

The Senate

Foreign Affairs, Defence and Trade
References Committee

Volume I

Economic challenges facing
Papua New Guinea and the island states
of the southwest Pacific

November 2009

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Acronyms and abbreviations

ACIAR	Australian Centre for International Agricultural Research
ADB	Asian Development Bank
ADS	Australian Development Scholarship
AFP	Australian Federal Police
AFTINET	Australian Fair Trade and Investment Network
ALA	Australian Leaderships Awards
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
APTC	Australia–Pacific Technical College
ASU	Australian Services Union
CDI	Centre for Democratic Institutions
CEPU	Communications, Electrical and Plumbing Union
CFMEU	Construction, Forestry, Mining and Energy Union
COLP	codes of logging practices
CPA	Commonwealth Parliamentary Association
CPSU	Community and Public Sector Union
CROP	Council of Regional Organisations in the Pacific
DAC	Development Assistance Committee
DAFF	Department of Agriculture, Fisheries and Forestry
DCC	deployable civilian capacity
DFAT	Department of Foreign Affairs and Trade
DWFNs	distant water fishing nations
ECF	Enterprise Challenge Fund
EEZ	Exclusive Economic Zone
ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
FAO	United Nations Food and Agriculture Organisation
FDC	The Foundation for Development Cooperation
FECCA	Federation of Ethnic Communities' Councils of Australia
FFA	Forum Fisheries Agency
FIAS	Foreign Investment Advisory Service
FICs	Forum island countries
GDP	gross domestic product
GNI	gross national income
HOAFS	Heads of Agriculture and Forestry Services
ICCAI	International Climate Change Adaptation Initiative
ICT	Information and Communication Technologies
IFCI	International Forest Carbon Initiative
IMF	International Monetary Fund
IPA	investment promotion agencies
IPCC	International Panel on Climate Change
LNG	liquefied natural gas
MADEC	Mildura and District Educational Council

MDG	Millennium Development Goals
MOU	Memorandum of Understanding
MSME	Micro, Small Medium Enterprise
MUA	Maritime Union of Australia
NFE	non-formal education
NPE	Net primary enrolment
ODA	official development assistance
PACE	The Pacific Executive
PACER Plus	Pacific Agreement on Closer Economic Relations
PGSP	Pacific Governance Support Program
PIFS	Pacific Islands Forum Secretariat
PIC	Pacific Island Country
PIN	Public Information Notice
PNG	Papua New Guinea
PPD	Pacific Partnership for Development
RAMSI	Regional Assistance Mission to Solomon Islands
RFMO	Advanced Regional Fisheries Management Organisations
SEDS	Sustainable Economic and Empowerment Development Strategy
SPC	Secretariat of the Pacific Community
SPTO	South Pacific Tourism Organisation
TAG	Technical Advisory Group
Treasury	Department of the Treasury
TVET	Technical and vocational education and training
UNDP	United Nations Development Programme
UNFF	United Nations Forum on Forests Program
WCPFC	Western and Central Pacific Fisheries Commission

Executive Summary

In this report, the committee considered the nature and extent of the key economic challenges facing Pacific island countries and Australia's bilateral and regional endeavours to help these countries meet such challenges. The committee covers security matters in a separate companion volume.

The committee identified a range of impediments to economic growth in Pacific island countries. Some of these are inherent structural problems that are beyond the control of these countries—small populations and land mass, limited range of natural resources, remoteness and susceptibility to natural disasters. These physical and geographical limitations often produce conditions that inhibit the ability of Pacific island countries to develop their economies. They include little scope to achieve economies of scale, difficulties developing the human capacity necessary to support and sustain a growing economy, narrow economic base, reliance on a small range of export products and the need to import key strategic products, such as energy. These circumstances, however, are not fixed and can be moderated to minimise their adverse effects on economic development.

Thus, although difficult, it may be possible for Pacific island countries to diversify their production base, build much-needed human capacity, expand their export markets, minimise dependency on imports, and make the environment more resilient to the damaging effects of natural disasters. A number of submitters, however, pointed to the poor or lacklustre economic performance of Pacific island countries and suggested that they are not fulfilling their potential; that, despite their disadvantages, they could do more to help themselves toward increased growth and better development outcomes.

Australia is actively assisting Pacific island countries to meet their many economic challenges with its extensive aid program in the region. Work is being done in agriculture, fisheries, forestry, mining, natural disaster management, climate change, economic infrastructure, education, health, financial management, governance, law and order, land tenure and financial services. Across all these key areas, Australian funding is being used for research and development, building and improving infrastructure, and to provide advice, training, education and technical assistance.

Although the region has been receiving high levels of assistance for many decades from overseas donors, including Australia, many Pacific island countries still struggle to meet their economic and development challenges. In particular, capacity constraints, both in physical and human resources, continue to impede economic development in the region. In this context, the committee expressed a number of concerns about aid delivery to the Pacific which have direct relevance to Australia's official development assistance (ODA) program. The committee found:

- aid does not always reach the intended beneficiaries or those most in need of assistance;

- Australia's response to the effects of climate change in the region does not seem to match the islands' urgent call for action—importantly environmental matters are not yet a mainstream concern guiding the formulation of Australia's ODA policy;
- more effective ways need to be found to help ease the burden on Pacific island countries of monitoring and policing activities in their EEZ, forests and around their border crossings;
- although over 50 per cent of Australia's bilateral ODA to the region goes to governance, one of the main weaknesses remains the inability of bureaucracies in Pacific island countries to deliver essential services on the ground—whether it relates to resource management, education or economic infrastructure;
- the tendency for the benefits from aid programs to fade as projects come to an end and funds and technical assistance are withdrawn;
- ODA could be aligned more closely with the needs and priorities of the recipient country—for example, evidence suggested that there was a serious disconnection between the courses offered by training institutions in the region and the requirements of local businesses and industries;
- better use could be made of the private sector to help alleviate poverty in the region and boost economic activity—sustainable tourism in particular holds much promise;
- aid work could be better coordinated with the activities of other donors, including within Australia (state and local governments and NGOs) and with donors from other countries;
- Australia's ODA policy framework could be strengthened by integrating the many and varied activities into a concerted whole-of-government effort—indeed, even within sectors, there appears to be a lack of policy coherence, such as in governance;
- a need to ensure that there are strong links between Australia's response to conflict and complex emergencies and the need for longer-term assistance in capacity building and disaster management;
- statistics on key development indicators such as school attendance, literacy, numeracy, employment and workforce participation are sketchy, unreliable and out-of-date, which makes policy-making difficult for the governments of Pacific island countries and for aid donors; and
- monitoring and evaluation of Australian aid programs, critical to achieving continuous improvement, could be more robust.

Finally, Australians working in the region have accumulated, and continue to add to, an impressive body of understanding and experience in the complex and difficult task

of building capacity, especially in the transfer of skills. It is important that this knowledge is captured and used to benefit all those engaged in Australia's ODA.

The following recommendations are designed to address the above findings and to assist the Australian Government to achieve continuous improvement in its delivery of aid to the region.

Recommendation 1 paragraph 6.15

The committee recommends that the Australian Government continue to fund research and development on sustainable development in Pacific island countries. The committee recommends further that the government through AusAID ensure that individual research projects working to improve agriculture and land use practices are part of a wider strategy that enables the results of research to reach a broader range of producers including those in remote areas.

Recommendation 2 paragraph 6.23

The committee recommends that the Australian Government take an active advocacy role in the Western and Central Pacific Fisheries Commission urging Distant Water Fishing Nations to make a greater contribution, commensurate with their fishing operations in the southwest Pacific, to the costs of managing fish stocks in the region.

Recommendation 3 paragraph 6.62

The committee recommends that the Australian Government consider whether it may be necessary to review the legal and policy framework required in the event that regional communities may be forced to resettle as a consequence of changes in climate.

paragraph 6.63

The committee also notes that currently AusAID is reviewing its Humanitarian Action Policy. The committee recommends that AusAID take this opportunity to consider whether it is necessary to incorporate in its Humanitarian Action Policy emerging legal and humanitarian matters associated with climate change.

paragraph 6.64

The committee recommends further that the Australian Government review the need for an education and training program designed specifically to assist those communities in the region most at risk from the damaging effects of changes in climate. The intention would be to determine how best to assist people to remain productive members of their community in a changing environment.

paragraph 6.65

Finally, the committee recommends that the Australian Government ensure that environmental matters including climate change be integrated more effectively throughout its aid programs to the region. This means that prevention and adaptation

measures addressing the adverse effects of natural disasters and climate change would be considered when formulating policy and designing ODA projects, for example in the resource development, infrastructure, education, health and governance sectors.

Recommendation 4 paragraph 8.22

The committee recommends that the government continue to support the work of the Institute for International Trade in conducting training modules for Pacific islanders. It recommends also that the government consider expanding these courses to include more of the technical issues associated with the non-tariff barriers to trade in the region. Further, that the Department of Agriculture, Fisheries and Forestry and the Australian Quarantine and Inspection Service assist as partners in the development and delivery of such training modules.

Recommendation 5 paragraph 8.39

In light of the growing awareness among major donors (EU, US and New Zealand) of the value of using sustainable tourism to assist developing countries alleviate poverty and promote broad-based economic growth, the committee recommends that the Australian Government incorporate this sector as an identifiable program in its ODA policy framework for the region.

Recommendation 6 paragraph 8.46

The committee notes the positive results from the two-year trial of an Australian Pacific Investment Commissioner and recommends that the Australian Government give serious consideration to the re-appointment of, and funding for, a Pacific Investment Commissioner.

Recommendation 7 paragraph 11.27

The committee recommends that the mid-term review of the Australia–Pacific Technical College (APTC) give careful and explicit attention to the criticisms raised by international institutions and by witnesses to this inquiry that regional training institutions are not meeting or anticipating the needs of local business or industries.

Recommendation 8 paragraph 11.35

The committee notes the important role of the non-formal education sector, particularly in PNG, and recommends that AusAID give attention to the role of informal education in formulating and implementing its education assistance policy.

Recommendation 9 paragraph 11.45

The committee recommends that the Australian Government ensure that its scholarship scheme for Pacific islanders complements the education and training priorities as determined by Pacific island countries.

Recommendation 10

paragraph 11.49

The committee recognises the problem of brain drain in the Pacific region and recommends that the Australian Government fund a study of both its scholarship recipients from the region and graduates from the APTC to obtain a greater understanding of the nature and extent of brain drain and of the incentives required to retain knowledge and experience in the region.

Recommendation 11

paragraph 13.55

The committee recommends that the review of the Pacific Seasonal Labour Pilot Scheme to be undertaken 18 months and 30 months after its commencement state explicitly in its terms of reference that the review is to consider the following aspects of the scheme:

- the adequacy of pre-departure and on-arrival briefings;
- the cost-sharing arrangements between employers and workers, the costs of sending remittances home, and the effectiveness of the *Reducing the Cost of Remittances Program*;
- the success of the training component and the transfer of skills and how these aspects of the scheme could be enhanced—the skills attained in Australia and their relevance to the workforce of the guest workers' home countries;
- the economic and social implications for the workers, their families and home countries;
- the effect on brain drain from Pacific island countries;
- the mechanisms used to monitor employer compliance, guest workers' employment, employment conditions and complaints, their overall effectiveness and their role in policy making and evaluation of the scheme;
- the extent to which the scheme is integrated into Australia's official development assistance program for the region and the Pacific Partnerships for Development;
- the potential to expand the guest worker scheme to other sectors such as the tourism/hospitality industry; and
- the level of cooperation and coordination between Australia and New Zealand in implementing their labour mobility schemes for Pacific islanders and whether they could be improved.

Recommendation 12

paragraph 15.50

The committee recommends that the Australian Government direct AusAID to formulate a strategic single policy framework to guide its governance program in the Pacific region. The emphasis would be on integrating more effectively the activities of

the different departments and agencies engaged in promoting good governance in the region.

Recommendation 13 paragraph 17.47

The committee recommends that the Australian Government establish a strategic framework that encourages the private sector to get involved in providing microfinance and other financial services in Pacific island countries.

Recommendation 14 paragraph 18.39

The committee recommends that the Australian Government provide for longer-term funding for projects that are to span a number of years, as distinct from year-to-year funding approvals, in order to provide greater certainty in the financial flows to them.

Recommendation 15 paragraph 18.49

The committee recommends that the Australian Government take decisive steps to encourage and support state, territory and local governments to participate in Australia's ODA. Further, that Australia's aid policy framework not only recognise the work of all levels of government its ODA program, but includes their activities as a vital part of Australia's whole-of-nation contribution to the region.

Recommendation 16 paragraph 18.71

The committee recommends that the Australian Government through AusAID produce a bridging document for its ODA in the Pacific that connects the immediate objectives of specific programs with higher level objectives—as articulated in the White Paper, the MDGs and the Pacific Plan. It should be a strategic plan with an emphasis on 'how' in practical terms the immediate objectives of programs would make a tangible contribution toward achieving these higher level goals.

Recommendation 17 paragraph 18.72

The committee also expressed concern about assistance not reaching those most in need. In light of the large proportion of Australian funding to the region that goes to governance, the committee recommends that the strategic plan demonstrate how this aid relates directly to improvements for people in need of assistance.

Recommendation 18 paragraph 18.73

The committee recommends that the Australian Government ensure, largely through AusAID, that the plans for any future development assistance project for the region:

- recognise and explain the project's role as part of a coherent strategic development plan;
- identify companion projects or projects that are complementary and how they are to interact with such projects;

- explain measures taken to ensure that when the project ends, the benefits will not fade, including not only the maintenance and upgrading of equipment or infrastructure but capacity building;
- take account of forward funding needs;
- ensure that the project aligns with the development plans and priorities of the recipient country—that there is no mismatch in objectives; and
- demonstrate that close consideration has been given to the activities of foreign donors with a view to achieving greater complementarity and coordination between them.

Recommendation 19 paragraph 18.84

The committee fully supports the work of the Office of Development Effectiveness and recommends that it continue.

Recommendation 20 paragraph 18.86

The committee recommends that the Office of Development Effectiveness evaluate the success of a few projects two to three years after their completion and use them as case studies on the durability of Australia's assistance to the region. The office's analysis and findings on these case studies are to be included in its annual review.

Recommendation 21 paragraph 20.13

The committee recommends that AusAID review its training programs for all Australian officers deployed overseas as part of Australia's ODA effort. The review should give particular attention to managing conflicts of interest, working in environments where corruption exists and maximising skill and knowledge transfer.

Recommendation 22 paragraph 20.44

The committee recommends that the Australian Government make a commitment to strengthening the relationship between the Asia–Pacific Civil–Military Centre, the deployable civilian capacity and the other bodies involved in training Australians engaged in ODA. The intention would be to establish a visible and well-integrated network of training institutions concerned with the broad issue of human development and security in the region. It would bridge any potential gaps between the immediate recovery phase and long-term development and conflict prevention phases.

paragraph 20.45

Furthermore, it recommends that the Australian Government appoint a central body to oversee this network and ensure that adequate funding, if needed, is available to establish and maintain this network. The Prime Minister's proposal for a new reinvigorated strategic relationship established between the ANU and the Australian Government provides the opportunity for the establishment of such a body.

Chapter 1

Introduction and conduct of inquiry

Referral of inquiry

1.1 On 24 June 2008, the Senate referred to the Standing Committee on Foreign Affairs, Defence and Trade the matter of the economic and security challenges facing Papua New Guinea and the island states of the southwest Pacific. The committee was to inquire into, and report on, the reference by 30 May 2009. On 13 May, the Senate resolved to restructure its committee system and as a result the Standing Committee on Foreign Affairs, Defence and Trade was split into two separate committees—the Foreign Affairs, Defence and Trade Legislation Committee and the Foreign Affairs, Defence and Trade References Committee.¹ Under standing order 25(4), the References Committee assumed responsibility for the inquiry.

1.2 On 29 May 2009, the committee tabled an interim report notifying the Senate of its intention to consider recent developments of significance to the committee's inquiry, including the release of *Defence White Paper 2009*, the Prime Minister's announcement about a proposed deployable civilian capacity and the 2009 Budget Statement by the Minister for Foreign Affairs and the Parliamentary Secretary for International Development Assistance. The committee informed the Senate that it would present its final report on 21 August 2009. On 18 August, the Senate granted the committee an extension to its reporting date to 29 October and subsequently to 19 November 2009.

