

Improving economic management and public accountability institutions

Pacific Island economies and aid dependency

- 3.1 The Pacific 2020 report characterises the performance of Pacific Island economies in the following way:

The region has experienced low or negative growth in income per person. In the period 1990-2004, four of the five Micronesian countries had negative growth and, of the Melanesian countries, only Fiji achieved an average growth of more than 1 per cent a year. In general, the Polynesian countries have done better, but only when compared with the rest of the region. Their growth is well below the average for developing countries.¹

- 3.2 In their joint written submission and oral evidence to the Committee, DFAT and AusAID endorsed this assessment, stating that economic growth in the Pacific at around 2-3% is much lower than the average for developing countries globally which is around 6-7%.²
- 3.3 The average income per person in the Pacific varies widely, from US \$700 or less in poorer countries like PNG and the Solomons to US \$

1 Pacific 2020 report, p. 1.

2 Transcript, 9 February 2007, AusAID, p. 3.

6000 or more in countries like the Cook Islands. Most Pacific nations however, including Fiji, Tonga and Samoa, lie in the range of US \$1300-3500.³

- 3.4 At a public hearing, AusAID summarised the reasons why growth is so low: weak private sector investment due to high business costs; the need to build human capital and improve economic infrastructure; the need to address land tenure reform; and the need to improve the quality of governance.⁴
- 3.5 AusAID also noted that political instability in some countries in the region and, in particular, events last year (namely the riots in Honiara and Tonga and military coup in Fiji) had set back development prospects in those countries.⁵ An estimated 80% of the main business district was destroyed in Tonga's capital, Nuku'alofa in November,⁶ and the coup in Fiji in December resulted in a decline in tourist numbers.⁷
- 3.6 The economies of Pacific countries are more susceptible to fluctuations in market conditions than larger more developed countries. For instance, while PNG has benefited from high commodity prices in the mineral resource [and oil sectors], if these prices were to fall, growth rates would also fall.⁸ And, Fiji's sugar, textile, clothing and footwear industries have been affected by eroding trade preferences and increased global competition.⁹
- 3.7 There are numerous infrastructure constraints to growth, especially in countries like PNG, with poor transport networks separating many rural and remote areas from urban markets.¹⁰
- 3.8 The region is also vulnerable to natural disasters which can have devastating impacts on small countries and small economies.¹¹ For example, in April this year a strong tsunami struck Gizo (the second

3 Pacific 2020 report, Chapter 2, *Pacific Growth*, p. 17.

4 Pacific 2020 report, p. 3.

5 Transcript, 9 February 2007, AusAID, p. 3.

6 *Troops begin arriving in war-torn Tonga*, ABC News, 18 November 2006, <http://www.abc.net.au/news/newsitems/200611/s1791853.htm>

7 *Coup hurts Fiji's tourism industry*, ABC News, 11 December 2006, <http://www.abc.net.au/news/newsitems/200612/s1808361.htm>

8 Transcript, 9 February 2007, AusAID, p. 9.

9 AusAID website, <http://www.ausaid.gov.au/country/country.cfm?CountryId=15>

10 Australia's Overseas Aid Program 2007-2008, Budget Statement by Minister Downer, 8 May 2007, p. 1.

11 Transcript, 9 February 2007, AusAID, p. 9.

largest town in the Solomon Islands and one of the world's best tourist diving spots), killing 24 people and leaving more than 5,000 homeless.¹²

