning the generous terms and conditions of Bank employment, large staff numbers, the emphasis on quantity rather than quality of lending operations, the negative environmental impact of Bank projects and the extent of the actual development impact of their operations.¹⁵ Both the IMF and the World Bank conducted a major review of their operations and those of the regional multilateral development banks in 1994. The Treasury outlined the reform program that the Banks had instituted to change their operations in the light of these criticisms. They had sought to:

- change the culture of their organisations from an emphasis on the quantity of operations to an emphasis on quality;
- increase the development impact of their operations;
- integrate environmental concerns into all aspects of their operations;
- reorganise their structures (to reflect the institutional changes); and
- restrict the growth in their administrative budgets.¹⁶

10.19 The Committee was told that all of the banks now operate more broadly. They have a country wide focus rather than project by project lending. They concentrate on maximising their development impact. They have oriented their lending towards fiscal strengthening, governance, capacity building, promotion of financial markets, sub-regional and regional economic cooperation and environmental protection.¹⁷ There has also been an overhaul of the audit processes within the both the World Bank and the Asian Development Bank. The ADB has established an Audit Committee of the Board, a Budget Review Committee and an Inspection Committee, made up of independent experts, by which local groups within member countries can request an independent review of the Bank's operations in that country.¹⁸

10.20 Reform of the multilateral banks has been driven by the presidency of Mr Wolfensohn. In 1996, he announced a new development compact that stressed the importance of people at the centre of the development process. He believed that the key to sustainability lies in the energy, determination, involvement and commitment of ordinary people. In October 1996, he described a new international agenda for the World Bank. It included:

a new development compact for transparent and efficient assistance that will enjoy the support of citizens of donor and borrower countries alike. This is ... the only basis for both public and private investment for development. [T]he Bank is ready to help address the needs for

14 Treasury Submission, p. S970-71.

15 In the Joint Committee's 1989 inquiry into the aid program, complaints were made by a former employee, Mr Peter Nelson, about the treatment he received after criticising what he claimed were fraudulent operations of the ADB. The Committee recommended that international organisations should institute an independent body to take up the grievances of employees. An administrative tribunal has been established, though not to the satisfaction of Mr Nelson. The Committee did not have an opportunity to talk to Mr Nelson during the course of this inquiry. Exhibit No. 17, Peter Nelson, *Anatomy of a Bank Job*, 1995.

16 Treasury Submission, p. S974.

17 *ibid.*

18 *ibid.*, p. S976.

greater transparency, accountability and institutional capacity in its borrowing country members.

In country after country, it is the people who are demanding action on this issue. They know that corruption diverts resources from the poor to the rich, increases the cost of running businesses, distorts public expenditures, and deters foreign investors. They also know that it erodes the constituency for aid programs and humanitarian relief. And we all know that it is a major barrier to sound and equitable development. Those governments which fight corruption would attract the larger volume of investment.¹⁹

10.21 The Committee supports these changes to the policy orientation of the multilateral development banks. They are consistent with the growing consensus on the nature of development,²⁰ on the work of such organisations as Transparency International in response to the growth of grand corruption²¹ and on the perceived weaknesses in the international and national financial systems which have created the current economic crises in South East and East Asia.²²

10.22 The Committee also endorses the views expressed by the Simons review that:

There are strong arguments in favour of a middle-level donor like Australia being an active supporter of the key multilateral development agencies ... [as] the multilateral institutions can have substantial positive influence on policy and economic reform in developing countries.²³

The Impact of the Currency Crisis on Regional Development and the Aid Program

10.23 There is unlikely to be a fundamental change in the focus or overall direction of the Australian aid program as a result of the economic crisis. However, the crisis will slow development, and in some cases will have reversed the development that has taken place. Therefore, the crisis will confirm the need for a regional emphasis in the aid program and highlight the need for assistance in institutional strengthening. It is also possible there will be an increase in the need for emergency relief and poverty alleviation as the austerity measures imposed by the rescue packages cut government services, as the withdrawal of capital flows to infrastructure and other projects create unemployment and as the decline in the exchange rates cause price rises, making food and other basic commodities expensive. In Indonesia, the problems of food shortages and high prices are compounded by drought. There is an expectation that the hoped for phasing out of the ASEAN countries which were moving rapidly to NIE status, notably Thailand in the short term, will have to be delayed.

