

SENATE FOREIGN AFFAIRS, DEFENCE AND TRADE
REFERENCES COMMITTEE
INQUIRY INTO PAPUA NEW GUINEA AND THE
ISLAND STATES OF THE SOUTH-WEST PACIFIC
SUBMISSION

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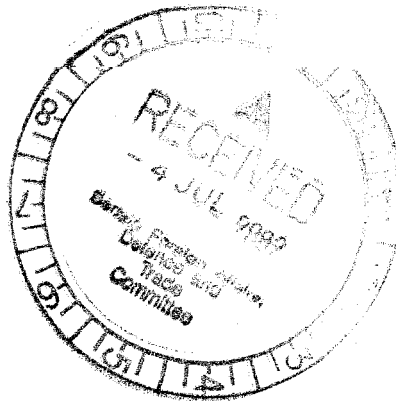
Minute

File No. _____ Date 3 July 2002
Subject AUSAID SUBMISSION ON AUSTRALIA'S RELATIONSHIP WITH
PNG AND OTHER PACIFIC ISLANDS
For Brenton Holmes
Through _____
cc _____
Brenton

Please find attached AusAID's submission to the Senate Foreign Affairs Defence and Trade References Committee on Australia's Relationship with Papua New Guinea and other Pacific Island Countries.


Andrew Adzic
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Cc: Alan March A/g ADG SPA
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**SENATE FOREIGN AFFAIRS DEFENCE AND TRADE
REFERENCES COMMITTEE
AUSAID SUBMISSION TO THE INQUIRY INTO AUSTRALIA'S
RELATIONSHIP WITH PAPUA NEW GUINEA AND
OTHER PACIFIC ISLAND COUNTRIES**

1.0 INTRODUCTION

The objective of the Australian aid program is to advance Australia's national interest by assisting developing countries to reduce poverty and achieve sustainable development. Papua New Guinea and particularly the smaller Pacific island countries, with their limited skills, institutional capacity and diversification options face challenging development prospects as they aim to maintain -viable economies at a time of rapid global economic and technological change. Many have government structures inherited from colonial powers that are not affordable and are inappropriate to meet the needs and expectations of rapidly rowing populations.

Papua New Guinea and the Pacific Island nations are of particular importance to Australia and are afforded a high priority for Australian Government development assistance. It is in our interest to influence and promote political stability and economic prosperity through economic and governance reform in these countries, our nearest neighbours, and in the region. The engagement is long term and wide ranging.

In particular, economic and governance reform in the Pacific requires sustained effort in a broad range of activities. Supporting:

- improving economic and financial management to encourage economic growth and a more efficient use of limited resources;
- improving the capabilities of the region's police forces and judicial systems;
- increasing public sector effectiveness to ensure that Pacific islanders have better access to quality schools, health and other basic services; and

- developing civil society to enhance broader participation in the social and economic decision-making processes of Pacific governments.

The region faces considerable development challenges. Papua New Guinea alone has around two ^{??2111:Cn} people living in poverty, the vast majority being rural poor living in traditional village structures and dependent on subsistence farming. Political instability in the Solomon Islands, Fiji and Bougainville have also presented particular aid challenges in the region.

2.0 DEVELOPMENT COOPERATION RELATIONSHIPS WITH THE VARIOUS STATES OF THE REGION

2.1

PAPUA NEW GUINEA

(A)

RELATIONSHIPS AND OBJECTIVES

Papua New Guinea (PNG) and Australia enjoy strong historical links. Reflecting these ties and Australia's high level of national interest in PNG, Australia is the largest bilateral donor to PNG. AusAID currently provides around \$300 million in development assistance per year which accounts for one third of Australia's bilateral aid program and a fifth of the total aid program. PNG is dependent on Australian aid, indeed it is critical to the delivery of PNG Government programs, accounting for one sixth of total PNG Government spending.

The Treaty on Development Cooperation between the two Governments came into effect in July 2000. It sets out agreed priorities for Australian assistance and performance benchmarks.

PNG faces a number of serious social and economic governance challenges. The society is highly fragmented with over 700 disparate cultural groups that test political and social unity. The government has limited resources and a weak economy that relies significantly on a small number of gas and mining projects and forest logging. Communities remain isolated, have poor health indicators, high rates of illiteracy and urban communities suffer from serious law and order problems. Marked gender inequality results in women being subjected to harsh social conditions and being generally excluded from decision-making.

The working environment in PNG is difficult and development outcomes are challenging to achieve. In a situation where the GDP is dropping and the population increasing, it is reasonable to expect that positive outcomes will only develop over the very long term.

A primary objective for Australia's engagement with PNG is to ensure the continued viability of PNG's key institutions. Poverty reduction through broad-based economic growth is a central element in ensuring stability and national cohesion.

AusAID's PNG program strategy identifies four main objectives for the aid program:

- **strengthening governance:** improving economic management, building public and community capacity to deliver services, promoting the rule of law, and strengthening civil society.
- improving social indicators: improving health, improved access to basic education, improved gender equity, and supporting an effective cross-sectoral response to the HIV/AIDS epidemic.
- **building prospects for sustainable growth:** maintaining an effective infrastructure network.
- **consolidating the peace process in Bougainville.**

These objectives have been pursued by implementing the following strategies:

Strengthening Governance

Over the past three years, Australia has supported the Papua New Guinea Government's wide ranging program of structural reforms aimed at strengthening governance, generating growth and improving the efficiency of public service delivery. This has centred around the completion of an IMF Standby Arrangement and World Bank structural adjustment program which included:

- macroeconomic stabilisation; the privatisation of major state enterprises (including the PNG Banking Corporation); Strengthening the independence of the Office of the Auditor General and the Public Accounts Commission;
- strengthening the financial and public sector oversight;
- undertaking functional and expenditure reviews of major departments;
- reforming largely discretionary expenditure programs;
- streamlining Cabinet processes;
- enhancing governance in the forestry sector; and reforms to the electoral and political processes aimed at strengthening stability.