Terms of reference

1.3 Under the terms of reference, the committee was to inquire into the major economic and security challenges facing Papua New Guinea and the island states of the southwest Pacific:

- (i) the implications for Australia; and
- (ii) how the Australian Government could, in practical and concrete ways, assist these countries to meet the challenges.

The inquiry was to include in its examination:

- (iii) employment opportunities, labour mobility, education and skilling;
- (iv) barriers to trade, foreign investment, economic infrastructure, land ownership and private sector development; and
- (v) current regional organisations such as the Pacific Islands Forum and the Secretariat of the Pacific Community.

1 *Journals of the Senate*, no. 68, Wednesday, 13 May 2009, pp. 1942–1946.

Conduct of inquiry

1.4 The committee advertised its inquiry on its website and in *The Australian*, calling for submissions to be lodged by 30 August 2008. The committee also wrote directly to a range of people and organisations inviting written submissions. These included government departments and agencies, academics, research and strategic studies institutes, non-government organisations, and a number of embassies and high commissions of countries from the region.

1.5 The committee received 71 submissions which are listed at Appendix 1. During the inquiry, the committee also placed a number of questions on notice to witnesses. The answers are available on the committee's website.

1.6 The committee held seven public hearings in Canberra, Sydney and Brisbane. A list of the hearings, together with the names of witnesses who appeared, is at Appendix 2. The committee also took evidence from Australia's High Commissioners to Tonga, Papua New Guinea (PNG) and Fiji. During the inquiry, the committee received additional information, which has been tabled with this report and is catalogued at Appendix 3.

1.7 In producing this report, the committee relied not only on the evidence presented to it but also on a significant body of recent research on Pacific island countries. A selected bibliography at the end of this report cites the main references used by the committee.

Terminology

1.8 When calling for submissions, the committee left open the definition of southwest Pacific islands to allow submitters the opportunity to consider islands in the general region that in their view warranted attention. Overall, most submissions focused on the member states of the Pacific Islands Forum and in particular, the Cook Islands, Kiribati, Fiji, Nauru, PNG, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. When using the term Pacific island countries, the committee is primarily concerned with these countries.

Previous inquiries

1.9 Committees of the Commonwealth Parliament have conducted inquiries into Australia's engagement in the Pacific on a number of previous occasions. In 2003, the Senate Foreign Affairs, Defence and Trade Committee tabled its report on Australia's relations with PNG and the island states of the southwest Pacific; in 2006 it reported on Australia's public diplomacy with a special emphasis on the region and in 2008 it produced a report on Australia's involvement in peacekeeping operations with particular reference to the Regional Assistance Mission to Solomon Islands (RAMSI). The Joint Standing Committee on Foreign Affairs, Defence and Trade tabled its report on Australia's aid program in the Pacific in September 2007. Reference is made throughout the report to the findings of these inquiries.

Scope of inquiry

1.10 Although the report builds on the findings of previous parliamentary committees, it takes a different perspective that reflects the changes that have taken

place over the past six years. For example, in 2003 the committee recommended that Australia introduce a Guest Labour Scheme. A pilot scheme is now under way requiring the committee to examine the implementation and operation of the scheme in detail.

1.11 The increased participation of Australian government departments in assisting Pacific island countries has also allowed the committee to focus on the practical and hands-on work that Australian officials are doing in the region. For example, the Department of the Treasury (Treasury) noted that it did not appear before the committee during its 2003 inquiry, stating that 'we were not in the game very much at that stage'.² This change in engagement, which highlights the importance of an evolving whole-of-government policy, is indicative of the shift in emphasis that has taken place over recent years.³

Pacific Partnerships for Development

1.12 The Australian Government also recently indicated its intention to usher in 'a new era of cooperation' between Australia and its Pacific island neighbours through Pacific Partnerships for Development. They are to be 'the centre piece of Australia's new approach to the Pacific region'.⁴ Under these arrangements, the government has stated that it 'will be prepared to provide increased development assistance over time in a spirit of mutual responsibility...to improve governance, to increase investment in economic infrastructure, and to achieve better outcomes in health and education'. The Pacific Partnerships initiative is also intended to enhance private sector development, including better access to microfinance.⁵ Australia has signed partnerships with PNG, Samoa, Solomon Islands, Kiribati, Vanuatu, Nauru, Tonga and Tuvalu.⁶ The committee examines this new framework.

2 *Committee Hansard*, 20 November 2008, p. 2.

3 *Committee Hansard*, 20 November 2008, pp. 2–4.

4 Prime Minister of Australia, 'Pacific Partnerships for Development with Solomon Islands and Kiribati', Media release, 27 January 2009; http://www.pm.gov.au/media/release/2009/media_release_0770.cfm (accessed 13 February 2009); Prime Minister of Australia, Joint Press Conference with Prime Minister Helen Clark, Parliament House, Canberra, 27 February 2008; http://www.pm.gov.au/media/interview/2008/interview_0101.cfm (accessed 25 September 2008); Prime Minister of Australia, 'Port Moresby Declaration', Media release 6 March 2008, http://www.pm.gov.au/media/release/2008/_release_0118.cfm (accessed 27 May 2008).

5 Prime Minister of Australia, 'Port Moresby Declaration', Media release, 6 March 2008, http://www.pm.gov.au/media/release/2008/_release_0118.cfm (accessed 27 May 2008); *Committee Hansard*, 21 November 2008, p. 3.

6 Prime Minister of Australia, 'Port Moresby Declaration', Media release, 6 March 2008; 'Prime Minister Signs Partnership for Development with PNG and Samoa', Media release, 20 August 2008; 'Pacific Partnerships for Development with Solomon Islands and Kiribati', Media release, 27 January 2009; *Submission 71*, p. 3; Richard Rowe, *Committee Hansard*, 21 November 2008, p. 24.

Regional architecture

1.13 Under the terms of reference, the committee was also to consider regional organisations. Pacific island countries are now members of a raft of international and regional organisations. In this report, the committee focuses on the Pacific Islands Forum. Its history dates back to 1971, when leaders and representatives from Nauru, Western Samoa, Tonga, Fiji, the Cook Islands, New Zealand and Australia met as neighbours to discuss a range of matters—trade, shipping, civil aviation, foreign investment, education, telecommunications, joint diplomatic representation and regional cooperation. This group has met regularly since then and in 2000 assembled under its new name 'Pacific Islands Forum'. Its membership has grown and now stands at 16. Ministerial meetings have become a feature of its activities with, for example, economic ministers, aviation ministers, education ministers and communication ministers holding separate gatherings and reporting to the Forum. Its agenda has also expanded considerably to include regional security, the vulnerability of islands and environmental issues including climate change.⁷ In April 2004, the Forum Leaders adopted the following vision statement:

We seek a Pacific region that is respected for the quality of its governance, the sustainable management of its resources, the full observance of democratic values, and for its defence and promotion of human rights. We seek partnerships with our neighbours and beyond to develop our knowledge, to improve our communications and to ensure a sustainable economic existence for all.⁸

1.14 The Leaders agreed to give effect to this vision by developing a Pacific Plan which is intended to be a 'living document' having the flexibility that allows the vision and the goal of regional integration to 'extend far into the future'. A revised version of the plan was produced following decisions taken by the Leaders at the Forum meeting in October 2007. This key document provides the roadmap that the Pacific island countries have agreed to follow in their pursuit of economic growth and regional prosperity and security. It identified four main objectives—enhance and stimulate economic growth, sustainable development, good governance and security for Pacific countries through regionalism.⁹ These objectives provide a key reference point for the committee's inquiry.

1.15 Over time, numerous regional organisations focusing on specific areas have also been established and work closely with the Forum. They include the Fiji School

7 *Forum Communiqué 2000*, Thirty-first Pacific Islands Forum, Tarawa, Republic of Kiribati, 27–30 October 2000.

8 *The Auckland Declaration*, Pacific Islands Forum, Special Leaders' Retreat, 6 April 2004, Auckland. See also, Pacific Islands Forum Secretariat, *Working Draft, The Pacific Plan for strengthening regional cooperation and integration*, p. 3 and Department of Foreign Affairs and Trade, 'Pacific Islands Forum Special Leaders' Retreat', Auckland, 6 April 2004, http://www.dfat.gov.au/geo/spacific/regional_orgs/spf_leaders_decisions.html (accessed 29 September 2008).

9 Pacific Islands Forum Secretariat, *The Pacific Plan*, revised version 2007.

of Medicine; Pacific Islands Forum Fisheries Agency, Pacific Islands Development Program, Secretariat of the Pacific Community (SPC), Pacific Islands Applied Geoscience Commission, South Pacific Board for Educational Assessment, Secretariat of the Pacific Regional Environmental Programme, south-pacific.travel and the University of the South Pacific. They are members of the Council of Regional Organisations in the Pacific (CROP).

1.16 The committee is not examining in detail the activities of CROP and its members. Some of the above organisations, however, are considered in following chapters, particularly the work of the SPC. This organisation provides technical assistance, policy advice, training and research services to 22 Pacific island countries and territories covering areas such as health, human development, agriculture, forestry and fisheries. It celebrated its 60th anniversary in 2007 and has grown to become the largest developmental organisation in the Pacific with around 350 staff and offices in Noumea, Suva, and Pohnpei.¹⁰

International partners

1.17 A number of international organisations work with Pacific island countries to further their economic and human development. They include the Asian Development Bank (ADB), the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), the Food and Agriculture Organisation of the United Nations (FAO) and the United Nations Development Programme (UNDP). Their research has provided a valuable source of information in preparing this report.

Statistics

1.18 The statistics on Pacific island countries are incomplete and in many cases outdated. In the main, the committee used data produced by ESCAP, the International Monetary Fund (IMF), the World Bank and the ADB. This information should be used as an indicator of broad trends and read in light of the rapid changes taking place in the global financial markets which may also affect its currency. For example, rising fuel prices were a major problem in the first half of 2008 but the sudden decline in the price of oil toward the end of the year brought relief for the time being.

Structure of the report

1.19 The report considers the nature and extent of the key economic challenges facing Pacific island countries and the measures that they are taking to meet these challenges individually and collectively. It also examines Australia's bilateral and regional endeavours to help these countries. The report is divided into three main segments. Part 1 presents an overview of the economic performance of Pacific island countries, including the role of remittances and official development assistance (ODA). It also:

10 Secretariat of the Pacific Community website,
http://www.spc.int/corp/index.php?option=com_content&task=view&id=14&Itemid=40
(accessed 12 June 2009).

- discusses the inherent physical and geographical conditions of Pacific island countries that create challenges for them in developing their economies—size, remoteness, natural disasters and climate change; and
- identifies conditions and circumstances stemming mainly from these physical and permanent factors that impede economic development.

1.20 Part 2 examines the measures that individual Pacific island countries are taking to encourage economic growth. The committee looks at:

- development and management of natural resources—agriculture, fisheries, forestry and mining—sustainable development, food security and climate;
- opportunities for growth and expanding markets;
- the business and investment environment in Pacific island countries including—
 - economic infrastructure such as transport and information communication technology;
 - human resources—education and training, workforce productivity, population growth, employment, labour mobility and brain drain;
 - the effectiveness and efficiencies of state institutions and public administration for example in delivering essential services and managing government finances;
 - regulatory and legal framework;
 - political stability; and
 - land tenure and access to finance.

1.21 The committee also considers Australia's assistance to Pacific island countries that is helping them to promote economic growth and human development.

1.22 Part 3 analyses the effectiveness of the development assistance Australia provides to the region including the new Pacific Partnerships for Development.

Security

1.23 The committee in this report deals with a complex range and interplay of forces affecting economic and human development in Pacific island countries. It recognises that there is a direct link between economic performance, human development and national and regional security. To explore security in a comprehensive manner and to allow detailed consideration of the relationship between economic and human development and security matters, the committee decided to divide the report into two separate volumes. The first volume is concerned primarily with economic challenges and the second with security. The committee intends to present its report on security in the region soon after tabling volume I.

Acknowledgments

1.24 The committee thanks all those who contributed to the inquiry by making submissions, providing additional information or appearing before it to give evidence.

Part I

Overview of the economic performance of Pacific island countries

Chapter 2

Economic performance

Economic growth

2.1 Although economic growth in the Pacific has improved over recent years, historically it has been lacklustre recording rises of two to three per cent per year.¹ The *Pacific Economic Survey 08* reported that 'after negligible growth in the early years of the decade, growth in regional gross domestic product (GDP) increased to 3.5 per cent in 2004'.² Growth averaged 2.8 per cent between 2005 and 2007 and was forecast to reach 4.8 per cent for 2008.³ This chapter examines the economic performance of Pacific island countries—their productivity and growth and what this means for their economic future and the lives of their people.

2.2 The economic performance of individual Pacific island countries varies greatly, with most showing highly fluctuating growth rates in GDP. Fiji had a real GDP growth rate of 3.4 per cent in 2006, which fell to negative 6.6 per cent in 2007. On the other hand, PNG had a 2.6 per cent growth rate in 2006, which climbed to 6.7 per cent in 2007.⁴ In 2000, Solomon Islands' real GDP growth rate was negative 14.2 per cent, increasing to 8.0 per cent in 2004 and 10.3 per cent in 2007.⁵ Currently, PNG and Solomon Islands lead the way with their recent accelerated growth rates. Samoa has also performed well, with AusAID describing its economic performance and forecasts as 'quite a standout'.⁶ The *Pacific Economic Survey 08* noted:

It is striking that the Melanesian countries of PNG, Vanuatu and Solomon Islands (which make up more than 70 per cent of the Pacific's population) are now growing at around 6 per cent, a rate which, if sustained, can make a serious dent in poverty and improve human development indicators.⁷

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- 1 See for example, Anis Chowdhury and Yogi Vidyattama, 'Macroeconomic Policies for Growth in Small Pacific Islands Economies', UN University, World Institute for Development Economics Research, Research Paper no. 2007/24, May 2007, p. 1. See also, UN Development System, Fiji and Samoa, *UN Development Assistance Framework for the Pacific Subregion 2008–2012*, May 2007, p. 10; and Mr Satish Chand, *Submission 2*.
 - 2 AusAID, *Pacific Economic Survey connecting the region*, 2008, p. xii.
 - 3 UN Economic and Social Commission for Asia and the Pacific, *Economic and Social Survey of Asia and the Pacific 2009*, p. 112.
 - 4 Fiji has experienced weak economic growth and faces some major obstacles to improve its economic performance. Its real GDP contracted sharply in 2006–07. See for example, World Bank, *East Asia: Testing Times Ahead*, East Asia and Pacific Update, April 2008, p. 44.
 - 5 See table 2.1 on following page which was taken from *Economic and Social Survey of Asia and the Pacific 2009, Addressing Triple Threats to Development*, Table 1, p. 174, <http://www.unescap.org/pdd/publications/survey2009/download/Survey2009.pdf>.
 - 6 *Committee Hansard*, 20 November 2008, p. 27.
 - 7 AusAID, *Pacific Economic Survey: connecting the region*, 2008, p. xv.

2.3 The statistics on economic productivity and growth rates over the past decade contained in the table below show the patchy performance of most Pacific island countries and the region as a whole.