19 Exhibit No. 31, World Bank Press Release, *World Bank President Outlines a New Agenda: A Bank on the Move*, 1 October 1996.

20 See paragraph 10.2.

21 See Chapters 8 and 11.

22 See Chapter 6.

23 Report of the Committee of Review 1997, *One Clear Objective: Poverty reduction through sustainable development*, April 1997, pp. 211, 215.

10.24 Australia's immediate response was through its participation in the rescue packages of the World Bank, Asian Development Bank and the IMF to Thailand and Indonesia. Initially, Australia's contribution was US\$1 billion to each, should it be required.²⁴ This was dependent on the implementation of the IMF stipulations in respect of the financial and banking sectors in those countries.

10.25 AusAID outlined the implications for the aid program in the following terms:

- increased demand for development funds, in the form of grants and concessional loans to carry out infrastructure projects in the pipeline or already underway, and to ensure that ongoing projects remain viable despite cuts to counterpart funding;
- increased attention to the immediate and longer-term social impacts of the crisis and the structural reform packages (eg food shortages, unemployment, inflation);
- increased focus on assistance in the economic governance field (eg technical assistance in macro-economic policy, trade and investment policy, financial sector management, exchange rate management). Assistance in this field is 'preventive' in nature in those countries less hit by the crisis (eg Philippines and Vietnam).²⁵

10.26 Specifically, the crisis has led to the allocation of an additional \$1.75 million over three years to Thailand to assist with supervision of the financial sector and monitoring of social sector expenditure in support of the World Bank structural assistance loan. The aid program is also to fund Australian economists' participation in the World Bank public expenditure review in Indonesia and longer term assistance with economic and social reform programs. Further contributions through the World Bank, IMF and ADB are under discussion.²⁶

10.27 The Committee believes these contributions are essential. They represent our commitment to the region in which we live. They seek to restore confidence and stability in the economies of the region, first, for the welfare of the people in Indonesia and Thailand and the wider ASEAN, and second, for the prosperity and security which we all wish to share.

Non Government Organisations and Aid

10.28 For some time, Non Government Organisations have considered the question of development holistically; they have driven the agenda towards incorporating issues of human rights (labour rights, children's rights or women's rights), good governance (participatory processes, democratic institutions, transparency and accountability) and environmental sustainability into the aid program in the belief that poverty alleviation is about a social and political structural adjustment as much as an economic one; they believe that development is about both equity and change.²⁷ To this extent they are in tune with the research findings in the opening paragraph of this chapter.

24 On 2 August 1997, the IMF offered a US\$17.2 billion package to Thailand; in October the IMF package to Indonesia was US\$ 23 billion. By February the package for Indonesia had increased to US\$43 billion.

25 DFAT/AusAID Supplementary Submission, p. S1016.

26 *ibid.*, p. S1017.

27 ACFOA Submission, p. S325.

10.29 On this premise, the NGOs, through the peak body ACFOA, pressed the Committee to consider a number of issues in relation to regional development. They urged the Committee and the Government to see development cooperation as an integral part of regional security.²⁸ ACFOA also questioned the dominant development model in ASEAN which they described as market driven development and one in which demands for social, economic and environmental protection were suppressed. This, they argued, was neither unfettered capitalism nor the Asian way.