Public sector reform and improved capacity is a long-term process. Critical areas requiring continued reform include a stronger budget preparation and implementation process within a realistic revenue framework, continued public sector reform, improved service delivery and creating the conditions for growth (both in terms of revenue raising and employment generation).

Meeting these **challenges will require** a sustained commitment to reform from successive PNG Governments.

An Australian aid initiative that is promoting good governance and strengthening civil society in PNG is the Incentive Fund. Introduced in July 2000, the fund provides financial grants to organisations across the spectrum of PNG government and society that have demonstrated their capacity to deliver outcomes that further PNG's development strategy. Effectively bringing a greater degree of contestability into the program, the Incentive Fund rewards high performing government agencies, businesses, community, church and charitable organisations.

Finding solutions to the problems of crime and lawlessness in PNG have challenged successive PNG governments. The effects of a weak law and order sector are such that it inhibits economic activity, deters investment and limits the ability of the government and private sector to generate broader growth and employment opportunities.

The current law and justice program targets community-based policing, supports anticorruption measures and includes activities to improve the performance of the formal legal and judicial system.

Improving Social Indicators

Almost two million or over a third of PNG's population is living in poverty and around 94% of PNG's poor live in rural areas. Rural poor face declining services, worsening access to transport infrastructure, law and order problems, a lack of transparency and accountability of government and a stagnating rural economy. Indicators such as infant mortality, life expectancy and adult literacy are all worse than most of our other development partners. The recent census shows that PNG's population continues to grow rapidly, placing even more pressure on government services and rural resources.

The health needs of PNG are immense. The standard, performance and access to health services vary widely across PNG regions, with rural communities most disadvantaged because of difficult terrain and the high cost of delivering health services to remote communities.

HIV is emerging as a major health and development challenge for PNG. While the currently available data is poor, indications are that PNG is facing a major HIV epidemic with infection rates increasing annually by 15-30%. A Centre for International Economics report commissioned by AusAID, highlights the potential for HIV to lead to major decline in economic and social indicators in PNG. The labour force could be 13-38% smaller by 2020 than that projected without HIV, and the budget deficit could increase by 9-21 %.

PNG's educational indicators are low, even by developing country standards. Literacy rates are poor and the education system is characterised by low enrolment rates, unsuitable curricula and high drop out rates, especially for girls.

The PNG government has given a high priority to raising education levels, and is currently implementing major reforms to the education system. These aim to provide broad access to education as well as improve the equity and quality of general education in PNG. With Australian assistance, elementary and primary school enrolments have increased significantly. In 1998 there were 88,260 elementary enrolments and 579,398 primary enrolments. By 2000 this had increased to 149,185 elementary enrolments and 610,282 primary enrolments².

Australia's assistance to these critical sectors will amount to around \$128 million this financial year. The focus of the program is to assist PNG to make significant progress toward sustainable quality universal education and to achieve sustainable improvements in the health of PNG's rural population.

Building Prospects for sustainable growth

Adequate infrastructure is vital for achieving almost all of PNG Government's development objectives, and has been shown to deliver major benefits in economic growth and poverty alleviation. As the bulk of PNG's population live in isolated and widely scattered settlements located in rugged terrain, it is very difficult to deliver

¹ ~ Statistics of National Department of Education, PNG, 1999. ² *The State of Education in Papua New Guinea*, Education Reform Facilitating and Monitoring Unit, National Department of Education, March 2002.

basic services in many areas. Poor roads and transport services exacerbate the difficulties people face to access health and education facilities and markets.

Much of PNG's infrastructure has deteriorated over the past decade due to inadequate funding for maintenance and ineffective maintenance programs. For example, funding for maintenance of the national road network is only around 10% of that required. The situation at the provincial level for maintenance of provincial roads is even worse.

Australia is selectively maintaining key national roads and bridges and aviation infrastructure, particularly in rural areas and strengthening the capacity of PNG agencies to manage and maintain infrastructure.

Consolidating the peace process in Bougainville

Australia is making a substantial contribution to both ongoing support of the peace process and restoration of essential infrastructure on Bougainville. Australian aid to the cocoa industry, health and education programs, trunk road rehabilitation and community level support has made a significant contribution to the peace process. This support has provided a significant peace dividend to the people of Bougainville with total assistance since 1991 estimated at \$A131 million to the end of June 2002.

The aid program has contributed directly to the peace process by funding civilian costs of the Peace Monitoring Group, providing technical and legal advisers to both Bougainville and the Government of PNG to assist with peace negotiations as well as funding the participation of Bougainville delegates at meetings related to the peace process.

There has been significant progress in the past year with the Bougainville Peace Agreement signed in Arawa on 30 August 2001 and the second and final vote on autonomy successfully passed by the PNG Parliament on 27 March 2002. Further progress will now have to be made on weapons disposal before the bills giving effect to the Peace Agreement become law.

How the PNG program fits with Australia's broader relationships

Australia's broad relationship with PNG is informed by our national interest in promoting stability and prosperity in the region. These interests are economic, social and strategic and the delivery of aid is central to achieving them. The establishment of the pre-conditions for a stable and viable society will enable PNG to become more attractive to investors and trade partners and allow its citizens to enjoy higher living standards and gain access to employment opportunities.

PNG's democratic system and supporting institutions are evolving and developing. It is important that democratic principles are upheld to ensure the continuing viability of the PNG nation state and its key institutions. Working through government systems and improving their capacity is essential to strengthening its stability and ability to deliver services. This in turn will strengthen people's perception of the PNG Government, both domestically and internationally.

While Australia is the main donor to PNG, it is also important to gain support from other international donors and the key multi-lateral agencies. The historical links we

enjoy with PNG have built the foundations for a good relationship but one that can also prove difficult when we are seen through the prism of a colonial past. A coordinated approach with other donors and a consistent message from each can temper this view.