Table 2.1: Real GDP growth rates in selected Pacific island countries (per cent)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Pacific island economies	-4.0	3.3	8.0	-0.3	2.0	1.9	2.7	3.7	2.7	3.0	2.4	4.8
Cook Islands	-2.4	-0.8	2.7	13.9	4.9	2.6	8.2	4.3	0.2	1.4	0.4	...
Fiji	-2.2	1.3	8.8	-1.6	1.9	3.2	0.9	5.5	0.6	3.4	-6.6	1.2
Marshall Islands	-5.2	-3.6	-2.9	5.1	2.7	3.8	3.5	5.6	1.7	1.3	2.3	1.2
Kiribati	8.8	15.8	8.2	-0.1	1.5	5.3	-1.1	-1.7	1.6	-5.2	0.5	3.7
Micronesia (Federated States of)	-10.6	5.5	-2.1	4.7	0.1	0.9	2.9	-3.3	-0.6	-2.3	-3.6	-1.0
Nauru									14.5	6.3	-27.3	1.0
Palau	2.3	2.0	-5.4	0.3	1.3	-3.5	-1.3	4.9	5.9	5.5	3.0	2.5
Papua New Guinea	-6.3	4.7	1.9	-2.5	-0.1	-0.2	2.2	2.7	3.7	2.6	6.7	7.3
Samoa	0.8	2.4	3.1	7.1	8.1	1.8	3.1	3.4	5.2	2.6	6.1	3.3
Solomon Islands	-1.7	3.2	-1.6	-14.2	-8.2	-2.8	6.5	8.0	5.0	6.1	10.3	7.0
Tonga	-3.2	3.5	2.3	5.4	7.2	1.4	3.4	1.1	-3.3	4.4	-0.3	1.0
Tuvalu	3.5	14.9	3.0	3.0	5.9	1.3	4.0	4.0	2.0	1.0	2.0	1.2
Vanuatu	8.6	4.3	-3.2	2.7	-2.6	-7.4	3.2	5.5	6.5	7.2	6.6	5.7
Developed ESCAP economies	1.6	-1.4	0.3	2.9	0.4	0.7	1.6	2.8	2.0	2.1	2.6	-0.4
Australia	4.0	5.1	4.4	3.4	2.1	4.2	3.0	3.8	2.8	2.7	4.2	2.4
Japan	1.6	-2.1	-0.1	2.9	0.2	0.3	1.4	2.7	1.9	2.0	2.4	-0.7
New Zealand	2.9	0.8	4.7	3.8	2.4	4.7	4.4	4.4	2.7	2.7	3.0	-0.8

The table is based on tables in Economic and Social Commission for Asia and the Pacific, *Economic and Social Survey of Asia and the Pacific 2009, Addressing Triple Threats to Development*, Table 1, p. 174, <http://www.unescap.org/pdd/publications/survey2009/download/Survey2009.pdf>.

GDP per capita

2.4 GDP is a measure of production and used widely as an indicator of economic activity. It tracks the production activity of resident producer units within a given period. Increases in population, however, have a significant effect on productivity measurements in Pacific island countries when determined on a per capita basis.⁸

8 Committee Hansard, 20 November 2008, pp. 8 and 10.

Thus, although statistics indicate a general improvement in productivity in Pacific island countries, their economic performance over an extended period of time is less impressive when measured by GDP on a per capita basis.⁹

Table 2.2: Pacific island countries—Growth rate of GDP per capita, 2005–2010

Growth rate of per capital GDP (per cent per year)							
	2005	2006	2007	2008	2009	2010	Per capita GNP US\$, 2007
Fiji	0.2	2.8	-7.1	0.7	-1.2	-0.5	3,800
Kiribati	-0.7	-6.9	-1.3	-0.8	-0.8	-	1,170
Nauru	-12.7	8.8	-28.4	-1.1	-0.5	-0.5	-
Papua New Guinea	0.8	-1.7	4.3	5.0	1.9	1.4	850
Samoa	3.5	1.5	5.1	-0.1	-1.4	-0.5	2,430
Solomon Islands	2.1	3.2	7.3	3.5	-0.4	-0.9	730
Tonga	2.0	0.5	-3.8	0.8	-2.4	-1.0	2,320
Tuvalu	1.5	0.5	1.5	1.2	0.7	0.6	-
Vanuatu	3.9	4.6	4.2	3.6	1.0	-1.7	1,840

The table is based on table A2 in Asian Development *Outlook 2009, Rebalancing Asia's growth*, Asian Development Bank, April 2009, p. 297.

2.5 Mr Dan Devlin, Treasury, explained that the GDP per capita figures are aggregates and 'an average of how it works out if all of the income were divided equally between all of the citizens of the country'.¹⁰ Mr John Burch, Treasury, noted that, from 1998 and on a per capita basis, many of the Pacific island countries have been 'pretty much just standing still', with a number performing 'very badly when you look back far enough'. He cited Solomon Islands where, in spite of recent growth, 'they are nowhere near where they were at the end of the 1990s in per capita terms'.¹¹

9 Rob Stewart, 'An economic survey of developing countries in the Pacific region', *Economic Roundup Spring 2006*, the Australian Treasury, http://www.treasury.gov.au/documents/1190/PDF/08_pacific.pdf (accessed 20 October 2008). Anis Chowdhury, described the growth performance of most small island economies as 'dismal'. Anis Chowdhury, 'Growth Oriented Macroeconomic Policies for Small Islands Economies: Lessons from Singapore', UN University, Research Paper no. 2008/47, April 2008, p. 1. The Port Moresby Declaration stated that economic growth across the Pacific islands nations, 'generally lags behind other developing regions'. Prime Minister of Australia, 'Port Moresby Declaration', Media release, 6 March 2008.

10 *Committee Hansard*, 20 November 2008, p. 8.

11 *Committee Hansard*, 20 November 2008, p. 10.

Growth in context

2.6 Other factors also influence the interpretation of GDP numbers. Mr Thomas Mahony, Treasury, drew the committee's attention to the large informal component of Pacific island countries' economies which is not counted in GDP. He noted:

For instance, in Vanuatu you have 70 per cent of the economy that is informal; it is subsistence agriculture and things of that nature. When you see growth in the formal economy in GDP it does not necessarily reflect on the welfare outcomes of the entire population. In fact, it only reflects on the outcomes of those in the formal economy.¹²

2.7 Furthermore, Treasury observed that, while there had been strong GDP growth rates in a number of Pacific island countries, many started from a low base. AusAID gave the example of PNG where, although economic growth had picked up, even if it were to increase growth 'to (a fast) eight per cent per year', it would take two decades to achieve Samoa's current GDP per person.¹³ Treasury and AusAID agreed that Pacific island countries must sustain solid economic growth rates if economic gains are to be realised.

2.8 Economic growth rates in the region, including the accelerated growth rates in PNG and Solomon Islands, should also be considered in a broader context. Even those countries that have recently demonstrated sound economic growth do not necessarily compare favourably with other developing countries outside the region. Indeed, some have been 'well below the average for developing countries'. According to the *Pacific Economic Survey 08*:

The world economy has enjoyed strong growth in recent years of around 5 per cent. East Asia is growing at 9 per cent and South Asia at 8 per cent. Both sub-Saharan Africa and the Caribbean region show better performance than the Pacific in recent years, although this gap is narrowing.¹⁴

2.9 Treasury similarly noted that in aggregate, the growth rates of Pacific island countries do not compare well with many other developing countries. Mr Neil Motteram, Treasury, suggested that it is 'comparable with sub-Saharan Africa and so forth, so the outcomes are not as strong as we would like'.¹⁵

2.10 Many Pacific island countries rely on external sources of income, including remittances and foreign aid, to support their economies.

12 *Committee Hansard*, 20 November 2008, p. 10.

13 AusAID, *Tracking Development and Governance in the Pacific*, August 2008, p. 1.

14 AusAID, *Pacific Economic Survey: connecting the region*, 2008, p. 7. See also AusAID *Submission 65*, p. 3.

15 *Committee Hansard*, 20 November 2008, p. 8.

Remittances

2.11 Remittances are funds or goods sent home to relatives or communities by migrants working abroad and are an important source of income for many Pacific island countries. The *Pacific Economic Survey 08* noted that since 2000, remittances to Pacific island countries had grown rapidly, 'with annualised average growth of 36 per cent to reach US\$425 million in 2005'. According to AusAID, remittances are currently worth more than US\$500 million per annum and if the trend continues they are likely to exceed the value of aid flows to the region by 2009.¹⁶ Four countries, Fiji, Kiribati, Samoa and Tonga, account for 90 per cent of Pacific remittances, with Tonga and Samoa among the leading recipients of remittances in relation to GDP for all developing countries.¹⁷ The remittances are in the order of 30 per cent to 35 per cent of GDP in Tonga, 20 per cent in Samoa and 5 per cent in Fiji, Kiribati and Tuvalu.¹⁸

2.12 For some of these Pacific island countries, remittances contribute substantially to their revenue base and, because of their heavy reliance on imports (mostly of food and fuel) and narrow export base, are an important buffer against economic shocks.¹⁹ Remittances also help to address their unemployment problems. For example, Tonga has more of its people living abroad than at home and the large inflows of remittances sustain the economy.²⁰ The President of the Tongan Free Wesleyan Church noted that without contributions from Tongans abroad, many local community projects would not 'get off the ground'.²¹

16 *Submission 65*, p. 3.

17 AusAID, *Pacific Economic Survey: connecting the region*, 2008, p. xiii. See also Asian Development Bank, *Asian Development Outlook 2008*, p. 248; DFAT website, country information, <http://www.dfat.gov.au/geo/tuvalu/index.html> (accessed 15 October 2008); and Christopher Browne and Aiko Mineshima, *Remittances in the Pacific Region*, IMF Working Paper WP/07/35, February 2007, p. 3.

18 Asian Development Bank, 'Navigating the Global Storm: A policy brief on the Global Financial Crisis', *Pacific Studies Series*, 2008, p. 18 (fn 13). See also Asian Development Bank, *Outlook 2008*, <http://www.adb.org/Documents/Books/ADO/2008/FIJ.asp> (accessed 24 November 2008). Figures contained in AusAID's *09 Pacific Economic Survey: engaging with the world*, Canberra, September 2009, p.8, show a rise in officially recorded remittance flows for Tonga, Samoa and Kiribati that are equivalent to 39 per cent, 23 per cent and nine per cent respectively.

19 IMF Country Report No. 08/261, Tonga: 2008 Article IV Consultation—Staff Report; Staff Supplement; and Public Information Notice on the Executive Board Discussion, July 2008, <http://www.imf.org/external/pubs/ft/scr/2008/cr08261.pdf> (accessed 9 October 2008).

20 UN Economic and Social Commission for Asia and the Pacific, *Economic and Social Survey of Asia and the Pacific 2009*, p. 118.

21 Media release, <http://www.pmo.gov.to/index.php/President-pays-tribute-to-the-love-and-generosity-of-Tongans-abroad.html> (accessed 31 July 2009).

Table 2.3: Pacific island countries: Indicators of remittances 1997–2005 (per cent of GDP)

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Fiji	2.0	2.0	1.4	2.7	5.0	5.4	5.5	6.6	6.6
Kiribati	14.0	14.0	15.7	11.8	11.3	11.0	17.4	16.6	15.0
Papua New Guinea	-0.7	0.3	-0.2	-0.3	-1.4	0.7	1.0	0.9	0.8
Samoa	16.8	16.9	18.5	18.5	20.4	20.2	21.3	24.5	25.5
Solomon Islands	1.3	0.1	0.1	0.2	1.1	0.4	0.5	0.8	0.9
Tonga	23.2	21.9	25.5	32.4	37.1	36.9	43.7	42.7	39.3
Vanuatu	-3.4	-5.7	-4.3	-3.8	1.8	-3.7	-3.6	-3.2	-2.3

Christopher Browne and Aiko Mineshima, *Remittances in the Pacific Region*, IMF Working Paper WP/07/35, February 2007, p. 12.

Overseas aid

2.13 Although Pacific island countries receive a high level of official development assistance (ODA), it varies greatly between countries. Some are among the highest aid recipients in the developing world. According to AusAID, net aid from all donor sources to the Pacific rose from US\$750 million in 1997 to about US\$1.1 billion in 2006, but 'has barely risen in per capita terms over this period'.²² Solomon Islands is a notable exception. Since the inception of RAMSI, Solomon Islands has been a primary recipient of ODA which more than doubled between 2003 and 2004 and has risen sharply since then. In 2005, ODA to Solomon Islands was over 50 per cent of its Gross National Income (GNI) and in 2006 stood at 47.8 per cent.²³

2.14 Aid to PNG fell sharply in the late 1990s, but has risen gradually in recent years.²⁴ Although PNG receives a much larger proportion of ODA for the region, assistance represents only around seven per cent of its GNI. ODA accounts for approximately 60 per cent of Tuvalu's GNI; 44 per cent of Nauru's; 13 per cent of Vanuatu's; and 11 per cent of Samoa's GNI. Tonga (8.8 per cent) and Fiji (2 per cent)

22 AusAID, *Tracking Development and Governance in the Pacific*, August 2008, p. 2.

23 GNI (gross national income) is gross domestic product (GDP) plus net receipts of primary income (employee compensation and investment income) from abroad. World Bank, <http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:20399244~menuPK:1504474~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html> (accessed 19 October 2009).

24 AusAID, *Tracking Development and Governance in the Pacific*, August 2008, p. 2.

are at the lower end of the scale.²⁵ For a small Pacific island country such as Nauru, overseas aid is vital to its economic viability. An ADB report noted that, 'In the absence of Australian and other donor assistance, Nauru would by now (2007) have been in a state of total economic collapse'.²⁶

2.15 A number of important factors must be taken into account when considering the economic performance of Pacific island countries including the large informal component of their economies, their growth rate in the context of other developing countries and, for some, their heavy reliance on remittances and overseas aid. A further complicating factor is the changing global economic circumstances.

Global economic turmoil

2.16 This report was produced at a time of great uncertainty in the world economy as the effects of the global financial woes, which emanated from the United States, were unfolding and spreading to other countries. Toward the end of 2008, many western countries had entered or were teetering on the verge of economic recession. This trend continued into 2009.

2.17 A policy brief by the ADB suggested that Pacific island countries would be largely shielded from the most immediate effects of the crisis. It found the region's banking system:

...reasonably well placed to weather the crisis, mainly because it raises most of its own funds from within the region. The generally sound health of the banking system provides further reassurance.²⁷

2.18 The study noted, however, that the global economic situation would 'depress demand in several Asia Pacific countries and lower commodity prices' which would concern the region. It identified areas likely to be affected adversely:

- the value of offshore investments held by trust funds and superannuation funds—as at October 2008, the Federated States of Micronesia, Kiribati, Palau, Marshall Islands and Tuvalu were facing 'a 20% to 30% fall in local currency of their trust funds' (these funds are discussed in chapter 14);
- export income, which was likely to decline as world commodity prices eased—AusAID noted in February 2009 that Solomon Islands was 'facing a

25 UN Economic and Social Commission for Asia and the Pacific, *Statistical Yearbook for Asia and the Pacific 2008*, Table 20.4, p. 145.

26 Asian Development Bank, *Country Economic Report, Nauru*, November 2007, executive summary.

27 Asian Development Bank, *Navigating the Global Storm: A policy brief on the Global Financial Crisis*, Pacific Studies Series, 2008, Foreword. Mr Francis Yourn, Australia Papua New Guinea Business Council, informed the committee that 'those countries that have a significant domestic subsistence economy are, to some extent, cushioned from the worst effects of the global economic crisis'. *Committee Hansard*, 25 March 2009, p. 57.

major fiscal squeeze around the fall off of logging revenues which would be exacerbated through the crisis',²⁸

- tourism, which was predicted to experience a downturn as economic growth slowed in key source economies;
- flow of remittances, which, as noted earlier, is important to Samoa, Tonga and to a lesser extent Fiji, Kiribati and Tuvalu—ESCAP noted that while remittances would be under pressure, they were expected to show resilience to economic changes;²⁹ and
- levels of overseas development aid with the prospects of cut backs as donors looked to their own domestic financial and economic problems.³⁰

2.19 Although most witnesses agreed that it was too early to determine the effect that the financial downturn would have on Pacific island economies, some could also foresee difficulties for Pacific island countries similar to those identified by the ADB.³¹

2.20 By the end of March 2009, the anticipated effects were beginning to show. Ms Jennifer Hayward-Jones, Lowy Institute, noted that the value of trust funds had fallen; the drop in demand for commodities had affected the economies of PNG and Solomon Islands; tourism had slowed; remittances had started to shrink; the availability of capital had decreased; and foreign direct investment was scarce.³² Even so, Mr Garry Tunstall, ANZ Bank, was of the view that because Pacific island countries are less connected to the global economy, they would 'fare somewhat better'. He agreed with the general view that they would not escape the current global downturn with lower exports, tourism and remittances weighing on activity in 2009 and the possibility that aid flows may be affected.³³ Mr Francis Yourn, Australia Papua New Guinea Business Council, informed the committee that foreign investment

28 Asian Development Bank, 'Navigating the Global Storm: A policy brief on the Global Financial Crisis', *Pacific Studies Series*, 2008, Foreword; and *Committee Hansard*, 12 March 2009, p. 29.