It could be said that the myth about ASEAN is that economically it is a remarkable example of growth and economic management and a shining testament to the Asian virtues of honesty, thrift and cooperation. Yet the prevailing economic system could also be described as 'corruption capitalism' which owes some of its successes more to shadowy dealings, favouritism and corruption than Confucian values.²⁹

10.30 ACFOAs understanding of regional development needs is informed by the collective experience of their members - 92 Australian development agencies - their association with thousands of local NGOs in the region and their work with people in the field, often in the most marginalised circumstances.³⁰ Their views converge with those of the government and with the latest research on the nature of development³¹ albeit with greater emphasis on participation and consultation at the local level and greater emphasis on human rights as the most effective means to ensure good government. Therefore, ACFOA recommended that the Australian Government argue in appropriate regional forums for the development of international standards and regional agreement in a number of areas which they believe will promote sustainable development.

10.31 **Human rights:** As the underpinning of good government, ACFOA argued, as this Committee has in the past, that there is a need for the regional countries to ratify the key international covenants on human rights (the International Covenant on Civil and Political Rights, ICCPR, and the International Covenant on Economic Social and Cultural Rights, ICESCR). In particular, ACFOA supported freedom of expression and political opposition and the free flow of information. Within ASEAN, freedom of expression was controlled to varying degrees in Burma, Vietnam, Indonesia, Singapore and Malaysia. Concomitant with the lack of freedom of expression and equally detrimental to long term stable development in the region has been the use of national security laws or anti-subversion laws in a number of ASEAN states.³² They have effectively curbed any criticism of development style in the those countries in the region in which they apply and in particular any criticism of the corruption inherent in many of the economic and political systems.

10.32 The Committee recommends that:

28. the Australian Government, in both its bilateral dialogue and in the multilateral forums of ASEAN:

28 This proposition is discussed in greater detail in Chapter 11.

29 ACFOA Submission, p. S335.

30 ACFOA Transcript, p. 515 and Submission, p. S325.

31 See paragraph 10.1.

32 ACFOA lists Burma, Cambodia, Indonesia, Malaysia, Laos, Singapore and Vietnam in this category. Transcript, p. 517.

- (a) **encourage countries of the region to adhere to Article 19 of the Universal Declaration of Human Rights - Everyone has the right to freedom of opinion and expression; this right includes freedom to hold opinions without interference and to seek, receive and impart information and ideas through any media and regardless of frontiers; and**
- (b) **press governments in the region for the repeal of the anti-subversion laws.**

10.33 **The social impact of trade liberalisation:** ACFOA argues that the dramatic growth in the region has caused the dislocation of people and damage to the environment. These are issues that should be addressed not only in a remedial way through the aid program but in a preventive way through consideration in the regional economic forums such as APEC.

10.34 **Labour migration:** Migrant labour has been extensive in the fast growing economies of South East Asia.³³ ACFOA estimated that there were about half a million illegal migrants in Thailand alone in early 1997.³⁴ These people were particularly vulnerable. The unregulated labour market, the curbs on trade unions and the supply of a constant stream of labour from the less prosperous parts of Asia has led to exploitation, low wages and poor conditions, the use of child labour and the mistreatment and abuse of some workers, especially those in domestic service or females in the sex industry.³⁵ ACFOA believes that labour issues need to be discussed both in ASEAN and APEC. Recommendations in respect of this issue have been made in Chapter 4.

10.35 **Water resources:** This was one of a number of matters - water resources, forest management, energy, labour rights and trafficking of drugs or people - that required regional responses. ACFOA was critical of the Mekong River Commission for a lack of consultation on the development along the Mekong River and for too much emphasis on the building of hydroelectric dams. Janet Hunt reported that in Laos alone there were 60 dams on the drawing board.³⁶ Urgent water supply problems also existed because of the degradation of water-shed areas, soil erosion and siltation, and water shortages due to the rapid urbanisation of South East Asia.

10.36 The Committee recommends that:

- 29. the Australian Government continue to use its position on the Mekong River Commission and through bilateral relations to ensure that social and environmental concerns are paramount in river system management and development.**

10.37 **Energy:** ACFOA was critical of the promotion of either 'clean coal' technology or hydroelectricity as the main energy source. It believed that Australia should support renewable energy systems such as solar, wind, microhydroelectric.