(B) PROGRAM PRIORITIES

Whole of Government

Australia has a strong foreign policy interest in PNG's sustainable economic development and political stability, with our interests covering a wide range of sectors including trade, defence, immigration, customs and investment. In many respects, AusAID's relationship is at the sharp end of Australia's engagement with PNG because of our high profile, ongoing presence and robust relationship with a wide range of counterparts in PNG.

AusAID's strategy of engagement with PNG on public sector reform and financial management is critical to the improvement of services in PNG, its stability and its sustainable development, while our sectoral approach focuses on improving sector level management and service delivery.

The Bougainville program provides a positive example of the effectiveness of the whole of government approach.

Governance

PNG institutions generally lack appropriate capacity, accountability, transparency, and efficiency. Economic and financial management, policy planning and decision making also lack rigour.

Governance is an issue for development in all the sectors in which AusAID works with the Government of PNG.

Policy engagement

Effective policy engagement is essential to improving PNG's development efforts, increasing the impact of Australia's development assistance and meeting Australia's national interests in PNG. Policy dialogue and engagement in the PNG context requires short and medium term perspectives (at least 10 years), active engagement with other donors, and the acquisition and maintenance of specialised knowledge of PNG, its institutions and key players, its economy and social indicators.

Regular and ongoing high-level engagement with the PNG government will be critical to gaining greater PNG ownership of reform. Policy engagement will reinforce strong links and promote coordination between donors, the World Bank and Asian Development Bank. Contributing to, and sharing analytical work on poverty assessment in PNG will benefit key agencies. Engagement with key Australian Government agencies on broad policy issues in PNG will also be important to ensure Australian interests are paramount.

Affordability

The **PNG Government currently supports a wide** range of programs that are not affordable within current budget parameters. Budget appropriations are often inadequate and agencies often do not receive the funds that have been appropriated. The result is that service delivery is limited or non-existent and biased toward urban areas. The bulk of PNG's poverty is in rural areas, which are most vulnerable to poor service delivery.

This is indicative of weak planning and a budget process system in need of reform. What is needed is a realistic assessment of the costs of basic service delivery and the reduction of expectations to focus on the provision of core services across each sector. Affordable expenditure plans need to be developed within a realistic medium term fiscal outlook, particularly given significantly declining resource sector revenue. AusAID will continue to discuss the issue of affordability with PNG counterparts and ensure that we do not raise or maintain unrealistic service delivery expectations through the delivery of aid.

Sustainability

The Government of PNG is currently heavily reliant on donor programs through the development budget to deliver services. It is in Australia's interest to guard against this dependence and promote sustainable outcomes. Donors are working with PNG to maximise self-reliance which can only be achieved by taking a **long-** term approach to development in PNG. Strengthening governance is central to the issue of sustainability as it goes to the heart of PNG's ability to deliver core services, plan affordable programs and create favourable conditions for growth.

AusAID will provide support to reforms that enhance the capacity of PNG to manage its human and financial resources to deliver efficient and effective services that are affordable and sustainable in the long-term. In particular, the establishment of transparent and accountable financial management that achieves value for money, makes effective use of aid funds and maximises the use of resources across sectors.

(C) DEVELOPING NEW AID DELIVERY MECHANISMS

Policy Engagement

Australia completed the **shift from budget support** to jointly programmed aid to PNG in July 2000. This approach has significantly changed the type and level of engagement between Australia and PNG on core development issues. Our relationship continues to mature and will see a greater Australian emphasis on securing PNG engagement on central policy issues through high level dialogue with PNG Government counterparts in future and a further development of our aid delivery modalities towards program aid.

A new, sector wide approach, now being implemented in the health sector, promises not only greater ownership and engagement by the PNG authorities, but also high level policy engagement by AusAID on the delivery of services fundamental to the reduction of poverty and the achievement of sustainable development. The possibility

will be explored for this sector wide approach to be applied in the education and justice sectors of the PNG program.

AusAid develops its program strategy in conjunction with the PNG government. There is clearly a greater chance of success of any reform process if it is effectively led by PNG.

AusAid will also look to support economic policies that stimulate growth in the formal and informal sectors. Providing better planning support at the sector level and improved engagement on resource allocations are areas for greater focus and go to the heart of the affordability issue. Coordination with other donors will also be increasingly important to deliver consistent messages about improved governance and sustainable development.

Impact and Achievements

The contribution of the aid program to the maintenance and development of PNG as a stable and prosperous state will only be measurable over the long term. At the activity level, however, the aid program has supported key institutions of state, ensured the delivery of essential services and maintained essential infrastructure. **Attachment 1** at page 18 provides a summary of selected achievements.

2.2 THE PACIFIC ISLANDS

(A) RELATIONSHIPS AND OBJECTIVES

Nature of development cooperation relationships

Australia a major donor

Australia is a leading aid donor to the independent Pacific island countries, although Japan provides similar volumes of aid. With our strong cultural, historical, economic and political ties, successive governments have accepted a special responsibility to assist Pacific island countries and have publicly committed to long-term engagement to assist with their national development. Australia (and New Zealand, which is the fourth largest donor to the region) retains membership of all regional organisations, including the region's political organisation, the Pacific Islands Forum.

Strategic approach

Australia's aid program seeks to assist countries in the region to maximise their potential for sustained increases in the income and welfare of their people within the constraints of their size, isolation and resource endowments. The Pacific Islands Development Strategy, a periodic (3-5 yearly) assessment of the challenges to poverty reduction and sustainable development in the region, provides the analytical basis for the program. The Strategy includes a poverty reduction framework and, where appropriate, a conflict analysis. It is developed in consultation with Pacific island governments, regional organisations, expert advisers and other donors. It also responds to whole-of-government issues reflecting close collaboration with domestic departments. The Strategy sets out the program's objectives, expected outcomes, and directions for program development and management to enhance effectiveness and efficiency.

Objectives of Pacific programs

1999-2001 Strategy

Australia's Pacific Islands Development Strategy 1999-2001 aimed to contribute to the achievement of five principal outcomes:

- better governance
- stronger growth
- greater capacity
- better service delivery and
- environmental integrity.