29 Asian Development Bank, 'Navigating the Global Storm: A policy brief on the Global Financial Crisis', *Pacific Studies Series*, 2008, Foreword; and UN Economic and Social Commission for Asia and the Pacific, *Economic and Social Survey of Asia and the Pacific 2009*, p. 15.

30 Asian Development Bank, 'Navigating the Global Storm: A policy brief on the Global Financial Crisis', *Pacific Studies Series*, 2008, p. 20.

31 In Treasury's view, the banking system had a fair degree of protection because it was not fully engaged in the global system, but that Pacific island countries may suffer as the economies of countries with which they do business experience slower economic activity. For example, Mr Devlin noted that as the decline in global growth becomes more evident, 'it is the trade and tourism exposed economies of the Pacific that are potentially affected'. The fall in commodity and fuel price would also have some effect. *Committee Hansard*, 20 November 2008, p. 11.

32 *Committee Hansard*, 24 March 2009, p. 3.

33 *Committee Hansard*, 24 March 2009, p. 52.

had slowed 'right down to very low levels' and that the refurbishment of properties and anything that requires capital was being deferred.³⁴

2.21 Before the global economic downturn set in, the economic forecast for some Pacific island countries looked promising. In PNG, GDP growth was expected to remain above 6 per cent; while Solomon Islands' growth was expected to moderate to 6 per cent during 2008.³⁵ Vanuatu had enjoyed consecutive years of strong growth, which, although projected to ease, was anticipated to be around 5.7 per cent in 2008.³⁶ The table below, however, shows a progressive and noticeable downgrading of economic growth predictions for 2009 as the effects of the economic global crisis began to take hold.

Table 2.4: GDP growth projections for selected Pacific island countries starting with projections from April 2008

	2009 (as at April 2008) *	2009 (as at September 2008)**	2009 (as at March 2009)	2010 (as at March 2009)
Fiji	1.6	1.4	-0.5	0.2
Papua New Guinea	4.6	5.1	4.0	3.5
Samoa	3.0	2.5	-1.0	-0.01
Solomon Islands	2.5	4.0	2.2	1.7
Tonga	2.0	2.0	-2.0	-0.6
Vanuatu	4.3	2.9	3.5	0.8

Sources: Asian Development Bank, *Asian Development Outlook 2009, Rebalancing Asia's growth*, Table A1, p. 296.

* Asian Development Bank, *Asian Development Outlook 2008, Workers in Asia*, Table A1.

** Asian Development Bank, *Asian Development Outlook 2008 Update*, Table A1, p. 209.

2.22 To this stage the committee has relied on statistics, mainly GDP, to gauge and understand the economic health of Pacific island countries. The following section examines economic productivity in a broader context.

34 *Committee Hansard*, 25 March 2009, p. 59.

35 Asian Development Bank, *Outlook 2008*, <http://www.adb.org/Documents/Books/ADO/2008/FIJ.asp> (accessed 24 November 2008).

36 UN Economic and Social Commission for Asia and the Pacific, *Economic and Social Survey of Asia and the Pacific 2009*, p. 116; Asian Development Bank, *Outlook 2008*, <http://www.adb.org/Documents/Books/ADO/2008/FIJ.asp> (accessed 24 November 2008).

Human development

2.23 When compiling statistics on economic growth rates, it is essential to remember that the welfare of a country's people depends on many factors besides the goods and services consumed. The Australian Bureau of Statistics noted that while national accounting statistics, such as GDP, are an important measure of economic growth, there is 'no single indicator which can describe all aspects of the well-being of a country's citizens'. It argued that there are significant aspects of the 'quality of life' that 'cannot be comprehended in a system of economic accounts'.³⁷ The Hon Natan Teewee, MP, Kiribati, highlighted this point in a statement to the IMF. On behalf of a number of smaller Pacific island countries, he said that they view economic growth 'not so much in terms of increase in GDP numbers, but more in terms of providing a better life for our people, now and in the future'.³⁸ Also, as noted previously, GDP does not adequately reflect the informal economy which represents a significant component of economic activity in Pacific island countries. Mr Devlin, Treasury, stated that because of inequality, some of the very positive growth rates do not necessarily result in a reduction in poverty.³⁹ DFAT maintained that in most cases 'socio-economic indicators remain a concern and economic growth is lagging well behind other developing countries'.⁴⁰

2.24 The Human Development Report 2007/2008 showed that from a total of 177 countries, with Iceland holding the highest rating at number 1, the Pacific island countries occupied the following positions on the scale of human development:

Tonga	55
Samoa	77
Fiji	92
Vanuatu	120
Solomon Islands	129
Papua New Guinea	145 ⁴¹

2.25 The remaining Pacific island countries were not included in the table. Australia rated at no 3 (0.962) and New Zealand at 19 (0.943). The ratings were based

37 Australian Bureau of Statistics, *A Guide to the Australian National Accounts*, ABS Catalogue No. 5235.0, 1994, p. 19.

38 IMF, Statement by the Hon. Natan Teewe, MP, Governor of the Fund and the Bank for Kiribati, on behalf of the Federated States of Micronesia, Kiribati, Marshall Islands, Samoa, Solomon Islands and Vanuatu, at the Joint Annual Discussion, Press Release no. 31, 13 October 2008.

39 *Committee Hansard*, 20 November 2008, p. 8.

40 *Submission 68*, p. 4.

41 UN Development Programme, *Human Development Report 2007/2008, Fighting climate change: human solidarity in a divided world*, 2007, pp. 235–237, http://hdr.undp.org/en/media/HDR_20072008_EN_Complete.pdf

on a score out of 1.000. The following table gives an indication of the trend over time for a few Pacific island countries.⁴²

Table 2.5: Human Development indicators for selected Pacific island countries⁴³

Country	1975	1980	1985	1990	1995	2000	2005
Tonga							0.819
Samoa			0.709	0.721	0.740	0.765	0.785
Fiji	0.665	0.688	0.702		0.743	0.747	0.762
Vanuatu							0.674
Solomon Islands							0.602
Papua New Guinea	0.431	0.462	0.481	0.495	0.532	0.544	0.530

2.26 The scores represent performance in three basic dimensions of human development—a long and healthy life; access to knowledge; and a decent standard of living.⁴⁴ Since 2000, PNG has lost ground with its overall human development score declining from 0.544 to 0.530. Recently released figures from the Human Development Report for 2009 showed that Pacific island countries still rank poorly on the index. From a total of 182 countries, Samoa was placed at 94; Tonga, 99; Fiji, 108; Vanuatu, 126; Solomon Islands, 135; and PNG, 148.⁴⁵

2.27 Clearly, there is substantial variation between Pacific island countries in their performance on this scale of human development. The Centre for Independent Studies noted that within the Pacific, two groups of islands are evident:

One group, including Samoa, Tonga, French Polynesia, New Caledonia, Cook Islands and Guam, have grown modestly. They have decent levels of

42 UN Development Programme, *Human Development Report 2007/2008, Fighting climate change: human solidarity in a divided world*, 2007, pp. 235–237, http://hdr.undp.org/en/media/HDR_20072008_EN_Complete.pdf

43 UN Development Programme, *Human Development Report 2007/2008, Fighting climate change: human solidarity in a divided world*, 2007, pp. 235–237.

44 These dimensions are measured by life expectancy at birth, adult literacy and combined gross enrolment in primary, secondary and tertiary level education, and gross domestic product per capita in Purchasing Power Parity US dollars respectively.

45 UN Development Program, *Human Development Report 2009: Overcoming barriers: Human mobility and development*, Table G, pp. 167–170. The Report advised that trend analysis should not be based on data from different editions of the report. Refer to Table G from the 2009 report for the most recent figures to date.

education and health and decent employment outcomes as a result. Good education systems have enabled many to emigrate abroad to pursue work or further education. The islands also experience higher levels of social stability.

A second group of countries, including PNG, Fiji, Solomon Islands and Vanuatu have stagnated at best. In these islands, education is poor, health treatment sparse and employment outcomes appalling. Unfortunately for the region, this second, slow-growth group of islands represents 80% of the regions population. It will be here that the future stability and prosperity of the region is determined.⁴⁶

2.28 The Millennium Development Goals (MDGs) are used as a key indicator of human development. In both its August 2008 and 2009 reports on development in the Pacific, AusAID found the region was 'seriously off-track' in achieving its MDGs.⁴⁷ These development objectives encompass universally accepted human values and rights including freedom from hunger and the right to basic education and health. AusAID used the number of people living in extreme poverty, which has increased markedly in the Pacific region over the last decade, as an indicator of the faltering progress being made. It found:

While poverty data are sparse and unreliable, it is estimated that at least three million people live in extreme poverty: the overwhelming majority are Papua New Guinean. The incidence of poverty is highest in PNG and Kiribati.⁴⁸

2.29 A number of other witnesses agreed with the overall assessment that some Pacific island countries were falling behind in achieving their MDGs and used PNG as an example.⁴⁹ Indeed, PNG stands out as an example of a country with a rising GDP but whose performance in human development is not only failing to keep pace with this growth but in some instances is slipping further behind. At the moment, PNG is enjoying the benefits from an unprecedented surge in demand for mineral resources. A

46 *Submission 11*, p. 2.

47 AusAID, *Tracking Development and Governance in the Pacific*, August 2009, p. 1.

48 AusAID, *Tracking Development and Governance in the Pacific*, August 2008, p. 4. See also The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2008-09: Australia's International Development Assistance Program*, 13 May 2008, p. 26. See also Mr Bruce Davis, Director-General, AusAID, who said 'the trends in the region are not looking good—they are going the wrong way'. *Committee Hansard*, 12 March 2009, p. 7.

49 See for example, Richard Rowe, DFAT, *Committee Hansard*, 21 November 2008, p. 2. Mr Motteram stated: 'Papua New Guinea is one with a large amount of economic growth and poor Millennium Development Goal outcomes; there are a lot of capacity constraints within that economy to actually distribute the benefits of the growth'. *Committee Hansard*, 20 November 2008, p. 9. See also The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2008-09: Australia's International Development Assistance Program*, 13 May 2008, p. 26.

2007 World Bank Report observed, however, that at the governmental and more generally at the civil society level there is an emerging consensus in PNG that 'human development outcomes are far less than satisfactory'. It stated that 'service provision in many parts of the country is collapsing despite the significant level of both government and development partner financing of the human development sectors'.⁵⁰ For example, about 53 per cent of PNG children are enrolled in primary school, and of those starting school, only 45 per cent complete basic education. Education is discussed in chapter 10.

2.30 Thus, even with assistance from remittances and ODA and those benefiting from revenue windfalls from increased sales of commodities, it would seem that a number of Pacific island countries are falling far short in achieving the performance necessary to place them on a sure and certain economic growth trajectory.

Conclusion

2.31 Pacific island countries have a generally poor record on economic performance, with the growth rate of GDP following, in many cases, an erratic path. Recent performances, however, demonstrate that faster growth is possible.⁵¹ But even some of the countries whose GDP has shown a marked and steady improvement are not producing results that indicate that the economy and population as a whole are benefiting from it.

2.32 The following chapter looks at the structural impediments to economic growth in Pacific island countries—their size, geography and exposure to natural hazards. These are the physical disadvantages that cannot be changed and that create major challenges for the people of Pacific island countries to develop their economies.

50 World Bank, *Strategic Directions for Human Development in Papua New Guinea*, The International Bank for Reconstruction and Development/World Bank, 2007, p. 1.

51 AusAID, *Tracking Development and Governance in the Pacific*, August 2008, p. 5.

Chapter 3

Structural impediments to economic growth

3.1 Pacific island countries are a diverse collection of sovereign states with notably different characteristics. Each has its own unique history, terrain, ecology, natural endowments and political, social and economic structures. Despite their differences, they share a large geographical area and face similar constraints in achieving sustainable development.¹ This chapter explores the major structural impediments to economic growth in Pacific island countries, including size, natural resources, remoteness and susceptibility to natural hazards.

Population

3.2 For many decades, international bodies have recognised that small countries, such as the Pacific island countries, face particular difficulties in developing a sustainable and growing economy.² Indeed, economists have long recognised that these small states are among the most economically vulnerable and disadvantaged countries in the world.³

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- 1 See for example, Anis Chowdhury, 'Growth Oriented Macroeconomic Policies for Small Islands Economies: Lessons from Singapore', UN University, Research Paper no. 2008/47, April 2008, p. 1. Resolution adopted by the General Assembly [on the report of the Second Committee (A/53/609/Add.3)], A/RES/53/189, 12 February 1999. See also David Carnet, Stewart Prest and Yiagadeesen Samy, 'Assessing Small Island Developing State fragility, a chapter prepared for the volume on Economic vulnerability and Resilience of Small States', Lino Briguglio and Eliawony J. Kisanga (eds), <http://www.carleton.ca/cifp/app/serve.php/1020.pdf> (accessed 20 October 2008); Mark McGillivray, Wim Naudé and Amelia Santos-Paulino, World Institute for Development Economics Research, UN University, 'Achieving growth in the Pacific Islands: an introduction', *Pacific Economic Bulletin*, vol 23, no. 2, 2008, p. 97. http://peb.anu.edu.au/pdf/PEB23-2-FOCUSMcGillivray_NauDe_Santos-Paulino.pdf (accessed 14 October 2008); See for example, Anis Chowdhury and Yogi Vidyattama, 'Macroeconomic Policies for Growth in Small Pacific Islands Economies', World Institute for Development Economics Research, UN University, Research Paper no. 2007/24, May 2007, p. 1.
 - 2 See for example, Patrick Imam, 'Rapid Current Account adjustments: Are Microstates Different?', IMF Working Paper, WP /08/233, September 2008, p. 1; Anis Chowdhury, 'Growth Oriented Macroeconomic Policies for Small Islands Economies: Lessons from Singapore', UN University, Research Paper no. 2008/47, April 2008, p. 1; Commission on Growth and Development, *The Growth Report, Strategies for Sustained Growth and Inclusive Development*, The International Bank for Reconstruction and Development/World Bank, 2008, p. 78, <http://cgd.s3.amazonaws.com/GrowthReportComplete.pdf> (accessed 27 October 2008); and 'Conclusions of the international workshop on economic vulnerability and resilience of small states', Island of Gozo, Malta, 1–3 March 2004, http://www.crm.org/documents/press_releases_2004/gozo%20declaration%20final.pdf (accessed 20 October 2008).
 - 3 See for example, Neil Motteram, Treasury, *Committee Hansard*, 20 November 2008, p. 5.

3.3 Although population sizes vary in Pacific island countries, they nonetheless are relatively small. PNG dwarfs the other countries with a population of 6,331,000; Fiji has a population of 839,000, Solomon Islands, 496,000; Vanuatu, 226,000; Samoa, 187,000; Tonga, 100,000; and Kiribati, 95,000. At the other end of the scale, the Cook Islands has a population of 13,000; Tuvalu, 11,000; Nauru, 10,000; and Niue, only 2,000.⁴

3.4 These small populations limit domestic demand for products and services, which means that local industries do not have the opportunities to benefit from economies of scale.⁵ Thus, with their comparatively higher per capita cost of producing a good or service, Pacific island countries are not well placed to compete against larger economies that produce greater volumes of goods and services at lower prices.⁶ It also means that Pacific island countries have less resources to devote to research and development and the employment of up-to-date technologies, which are expensive but vital to a modern economy. Because of their small populations, Pacific island countries also have problems broadening their economic base. For example, a recent IMF working paper suggested that 'a small population, coupled with a limited domestic market, makes it difficult to diversify into manufacturing activities'.⁷

3.5 With their small populations, Pacific island countries also experience difficulties developing the human capacity necessary to support and sustain a growing, competitive economy. If they are to sustain economic growth and compete effectively in a global market, they need to have capable economic, financial and project managers, accountants, entrepreneurs, engineers, scientists, technicians, tradespeople and skilled labourers. They also need trained personnel in specialised areas such as quarantine, food safety and animal and plant health as well as trade negotiators.⁸ Throughout this report, the committee refers to human capacity constraints in all sectors of the economies of Pacific island countries.