33 This may be lessened by the economic problems. Many foreign workers have been repatriated as a result of the crisis.

34 ACFOA Transcript, p. 516.

35 The trafficking of women and children has been addressed in this report in Chapter 11, paragraph, 11.69.

36 ACFOA Transcript, p. 516.

10.38 **Forests:** Rapid deforestation in South East Asia, especially in Cambodia and Burma, but also in Indonesia, Malaysia, Thailand and the Philippines, was destructive of the forest resource and of water catchment areas. The loss of tropical rainforests in Indonesia is illustrative of the regional problem. Since the 1960s, Indonesia's forest cover has fallen from 82 per cent of the land to 53 per cent.³⁷ The World Bank estimates that 15 million hectares of virgin forest has been turned into unproductive scrubland and another 20 million hectares of watershed land is in critical condition [and a further] 800,000 hectares of forest is being lost each year. Reafforestation has been limited by the diversion of funds from the forestry fund into other non environmental projects.³⁸

10.39 The fires which cast a pall of pollution over South East Asia in September and October were pause for consideration of the forestry practices in the region. The impact of the fires, caused by the annual burning of cleared forests in Indonesia to make way for the planting of crops, has been exacerbated by the *El Nino* induced drought. This year, with no rains to douse them, over 600,000 hectares of forests were destroyed, five people died and an estimated 200,000 people in Indonesia, Singapore and Malaysia were forced to seek hospital treatment from exposure to air pollution, 28 seamen disappeared when two ships collided, and the pollution was said to have contributed to the crash of a Garuda airliner in Sumatra.³⁹

10.40 The closer examination of Indonesian forestry practices as a result of the fires has revealed that concession holders closely associated with the political elite have ignored environmental regulations. According to Indonesia's Minister for the Environment, Mr Sarwono Kusumaatmadja, the owners [of forestry plantations and concessions] treated his officials with contempt, claiming friends with political connections and immunity from prosecution.⁴⁰

10.41 ASEAN responded to the crisis by deciding that the Environment Ministers would meet once a month to discuss regional environmental problems and that the senior officials would meet more often as well.⁴¹

10.42 Given the cross regional nature of many of the development issues facing ASEAN and the growing recognition of the need for cooperation at a regional level, especially where issues impinge on security, the Committee believes that there is scope for approaching some of these issues on a regional basis. Australian assistance to ASEAN has been reduced by 28 per cent in the last two years. At a time of growth, this might have had some validity; however, the changed circumstances of the region at the end of 1997 suggest that this trend might deserve reconsideration. Note might also be taken of the views and recommendations of the Simons review that Australia's share of ODA provided as multilateral aid is lower than the average for DAC donors and that multilateral aid can be, *inter alia*, important in fostering effective policy dialogue.⁴²

10.43 The Committee recommends that:

37 In Malaysia the per centage has fallen from 70 per cent to 40 per cent. In September 1997, another 1.7 million hectares in Sabah were opened to commercial logging.

38 Exhibit No. 47, *The Sydney Morning Herald*, 6 October 1997, p. 9.

39 *ibid.*

40 *ibid.*

41 Exhibit No. 47, *Asia Pulse*, 16 October 1997.

42 Report of the Committee of Review, *op. cit.* p. 215.

30. the Australian Government:

- (a) examine the possibility of expanding its regional aid programs, such as the South East Asia regional program, in order to address cross regional issues such as water, forestry, energy, labour standards and protection and issues relating to the trafficking of women and children in the region; and**
- (b) provide an increase in funding to the regional aid programs commensurate with any expanded scope of the program.**

10.44 The role of NGOs in the delivery of aid is significant. Ms Janet Hunt, the Executive Director of ACFOA, told the Committee that in 1996, NGOs raised over \$162 million from the public and disbursed some \$205 million in overseas aid. Twenty-seven per cent of NGO funds went to South East Asia. However, NGOs deliver only a small percentage of the total Australian aid program, approximately seven per cent. Nevertheless, the Australian Council For Overseas Aid and its 92 member agencies of have developed relationships with regional NGOs. The numbers of local NGOs in the ASEAN countries were substantial - 60,000 in the Philippines, 8,000 in Indonesia 250 in Cambodia and 100 in Vietnam.⁴³ Although there is no direct funding of local NGOs, Australian NGOs increasingly work through partners in the region.⁴⁴ Ms Hunt identified the advantages of NGOs in the delivery of aid as being:

- the ability to reach the poor;
- the ability to mobilise locally people, resources and organisations through which the poor can participate in their own development;
- relatively low cost service delivery;
- innovation;
- being able to go where governments cannot;
- being able to foster the involvement of developed country communities in overseas development; and
- responsiveness and flexibility.⁴⁵

10.45 The aid program has for the last few years given increased emphasis on the need for institution building as an important aspect of development in the region. This need has been most forcibly illustrated in the recent crisis in South East Asia. It is clear that NGOs can play a valuable role in building capacity and a civil society through their extensive links with the growing non government sector in the region. The Simons review of the Australian aid program recommended that AusAID conduct an independent evaluation of the relative cost effectiveness and the capacity of NGOs as a channel for development cooperation.⁴⁶ ACFOA noted that the Asian Development Bank has conducted a major study of the work of

43 ACFOA Transcript, p. 515.

44 *ibid.*, p. 522.

45 JSCFADT, *Sharpening the Focus: Report on a Seminar on the Simons Committee Report*, October 1997, p. 88.

46 *ibid.*, p 28. AusAID conducted an internal assessment of the effectiveness of the NGO sector in 1995. It has also established an accreditation process 'to ensure that Government funds are channelled through NGOs that have substantial community support and are of sufficient size and professionalism to be able to deliver aid programs overseas'. Minister for Foreign Affairs, House of Representatives, 18 November 1997.

NGOs in nine Asian countries. The ADB proposes an annual meeting of NGOs and a strengthening of the role of NGOs in the Bank's programs.

10.46 The Committee recommends that:

- 31. the Australian Government seek to strengthen civil society through training and other forms of institutional development in regional countries and thereby strengthen Australia's relationships with the non-government sectors in those countries.**

Institution and Capacity Building

10.47 The move toward institution building is a recognition that without 'good government aid is wasted',⁴⁷ that aid is effective where governments are pursuing sound policies - the right macro economic settings and the promotion of social equity. These outcomes are advanced in developed countries by a web of systems and institutions that have evolved over a long period of time as a result of trial and error, legal challenges and political battles. Many underdeveloped countries are characterised by weak institutional development. Strengthening institutions whether they are economic, legal, administrative or political, is the focus of much of the debate about the direction of development assistance, if not as yet most of the programs.

10.48 AusAID's approach to institution building within the aid program is delineated through support for activities in areas such as:

- public sector management and accountability (training programs for public officials, development of financial accounting and taxation systems);
- legal framework (assistance in framing constitutions or legislation, support for legal institutions, land titling systems);
- information and transparency of government (support for publication of government documents, media training);
- electoral processes (electoral observers, voter education); and
- strengthening civil society (support for community groups, non government organisations, chambers of commerce etc).⁴⁸

10.49 The Simons review believed that there was merit in continued high priority being given to this area of development assistance and that regional programs focused on the strengthening of the institutions should be given consideration.

10.50 Examples of capacity building were brought to the notice of the Committee during the inquiry; however, while no figures were received on the overall expenditure on this sector, anecdotal evidence suggested that it was a relatively new approach and that there

47 See paragraph 10.1.

48 Exhibit No. 55, Minister for Foreign Affairs and Trade, *Australia's Overseas Aid Program, 1997-98*, May 1997, p. 9.

was scope for much greater emphasis to be given to this type of development assistance within the program.

Box 2: Land Titling Project in Thailand Wins World Bank Award

The Land Titling Project (LTP) has been one of Australia's premier aid projects in Thailand since it commenced in 1984, with Australia aid funding to date of \$24.4 million. The LTP has provided key land titling systems, training and essential technical advice to support a massive and successful expansion of national land titling by the Royal Thai Government (RTG), an expansion which has also been supported by World Bank loan funds.