Review of Pacific policy, 2000

This objective and the strategies to achieve it were examined in detail as part of the Government's review of Pacific policy, following the coups and internal security threats in Fiji and Solomon Islands in 2000. The review found that the objective remained appropriate, Australia's program was achieving quality outcomes, and the program had responded flexibly and effectively to emerging priorities. The review recommended adjustments to the program over the long term to enhance support in areas such as grassroots-level service provision, rural and provincial development, democratic institutions, law and justice institutions, and conflict resolution.

2002-06 Strategy

Work is nearing completion on the Pacific islands development strategy for 2002-06. This strategy incorporates the above recommendations and responses to developments in the international environment during 2001. The draft 2002-6 strategy has broadly similar object'

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ives to its predecessor - to contribute effectively to the capacity, stability and self-reliance of the Pacific region. Nevertheless, it gives more emphasis to programs that address the problems of conflict, increasing urbanisation, equitable access to services and economic opportunity, and the role of civil society organisations.

Country objectives and strategies

The Government recognises that **while** island countries share many challenges, they also exhibit unparalleled diversity of culture, language, physical characteristics, resource endowments and political systems. The objectives and strategies for bilateral programs are derived from the broad regional strategy but are tailored to the circumstances and priorities in each country. In larger countries, the program usually includes a wide range of mutually reinforcing activities; in smaller countries it is often concentrated in two or three areas. Australia's regional programs and the efforts of regional organisations and other donors supplement bilateral programs and assist national governments work towards all their development objectives.

Effectiveness, flexibility and responsiveness

The **Government has** ongoing dialogue with all development partners in the region - countries, regional organisations, and other donors -- to determine the programs and activities Australia should support under its strategy. The core elements of the Pacific program are improving policy settings, developing capable and accountable institutions and coordinating with other donors. All of these are recognised internationally as key approaches for effective aid.

In **designing and delivering Pacific programs**, the Government is focused on being effective, flexible and responsive to new challenges and priorities. It has pioneered new approaches to designing, contracting and delivering aid, including facilities for mobilising advisers and resources quickly to meet urgent needs, flexible designs with multiple decision points, and contracting models in which partner governments participate in design, contractor selection and program monitoring.

Mixing bilateral, regional and multi country approaches enhances the effectiveness of the program. Bilateral programs are in place for all major island countries. The regional program includes substantial support for all the regional organisations, while at the same time providing flexibility to pool resources for more efficient and effective responses to shared or transnational issues such as customs, disaster management, financial sector supervision, quarantine protection and oceanic resources management. Moreover, under the regional approach, the Policy and Management Reform program provides a mechanism for supplementary *incentivebased* funding to countries with a demonstrated commitment to reform, and flexible funds to respond to crises where activities to promote peace and nation building are needed.

Working with other donors

Close working relations with other donors and multilateral agencies are a feature of the Pacific program. Following an Australian initiative in 1997, senior officials of Pacific bilateral and multilateral donors meet annually to discuss emerging issues. This dialogue supports ongoing donor cooperation at the policy and operational level. Recognising the burden different aid administrative systems impose on island countries, in June 2001 Australia and New Zealand agreed to harmonise progressively, as far as practicable, their Pacific aid programs. In Solomon Islands, the crisis situation of the past two years has led to strong donor coordination on policy options and emergency responses, including through donor meetings jointly convened by Australia.

Capacity building focus

The large size and scope of **Australia's aid program** in the region provides opportunities for constructive engagement and support across a wide range of social, political, economic and security challenges for the region. In most Pacific island countries, the challenges to sustainable development arising from smallness and isolation are considerable. Further, in the Melanesian countries, which are generally richer in natural resources, instability in national political systems presents additional obstacles to development. Australia's approach in all its activities is to focus on building the capacity of Pacific island countries to manage their own challenges, through education, training and institutional strengthening. Where emergency situations temporarily require a different focus, the program reverts to capacity building approaches as soon as possible.

Development assistance programs and the national interest

The Government's aid program is an integral part of foreign policy, and serves the national interest across a broad spectrum.

In pursuing support for sound economic and financial management, the aid program is helping to make the Pacific region more economically viable and attractive to investors, as well as better able to cope effectively with external developments such as the liberalisation of trade and open capital markets. Better financial management also reinforces countries' ability to deal with threats to their financial stability, including from international money laundering operations.

Through supporting improved customs and quarantine services, the aid program helps to facilitate trade and raise quarantine standards in the region. Better functioning customs services are also able to work effectively with other countries, including Australia, to help combat transnational crime such as illegal movements of goods.

Aid program activities in the law and justice sector support Australia's security interests in the region. Most of these activities are long-term, aimed at strengthening the institutions of police, public prosecutors and courts, to enable them to deal effectively with crime in their own countries and cooperate with international efforts to counter transborder crime. However, activities with a shorter-term focus are also effectively integrated into the program. In Solomon Islands in 2000 and 2001, the aid program mobilised immediate substantial support for the police force, supported

peace negotiations (with funding, technical expertise and logistical support), provided media specialists to work with government and local media, and started communitybased programs of reconciliation across the country.

(B) THE AID PROGRAM IN 2002

Priorities

The development process in the Pacific region is particularly complex and fragile. Also, the poverty profile of this region differs from those parts of the developing world where there is abject poverty. Few Pacific islanders can be shown to be without minimum levels of food, shelter or water. However, as a result of their geographic and climatic disadvantages as well as generally poor standards of governance, many islanders have very limited economic development prospects. For some, recent political instability and internal conflict have eroded even these.

The aid program's framework for poverty reduction incorporates four broad strategies:

- promoting inclusive economic growth
- enabling the poor to increase their productivity
- encouraging accountability of governments and institutions
- reducing the vulnerability of the poor.