3.6 Their size and low-key presence on the international stage also affects their ability to secure investment. The Governor of the Reserve Bank of Fiji acknowledged

4 Statistics taken from UN Economic and Social Commission for Asia and the Pacific, *2008 Statistical Yearbook for Asia and the Pacific*, p. 8, <http://www.unescap.org/stat/data/syb2008/index.asp>

5 Commission on Growth and Development, *The Growth Report, Strategies for Sustained Growth and Inclusive Development*, The International Bank for Reconstruction and Development/World Bank, 2008, p. 78, <http://cgd.s3.amazonaws.com/GrowthReportComplete.pdf> (accessed 27 October 2008).

6 Commission on Growth and Development, *The Growth Report, Strategies for Sustained Growth and Inclusive Development*, The International Bank for Reconstruction and Development /World Bank, 2008, p. 8, <http://cgd.s3.amazonaws.com/GrowthReportComplete.pdf> (accessed 27 October 2008).

7 IMF Country Report No. 08/93, Papua New Guinea: Selected Issues and Statistical Appendix, <http://www.imf.org/external/pubs/ft/scr/2008/cr0893.pdf> (accessed 9 October 2008).

8 Department of Agriculture, Fisheries and Forestry, *Submission 42*, p. 7.

that attracting foreign investment was not easy for small nations like Fiji facing strong competition from more developed countries endeavouring 'to entice the same investment dollar that we are chasing'. He stated, 'We are the "small fish" in a very big sea' which 'makes our task even harder'.⁹

Land mass

3.7 Pacific island countries are not only small in population but also in land mass, with many comprising numerous small islands often spread over a wide expanse of ocean.¹⁰ PNG covers almost 463,000 square kilometres; the Solomon Islands over 28,000; Fiji, 18,270; Vanuatu, 12,200; and Samoa almost 3,000. Kiribati, which consists of 33 islands scattered north and south of the Equator, is only 811 square kilometres; Tonga, 650; Tuvalu, 26; and Nauru a bare 21 square kilometres.¹¹ To place these sizes in context, PNG is just less than half the size of South Australia (984,318 square kilometres) while Nauru is approximately 0.1 times the size of the Australian Capital Territory (2,395 square kilometres).

Natural endowments

3.8 In large measure, the economic development opportunities for Pacific island countries rest on the natural resources at their disposal.¹² But, with few natural endowments, many Pacific island countries do not have the scope to develop industry and grow employment beyond the tourism sector, fisheries and small scale agriculture.¹³ Although a number of the smaller countries, such as the Cook Islands, Tonga and Samoa, have some fertile land, they rely significantly on their marine resources. A recent analysis found that limited resources can prevent Pacific island countries from achieving the "critical mass" of inputs to make a production operation economically viable'. It gave the following example:

...a small island may not have the capacity to bear enough fruit crops to produce the quantity required to justify a fruit juice bottling operation.

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- 9 Reserve Bank of Fiji, Keynote address at the National Micro, Small and Medium Enterprise (MSME) Forum by Governor of Reserve Bank of Fiji, Mr Savenaca Narube, Raffles Tradewinds Convention Centre, Lami, Suva, Thursday, 22 May 2008, p. 4.
- 10 See UN General Assembly, 'Report of the Global conference on Sustainable Development of Small Island Developing States', Bridgetown, Barbados, 25 April–6 May 1994, A/CONF.167/9, October 1994, p. 6, <http://www.un.org/documents/ga/conf167/aconf167-9.htm> (accessed 20 October 2008). See also CSIRO, *Submission 50*, p. 5.
- 11 Statistics taken from Secretariat of the Pacific Community website, http://www.spc.int/sdp/index.php?option=com_docman&task=cat_view&gid=28&Itemid=42 (accessed 14 October 2008); and CIA, *The World Fact book*, <https://www.cia.gov/library/publications/the-world-factbook/print/bp.html> (accessed 19 June 2008).
- 12 See *Submission 42*, p. 5.
- 13 Department of Agriculture, Fisheries and Forestry, *Submission 42*, pp. 4–5 and Australia Pacific Islands Business Council, *Submission 60*, p. 4.

Resource limitations in the FICs [Forum island countries] are compounded by scarce supply of qualified workers and technological inputs that contribute to value-added production. Limitations on market expansion contribute to a reliance of FICs on the export of primary goods or the prevalence of cottage industry as opposed to developing value added through full scale industrial production.¹⁴

3.9 As another example, Professor Ron Duncan noted that most Pacific developing member countries do not have 'a high absorption capacity for waste'. Thus, environmental considerations will always limit manufacturing.¹⁵

3.10 As a consequence, exports tend to be confined to a small range of goods and commodities while imports of food and energy are important. Because they have less diversified economies and specialise in fewer activities, fluctuations in export and import prices can have a significant effect on their economies. For example, Tonga's export base is narrow and it depends substantially on imports, mostly food and fuel, which makes 'the trade balance highly vulnerable to major external price shocks'.¹⁶ Vanuatu, with relatively few commodity exports, also has limited opportunities to grow its economic base.

3.11 The smaller island countries, including Kiribati, Palau and Tuvalu, which are made up of low-lying coral atolls and lack substantial renewable resources, have even less scope to diversify their economies and are extremely susceptible to economic shocks. Tokelau and Tuvalu in particular have poor soils and scarce water supplies.¹⁷ For example, Tuvalu consists of nine low lying and narrow coral atolls with no streams or rivers, and groundwater is not potable.¹⁸

3.12 Kiribati also has few natural resources which limit its opportunities to expand its production base. The country relies 'heavily on licence fees from distant water fishing nations' and remittances from its citizens employed abroad, mainly as seamen.¹⁹ The small island of Nauru has a 'reasonably fertile ring of soil containing

14 Nathan Associates Inc., *Pacific Regional Trade and Economic Cooperation Joint Baseline and Gap Analysis* submitted to Pacific Islands Forum Secretariat, December 2007, p. 11.

15 Professor Ron Duncan, 'Pacific Trade Issues', Pacific Institute of Advanced Studies in Development and Governance, University of the South Pacific, Suva, Fiji, ADB *Pacific Trade Issues* Series, 2008, p. 20.

16 International Monetary Fund, 'Tonga: 2008 Article IV Consultation—Staff Report; Staff Supplement'; and Public Information Notice on the Executive Board Discussion, IMF Country Report No. 08/261, July 2008, p. 4.

17 *Report of the 3rd Regional Meeting of Heads of Agriculture and Forestry Services (HOAFS)*, 3–5 September 2008, p. 28.

18 CIA, *The World Factbook*, <https://cia.gov/library/publications/the-world-factbook/print/tv.html> (accessed 19 June 2008).

19 Department of Foreign Affairs, website, country information, <http://www.dfat.gov.au/geo/kiribati/index.html> (accessed 15 October 2008).

coconut palms, pandanus trees, and indigenous hardwoods which encloses a phosphate centre'. It has a narrow economic base, with phosphate production the only significant domestic economic activity.²⁰ But, once dependent on its phosphate reserves for income, Nauru has near exhausted all its land-based resources. According to the ADB, the intensive mining since 1906 using strip-mining methods has left 'the central 90% of Nauru a wasteland that threatens the country's limited remaining land resources'.²¹ It concluded:

There is, however, no obvious alternative to phosphate mining as a means of creating gross domestic product (GDP). National income will be heavily reliant on external sources. Pelagic fish are abundant in Nauru's EEZ, and revenues can be expected from fishing licenses issued to several deepwater fishing nations. But this is inherently volatile revenue that is difficult to predict.²²

3.13 Lacking natural geographic advantages, these island countries have few opportunities for import substitution or export diversification and need to import most essential goods. Indeed, Mr Reginald Hodgson, Australia Pacific Islands Business Council, noted that some of the tiny atoll islands with virtually no natural resources are 'never going to create a sustainable group of industries'.²³ The majority of the resources of the Pacific island countries, particularly those of these small islands and atolls, are found in their vast maritime zones with few other opportunities for sustainable economic development. They are also highly dependent on aid.²⁴ The Australia Pacific Island Business Council advised the committee that some of these countries 'are unlikely to ever achieve a level of economic growth and business development which would make them economically independent of development assistance'.²⁵

Pacific island countries with rich natural resources

3.14 A few Pacific island countries, however, are endowed with rich natural resources. They tend to be larger, have rich volcanic soils, running water and some

20 See for example, Commission on Growth and Development, *The Growth Report, Strategies for Sustained Growth and Inclusive Development*, The International Bank for Reconstruction and Development/World Bank, 2008, p. 8, <http://cgd.s3.amazonaws.com/GrowthReportComplete.pdf> (accessed 27 October 2008).

21 Asian Development Bank, Country Information, <http://www.adb.org/nauru/country-info.asp?p=ctrynav> (accessed 26 September 2008).

22 Asian Development Bank, Country Information, <http://www.adb.org/nauru/country-info.asp?p=ctrynav> (accessed 26 September 2008).

23 *Committee Hansard*, 25 March 2009, p. 56.

24 See for example, UN Economic and Social Commission for Asia and the Pacific, *Economic and Social Survey of Asia and the Pacific 2008: sustaining growth and sharing prosperity*, http://www.unescap.org/survey2008/download/01_Survey_2008.pdf (accessed 1 October 2008), p. 73.

25 *Submission 60*, p. 2.

exploitable mineral reserves. For example, PNG has an export-centred, capital-intensive minerals sector which is a key driver of economic development. Its accelerated economic growth in large measure stems from the 'flow-through of high prices for export commodities, which allowed for a rise in both government and household spending, and stimulated investment'.²⁶ A recent survey found:

Mineral revenues in 2007 were more than five times higher than in 2002, driving a near doubling of total government receipts and facilitating an increase in total expenditure and net lending of more than 80 per cent.²⁷

3.15 Solomon Islands similarly enjoys the economic benefits deriving from its natural resources. In large part, its recent strong economic performance was achieved through the logging industry which increased production by 25 per cent. Unfortunately, accordingly to the ADB, 'years of unsustainable logging and the anticipated depletion of natural forests by 2013 are projected to force a decline in logging rates from 2009'.²⁸ The bank forecasts that GDP growth will reach 8.0 per cent, with log exports expected to increase by over 10 per cent in 2008, fish by nearly 30 per cent, palm oil production by 40 per cent and copra by 30 per cent.²⁹

3.16 Fiji, one of the largest and most developed economies in the region, is rich in forest, mineral and fish resources. The ADB noted that 70 per cent of the labour force depends on subsistence agriculture, tourism, sugar, clothing, copra, gold, silver, lumber and cottage industries.

3.17 But even Pacific island countries rich in mineral resources, forests, and fertile soils have an export base that is narrow and dominated by primary products and natural resources. They remain highly dependent on subsistence agriculture and fishing.³⁰ For example, the IMF observed:

The range of Papua New Guinea's exports is limited and has been relatively unchanged over the years. Exports consist mainly of commodities,

26 Asian Development Bank, *Asian Development Outlook 2008*, <http://www.adb.org/Documents/Books/ADO/2008/PNG.asp> (accessed 20 April 2009).

27 Bob Warner and Eric Omuru, 'PNG commodity prices—an opportunity not to be missed', *Pacific Economic Bulletin*, vol. 23, no. 1, 2008, p. 2.

28 Asian Development Bank, *Asian Development Outlook 2008*, p. 255.

29 Asian Development Bank, *Asian Development Outlook 2008 Update*, p. 140.

30 See for example, Rob Stewart, 'An Economic survey of developing countries in the Pacific region', *Economic Roundup Spring 2006*, the Australian Treasury, p. 94. See also UN Economic and Social Commission for Asia and the Pacific, *Economic and Social Survey of Asia and the Pacific 2008: sustaining growth and sharing prosperity*, http://www.unescap.org/survey2008/download/01_Survey_2008.pdf (accessed 1 October 2008), p. 72. It reported that, 'imports of goods to Pacific countries often exceed exports because of their small and narrowly based economies'.

including minerals and fuel, wood products, and agricultural products. Other areas, such as manufactured products, contribute little.³¹

Proximity to major markets

3.18 The remoteness of Pacific island countries is also an inherent obstacle to economic growth as it renders the import and export of goods and services more difficult and costly, further compounding the problems created by their size and natural resources.³² A report of the UN Secretary-General noted that 70 per cent of the populations of Pacific small island developing states do not have access to modern energy services and that, as a group, they pay between 200 and 300 per cent 'above global market prices for fossil fuel'. It noted that physical dispersion makes access to markets for trade more expensive.³³

3.19 The aviation industry highlights the problems for economic development caused by isolation and small populations. Pacific island countries require safe, secure and reliable aviation services for their economic wellbeing and growth.³⁴ Qantas informed the committee, however, that due in part to thin passenger and cargo traffic volumes, which restrict demand for air travel in any one state (with the exception of PNG):

Regional air travel remains expensive in local terms, with schedules infrequent and often unreliable.³⁵

3.20 The Department of Infrastructure, Transport, Regional Development and Local Government noted the recent entry of low-cost carriers, which had led to some reduction in airfares and increases in passenger traffic. It concluded, however, that:

...the sector continues to face challenges typical of remote and regional services, including servicing a number of non-commercially viable routes to smaller states.³⁶

31 IMF Country Report No. 08/93, Papua New Guinea: Selected Issues and Statistical Appendix, <http://www.imf.org/external/pubs/ft/scr/2008/cr0893.pdf> (accessed 9 October 2008).

32 Asian Development Bank, Country Information, <http://www.adb.org/Kiribati/country-info.asp> (accessed 26 September 2008). See the Lowy Institute, *Submission 14*, p. 2; and Commission on Growth and Development, *The Growth Report, Strategies for Sustained Growth and Inclusive Development*, The International Bank for Reconstruction and Development/World Bank, 2008, p. 78, <http://cgd.s3.amazonaws.com/GrowthReportComplete.pdf> (accessed 27 October 2008).

33 UN Economic and Social Council Commission on Sustainable Development, 'Integrated review of the thematic cluster of agriculture, rural development, land, drought, desertification and Africa in Small Island Developing States', Report of the Secretary-General, E/CN.17/2008/9, 5–16 May 2008, paragraph 30.

34 *Submission 43*, p. 2.

35 *Submission 41*, p. 4.

36 *Submission 43*, p. 2.

3.21 As noted already, Pacific island countries struggle to compete for attention in overseas markets. They are in a contest with states that are larger, have much greater political and economic clout and are better resourced. The remoteness of Pacific island countries magnifies their difficulties and adds to the enormous challenges of establishing their presence in a globalised world.³⁷ One commentator observed that smaller states are often 'just specs in a vast ocean, making their way in the current tide of global economic development'. She was of the view that:

As the world's major economies move towards greater trade and economic integration, many smaller, less developed economies are at risk of being left behind.³⁸

3.22 Clearly, Pacific island countries, with their low bargaining position and higher fixed costs of production, especially for the transportation of goods or materials, are at a distinct disadvantage compared to other larger states that enjoy economies of scale and are closer to major markets.

Natural disasters and climate change

3.23 Many Pacific island countries are subjected to periodic disruption to economic activity and in some cases widespread devastation from natural disasters.³⁹ Their small size, remoteness and lack of diversity in their economic base make them particularly vulnerable to the effects of weather extremes, including cyclones, earthquakes, floods and droughts.⁴⁰ Agriculture, fishing, tourism and mining, the mainstay sectors of their economies, are particularly disrupted by natural disasters. Cyclones, which are especially damaging to low-lying atoll islets, are the most prominent and wide-spread natural disaster in the Pacific.

37 See for example, Chakriya Bowman, 'The Pacific Island Nations: Towards shared Representation, Managing the Challenges of WTO Participation: Case Study 33', World Trade Organisation, http://www.wto.org/english/res_e/booksp_e/casestudies_e/case33_e.htm (accessed 25 September 2008).

38 Chakriya Bowman, 'The Pacific Island Nations: Towards shared Representation, Managing the Challenges of WTO Participation: Case Study 33', World Trade Organisation, http://www.wto.org/english/res_e/booksp_e/casestudies_e/case33_e.htm (accessed 25 September 2008). See also *Submission* 29, p. 5.