- 3.9 The demography of the Pacific compounds the economic challenges with young, rapidly growing [and underemployed] populations placing additional strains on publicly funded services such as education and health.¹³
- 3.10 Infectious diseases are another significant challenge. HIV/AIDS is of particular concern in PNG. These health issues place further burdens on fragile economies and struggling public services.¹⁴ See Chapter 4 for more detail.
- 3.11 Corruption is a serious concern in some countries in the region and has a corrosive and undermining impact on economic development.¹⁵ See Chapter 5 for more on the adverse effects of corruption, and ways that the Australian aid program is seeking to mitigate these.
- 3.12 At the hearing, AusAID said that economic growth was a mixed picture, and stressed that there had been solid growth performance in some countries in recent years, namely in the Solomons, Vanuatu and Samoa.¹⁶
- 3.13 For instance, AusAID noted that since the arrival of RAMSI in 2003, annual real GDP growth in the Solomons has averaged around four and a half percent, reversing the trend of the previous four years where GDP declined by an average of 6 per cent.¹⁷ However, that may well be due to large amounts of donor aid pouring into the country to support RAMSI's work. That said, the reforms themselves are also creating wealth, for instance:

... fisheries revenue [has] increased over the period of RAMSI's deployment...from something like \$S14 million to

12 *Australia offers to boost tsunami aid*, ABC News, 3 April 2007,

<http://www.abc.net.au/news/newsitems/200704/s1888880.htm>

13 *Australia's Overseas Aid Program 2007-2008*, Budget Statement by Minister Downer, 8 May 2007, p. 1.

14 *Australia's Overseas Aid Program 2007-2008*, Budget Statement by Minister Downer, 8 May 2007, p. 1.

15 *Australia's Overseas Aid Program 2007-2008*, Budget Statement by Minister Downer, 8 May 2007, p. 1.

16 Transcript, 9 February 2007, AusAID, p. 3.

17 Submission No. 6, DFAT and AusAID p. 5.

\$S30 million and work in customs is yielding corresponding results.¹⁸

- 3.14 Vanuatu's economy has similarly been boosted in recent years by large amounts of aid from the US Government.¹⁹
- 3.15 The Pacific 2020 report analyses the relative success of the three Pacific Island countries that have enjoyed the best growth rates in the last 15 years or so: Cook Islands, Samoa and Tuvalu. Contributing factors there include good governance and the effective use of economic opportunities – mainly aid, but also migration (resulting in remittances) and tourism. The Cook Islands and Samoa have long had good access to the New Zealand labour market. Further, Samoa has enjoyed political stability since the 1980s and has experienced the most diversified economic growth, in construction, manufacturing, agriculture, tourism and increased access fees for fishing.²⁰
- 3.16 Dependency on foreign aid is likely to continue in the Pacific region for some time. Most submissions and witnesses who appeared before the Committee spoke of the need to place a greater priority on stimulating economic development in order to reduce this dependency.
- 3.17 This is important not least because, as one former Pacific diplomat, Mr Delaney, told the Committee, 'aid is not the panacea to [all] development problems:'

The attitude is: 'Unless the money comes in, this thing is not going to happen.' I hear this from time to time in my conversations with colleagues. Unfortunately, the more you announce that you are putting in an extra \$400 million here and another \$800 million there, its starts to distort the view of the recipients that: 'This is something that we can leave to Australian, Japanese or Chinese aid.'²¹

18 Transcript, 9 February 2007, DFAT, p. 5.

19 The United States Government has allocated Vanuatu US \$65 million over five years from the performance-based Millennium Challenge Account rewarding the country for its commitment to reform. Source: White Paper, <http://www.ausaid.gov.au/publications/whitepaper/s4.htm>

20 Pacific 2020, Chapter 2, *Pacific Growth*, p. 21.

21 Transcript, 26 October 2006, Mr Delaney, pp. 18-19.

Economic development

3.18 The White Paper states that generating broadly spread and sustainable economic growth is the single most important objective for the region over the next ten years. To this end, the Australian aid program will focus on:

- improving the policy environment for growth;
- promoting trade;
- the drivers of growth, i.e. infrastructure development, building skilled workforces (central to this is the establishment of an Australia-Pacific Technical College), and supporting private sector-led rural development; and
- addressing environmental challenges to sustained growth, including rising sea levels, pollution to fresh water sources and inshore fisheries, degradation of coral reefs, loss of forests and severe weather events.²²