This framework informs the key priorities of the program currently being delivered: support for sound economic management, through activities to strengthen the policy and management capacity of key economic agencies, especially finance ministries and central banks; strengthening capacity to deliver services effectively and equitably, including health, education, transport, power supplies, customs and other business-related services;

- X improving the functioning of legal, justice and accountability institutions, such as police forces, attorneys-general, auditors-general, courts and prisons; supporting sustainable natural resource management and utilisation, with particular emphasis on mining, fisheries, forestry and the environment; strengthening the capacity of political institutions and the organs of civil society, including parliaments, electoral offices, media and community organisations; improving professional, technical and administrative skills in the public and private sectors; and providing humanitarian and emergency relief in response to natural and man-made disasters.

Impact and achievements

The contribution of the aid program to improved development prospects for Pacific islanders can only be assessed accurately over the long-term. Over shorter periods, the impact of the program can be measured by activity achievements. *Attachment 2*, at page 21 provides a summary of selected achievements.

Some important achievements of the program over the past three years include the strengthening of finance and revenue raising ministries, and improved management, training and upgrading of facilities in health and education ministries. For example,

in Samoa the government has introduced performance budgeting and has legislated financial management and accountability frameworks. In Vanuatu the health ministry is now better placed to deliver improved services as a result of having improved medical records systems and modern budget and financial management arrangements. In Tonga, the incidence of amputations among diabetes sufferers has fallen by 30 per cent following a program to improve facilities and provide professional training.

In supporting sustainable resource management, Australia uses regional and bilateral approaches. Achievements in the past three years include growth of capacity in the region to track fishing vessels using satellite technology, and in Solomon Islands, training for forestry and tax authorities in the economic assessment of international log markets which will help to ensure accurate reference prices and improved

monitoring of logging operations and exports.

In law and justice, the aid program has delivered a range of short- and long-term assistance. Australia's assistance with legal transcription and court reporting during the trial of two ex-Ministers in Samoa in 2000 helped to ensure a fair and accountable **trial**. In Vanuatu, support for the public prosecutors office over 18 months helped to

- reduce from six months to two the time taken for analysis of briefs following the laying of charges. In the Solomon Islands, the first graduation of police recruits since 1996 occurred in 2001.

In situations of civil strife, such as in Fiji and Solomon Islands in 2000, Australia collaborated with the Red Cross to provide immediate assistance to victims in the form of food, shelter and help with resettlement. In Solomon Islands, over a longer period, the aid program's assistance to communities and to the maintenance of basic services facilitated the signing of a peace agreement, community reconciliation and rehabilitation, and continued access to medical supplies including vaccines at a time when government finances were severely reduced.

(C) FUTURE DIRECTIONS

Pacific island countries are experiencing rapid and pervasive social and economic change. The impact of change on individuals and communities is uneven and the experience of the past two years demonstrates its potential to strain social cohesion and, in the extreme, lead to conflict and civil unrest. These set back development prospects significantly, with the poor and vulnerable being especially hard hit.

Australia's aid will maintain its focus on the core development challenges for the region: governance, growth, capacity, service delivery and resource management.

At the same time, it will reinforce the long-term sustainability of progress on economic reform and development by continuing to introduce programs to address emerging needs and priorities:

- additional resources will be provided to areas of high national priority, such as Solomon Islands;
- activities at the community and village level will be introduced to support conflict reduction and resolution;
- indigenous organisations will be strengthened to increase their capacity to assist with the provision of services;

- programs to promote livelihood development in rural and provincial areas will be expanded, and
- more activities to strengthen the capacity of sub-national levels of government will be introduced.

Australia will persist with nation building, civil society and law and justice activities through:

- expanded support for core accountability, parliamentary and electoral institutions;
- programs to encourage an effective role for civil society in the processes of government, focused on the media, education, communications and public awareness activities;
- continuing assistance in the law and justice sector to help build police forces that are well managed and trained, and backed by effective public prosecutors and courts.

The Pacific development assistance program will maintain its commitment to innovation to improve effectiveness:

- harmonisation with New Zealand of aid implementation and activity management in the Pacific;
- scenario planning and conflict analysis for countries experiencing instability.

Pacific governments as part of the colonial legacy have adopted administrative arrangements and structures that are often ill-suited to their needs and means. As part of a focus on realistic and relevant core services across key sectors the aid program will:

- examine the effectiveness and affordability of Pacific administration and governance structures with a view to rationalising service provision and enhancing efficiency.

It will also retain a flexible approach to program resources and delivery mechanisms to allow it to be responsive to new challenges and emerging government priorities.

Support to Pacific island nations to enable them to adapt to and benefit from the Bowling body of issues related to globalisation of trade will also constitute an important and growing part of the Pacific development program:

- support for trade initiatives and Pacific participation in WTO deliberations;
- technical assistance to help affected Pacific states understand and address the OECD's Harmful Tax Initiative;
- assistance to promote anti-money **laundering initiatives** through the Asia-Pacific Group on Money Laundering; and
- support for improved information exchange arrangements to enable Pacific nations to combat people smuggling, to curtail tax avoidance, to counter terrorist activities and to prevent illicit trade in drugs.

3.0 IMPLICATIONS FOR AUSTRALIA OF POLITICAL, ECONOMIC AND SECURITY DEVELOPMENTS IN THE REGION

The context

Papua New Guinea and Pacific island countries, with their limited skills base, institutional capacity and diversification options, have always had a marginal development status. Today they are facing enormous challenges in maintaining viable economies at a time of rapid global economic and technological change. Many have government structures inherited from colonial powers that are no longer affordable and are inadequate to meet the needs and expectations of rapidly growing populations.

In Melanesia, chronic political instability and internal conflict present serious threats to development. Throughout the region, there exists a susceptibility for Governments to support inappropriate commercial ventures that have the potential to bankrupt governments and destabilise financial systems. In addition, the remoteness and geographic dispersion of countries in the region makes them attractive to some international criminal elements.

The search for political, economic and social viability depends ultimately on Papua New Guinean and Pacific islanders' own efforts. However Australia can provide support through many channels, and the aid program is a particularly important one.