Since project commencement, over 5.5 million title deeds have been issued to about 2 million rural households containing nearly 10 million people (around 15 per cent of Thailand's population). These deeds have secured title mainly for smaller households, over 35 per cent of whom were below the World Bank defined poverty line.

Clear legal title to the land which they are working is essential for the rural poor. In Thailand, secure land title for the poor has resulted in increased access to small scale credit, more intensive use of agriculture inputs, rising productivity per hectare, increased farm assets, increased family incomes, and rising land values.

The LTP is one of Australia's most successful ongoing projects in Thailand (with the final phase of the project expected to end in the year 2000). The World Bank has acknowledged the sustained success of the Australian/World Bank/RTG land titling program in Thailand by awarding the 1997 World Bank president's Award for Excellence on project delivery to the project teams from the World Bank, AusAID and RTG. The Bank has explicitly acknowledged the pivotal role of the Australian Land Titling Project in the program's achievements.

10.51 Some programs that fitted within the criteria were: the assistance given by the Human Rights and Equal Opportunity Commission to assist in the establishment of national human rights institutions in the region and support for their continued operation; the media training and seminars developed by the Australia Indonesia Institute; the legal assistance programs set up through the Attorney-General's Department in Vietnam, Cambodia, Laos and Indonesia; and the land titling project in Thailand.

10.52 The accountancy profession has extended links into the region and provides coherence and compatibility of standards in support of trade and investment. This is done for the most part on a commercial basis. The Australian Society of Certified Practising Accountants and the Institute of Chartered Accountants reported to the Committee that it had established a strong network of members in ASEAN countries, particularly in Malaysia and Singapore. Both the Institute and the Society have been involved in the project that seeks to develop mutual recognition of qualifications and rights to practise across the region. While most of these activities do not fall within the category of aid, they are nevertheless important aspects of capacity building in the region.⁴⁹

10.53 The Committee recommends that:

- 32. given the emphasis on the need for improved regulatory systems in the financial sector of countries in the region, the Government support projects to encourage international standards of accounting and auditing throughout the region.**

Legal services and assistance to ASEAN countries

49 Certified Practising Accountants Submission, p. S189.

10.54 The Attorney-General's Department does not have any direct formal programs of legal training, education or cooperation with ASEAN countries, with the exception of the assistance provided to the Office of Narcotics Control Bureau of Thailand. However, the Department does maintain links in law on an informal basis with Indonesia, Thailand, Vietnam and Laos. In the main, these links take the form of very occasional visits by senior Australian lawyers, reciprocal visits, participation in legal seminars, and limited support in relation to the exchange of legal materials. In addition, the Department participates in some training activities for Indonesia in the field of intellectual property, which are funded under the overseas aid program conducted by AusAID.⁵⁰

10.55 The International Legal Services Advisory Council (ILSAC) within the Attorney-General's portfolio is a part-time advisory council whose function is to improve Australia's international performance in the legal and related services area. It provides advice to the government, facilitates communication between the public and private sectors and provides a research and information service. ILSAC's small secretariat is supported by Attorney-General's Department.⁵¹

10.56 From 1993-94 until its conclusion in 1996-97, the International Legal Cooperation (AILEC) Program was involved in legal cooperation activities including training services to Vietnam, Laos and Cambodia. AILEC and its committee operated autonomously as part of ILSAC, advising the Government on the implementation of the Program, which had dedicated funding for international legal cooperation activities. The funded activities of AILEC ended with the conclusion of the AILEC Program. The advisory function of the former AILEC Committee has been absorbed into ILSAC. Currently, neither the Department nor ILSAC has any direct funding for legal cooperation activities with ASEAN or other countries.⁵²

10.57 A recent example of ILSAC's advisory efforts in the region was the Chairman's submission in January this year to Singapore's Legal Services Review Committee, which is inquiring into Singapore's strategic legal needs in the financial sector. The submission urges the introduction of a more liberal system of regulation of foreign lawyers and law firms in Singapore, in order to stimulate the development of world class legal services as a means of expanding its role as a regional capital market and leading financial services centre.⁵³ In addition to preparing its own submission, ILSAC circulated a background briefing paper to Australian law firms, advising them of the Singapore inquiry and invited interested companies to make submissions to the inquiry as a means of establishing a presence in Singapore to service the market for legal services, particularly in the financial sector.