Public administration and public sector investment

3.19 There is no doubt that:

... the environment that government policy creates across the region is probably the most significant [factor] in decisions on investment activity.²³

3.20 Similarly, public sector investment is critical if well directed (to fill infrastructure gaps for example).²⁴

3.21 However, it is private sector investment that will drive economic growth in the Pacific island countries:

Growth has to be driven by the private sector. [While] governments need to address the binding constraints to private sector development, such as infrastructure bottlenecks and thin credit markets ... developing countries cannot rely on governance reforms alone to drive reform. Reforms take a long time to deliver, and many of Australia's neighbours need to generate growth much sooner to provide

22 White Paper, pp. 34-40.

23 Transcript, 9 February 2007, AusAID, p. 11.

24 Pacific 2020, p. 73.

employment for growing populations and to underpin stability.²⁵

Private sector investment

3.22 At the hearing in February 2007, the Committee asked AusAID officials what the agency was doing to encourage private sector investment. AusAID responded that Australia had recently contributed \$10 million to the Asian Development Bank (ADB) and \$12 million to the World Bank's International Finance Corporation (IFC) to support their projects (the Private Enterprise Partnership Pacific Facility and the Private Sector Development Initiative, respectively), it supports several small agencies to provide microfinance, and funds a Pacific Trade Commissioner, based at Austrade in Adelaide, whose job is to build linkages between Australian and Pacific investors.²⁶ AusAID added that it was also starting to use local contractors for activities like road maintenance. This approach had reaped benefits for local businesses and communities alike:

... [creating] opportunities for small companies to take out loans to buy basic plant and equipment so that they can win those small contracts.²⁷

3.23 Later, AusAID supplied the Committee with more material on these areas (see Submission no. 32).²⁸

3.24 In its supplementary submission, AusAID noted that Australia also provides core funds to the Pacific Islands Investment and Trade Commission (PITIC) in Sydney, a body which aims to contribute to the sustainable economic advancement of the Pacific Island Forum countries by supporting private sector development in the region. Businesses are assisted with marketing and product development, market analysis and tourism promotion. Further, Australia supports the Kula II Equity Investment Fund which is designed to elicit capital from major private and public institutional investors for investing in small and medium enterprises throughout the Pacific. And, in December 2006, Australia funded seminars on 'Attracting Equity to

25 White Paper, p. 36.

26 Transcript, 9 February 2007, AusAID, p. 10.

27 Transcript, 9 February 2007, AusAID, p. 10.

28 See Supplementary Submission No. 32, AusAID, pp. 3-4.

the Pacific' for participants from Pacific Island countries responsible for investment attraction in their countries.²⁹

Microfinance

- 3.25 Professor Muhammad Yunus, winner of the Nobel Peace Prize in 2006 and founder of Grameen bank (provider of microfinance services to the rural poor in Bangladesh)³⁰ has raised the profile of microfinance over the years. Several submissions to the inquiry, including those of the Credit Union Foundation of Australia and RESULTS Australia, describe the potential of microfinance³¹ for reducing poverty in the Pacific region.³²
- 3.26 At the first public hearing, Dr Greener of the Brisbane-based international development think-tank, the Foundation for Development Cooperation (FDC), explained why people in the Pacific require better access to financial services:
- Poor people have a different set of needs, but they are not so very different [to others] ... Financial services are not themselves going to stimulate economic growth but they oil the machines...If you do not have that oil, the machine is likely to grind to a halt. In the Pacific, financial services are very shallow. The large majority of people do not have access to them ... There is a need for insurance and savings in particular [as well as] an urgent need for transference of remittances.³³
- 3.27 Dr Greener believes that the Australian aid program should include a more focused microfinance development strategy.³⁴ The Credit Union Foundation (CUF) submission (to which the FDC was a signatory) proposes an AusAID Regional Microfinance Support Facility that would provide targeted support to emerging and expanding microfinance institutions that have potential for growth