Pacific policy review

The government's review of Australia's bilateral relationships and its role in the South Pacific following events in 2000 identified the following strategies for the aid program:

continue to focus additional program resources in areas of high national priority, persist with strong focus on key areas of economic and governance reform, enhance support for service delivery, more support for rural and provincial development, increased support for nation-building activities and democratic institutions, maintain flexibility to strengthen the hand of reforming governments and support champions of reform,

- increase support for the law and justice sector,
- examine options to support conflict resolution initiatives, and
- a more activist approach to donor coordination and involvement.

Aid and conflict

Internationally, governments have become increasingly aware of the nexus between security and development. Aid makes its most important contribution to peace by promoting sustainable development, but when a society or community collapses into conflict, well-targeted aid interventions can make a significant contribution to conflict resolution. Australia's experiences over a number of years in Bougainville and Solomon Islands illustrate the importance of the aid program in a coordinated regional security strategy.

The government's conflict strategy for the aid program addresses conflict prevention, conflict management and reduction, and support for post-conflict recovery. Programs

in these areas are being implemented in Solomon Islands, Fiji and Bougainville. Aid workers are encouraged to implement the 'Do No Harm' principle in developing programs for conflict-prone areas. In view of Vanuatu's proximity and comparable social and political characteristics to its neighbours, in 2001 the Government commissioned a conflict vulnerability analysis for Vanuatu, the findings of which are being integrated into that country's aid program.

Regional engagement of other agencies

Many aid agencies have programs in PNG and Pacific island countries, although they account for a small proportion of their total budgets. At senior policy-making and political levels, the region tends to be a low priority and developments in island countries receive little attention. However, because of the smallness and complexity of the countries that make up the region, donors to Pacific island countries have developed strong consultative and cooperative approaches. With our comparatively large aid program and network of diplomatic posts in the region, Australia plays a key, and often lead, role in donor coordination.

These close working relationships between donors facilitate Australian efforts to involve other donors and agencies in assisting Pacific island countries. The aid program works with the IMF, World Bank and ADB on policy advisory initiatives and programs to improve economic and financial management in the region. In Solomon Islands, Australian aid officials are working with the IMF and other multilateral and bilateral agencies to agree on a policy framework for economic recovery programs. Australia encouraged the UN to implement a post-conflict program in Solomon Islands, and is supporting UN activities aimed at reintegrating former militants into mainstream society.

Pacific island countries' difficulties in dealing with the liberalisation of trade and financial markets are generally little understood in multilateral fora. Australia, largely through the aid program, supported the work of the Joint World Bank/Commonwealth Secretariat Taskforce On Small States. The taskforce's 2000 report included work programs from multilateral institutions to address these difficulties. It is noteworthy that in its 2001 Doha Declaration, the WTO recognised the needs of developing countries and small economies, and set up a fund for trade-related technical assistance and capacity building. The aid program is contributing to the capacity of small states to work with WTO, to complement the substantial trade-related assistance Australia provides directly in the Pacific.

Maintaining flexible and responsive programs

Australia's PNG and Pacific aid program is based on a long-term strategy to build self-reliant and stable countries in our region. Through this program, Australia will maintain its long-term engagement in the core development issues of governance, growth and capacity building. The program constitutes a key element in the Government's capacity to respond to emerging issues and crises. It enables the Government to allocate additional resources to areas of high priority, to maintain flexible mechanisms such as the regional Policy and Management Reform fund, and to promote ongoing innovation in designing, contracting and delivering of activities.

4.

CONCLUSION

Overall, Australia's Papua New Guinea and Pacific aid program is based on a strategy to reduce poverty and to build national capacities, thereby encouraging stability in our region. The commitment to the region is long term, reflecting the breadth and nature of the challenges it poses. The aid program will need to maintain its characteristic flexibility to be able to deal with emerging issues and challenges. Identifying and addressing the primary risks to stability demands this responsiveness. At the same time, Australia will need to maintain_ its long-term engagement in the *core issues of* governance, growth and capacity- building. It needs to encourage Papua New Guinea and Pacific countries to look carefully at what institutions they, as small developing countries, can afford to maintain in terms of government structures and services. The aid program is a key player in pursuing the national interest of a stable and economically viable Pacific region.

Attachment 1

Selected Achievements of Australia's Aid Program to Papua New Guinea

Strengthening Governance

Substantial financial and advisory support has been provided to the PNG Government for public sector reform, resulting in PNG completing, for the first time, a World Bank and International Monetary Fund structural adjustment program. The reform agenda included strategies to stabilise the economy and rebuild foreign reserves; stabilisation of the king; and greater central bank independence. AusAID was instrumental to attracting support for PNG from these institutions.

The PNG-Australian Treasury Twinning scheme has strengthened the Department's capacity to formulate economic policy, improved its budget preparation methods and cash and debt management by providing training in economic and financial procedures and through technical assistance and staff exchanges between PNG and Australian agencies.

The Provincial Financial Management Training Project has helped to improve the accountability and disbursement of public funds in PNG by helping the Department of Finance deliver training in financial reporting, planning and budgeting to public servants across the country.

In the law and justice sector, projects with the Royal PNG Constabulary and Correctional Services Department have raised the level of discipline and professionalism in these services through strengthening operational and corporate management functions.

Projects providing improved access to legal information and capacity building for the Attorney General's Department, the Courts and the Legal Training Institute have improved the quality of legal services to Papua New Guineans by improving the administration of justice and application of the rule of law.

The Ombudsman Commission Institutional Strengthening project has improved the accountability of PNG government systems by helping the Commission to improve its organisational structure and work processes and by upgrading the technical skills of staff. The number of complaints handled by the Commission increased by 20% in the past year.

The Community Development Scheme has enhanced civil society in PNG by channelling financial and technical support to non-government and community-based organisations to help build their organisational capacity and further their ability to undertake community development activities.