39 See for example, Anis Chowdhury and Yogi Vidyattama, 'Macroeconomic Policies for Growth in Small Pacific Islands Economies', UN University, World Institute for Development Economics Research, Research Paper no. 2007/24, May 2007, p. 1; and Commission on Growth and Development, *The Growth Report, Strategies for Sustained Growth and Inclusive Development*, The International Bank for Reconstruction and Development/World Bank, 2008, p. 78, <http://cgd.s3.amazonaws.com/GrowthReportComplete.pdf> (accessed 27 October 2008).

40 See for example, Ministerial Conference on Environment and Development in Asia and the Pacific 2000, 'Review of the state of the environment of the pacific islands', Kitakyushu, Japan 31 August–5 September 2000.

3.24 According to a 2006 study by the World Bank, since 1950 natural disasters have affected more than 3.4 million people and caused 1,747 reported fatalities in the Pacific islands region, excluding PNG. It recorded:

Cyclones accounted for 76 per cent of the reported disasters from 1950–2004, followed by earthquakes, droughts and floods. The average cyclone damage during this period was US\$75.7 million in real 2004 value. Droughts affected the highest number of people per event, while tsunamis caused the highest number of fatalities per event.⁴¹

3.25 A recent UN study noted that these extreme weather events impose serious constraints on development in the islands, so much so that some Pacific island countries seem to be in a 'constant mode of recovery'.⁴² Fiji and Vanuatu reported the highest number of disasters between 1950–2004 (38 and 37 respectively).⁴³ Samoa is also highly susceptible to devastating storms and droughts.⁴⁴

Table 3.1: Estimated economic and social impact of disasters in selected Pacific island countries (1950-2004)

Country	No. Disasters reported	Total reported losses in 2004 (US\$m)	Average population affected (%)		Average impact on GDP (%)	
			In disaster years	In all years	In disaster years	In all years
Fiji	38	\$1,174.6	10.8	5.1	7.7	2.7
Samoa	12	\$743.4	42.2	6.1	45.6	6.6
Vanuatu	37	\$384.4	15.5	4.5	30.0	4.4
Tonga	16	\$171.1	42.0	5.3	14.2	1.8
Guam	11	\$3,056.3	3.7	0.5	N/a	N/a

Sources: EM-DAT: the OFDA/CRED International Disaster Database for 1950-2004 data, adjusted by SOPAC (2005) for 1994-2005 data. GDP and population estimates from World Development Indicators, IMF and US Census Bureau. All economic data are converted to 2004 values.⁴⁵

41 World Bank, *Not if but when, adapting to natural hazards in the Pacific Islands Region*, A policy note, 2006, p. 1.

42 Food and Agriculture Organization of the UN, *Climate change and food security in Pacific island countries*, Rome, 2008, p. 3.

43 World Bank, *Not if but when, adapting to natural hazards in the Pacific Islands Region*, A policy note, 2006, p. 1.

44 Asian Development Bank, Samoa, Country Information, <http://www.adb.org/Samoa/country-info.asp> (accessed 26 September 2008).

45 Contained in World Bank, *Not if but when: Adapting to natural hazards in the Pacific Islands region, a policy note*, 2006, p. 2.

Recent disasters

3.26 Recent natural disasters include Cyclone Heta in January 2004 and the subsequent drought that ruined Samoa's agriculture.⁴⁶ Only weeks later, the category 3 Cyclone Ivy struck the island chain of Vanuatu causing significant damage to crops and houses. During a month of intense cyclone activity in 2005, the Cook Islands encountered a sequence of tropical cyclones—Cyclone Meena, Cyclone Nancy, Cyclone Olaf and Cyclone Percy.

3.27 On 2 April 2007, an earthquake and tsunami hit Western Solomon Islands affecting 36,500 people, with 52 people confirmed dead and about 6,300 houses damaged or destroyed across 304 communities.⁴⁷ Cyclone Gene, which hit Fiji in January 2008, damaged agriculture, including sugar, and lowered tourism earnings, causing an estimated \$5 million in damages excluding the cost to rural water supply.⁴⁸ In December 2008, tens of thousands of people along the northern coast of PNG were displaced by a combination of king tides, high seas and two tropical depressions in the Pacific.⁴⁹ A month later, parts of Fiji were inundated by flood water causing extensive damage. According to Mr Francis Youn, Australia Fiji Business Council, Fiji suffered 'a \$100 million hit' on its economy from these floods.⁵⁰ More recently, the tsunami that struck Samoa and Tonga claimed over 140 lives, injured many more and devastated villages along the south-east coast of Samoa, destroying 20 of them completely.⁵¹

Climate change

3.28 In 1994, the Global Conference on the Sustainable Development of Small Island Developing States raised the alarm about the particular vulnerability of Pacific island countries in the face of climate variability and sea level rise. It noted:

As their population, agricultural land and infrastructure tend to be concentrated in the coastal zone, any rise in sea level will have significant

46 The Pacific Islands Forum Secretariat noted that the reconstruction costs after this cyclone hit Niue were estimated at over NZ\$20 million which was more than double its GDP in 2000. *Submission 69*, p. 16.

47 Queensland Government, Environment Protection Agency, 'Fact Sheet Solomon Islands tsunami', updated 16 May 2007; and AusAID, Solomon Islands, <http://www.ausaid.gov.au/country/country.cfm?CountryID=16&Region=SouthPacific> (accessed 6 January 2009).

48 Asian Development Bank, *Asian Development Outlook 2008*, p. 237. Also Pacific Islands Forum Secretariat, *Submission 69*, p. 16.

49 UN Office for the Coordination of Humanitarian Affairs, Regional Office for Asia and the Pacific, 'Papua New Guinea: Tens of thousands displaced by coastal flooding', *Humanitarian News*, 12 December 2008.

50 *Committee Hansard*, 25 March 2009, p. 57.

51 UN News service, 'Over 3,000 Samoans left homeless by deadly Pacific tsunami', <http://www.un.org/apps/news/printnews.asp?nid=32443> (accessed 8 October 2009).

and profound effects on their economies and living conditions; the very survival of certain low-lying countries will be threatened.⁵²

3.29 Since that time, numerous other studies have continued to highlight the danger posed to the economies of Pacific island countries by rising sea levels. Dr Ben Saul, Director, Sydney Centre for International Law, informed the committee that:

Shoreline erosion, coastal flooding, increasing salinity and the vulnerability of small islands to rising sea levels and increased severe weather events compromise their continued habitability, impacting upon agricultural viability, vital infrastructure and services, tourism (including coral reefs), the stability of governance, and human settlement.⁵³

3.30 Along similar lines, the CSIRO advised the committee that:

Pacific island nations are likely to experience particularly negative climate change consequences with considerable economic impact. Likely impacts include temperature rise, rainfall decline, more extreme weather events, water resource stress (especially for small islands dependent on freshwater lenses), fishery and marine damage, and agricultural pressure.⁵⁴

3.31 The small coral islands, especially the atoll states (Cook Islands, Kiribati, Tuvalu, Federated States of Micronesia, the Marshall Islands, Niue and Nauru), are particularly susceptible to changes in sea levels.⁵⁵ In 2000, a major ministerial conference found that these island states are among the most vulnerable places on Earth to the adverse impacts of climate change and sea level rise.⁵⁶ Higher sea levels already threaten Tuvalu's underground water table. According to Dr Saul, whole-nation displacement is imminent for Kiribati and Tuvalu, largely as a result of rising sea levels.⁵⁷

52 See UN General Assembly, 'Report of the Global Conference on Sustainable Development of Small Island Developing States', Bridgetown, Barbados, 25 April–6 May 1994, A/CONF.167/9, October 1994, p. 9, <http://www.un.org/documents/ga/conf167/aconf167-9.htm> (accessed 20 October 2008).

53 *Submission 1*, p. 4.

54 *Submission 50*, p. 3.

55 Ministerial Conference on Environment and Development in Asia and the Pacific 2000, 'Review of the state of the environment of the Pacific Islands', Kitakyushu, Japan 31 August–5 September 2000. See also Asian Development Bank, *Asian Development Outlook 2008*, p. 248. See also Pacific Islands Forum Secretariat, *Submission 69*, p. 3 which stated that the 'very existence of several atoll economies is threatened by higher sea levels'.

56 Ministerial Conference on Environment and Development in Asia and the Pacific 2000, 'Review of the state of the environment of the Pacific Islands', Kitakyushu, Japan 31 August–5 September 2000. See also, P.P. Wong, E. Marone, P. Lana, M. Fortes, D. Moro, J. Agard and L. Vicente, 'Island systems' in R. Hassan, R. Scholes and N. Ash, editors, 'Ecosystems and Human Well-Being: Current State and Trends: Findings of the Condition and Trends Group' *The Millennium Ecosystem Assessment*, Vol. 1, Washington, D.C., Island Press, 2005, p. 675.

57 *Submission 1*, p. 4.

3.32 In October 2007, Mr Ludwig Scotty, President of Nauru, stated that climate change was 'a daunting and overwhelming threat to the economic, environmental and social well being of island communities'.⁵⁸ As noted by the Department of Climate Change, the likely effects of climate change have 'the potential to exacerbate existing challenges in Pacific Island countries particularly in pursuit of sustainable development'.⁵⁹

Overcoming impediments to economic growth

3.33 Pacific island countries face a number of distinct disadvantages in developing their economies—small populations and land mass, limited natural resources, remoteness, including distance from major markets and suppliers, and exposure to natural disasters. These inherent physical and geographical limitations cannot be changed and often produce conditions or circumstances that inhibit the ability of Pacific island countries to develop their economies. These include:

- domestic markets with little potential to achieve economies of scale in both the production and delivery of goods and services—higher per capita costs of production;
- limited human resources from which to build capacity in key economic sectors—air controllers, engineers, scientists, trade negotiators, public servants, skilled trades people;
- limited range of natural resources and a high dependence on subsistence agriculture and fishing, leading to a concentration in exports and reliance on imports especially of strategic products such as energy and staple foods, leaving Pacific island countries exposed to the vagaries of the global market
 - even Pacific island countries richly endowed with mineral resources and fertile soils have a narrow export base dominated by primary products, again highlighting the problem of susceptibility to external market fluctuations and natural disasters;
- difficulty diversifying into areas such as manufacturing;
- a small presence on the global stage—Pacific island countries are competing against states that are larger, have much greater political and economic clout and are better resourced; their low bargaining position and higher fixed costs of production places them at a distinct disadvantage when compared to more developed states, closer to major markets;
- additional costs and barriers to delivering goods and services to distant markets that undermine competitiveness in global markets; and

58 Statement on climate change, delivered on behalf of the Pacific Islands Forum by His Excellency Mr Ludwig Scotty, MP, President of the Republic of Nauru, Post Forum Dialogue Plenary, Nuku'alofa, Tonga, 18 October 2007.

59 *Submission 71*, p. 2.

- damage to the economy from natural disasters (particularly cyclones) and the effects of climate change.

3.34 The constraining factors of size, limited natural resources, isolation and natural disasters are beyond the control of Pacific island countries. The circumstances that flow from these structural impediments, however, are not fixed. Thus, although difficult, it may be possible for Pacific island countries to diversify their production base, expand their export markets, minimise dependency on imports, build human capacity and become more resilient to the damaging effects of natural disasters.⁶⁰ Indeed, a number of submitters pointed to the poor or lacklustre economic performance of Pacific island countries and suggested that they are not fulfilling their potential. For example, Treasury noted that some Pacific island countries have mineral resources and fishing resources and that there are opportunities for growth in tourism, agriculture and human capital.⁶¹ It noted that the issue is how to 'unlock that potential'.⁶²

3.35 AusAID was also of the view that Pacific island countries have economic opportunities which, 'if exploited responsibly and with a long-term view and the support of the international community, can lead to increased growth and better development outcomes'.⁶³ The Pacific Islands Forum Secretariat also noted that 'faster economic growth is possible in the region'.⁶⁴ The Hon Natan Teewe MP, Kiribati, told an IMF gathering that to achieve economic growth, Pacific island countries 'have to take advantage of our disadvantages'.⁶⁵

3.36 For example, education is vital to unlocking the region's economic potential and is a factor over which Pacific island countries have control. At the moment, however, the low level of educational attainment is retarding economic growth not promoting it. This matter is considered in chapter 10.

Conclusion

3.37 At this stage of the report, the committee has considered the major structural challenges facing Pacific island countries, such as their size, remoteness and

60 UN Economic and Social Commission for Asia and the Pacific, *Economic and Social Survey of Asia and the Pacific 2008: sustaining growth and sharing prosperity*, http://www.unescap.org/survey2008/download/01_Survey_2008.pdf (accessed 1 October 2008), p. 74.

61 *Committee Hansard*, 20 November 2008, pp. 4–5.

62 *Committee Hansard*, 20 November 2008, p. 5.

63 *Submission 65*, p. 2.

64 *Submission 69*, p. 2.

65 IMF, Statement by the Hon. Natan Teewe, MP, Governor of the Fund and the Bank for Kiribati, on behalf of the Federated States of Micronesia, Kiribati, Marshall Islands, Samoa, Solomon Islands and Vanuatu, at the Joint Annual Discussion, Press Release no. 31, 13 October 2008.

susceptibility to natural disasters. These characteristics cannot be changed but they may be managed in ways that ameliorate adverse consequences for their economies. The committee in the following part of the report considers measures that Pacific island countries are taking, and could take, to improve their economic performance in the face of these physical and structural impediments. It also looks at the assistance that Australia provides to the region.

Part II

Sustainable development and commercial opportunities

Although Pacific island countries cannot change the physical circumstances of their size, natural resources, remoteness and susceptibility to natural disasters, they can make themselves more resilient to the adverse effects that often flow from these inherent impediments. In order to achieve and sustain economic growth, they must find ways to make better use of their natural resources, develop their skill base, keep the costs of production to a minimum, attract investment, expand their overseas markets, and moderate the devastating effects of cyclones, floods, droughts and other weather extremes.

In Part II of this report, the committee examines the ways in which Pacific island countries are taking 'advantage of their disadvantages'.

The committee starts by examining the responses of Pacific island countries to the main challenges they face in ensuring that their natural resources are managed effectively and competently. The emphasis is on food security, sustainable development and unlocking economic potential. It considers the measures taken by Pacific island countries to develop and, at the same time, protect their natural resources. The committee looks at agriculture, fisheries, forestry and mining including the policies and practices that affect sustainable development and economic growth. It also considers the growing concerns about the effects of climate change on the livelihoods of the people of the Pacific island countries.

The committee then turns to broader management issues. Its main focus is on the economic and financial management in Pacific island countries, and the role of government and its institutions in providing and delivering services essential to economic growth. The key areas under consideration are economic infrastructure, education, training and employment, governance, the regulatory environment for business, land tenure and access to finance.

Alongside this examination, the committee outlines the measures that Australia is taking to assist Pacific island countries address their economic and development problems.

Chapter 4

Food security—agriculture and fisheries

4.1 In Pacific island countries most people live and work in rural areas and depend heavily on produce from the land and sea for their livelihood.¹ Thus, agriculture, fisheries and forestry form the basis of the economies of the Pacific island countries and are likely to continue to do so for the foreseeable future.² Allowing for variation between the countries, approximately 80 per cent of employment is generated by these three key activities.³ The committee starts its analysis of how Pacific island countries are meeting their economic challenges with a general discussion on food security and sustainable development. In this chapter, the committee focuses on agriculture and fisheries as key economic sectors.