29 See Supplementary Submission No. 32, AusAID, p. 2.

30 For information on the Grameen Bank visit the website, <http://www.grameen-info.org/>

31 Microfinance is defined as the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their microenterprises. Source: ADB website, <http://www.asiandevbank.org/Documents/Policies/Microfinance/microfinance0100.asp?p=policies>

32 See Submission No. 10 and Submission No. 14.

33 Transcript, 26 October 2006, FDC, p. 50.

34 Transcript, 26 October 2006, FDC, p. 51.

and sustainability.³⁵ Dr Greener told the Committee that in June 2006 the FDC had launched a Microfinance Pacifika network in Port Vila, Vanuatu, comprising 20 microfinance institutions that are committed to supporting microfinance services in the Pacific.³⁶ Dr Greener said that the network:

... is gathering speed fairly well ... [in fact] we found more enthusiasm from the Pacific than from our Asian network.³⁷

3.28 The Committee enquired about the reception that the CUF's proposal had met with from the Australian Foreign Minister or AusAID.³⁸

3.29 In Dr Greener's view, AusAID had to-date perceived microfinance as something on the periphery and more like social welfare than an essential economic service.³⁹

3.30 Dr Greener emphasised that he did not necessarily view microfinance as 'the silver bullet that would solve poverty', but rather as 'one useful weapon in the armoury.'⁴⁰

3.31 At the hearing, the Committee and Dr Greener discussed examples of microfinance initiatives trialled in the region that had met with little success, as well as those that were meeting with greater success.⁴¹ For instance, in PNG the costs of service delivery to small and widely dispersed populations on previous occasions had proved unsustainable. Dr Greener said that while there is a common misconception that cultures in the Pacific are less suited than say Bangladeshis to microfinance ventures, in his experience, this was not the case. In recent years, some of the Grameen replica programs in Samoa and Vanuatu had proved viable, and a specialist microfinance bank called PNG Microfinance was also operating well.⁴²

3.32 Dr Greener said that engendering the support of commercial banks (such as the ANZ who were branching out into rural banking, particularly in Fiji), was crucial. He acknowledged that Westpac had funded the Microfinance Pacifika launch.⁴³

35 Submission No. 14, CUF.

36 Transcript, 26 October 2006, FDC, p. 52.

37 Transcript, 26 October 2006, FDC, p. 53.

38 Transcript, 26 October 2006, FDC, p. 52.

39 Transcript, 26 October 2006, FDC, p. 55.

40 Transcript, 26 October 2006, FDC, p. 55.

41 Transcript, 26 October 2006, FDC, p. 55.

42 Transcript, 26 October 2006, FDC, p. 53.

43 Transcript, 26 October 2006, FDC, p. 54.

- 3.33 In its supplementary submission, AusAID indicated that it had spent \$80 million in the microfinance area over the last eight years, and had offered its support to groups like the Microfinance Pacifika network. AusAID is also currently funding a research program, 'Evaluating the Effectiveness of Microfinance Ventures in the Pacific' that aims to assess the viability of commercial microfinance programs versus not-for-profit ones.⁴⁴
- 3.34 The Australian Volunteers International (AVI) submission noted that AusAID is supporting their PNG Ginigoada Microfinance Project, a 2-year pilot business training and microenterprise skills development program operating in Moresby South, an area of urban disadvantage. AusAID provides funding to support operations and a technical advisor. AVI's anecdotal evidence is that the initiative is having 'incremental successes.'⁴⁵
- 3.35 In AusAID's view, microfinance is one way to reduce poverty and promote economic growth, in the right settings, although:
- ... current and future expenditure depends on the extent to which microfinance is seen by developing country partner governments as a priority for development assistance.⁴⁶

Recommendation 1

The Committee notes the importance of financial services in the development of Pacific Island economies, and recommends that the Australian Government develop a focused strategy to encourage financial services development, including microfinance.