Improving Social Indicators

Health

The National HIV/AIDS Support Project has assisted the PNG National Aids Council to design and implement a national HIV/AIDS Awareness Campaign. The campaign has improved the level of HIV/AIDS awareness in PNG, from 80% in the baseline survey, to 97% in the post campaign evaluation; led to increased condom use, up from 35% to 42%; and improved the rate of individuals seeking AIDS tests, from 9% up to 18%.

AusAID is helping improve the health of rural Papua New Guineans by working with health workers to improve their skills and knowledge and the service to their communities through training, outreach support and supervisory visits. Through AusAID support refrigeration equipment has been installed in 99% of target locations in PNG for the safe storage of vaccines used in immunisation.

AusAID is working to improve training standards through activities such as the development of the Child health/reproductive health and Safe Motherhood in-service training manuals which have been adopted by National Department of Health as developmental manuals, helping assess training needs and current training programs and helping develop and run training programs in key areas of health service provision.

Rural health services have been improved through the Health Services Support Program. Aid posts, health centres and staff housing have been built or renovated, radios installed at health facilities and essential drug kits which target high priority health problems regularly supplied to over 500 health centres and aid posts throughout PNG. The ability of the PNG health system to maintain its medical equipment has been improved by the Medical Equipment Management Project. This has been achieved through building and equipping workshops and training 79 technicians and 24 nurses in the use and care of medical equipment. In addition, Australia has supplied essential anaesthetic equipment valued at \$1.3 million,

Education

The Elementary Teacher Education Support Project has supported the PNG government's introduction of elementary education by training 7900 elementary level teachers and 245 elementary teacher trainers in all PNG Provinces.

The Primary and Secondary Teacher Education project has improved the quality and relevance of pre-service teacher education by providing in-service 'bridging to English' training to 1750 lower primary teachers and upgrading curriculum materials. Infrastructure upgrades at eight primary teachers colleges have also been completed.

The Basic Education Infrastructure and Curriculum Material Program has supported the PNG government's education reforms to incorporate grades 7 and 8 by constructing and renovating existing school facilities and providing curriculum materials to around 300 schools in five provinces.

Support for high school education has seen six provincial high schools upgraded to improve classroom and dormitory facilities for students and the upgrade of essential infrastructure such as sewerage, water and power.

Under the Australian Development Scholarship scheme 132 tertiary scholarships were awarded in 2002. There are currently around 450 students studying in Australia

Building Prospects for Sustainable Growth

Infrastructure projects in PNG have contributed to the maintenance of an effective infrastructure network. In the last twelve months, the rehabilitation and upgrading of 30km of the Highlands Highway in Enga Province has been completed, major rehabilitation of 20km of road in the city and port area of Lae has been finalised, as well as maintenance of over 200 km of national roads in rural areas. The Aviation Sector Program has completed major upgrades to two national airports and provided routine maintenance at all national airports.

Under the Balus project, aviation safety has been improved through the maintenance of navigation aids and the upgrade of communication systems.

Agricultural production has been increased by assisting the National Agricultural Quarantine and Inspection Authority to prevent pest incursions and improve export controls. A collaborative project with the World Bank has also led to the production of a drought tolerant sweet potato variety that has produced higher crop yields.

The National Fisheries College Strengthening project has seen an increase in student numbers from 20 per year to 100 with 100% of students gaining employment in the industry.

In the forestry Sector, AusAID has supported the PNG government's moratorium on new logging leases through the Forestry Human Resources Development project.

Consolidating the Peace Process in Bougainville

The Support for Peace Project has contributed significantly to the peace process in Bougainville. AusAID funded legal advisors were instrumental in drafting and negotiating the terms of the Arawa Peace Agreement signed in August 2001 and in drafting the legislation for the autonomy arrangements passed by the PNG Parliament in March 2002. Assistance with transport for the Bougainville delegation to attend peace-related meetings and funding of the civilian component of the Peace Monitoring Group have also facilitated the peace process.

Large reconstruction projects have been undertaken to support the normalisation of services and rehabilitate the province. The three major high schools have been upgraded and 162 classrooms constructed. A new hospital has been built in Buka, the Arawa Health Centre redeveloped and 62 aid posts constructed.

The Bougainville Coastal Trunk Road Rehabilitation Project has rehabilitated around 300 km of the main trunk road, generating employment opportunities for Bougainvilleans and improving access to health and education facilities and markets.

Support to the cocoa industry has contributed to the Bougainville economy with around 30,000 households now involved in cocoa production. Four and a half million cocoa seedlings and nine million cocoa seeds have been distributed across the island to reinvigorate the sector.

The Bougainville Haus Mom- project has established micro-finance services for the people of Bougainville and provided community level training support for volunteers to become effective microfinance practitioners.

To support civil society, assistance has been delivered at the community level, with NGOs being supported to provide trauma counselling, vocational training and homebrew awareness.

Attachment 2

Selected Achievements of Australia's Aid Program to the Pacific

Better Infrastructure

The Kiribati Urban Planning and Development Institutional Strengthening Project has established improved land registration and information systems in South Tarawa.

Under the Samoan Treasury Project, forward estimates of expenditure and revenue to enhance medium term economic and strategic capacity have been introduced; there are now more efficient procurement and tendering procedures, and there is improved reporting and access to data through the Treasury Department accounting system. The maximum rates for tariff levels were reduced from 60 per cent to 25 per cent.

The Niue Public Sector Management Strengthening project has provided training in policy, financial management and accountability, and has assisted in producing a Cabinet Handbook to help upgrade Cabinet procedures.

In Tonga, a unified revenue service has been established. This has helped in contributing to a 23 percent increase in government revenue collection.

The Vanuatu Ministry of Finance and Economic Management has improved its fiscal management practices, and a new Financial Management Information System has been implemented.

Stronger Growth

The Regional Customs Project has assisted in the introduction of computerised customs in Samoa, Fiji and Vanuatu, which have in turn helped to facilitate trade and collection of customs revenues.

The Tourism Development in Tonga project has improved visitor facilities in the four island groups of Tonga, to support growth in the tourism industry.

More than three hundred company directors in the Pacific have upgraded their skills in administration and management through a series of Australian funded training courses, aimed at increasing the skills of private sector management.