Food security

4.2 Although subsistence production dominates the economic life of people in Pacific island countries, they have become 'increasingly reliant on imported staples such as rice, flour and noodles'.⁴ The rise of food prices during 2008 heightened concerns about food security in the region. In this regard, a paper prepared by the Secretariat of the Pacific Community (SPC) observed that generally Pacific island countries and territories had managed to achieve food availability except during major natural disasters. It noted, however, that the situation was changing, with several

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- 1 Treasury, *Committee Hansard*, 20 November 2008, p. 10; Dr Patricia Randal, *Committee Hansard*, 25 March 2009, p. 7; DEEWR, *Submission 64*, pp. 6–7; Dr Simon Hearn, ACIAR, *Committee Hansard*, 20 November 2008, p. 38. See also Foundation for Development Cooperation, *Submission 53*, p. 5 and Asian Development Bank, *Skilling the Pacific: Technical and Vocational Education and Training*, Executive Summary, 2008, p. 8.
 - 2 See for example, Australian Centre for Agricultural Research, ACIAR, *Country Profiles 2008–09, Pacific Islands*, p. 10. See also ACIAR, which stated in its submission that many small holders live in isolated rural communities dependent on household food production and intermittent crop, fish and small livestock sales. *Submission 67*, p. 8.
 - 3 See for example, Dr Simon Hearn, Australian Centre for International Agricultural Research, *Committee Hansard*, 20 November 2008, p. 38; and DAFF, *Submission 42*, pp. 4–5. DAFF informed the committee that agriculture, fisheries and forestry based industries support up to 85 per cent of the Pacific region's population and provide an important contribution to Pacific island economic activity. See also Professor Clive Moore, *Committee Hansard*, 26 March 2009, p. 9.
 - 4 See for example Secretariat of the Pacific Community, Statement by the Secretariat of the Pacific Community on behalf of Pacific Island Countries and Territories at the UN-sponsored World Food Summit 08, Rome, 4 June 2008, http://www.spc.int/corp/index.php?option=com_content&task=view&id=236&Itemid=1 (accessed 16 January 2009). See also the 2008 Solomon Islands people's survey, which found that the consumption of imported foods appeared to be quite widespread amongst the participants and their families though they did remark on its high cost. ANU Enterprise, *People's survey 2008*, Final report, p. 13.

island countries becoming net importers of food. The Secretariat attributed this trend in part 'to the stagnation of agricultural productivity and coastal fisheries production as a result of declining investment of these sectors'.⁵ In its assessment, agricultural productivity and coastal fisheries production were not keeping pace with rapid population growth.⁶ Based on a study of nine Pacific island countries, the Secretariat found:

...if the value of food imports grows in line with expected population growth, these countries will collectively be spending an additional US\$120 million on food imports by 2030. Financing such expenditure will, for example, require a 79% increase in agriculture, forestry and fisheries export earnings in Vanuatu, and a 10% increase in remittances in Samoa.⁷

4.3 At the 2008 UN-sponsored World Food Summit, the Secretariat highlighted the need for Pacific island governments and donors 'to reverse the declining investment in the agricultural sector and recognise the role it plays in safeguarding food security in the face of volatile global food prices'. It noted, however, that the current crisis also presents the region with an opportunity:

Many Pacific Islands are blessed with a rich diversity of traditional staples such as taro, cassava, sweet potatoes, breadfruit and yams which are not as important in global trade as some of the imported commodities on which we've come to rely. Increased production of these local foods could help to limit the impact of rising prices.⁸

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- 5 Secretariat of the Pacific Community, Paper presented by the Secretariat, 'Agenda item 3.1: Food security in the Pacific', Thirty-eighth meeting of the committee of representatives of governments and administrations, Noumea, New Caledonia, 13–16 October 2008, paragraph 4.
- 6 Secretariat of the Pacific Community, Paper presented by the Secretariat, 'Agenda item 3.1: Food security in the Pacific', Thirty-eighth meeting of the committee of representatives of governments and administrations, Noumea, New Caledonia, 13–16 October 2008; Regional Policy Agenda. At the 2008 UN sponsored World Food Summit, the Secretariat noted the growing dependence of Pacific Islanders on imported staples which was 'especially true for atolls where limited land, water and poor soils make it difficult to grow much beyond breadfruit, taro and coconuts'. Secretariat of the Pacific Community, Statement by the Secretariat of the Pacific Community at the World Food Summit 08, Rome.
- 7 Secretariat of the Pacific Community, Paper presented by the Secretariat, 'Agenda item 3.1: Food security in the Pacific', Thirty-eighth meeting of the committee of representatives of governments and administrations, Noumea, New Caledonia, 13–16 October 2008, paragraph 37. The countries were Cook Islands, Fiji, Federated States of Micronesia, Kiribati, Palau, Samoa, Tonga, Tuvalu and Vanuatu. In 2007, Solomon Islands and Vanuatu had population growth rates of 2.4 per cent, PNG grew at 2.1 per cent and Kiribati at 1.6 per cent. The population growth rates for Fiji (0.6), Tonga (0.5) and Tuvalu (0.4) were below the Pacific and the World average which stood at 1.2 per cent for 2007.
- 8 Statement by the Secretariat of the Pacific Community on Behalf of Pacific Island Countries and territories at the UN-sponsored World Food Summit, http://www.spc.int/corp/index.php?option=com_content&task=view&id=236&Itemid=1 (accessed 16 January 2009).

4.4 According to AusAID's 2009 Pacific economic survey, however, agricultural productivity in Pacific island countries has 'stagnated for the last 45 years'.⁹ It should be noted that, at the moment, while poor nutrition and malnutrition are problems in some Pacific island countries, starvation is not. For example, AusAID informed the committee that there are some very poor communities in PNG where child malnutrition occurs but that protein malnutrition was not such a concern for Pacific islands communities with ready access to fish.¹⁰ The Prime Minister of PNG also noted that no-one is starving in the traditional villages of PNG where people help each other. He noted though that there might be one or two in Port Moresby—'kids who come to look for opportunities for education and health, when they miss out, then they of course roam the streets'.¹¹

4.5 Some island countries are responding to the threat of food insecurity in the region 'by calling on people to grow more local foods'.¹² The Government of Tonga has stated that, given its natural resources, its main challenge is to be 'more self-reliant and self-sufficient'. It is looking to boost agricultural production and 'has prioritized the development of the agricultural sector to maintain adequate rural living standards, provide food security, generate export earnings, and reduce dependence on food imports'.¹³ President Manny Mori of the Federated States of Micronesia was quoted at the 2008 World Food Summit:

...for too long our children have been fed on rice as staple food because of the convenience of preparation and storage. We have neglected our responsibility and even contributed to their lower health standards by failing to teach them to appreciate the natural food and bounty of our islands.¹⁴

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- 9 Commonwealth of Australia, *09 Pacific Economic Survey: engaging with the world*, AusAID, Canberra, September 2009, p. 97.
- 10 *Committee Hansard*, 12 March 2009, pp. 32–33.
- 11 Prime Minister of Australia, Interview, Joint Press Conference with the Right Honourable Grand Chief Sir Michael Somare, Prime Minister of Papua New Guinea, Parliament House, 28 April 2009, http://www.pm.gov.au/media/interview/2009/interview_0936.cfm or <http://www.pm.gov.au/node/5207> (accessed 5 May 2009).
- 12 Statement by the Secretariat of the Pacific Community on Behalf of Pacific Island Countries and territories at the UN-sponsored World Food Summit, http://www.spc.int/corp/index.php?option=com_content&task=view&id=236&Itemid=1 (accessed 16 January 2009).
- 13 Asian Development Bank, *Tonga: Outer Islands Agriculture Development Project*, Operations Evaluation Department, July 2006, Executive Summary and p. 3. Prime Minister's Statement at the UN Assembly, Friday, 26 September 2008, <http://www.pmo.gov.to/media-mainmenu-82/speeches-mainmenu-84/english-mainmenu-95/275.html?task=view> (accessed 20 February 2009).
- 14 Statement by the Secretariat of the Pacific Community on Behalf of Pacific Island Countries and territories at the UN-sponsored World Food Summit, http://www.spc.int/corp/index.php?option=com_content&task=view&id=236&Itemid=1 (accessed 16 January 2009).

4.6 He noted that Fiji had 'just launched a "Plant Five a Day" campaign in an effort to encourage more people to plant in their gardens'.¹⁵ Other Pacific island countries are also introducing various incentives to encourage greater local production. Nauru has included agriculture in its school curriculum to promote farming and food production skills among the younger people, and Vanuatu has an agricultural school, partly funded with donor assistance, aimed to attract school leavers to farming.

Sustainable development

4.7 At a time when Pacific Islanders are being encouraged to increase their agricultural productivity, concerns are mounting about sustainable development. This issue cuts across all sectors involving land and water use.

4.8 For many years, a considerable number of studies, conferences and workshops have pointed to a range of environmental, demographic, socio-cultural, and land practices that are putting additional strain on the already existing vulnerability of these island states and the rich biodiversity of the region.¹⁶ They have noted that the fragile terrestrial, coastal and marine environments upon which most island people rely were increasingly under threat from unsustainable harvesting and land use practices, increasing populations, resource exploitation, pollution and climate change.¹⁷

4.9 CSIRO informed the committee that over exploitation of natural resources, such as fishing, groundwater and forestry, was undermining the economic viability of many Pacific island countries to operate as nation states.¹⁸ It stated that in PNG:

At the local level, environmental degradation and biodiversity loss have the largest impact on the poorest members of the community who may rely on these natural assets for subsistence harvesting (food, firewood), storm protection, etc.¹⁹

15 Statement by the Secretariat of the Pacific Community on Behalf of Pacific Island Countries and territories at the UN-sponsored World Food Summit, http://www.spc.int/corp/index.php?option=com_content&task=view&id=236&Itemid=1 (accessed 16 January 2009).

16 See for example, UN Global Conference on the Sustainable Development of Small Island Developing States, 'Report of the Global Conference on the Sustainable Development of Small Island Developing States', Bridgetown, Barbados, 25 April–6 May 1994, A/CONF.167/9, October 1994, <http://www.un.org/documents/ga/conf167/aconf167-9.htm> (accessed 20 October 2008). UN Development System, Fiji and Samoa, *United Nations Development Assistance Framework for the Pacific Subregion 2008–2012*, May 2007, p. 6.

17 UN Development System, Fiji and Samoa, *UN Development Assistance Framework for the Pacific Subregion, 2008–12*, May 2007, pp. 6 and 17. *Pacific 2020* noted, 'The environments on which so many Pacific island people depend are arguably being degraded. They are certainly being managed in ways that cannot be sustained, creating significant negative impacts for present and future generations'. AusAID, *Pacific 2020, Background Paper: Forestry*, January 2006, p. 4, http://www.ausaid.gov.au/publications/pdf/background_forestry.pdf (accessed 2 December 2008).

18 *Submission 50*, p. 5.

19 *Submission 50*, p. 6.

4.10 These risks to a long-term sustainable and productive agricultural sector require Pacific island countries to rethink and adapt to the challenges that have emerged over recent years. Thus, research and development is critical to finding solutions to the problems created by rising food prices, growing populations, land use practices and changes to climate. For example, at the 2008 meeting of the Heads of Agriculture and Forestry Services, Fiji reported that strengthening breadfruit production depended on 'increased access and availability to more varieties to enable year-round supply'. Also at this meeting, Kiribati noted the importance of adaptation measures, including the need for climate resilient planting materials and livestock breeds; Niue highlighted the need to 'lift conservation and management efforts'; and Tuvalu noted the promotion of crop varieties more tolerant to salt and drought.²⁰ Several Pacific island countries mentioned the need for improved education facilities at both school and tertiary level. For example, Niue stated that there was an urgent need for training under the Paravet programme'.²¹ Fiji argued that agricultural sciences 'should be incorporated into school curricula at the primary and secondary level'.²² Some countries also suggested that technical assistance was required to help the community 'accept and adjust to the need for more local food production'.²³

Research and development for increased productivity and food security

4.11 A number of countries at this 2008 meeting noted that efforts should be made to develop better ways of getting information to farmers. PNG stated that 'improved extension, education and awareness programmes to promote local food production were essential'.²⁴ Fiji's Minister for Primary Industry and Sugar told graduates from the Fiji College of Agriculture that:

In order to ensure that the benefits of these technologies are felt across the farming communities, efforts must be made to increase the familiarity with

20 *Report of the 3rd Regional Meeting of Heads of Agriculture and Forestry Services (HOAFS)*, 3–5 September 2008.

21 *Report of the 3rd Regional Meeting of Heads of Agriculture and Forestry Services (HOAFS)*, 3–5 September 2008, p. 26. This project is a joint effort of the SPC, Agricultural Development in the American Pacific (ADAP) and the University of the South Pacific (USP). A paravet is not a qualified veterinarian. He or she looks after sick animals and where appropriate either treats the animal or refers the animal to a veterinarian, provides advice to members of the community on animal production and health issues, visits farmers and advises members of the community on how to improve animal productivity, and carries out surveillance for the introduction of exotic diseases. Secretariat of the Pacific Community website: <http://www.spc.int/rahs/Projects/paravet1E.htm#definition>.

22 *Report of the 3rd Regional Meeting of Heads of Agriculture and Forestry Services (HOAFS)*, 3–5 September 2008, p. 26.

23 *Report of the 3rd Regional Meeting of Heads of Agriculture and Forestry Services (HOAFS)*, 3–5 September 2008, p. 26.

24 *Report of the 3rd Regional Meeting of Heads of Agriculture and Forestry Services (HOAFS)*, 3–5 September 2008, p. 27.

these technologies that even the smallest farms can use them. Agricultural training has potential to improve traditional agriculture methods as well.²⁵

4.12 The Australian Centre for International Agricultural Research (ACIAR) also recognised that research is urgently needed into more effective ways to achieve a broader adoption of the results of research and development (R&D). Dr Simon Hearn, ACIAR, argued that the challenge was to get better technology to smallholders where there is 'tremendous latent potential to increase yields'. He was of the view, however, that extension services in some of the countries 'have become rather the second cousins of the system'.²⁶ For example, few of the participants in the 2008 Solomon Islands people's survey reported visits by agricultural extension officers.²⁷ Cook Islands, Niue and Kiribati have publicly acknowledged the value of the community-based approach used by the SPC's Development of Sustainable Agriculture in the Pacific.²⁸ Kiribati noted that one of its strengths was 'the direct involvement of farmers, women and youth'.²⁹

Committee view

4.13 Clearly, while research and education in sustainable development is a high priority for Pacific island countries, this alone is not sufficient to boost the agricultural production in the region. The knowledge and know-how gained in the classroom or laboratory must be conveyed to, and adopted by, farmers on the ground. The linkages between research, education and extension are vital to ensuring that Pacific island countries build the capacity in individuals and communities to better care for their land, manage sustainable production and increase their productivity. Any research project designed to assist Pacific island countries improve their agricultural productivity and sustainable development should contain a clear path from research and development to producers working smaller farms.

Fisheries

4.14 Evidence presented to the committee also highlighted the central importance of the fishing industry to food security in the Pacific and of threats to its sustainability. Because of their location and small land mass, Pacific island countries are effectively

25 Fiji Government Online, J Cokanasiga, Minister for Primary Industry and Sugar, 'Remarks at the Fiji College of Agriculture', 10 December 2008, http://www.fiji.gov.fj/publish/printer_13707.shtml (accessed 16 January 2009).

26 *Committee Hansard*, 20 November 2008, pp. 41 and 44.

27 ANU Enterprise, *People's survey 2008*, Final report, p. 13.

28 The Development of Sustainable Agriculture in the Pacific project is an important part of the Secretariat of the Pacific Community Agriculture and Forestry Programme. The project has a strong focus on extension and is intended to improve the promotion and dissemination of information to the farming community. It uses a participatory approach with farmers and rural communities to identify and adopt technologies. See website, for example, http://www.spc.int/dsap/about_dsap.htm.

29 *Second Regional Conference of Ministers of Agriculture and Forestry*, 8–9 September 2008, Apia, Samoa, p. 11 and *Report of the 3rd Regional Meeting of Heads of Agriculture and Forestry Services (HOAFS)*, 3–5 September 2008, p. 24.

coastal entities. With their population and economic activities concentrated in the coastal zone, Pacific island countries depend largely on coastal and marine resources for sustainable development. A study by the Secretariat of the Pacific Community found that fish accounts for 70–90 per cent of total animal protein intake in Pacific island countries. Most of this fish comes from subsistence fishing. It noted further that the use of fish for food security is critical because the 'total population of the Pacific will increase by almost 50% by 2030'. The study concluded:

The challenge for national planners is to ensure that growing populations continue to have physical, social and economic access to the fish they need. In rural areas, access to fish needs to be made available in ways that enable households to catch or produce it for themselves. In urban centres, it needs to be supplied at affordable prices.³⁰

4.15 For many years, however, international bodies have recognised the difficulties facing Pacific island countries in managing their fisheries sector and in achieving ecologically and economically sustainable use of coastal and marine resources.