Encouraging entrepreneurial culture

- 3.36 In his evidence to the Committee, former Pacific diplomat Mr Delaney described Melanesia as an 'arc of opportunity':
- ... you would be amazed ... [at] how many entrepreneurs PNG has produced over the last 25 years. People are out

44 Supplementary Submission No. 32, AusAID, p. 6.

45 Submission No. 37, AVI, Attachment 2, 4.2.

46 Supplementary Submission No. 32, AusAID, p. 6.

there doing things for themselves. They are taking responsibility for building prosperity...⁴⁷

- 3.37 Mr Delaney gave examples of enterprises on the Kokoda plateau which have proved successful, despite high transport costs. With some assistance and encouragement, the villagers had created viable businesses selling organic coffee and okari nuts, and operated a butterfly sanctuary.⁴⁸ Mr Delaney described how the strong community network enabled villagers to work through business issues together, and women were involved in that process.⁴⁹
- 3.38 The Committee asked Mr Delaney to what extent AusAID supported these types of initiatives.⁵⁰
- 3.39 Mr Delaney said that Australian aid had certainly been helpful, for instance, entrepreneurs had benefited from the Australian incentive fund and investment in infrastructure had facilitated the movement of goods.⁵¹ He noted that private investors and philanthropists had also made significant contributions.⁵²
- 3.40 At the hearing, the Australia Pacific Business Council (APBC) referred to AusAID's new \$20.5 million enterprise challenge fund which will work with the private sector to assess proposed projects and 'try to pick winners'.⁵³ The AusAID website sets out how the fund will operate:

The Enterprise Challenge Fund (ECF) will be launched in July 2007 in Fiji, Papua New Guinea, eastern Indonesia, and southern Philippines, with the first round of grants awarded in early 2008. ECF rollout to Vanuatu, Solomon Islands, Cambodia, Laos and East Timor will follow in early 2008.

Through open competition, grants of \$100,000 to \$1.5 million will be awarded to business projects with pro-poor outcomes that cannot obtain financing from commercial sources. At least 50 per cent of the project costs must be met by the

47 Transcript, 26 October 2006, Mr Delaney, p. 21.

48 Transcript, 26 October 2006, Mr Delaney, p. 22.

49 Transcript, 26 October 2006, Mr Delaney, p. 22.

50 Transcript, 26 October 2006, Mr Delaney, p. 22.

51 Transcript, 26 October 2006, Mr Delaney, p. 22.

52 Transcript, 26 October 2006, Mr Delaney, pp. 21-22.

53 Transcript, 26 October 2006, APBC, p. 59.

partner business, and all projects must be commercially self-sustainable within three years.⁵⁴

- 3.41 The APBC expressed some reservations that AusAID may bring a more bureaucratic than entrepreneurial approach to the assessment which could adversely impact on the outcomes sought.⁵⁵

Links with banks

- 3.42 In its evidence to the Committee, the APBC said that there was greater scope for creating sustainable businesses if development agencies and private sector financiers combine their collective knowledge and skills. The APBC referred to a proposal put forward by the Commonwealth Secretariat and the ANZ Bank, whereby banks would provide funding to customers that might not otherwise meet their ordinary credit criteria against an indemnity from the aid agency:

In other words, the bank might lend an amount of money to a business, if there were credit enhancement or support from the international agency that helped to underwrite the risk.⁵⁶

- 3.43 The APBC described the benefits:

... there would be a sharing of risk, but the banks would be expected to pick winners. This would also have a beneficial effect of forcing companies in the markets to become much more disciplined and to comply with the rigour that comes with credit submissions and applications for borrowings.⁵⁷

Creative ways to engage the private sector

- 3.44 In his ASPI paper titled *Building Capacity in the South Pacific*, former Australian diplomat Mr Roland Rich concurs that the private sector is key to economic growth in the Pacific. He argues that:

This was the key to economic success in the Western world and yet our development assistance process does not seem

54 AusAID website, Enterprise Fund for the Pacific and South East Asia (ECF), http://www.ausaid.gov.au/business/other_opps/ecf.cfm