The Foreign Investment Advisory Services Asia Pacific Regional Office in Sydney has been funded to provide operational advice to 8 Pacific member countries on foreign investment guidelines and trade promotion activities.

The Pacific Islands Trade and Investment Centre in Sydney has established programs to facilitate Australian investment in the Pacific, to promote Pacific Island trade with Australia and to disseminate commercially relevant information.

The International Finance Corporation's South Pacific Project Facility develops project proposals and business plans for small and medium sized firms. In 2001-2002, SPPF assisted 17 Pacific clients to secure US\$4.3m in finance from banks.

Greater Capacity

The Tuvalu Assets Management, Maintenance and Statistics project has produced a register of the country's capital assets and has developed better asset policies.

The Pacific Media Training Project is raising the standard of media and communications delivery in the Pacific. Approximately 200 journalists and other media professionals have benefited from this project.

Australia, in a joint project with Japan and New Zealand, has established a satellite-based communication system for distance education delivery in the South Pacific (USPNet). Satellite earth stations have been built in 12 Pacific Island countries, of which is capable of voice, data and video transmission.

Australia has assisted the University of the South Pacific in the construction of a lecture theatre complex at the University's main campus in Suva, Fiji.

Each year, there are approximately 250 Pacific undergraduate and postgraduate students on Australian scholarship awards at Australian tertiary institutions or Pacific regional institutions.

Better Service Delivery

The Vanuatu Secondary School Extension Project in Vanuatu has increased the number of senior secondary school places by 240 through the renovation and expansion of physical infrastructure at two schools.

The Samoa Primary Education Materials Project has established appropriate primary curriculum materials for the Samoan education system. In-service teacher training for a cohort of teachers, education broadcasts and a Samoan English language dictionary have been completed under the project.

The Manihiki Power Upgrading Project in Cook Islands has established reliable electricity generation and distribution on the island of Manihiki.

The Fiji Kadavu Health Project upgraded facilities at five nursing stations and three health centres and has built a new

hospital and nursing station. Over 100 health centres were implemented in villages.

At the Fiji Women's Crisis Centre (FWCC), counselling has been provided to over 1500 clients. Over 3,000 people benefited from two regional training courses and 61 community education sessions.

The Kiribati Public Utilities Board Project has refurbished power generation equipment and has improved maintenance and management practices within the utility. As a result, over 35,000 people in South Tarawa now receive a reliable supply of electricity.

The Solomon Islands Malava Control Support Program has directly contributed to the reduction in malaria incidence from over 400 cases per 7000 in the mid 1990s to less than 200 cases per 1000 at the end of the decade.

The Tonga Diabetes Prevention and Treatment Project has improved facilities and has strengthened the professional capacity of staff in the Diabetes Centre in Nuku'alofa. There has been a 30% reduction in diabetes related amputations since this project began.

The Solomon Islands Teacher Upgrading Project has graduated 65 primary teachers to secondary level in maths and English, helping to redress a critical shortage of qualified secondary teachers in community high schools.

Environmental Integrity

The Tuvalu Waste Management Project has developed an effective waste management strategy, and a controlled solid waste landfill is now functioning.

The Solomon Islands Rural Water Supply and Sanitation project has extended water supply coverage to an additional 55,000 people and sanitation coverage to an additional 68,220 people.

The Samoa Fisheries Project Phase II has assisted sixty-one communities to plan and manage fish reserves and alternative marine-based forms of income from customary waters.

The Taro Genetic Resources Project is assisting with the collection and conservation of taro genetic resources to support blight resistant taro breeding programs in PNG, Solomon Islands and Samoa. Taro production in Samoa has increased by about 20% as a result of project activities.

The Sea Level and Climate Monitoring Project has installed a network of sea level monitoring stations around the Pacific. Short Term Training attachments have been provided to over 100 PIC officials in Australia

ODA to Forum Islands Countries by Donor 2000 (Including PNG)

BILATERAL	A\$m
Australia	461.6
Japan	260.8
New Zealand	84.1
United States'	29.3
Frances	22.5
Germany	8.7
United Kingdom	6.9
Canada	4.4
Netherlands	2.2
Other European countries	2.3
<i>Total Bilateral</i>	<i>882.8</i>

MULTILATERAL	A\$m
European Commission	92.3
ADB	46.7
UN	31.3
World Bank	4.3
Other Multilateral	0.8
Total Multilateral	175.5

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Total ODA 1058.3

* The table includes ODA to PNG and Oceania unallocated

'Excludes US ODA to former US Trust Territories -Excludes

French ODA to French Territories

Source: DAC On-line Database

ODA to Pacific Islands Countries by Donor 2000

(Excluding PNG)

BILATERAL	A\$m
Japan	164.4
Australia	119.3
New Zealand	72.5
United States'	27.7
Frances	21.9
United Kingdom	6.9
Canada	4.3
Germany	2.0
Netherlands	0.1
Other European countries	2.3
Total Bilateral	421.4

MULTILATERAL	
European Commission	91.3
ADB	46.3
UN -	19.7
World Bank	8.9
Other Multilateral	0.1
Total Multilateral	166.4

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Total ODA 587.8

Includes Oceania unallocated and excludes PNG
 ~Excludes US ODA to former US Trust Territories
 -Excludes French ODA to French Territories

Source: DAC Online Database

FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES
COMMITTEE

Terms of reference

The Senate has referred the following matters to the Foreign Affairs, Defence and Trade References Committee for inquiry and report by 2 December 2002:

Australia's relationship with Papua New Guinea and the island states of the south-west Pacific (known as Oceania or the South Pacific), with particular reference to:

- (a) the current state of political relations between regional states and Australia and New Zealand;
- (b) economic relations, including trade, tourism and investment;
- (c) development cooperation relationships with the various states of the region, including the future direction of the overall development cooperation program; and
- (d) the implications for Australia of political, economic and security developments in the region.

For further details contact the Committee Secretary.