AusAID's legal assistance programs

10.58 Attorney-General's Department indicated that AusAID funds some development cooperation activities which involve legal training and legal education, but also stated that the

50 Attorney-General's Department Submission, p. S851.

51 ILSAC is an independent advisory council to the Australian Government whose members are appointed by the Attorney-General and drawn from private and public legal practice in Australia, commercial dispute resolution centres, the Law Council of Australia and legal education institutions.

52 Attorney-General's Department Submission, p. S852.

53 Exhibit No. 61, Hon Sir Laurence Street AC KCMG, Chairman, ILSAC, *Singapore's Strategic Legal Needs in the Financial Sector*, Submission to the Legal Services Review Committee of Singapore, 20 January 1998.

Department has very limited knowledge of these activities.⁵⁴ The Committee considered this to be a curious situation, given the fact that Attorney-General's Department does participate in some training activities for Indonesia in the field of intellectual property, and would be expected to be a source of expertise in other relevant areas as well. As the Department pointed out, the Legal Practice is available to offer legal and related services such as training to ASEAN governments on a commercial basis. The only formal offer that has been made, however, was to the Minister of Justice from the People's Republic of China during his visit to Australia in April 1997.⁵⁵

10.59 The protection of intellectual property has provided an opportunity for Australia, when asked, to provide technical advice to Indonesia, Vietnam, Thailand and the Philippines. This has mainly taken the form of assisting these countries to implement their obligations under the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) and to improve their intellectual property rights infrastructure. As the Attorney-General's Department indicated in its submission, of the ASEAN members, Vietnam probably has the least developed legal and social protection system for intellectual property, and Singapore the most developed.⁵⁶ Despite limited availability of funding, the field of intellectual property protection has enabled Australia to play a constructive role in an area of need and to demonstrate goodwill. Attorney-General's Department indicated that the 'Australian approach and expertise appear to be appreciated and ultimately will benefit Australian exporters and importers of intellectual property protected materials as well as intellectual property rights holders generally'.⁵⁷

10.60 The Committee believes that the provision of these legal services is a valuable contribution to regional development. It is consistent with the changed direction of the aid program toward institutional strengthening. The AILEC program within the Attorney-General's Department appeared to be both beneficial and appreciated. It was, if anything, on too limited a scale. It was also indicated in the evidence that greater coordination between the Attorney-General's Department and AusAID in the development and delivery of these services was needed. In the light of the stated importance of capacity building as a direction of the aid program and the obvious weaknesses in institutions that have been highlighted in the currency crisis, it is regrettable that, when the AILEC program was completed in 1996-97, it was allowed to lapse.

10.61 The Committee recommends that:

33. the Australian Government:

- (a) reinstate a well funded legal services assistance program within the Attorney-General's Department; and**
- (b) ensure there is greater coordination and cooperation between the Attorney-General's Department and AusAID in the development and delivery of those legal training and education programs currently within regional development assistance programs.**

54 Attorney-General's Department Submission, p. S851.

55 *ibid.*, p. S852.

56 *ibid.*, p. S858.

57 *ibid.*, p. S859.

10.62 The Australian aid program focuses strongly on the region, although funds overall have declined. However, the stated shift in the program to give emphasis to institutional capacity is timely. The Committee believes this shift should be pursued more vigorously. Furthermore, given the weaknesses within institutions that the current crisis has highlighted and the transborder and strategic nature of a number of the problems in the region, the Committee supports both the inclusion of these issues on the agenda of the ARF and CSCAP and encourages region-wide aid initiatives to address them.