55 Transcript, 26 October 2006, APBC, p. 59.

56 Transcript, 26 October 2006, APBC, p. 58.

57 Transcript, 26 October 2006, APBC, p. 59.

able to draw on this obvious premise in the design and distribution of aid.⁵⁸

3.45 Mr Rich argues that the time has arrived to try some innovative approaches to strengthening the private sector, in addition to those already in use. Accepting that governments are not always best placed to strengthen the sector because public funds are logically funnelled to the public sector, he says that the answer to this conundrum is:

... to involve the private sectors of donor countries to strengthen the private sectors of partner countries.⁵⁹

3.46 Mr Rich proposes amending the Australian tax rules to encourage companies to become directly involved in building private sector capacities in developing countries by allowing them to deduct from their taxable income the full costs incurred in providing such assistance.⁶⁰

3.47 Mr Rich says that the advantage of this approach is that, 'taxpayers in donor countries will not have to pay for this initiative. It is not to be funded from public money. Nor does it require additional bureaucratic machinery for implementation. Its major strength is that it is not a public sector initiative.'⁶¹

3.48 The Committee found Mr Rich's arguments and ideas compelling and would like the Australian Tax Office to consider the merits and practicalities of his proposal.

58 Roland Rich, ASPI Strategic Insight Paper, *Building Capacity in the South Pacific*, p.9.

59 Roland Rich, ASPI Strategic Insight Paper, *Building Capacity in the South Pacific*, p. 9.

60 Roland Rich, ASPI Strategic Insight Paper, *Building Capacity in the South Pacific*, p. 10.

61 Roland Rich, ASPI Strategic Insight Paper, *Building Capacity in the South Pacific* p. 11.

Recommendation 2

The Committee recommends that the Australian Tax Office, in conjunction with AusAID, consider and report on the merits and practicalities of Mr Roland Rich's proposal to amend the Australian tax rules to encourage companies to become directly involved in building private sector capacities in developing countries in the Pacific by allowing them to deduct from their taxable income the full costs incurred in providing such assistance.

Australian Business Volunteers

- 3.49 Supported by AusAID, Australian Business Volunteers (ABV) assists developing countries in the region to reduce poverty by developing the capacity of local organisations, achieved through the transfer of workplace skills. When clients request help with a particular business problem, ABV sources and supplies highly skilled volunteers (with at least 5 years professional experience) to work alongside counterparts in the client organisation. The assignments are usually short-term so that clients do not become dependent on volunteers, however volunteers often continue to informally mentor clients once the assignment has finished.⁶²
- 3.50 Volunteers offer clients their knowledge and experience, working alongside them to provide practical trouble-shooting advice and training. Assignments and training varies and may include assistance with marketing strategies, financial accounting and administrative systems training, or staff training.⁶³

Seasonal labour mobility scheme

- 3.51 Several submissions and witnesses advocated the merits of a seasonal labour mobility scheme to the Committee, similar to that announced by New Zealand Prime Minister, the Rt. Hon. Helen Clark, at the Pacific Island Forum in October 2006, where up to 5000 unskilled workers from six Pacific Island countries (Fiji, Tonga, Tuvalu, Vanuatu, Samoa and Kiribati) will be granted work visas in NZ for a period of seven months. In his submission to the inquiry, the ANU's

62 Australian Business Volunteers website, <http://www.abv.org.au>

63 Australian Business Volunteers website, <http://www.abv.org.au>

Professor Chand described the potential of these labour schemes to act as a circuit breaker, enabling the migrant to learn new skills, send remittances home and provide short-term respite to island nations burdened with youth unemployment.⁶⁴

3.52 Pacific Islands Studies lecturer, Dr Quanchi agreed:

This is a really good idea ... we could bring 10, 000 workers to Australia ... That is an aid project at the basic level, so families could actually enhance the quality of their lives.⁶⁵

3.53 Both the APBC and Australia's peak body for non-government organisations, the Australian Council for International Development (ACFID), supported the establishment of a similar Australian scheme. The APBC told the Committee that Pacific Island governments strongly supported the idea and they would like to see a pilot project.⁶⁶ ACFID concurred:

I know that the Senate Standing Committee on Employment, Workplace Relations and Education report [*Inquiry into Pacific region seasonal contract labour*, tabled 18 October 2006] did not recommend a scheme; the time is not right. But it did not entirely close the door, and I think we need to be looking at this for the future.⁶⁷

3.54 In the 2007 Arthur Tange memorial lecture delivered by the Australian Foreign Minister, the Hon. Alexander Downer MP said that the Government would closely monitor the new seasonal scheme started by New Zealand to see how effective it is and how well it works.⁶⁸

64 Submission no. 4, Professor Chand, p. 5.

65 Transcript, 26 October 2007, Dr Quanchi, p. 41.

66 Transcript, 26 October 2007, Dr Quanchi, APBC, p. 57.

67 Transcript, 27 November 2006, ACFID, p. 7.

68 Speech for the Biennial Sir Arthur Tange Lecture on Australian diplomacy, Australia's Commitment to the Pacific, The Hon. Alexander Downer, MP, Minister for Foreign Affairs, 8 August 2007, p. 10,

http://www.foreignminister.gov.au/speeches/2007/070808_tange.html

Recommendation 3

The Committee notes the evidence of the importance to Pacific Island economies of access to developed economies for seasonal workers, and recommends an active and serious evaluation by the Australian Government of the possibility of such a scheme.

Land tenure reform

3.55 The Pacific 2020 report states that:

Land tenure reform is a sensitive issue, but one that requires demand-driven incremental change.⁶⁹

3.56 In his evidence to the Committee, Dr Baines alluded to some of the problems associated with customary land tenure, namely competition amongst landowners and disputes over distribution of resource rents, such as those from mining and logging:

It must be said that many of the local entrepreneurs who are planting small forest plots now are the go-getters who go behind the backs of their kin, who had shared rights and responsibilities, and they have proceeded to make arrangements over their heads.⁷⁰

3.57 The White Paper states that the issue of land tenure in the Pacific must be addressed if sustained growth is to be achieved in the region. To this end, AusAID's Pacific Land Mobilisation Program commenced in 2006 with the aim of surveying and disseminating innovative land mobilisation practices in the Pacific, and – where there is a demand for it – resourcing innovations and improvements in land tenure arrangements.⁷¹

3.58 Land tenure reform in the Pacific has long been a controversial subject and the Committee was interested in responses to the approaches outlined in Pacific 2020 and the White Paper.

3.59 At the Brisbane hearing, ACPACS and Dr Baines offered cautious support, but advised that any changes to land tenure would need to

69 Pacific 2020 report, p. 5.

70 Transcript, 26 October 2006, Dr Baines, p. 35.

71 White Paper, p. 37.

come from within the Pacific and that changes will take considerable time.⁷²

Public transparency and accountability

- 3.60 In the Solomon Islands, Australia has been working with key accountability institutions including the Leadership Code Commission, Office of the Auditor General and the Ombudsman's Office. The Auditor General has released a number of reports highlighting corruption and the Leadership Code Commission has condemned corrupt behaviour by some politicians.⁷³
- 3.61 Australian ECP employees are working in similar advisory positions in the PNG Department of Finance, Treasury and other key agencies to enhance public sector performance. AusAID says that progress is being made to prevent wastage and leakage of public funds in these agencies.⁷⁴
- 3.62 The Vanuatu Ministry of Finance and Economic Management has been supported by Australia to introduce a systematic budget cycle and strengthened financial controls, as well as reform of the public service. Subsequently, Vanuatu has been described by the IMF as having one of the best financial management systems in the Pacific.⁷⁵
- 3.63 Australia has also helped the Government of Nauru to produce transparent and balanced budgets which – together with other financial reforms – have led to Nauru being removed from the Financial Action Task Force list as a country of concern for money laundering and terrorist financing.⁷⁶
- 3.64 Australia also provides electoral assistance to the region. This ranges from support with building local observer networks in the Solomon Islands to election management, voter registration and public education in Fiji, and preventing election related violence in PNG.⁷⁷

72 Transcript, 26 October 2006, ACPACS, p. 4 and Submission No. 27, Dr Baines, p. 3.

73 Submission No. 6, DFAT and AusAID, p. 5.

74 Submission No. 6, DFAT and AusAID, p. 5.

75 Submission No. 6, DFAT and AusAID, p. 6.

76 Submission No. 6, DFAT and AusAID, p. 6.

77 Submission No. 6, DFAT and AusAID, p. 6.

- 3.65 At a Canberra hearing, the Committee asked AusAID how it measures the impact of these activities in the region.⁷⁸ AusAID explained that there are different ways to track progress. In addition to monitoring the budgeting and expenditure performances of recipient agencies, these range from basic measures such as recording the numbers of children attending school and being immunised, to more complex ones – like corruption [and freedom] indices – that attempt to measure the effectiveness of governance.⁷⁹
- 3.66 There are two aspects to the transparency and accountability of Australia’s aid to the Pacific – the first is the obligation of the Australian Government to the Australian public whose taxes fund the program, and the second is the responsibility of Pacific Island countries to the donor and their own citizens alike to ensure that the money is being spent appropriately and is reaching the people it is intended to help.

Office of Development Effectiveness

- 3.67 According to the White Paper, a new Office of Development Effectiveness (ODE) will be established to monitor the quality and evaluate the impact of AusAID and, as appropriate, other Australian government agencies’ ODA programs and expenditure. Chief amongst its functions, the ODE will publish an Annual Review of Development Effectiveness.⁸⁰ The Committee learnt that the office is now up and running and the first review is expected to be incorporated into next year’s [federal] budget process.⁸¹
- 3.68 AusAID advised the Committee that another body had also been created to oversee aid expenditure – the Development Effectiveness Steering Committee:
- ... that takes senior representatives from across a range of portfolios – Prime Minister and Cabinet, Treasury, Department of Finance, Department of Foreign Affairs, AusAID [with a] mandate to look at all new significant strategies for involvement in aid expenditure in particular countries.⁸²

78 Transcript, 9 February 2007, p. 15.

79 Submission no. 6, DFAT and AusAID, p. 15

80 White Paper, p. 60

81 Official transcript of evidence, 9 February 2007, p. 6

82 Official transcript of evidence, 9 February 2007, AusAID, p. 7

- 3.69 The Steering Committee will, from time to time, include internationally recognised experts.⁸³

Good practice

- 3.70 Former Pacific diplomat, Mr Delaney, commented that there is a perception by some in the Pacific that increasing accountability requirements for Australian aid money can be burdensome, particularly on the smaller island states where resources are stretched:

They feel that they are expected to deliver so much and that so many policy changes are expected from time to time.⁸⁴

- 3.71 The Samoan High Commissioner to Australia told the Committee that his government supported Australia's emphasis on accountability:

We have to be accountable. For example, this new concept [in the White Paper] that you reward countries which make sure that the aid is being used properly and effectively ... we certainly think that is a good [premise].⁸⁵

- 3.72 At the hearing, both the Samoan and Fijian High Commissioners to Australia described their respective government's aid management systems to the Committee. Fiji has established a high level inter-departmental Budget and Aid Coordinating Committee within the government which administers, coordinates and manages all aid receipts, including aid in kind and cash grants.⁸⁶ Samoa involves the Australian High Commission in its oversight of all aid money to Samoa from Australian sources.⁸⁷

83 White Paper, p. 60

84 Transcript, 26 October 2006, Mr Delaney, p. 20.

85 Transcript, 27 November 2006, Samoan High Commissioner to Australia, p. 38.

86 Transcript, 27 November 2006, Fijian High Commissioner to Australia, p. 26.

87 Transcript, 27 November 2006, Samoan High Commissioner to Australia, p. 39.