Coastal fisheries

4.16 Pacific island countries gain significant economic and nutritional benefit from subsistence coastal fishery resources. According to estimates, over 80 per cent of all coastal catch is consumed in the subsistence sector, particularly in rural areas, of some Pacific small island developing states.³¹ But the health of these marine habitats is at risk from pollution, over-exploitation, conflicts between competing resource users and the effects of natural hazards and extreme weather events.³² Recently, the UN's Commission on Sustainable Development noted that exports of marine products from coastal areas had increased and that:

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- 30 Secretariat of the Pacific Community, Paper prepared by the Secretariat in collaboration with FFA, 'Agenda item 4: The future of Pacific fisheries—planning & managing for economic growth, food security and sustainable livelihoods, Fifth Conference of the Pacific Community, Apia, Samoa, 12–13 November 2007, Executive summary, paragraphs 5 and 6.
- 31 UN Economic and Social Council Commission on Sustainable Development, 'Integrated review of the thematic cluster of agriculture, rural development, land, drought, desertification and Africa in Small Island Developing States', Report of the Secretary-General, E/CN.17/2008/9, 5–16 May 2008, paragraphs 37–38.
- 32 UN General Assembly, 'Report of the Global Conference on Sustainable Development of Small Island Developing States', Bridgetown, Barbados, 25 April–6 May 1994, A/CONF.167/9, October 1994, p. 17, <http://www.un.org/documents/ga/conf167/aconf167-9.htm> (accessed 20 October 2008).

The sustainable management of fisheries has thus become increasingly urgent, as the demand for both subsistence and commercial fishery products have raised the incidence of overfishing.³³

4.17 DFAT raised similar concerns about the heavy dependence on coastal fishing resources for subsistence food and the diminishing stocks in many areas due to human population growth and unsustainable fishing practices. It also highlighted the increasing importance of the sustainable management of traditional fisheries resources 'given the global rise in food prices and increased cost of imported non-traditional foods'.³⁴ A 2007 ACIAR project recognised that 'managing the pressures on coastal reef fisheries was a challenge for local communities, who have relatively few tools and traditions to reconcile the limited resources with the increasing demand for them'.³⁵ Mr Barney Smith, ACIAR, said that despite the importance of these fisheries, 'the governance services in terms of understanding and managing fisheries on coastal inshore resources is relatively weak'.³⁶

4.18 With regard to aquaculture, ACIAR was of the view that the Pacific island countries with their large, clean and sheltered areas of seawater and high biodiversity were 'ideally suited to a range of aquaculture activities'. It stated, however, that aquaculture in the Pacific had been 'dogged by low production levels and few success stories'.³⁷

4.19 Although critical to the informal economy of many Pacific island countries, coastal fishing did not figure prominently in evidence presented to the committee. Most of the evidence centred on large-scale commercial fishing. The committee is of the view, however, that the attention given to ocean fishing should not overshadow the importance of the smaller commercial and subsistence fishing activities in the coastal areas of the region. Pacific island countries would benefit from assistance in both research and development and in raising awareness of how better to manage these resources.

33 UN Economic and Social Council Commission on Sustainable Development, 'Integrated review of the thematic cluster of agriculture, rural development, land, drought, desertification and Africa in Small Island Developing States', Report of the Secretary-General, E/CN.17/2008/9, 5–16 May 2008, paragraphs 37–38. An OECD Policy Brief noted that 'valuable fish stocks in many coastal areas of the developing world are severely threatened by over-fishing and weak regulatory environments', OECD, 'Fisheries: Improving Policy Coherence for Development', *Policy Brief*, September 2008, p. 2.

34 *Submission 68*, p. 10.

35 ACIAR Project FIS/2007/116, 'Improving resilience and adaptive capacity of fisheries-dependent communities in Solomon Islands', <http://www.aciar.gov.au/project/FIS/2007/116> (accessed 30 April 2009).

36 *Committee Hansard*, 20 November 2008, p. 47.

37 ACIAR, 'Sustainable aquaculture development in Pacific Islands region and northern Australia' Project ID: FIS/2001/075 <http://www.aciar.gov.au/project/FIS/2001/075> (accessed 1 July 2009).

Commercial fisheries

4.20 Ocean fishing is also an important food source for Pacific island countries. But the opportunities to meet the food security needs for many Pacific island countries depends on the long-term sustainable management of ocean fisheries resources in the region.³⁸ DAFF underscored this point. It stated that 'Support for the sustainable development of fisheries resources and preventing the overfishing of stocks in the western and central Pacific Ocean is crucial for the viability of Pacific island countries as sovereign states'.³⁹ A number of international organisations, however, have expressed concern about the failure to protect marine stocks to sustainable levels and the poor management of fisheries which threaten the viability of the industry.⁴⁰ ACIAR noted that 'ineffective policy implementation is seen as a significant impediment to development and progress'.⁴¹

Over exploitation

4.21 DFAT informed the committee of evidence indicating that 'serious overfishing of the two major commercial tuna stocks (bigeye and yellowfin) may place these at a serious risk of collapse within 3–5 years if corrective action is not taken'.⁴² Mr John Kalish, DAFF, emphasised the seriousness of this assessment:

Essentially, if the rate of overfishing continues at this current rate then the stock will move to a state where it may actually move into a declining phase.⁴³

Such assessments are based on a solid body of research.⁴⁴

4.22 The migratory nature of the fish stocks, the immense area covered by fishing activity, the number of countries engaged in the industry and the growing demand for fish from the region complicate the management of Pacific fish stocks.

38 *Submission 42*, p. 11.

39 *Submission 42*, p. 3.

40 See for example, OECD, 'Fisheries: Improving Policy Coherence for development', *Policy Brief*, September 2008, p. 2.

41 Australian Centre for International Agricultural Research Country Profiles 2008–09, Pacific Islands, p. 10.

42 *Submission 68*, p. 10.

43 *Committee Hansard*, 20 November 2008, p. 57.

44 For example, a recent study published by the Australian National Centre for Ocean Resources Security stated clearly that overfishing and overcapacity threaten the sustainability of some of the region's key fish stocks. It noted that such practices pose a direct threat to the economic viability and food security of the Pacific island countries that are heavily dependent on fisheries resources for both revenue and food security, Quentin Hanich, Feleti Teo and Martin Tsamenyi, *Closing the Gaps: Building Capacity in Pacific Fisheries Governance and Institutions*, Australian Centre for Ocean Resources and Security, University of Wollongong, April 2008, p. 23.

Distant Water Fishing Nations

4.23 Despite mounting concerns about the over exploitation of some species of fish in the region, the number of distant water fishing nations (DWFNs) operating in the Southwest Pacific is increasing. Mr Kalish reported that in recent years, new players had entered the industry and members of the European Community had increased their activity in the area. He explained that in the past their predominant fishing grounds had been the Atlantic and the Indian oceans, but that their attention was shifting to the Pacific.⁴⁵ According to Mr Kalish, record catches were reached in 2008—2.4 million tonnes—which was about 200,000 tonnes over the catch in the previous year.⁴⁶ Furthermore, the demand for fish from the region was rising. Mr Kalish noted that 'given the increased competition for fish, particularly high valued fish such as tunas used for sashimi, there is a shortage of supply'. He explained:

Countries like China, which are becoming more affluent, have greater demand for this product, and as a result the north Asian countries, in particular, are not interested in seeing their access to this product reduced...⁴⁷

4.24 Mr Kalish also informed the committee that there are countries interested in tuna for canning, with the region providing about 60 per cent of the world's supply.

4.25 The activities of DWFNs in the Exclusive Economic Zones (EEZ) of the Pacific island countries are regulated by the relevant sovereign state and the Forum Fisheries Agency (FFA).⁴⁸ They must be licensed to fish within those waters and be registered with the FFA. DWFNs must also observe certain monitoring, control and surveillance measures that allow the FFA and the member countries to keep track of their activities, for example, through vessel monitoring systems.

4.26 Mr Kalish drew attention to the tension between the aspirations of the Pacific island countries, which need to be protected, and those of countries seeking access to fish in the region.⁴⁹ He informed the committee that there had been 'very heated debate and intercessional workshops that have sought to identify compromise positions that would be amenable to the different sectors that fish in the western South Pacific'.⁵⁰

45 *Committee Hansard*, 20 November 2008, p. 65.

46 *Committee Hansard*, 20 November 2008, p. 58.

47 *Committee Hansard*, 20 November 2008, p. 59.

48 Under the law of the sea, an EEZ is the area of sea over which a state exercises its sovereign rights covering the exploration, exploitation, conservation and management of its natural resources. Generally this zone extends to a distance of 200 nautical miles (370 km) out from its coast. Articles 55, 56 and 57, UN Convention on the Law of the Sea.

49 *Committee Hansard*, 20 November 2008, p. 59.

50 *Committee Hansard*, 20 November 2008, p. 59.

Illegal activities

4.27 Pacific island countries are scattered over a large geographic area and encompass a vast maritime EEZ. Thus, the fishing industry in particular presents enormous difficulties for Pacific island countries struggling to monitor unauthorised activities in their broad expanses of water. An OECD Policy Brief noted that in spite of efforts to combat illegal, unreported and unregulated fishing, such activities remain widespread.⁵¹ In its submission, DFAT contended that the landed value of fish taken from the region is vastly under-reported, with poaching estimated at 40 per cent.⁵² Mr Kalish said:

The exact magnitude of the problem would be difficult to quantify. One of the problems that we have is determining whether a vessel is reporting accurately as to whether its fishing activity is taking place in an exclusive economic zone or on the high seas...to a large extent many of the problems are due to inadequate management of the current catch levels.⁵³

4.28 For example, he explained that there were instances where vessels that have not applied for access, 'have gone into exclusive economic zones and vessels that have access have extended their stay'.⁵⁴ The requirement to monitor and police their EEZ is a key economic challenge for Pacific island countries. Brigadier Andrew Nikolić, Department of Defence, informed the committee that Pacific island countries:

...lack the capacity to effectively protect their EEZ resources from illegal fishing and to monitor their maritime boundaries against threats like smuggling without substantial help from outside.⁵⁵

4.29 DFAT also referred to the difficulties Pacific island countries face in policing and prosecuting the illegal and under-reported fishing occurring in their EEZs.⁵⁶

51 OECD, 'Fisheries: Improving Policy Coherence for development', *Policy Brief*, September 2008, p. 2.

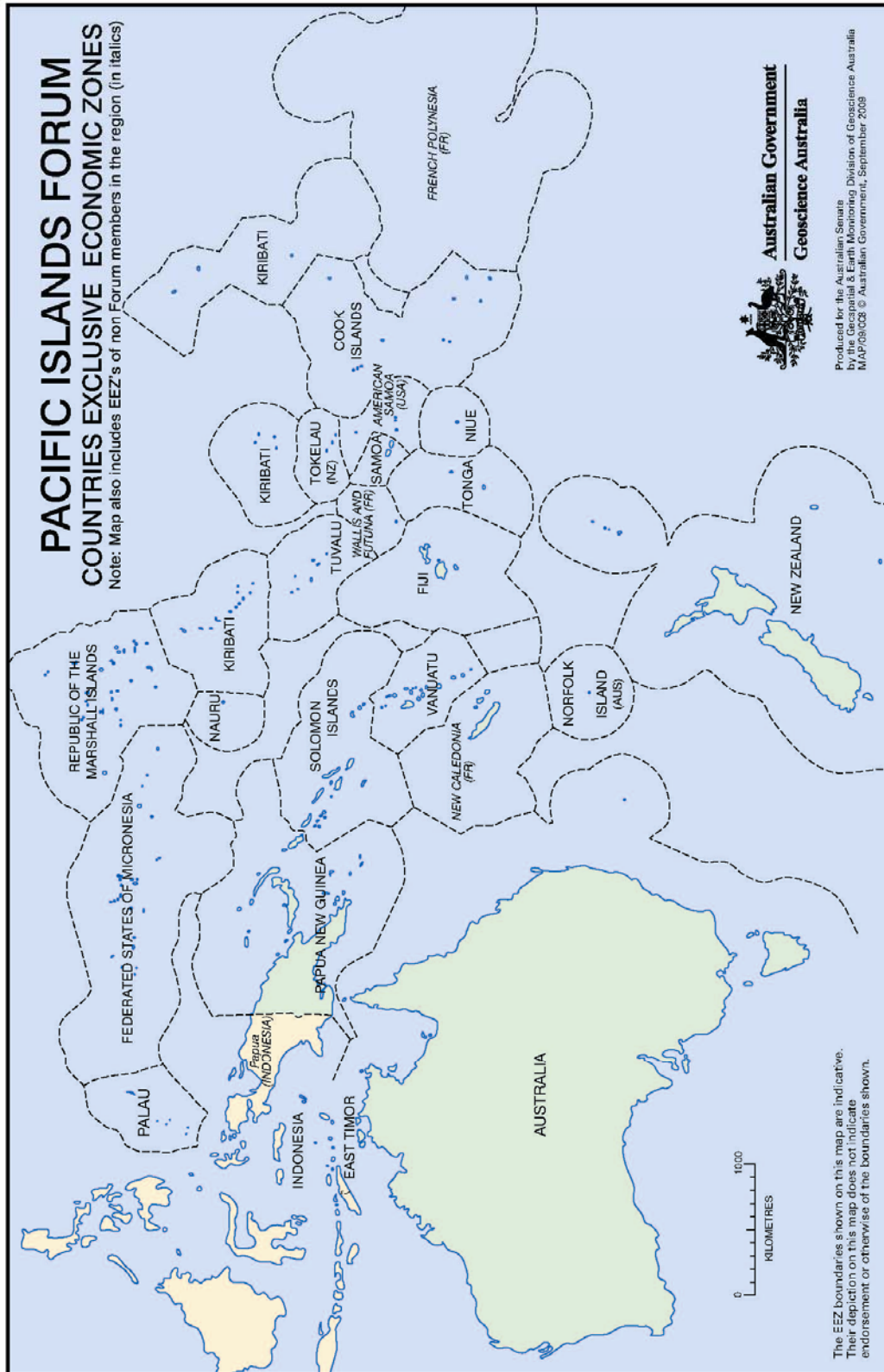
52 *Submission 68*, pp. 10 and 15.

53 *Committee Hansard*, 20 November 2008, p. 66.

54 *Committee Hansard*, 20 November 2008, p. 67.

55 *Committee Hansard*, 21 November 2008, p. 86.

56 *Submission 68*, p. 10.



Conservation and management

4.30 A major concern for countries in the region is that fishing activities carried out in breach of agreed arrangements may undermine the sustainability of the industry in the Pacific. Because of the migratory nature of fish and the large areas they traverse, Pacific island countries recognise the value in collaborating to protect their interests effectively. Two major regional organisations figure prominently in overseeing fishing activities in the region. The FFA and the Western and Central Pacific Fisheries Commission (WCPFC) work cooperatively to ensure sustainable fishing in the region. FFA members make up 17 (including Australia and New Zealand) of the 32 participating members and territories in the WCPFC.

4.31 Mr Smith, ACIAR, explained that the WCPFC is a body that can 'begin to address some of the more difficult issues, such as overfishing, by keeping a cap on the total catch and, more importantly, keeping the effort at a level that the stocks can sustain'.⁵⁷ Mr Kalish explained that although there had been some breaches of the cap, the problem was with the cap itself. The agreed limit was established when the fishing capacity and the fishing effort was already too high, so the cap is near the maximum take that has occurred for bigeye tuna.⁵⁸ Thus, although the limits imposed on the size of the catch are generally observed, some fish stocks continue to decline. According to Mr Kalish:

As a body made up of member states it is contingent upon the member states [of WCPFC] to agree to take action to conserve the stocks. Based on the recommendation of the scientific community, over the past three years they have recommended a 25 per cent reduction in fishing mortality for bigeye. This year the scientific committee met in August [2008] and recommended a 30 per cent reduction in fishing mortality.⁵⁹

4.32 Until recently, Pacific island countries as members of the FFA were critical of the lack of progress in achieving concrete results in the conservation and management of fish stocks in the region. In his opening statement to the 2007 December meeting of the WCPFC, the then chair of the Forum Fisheries Committee told the gathering that FFA members felt that 'some members of the Commission have not engaged in the Commission's work to date in the most constructive manner'.⁶⁰ In their view, this behaviour had resulted in delay in advancing towards an effective and robust management and conservation framework, particularly with regard to bigeye and yellowfin tuna.⁶¹ Overall, however, the Pacific Islands Forum Secretariat was of the

57 *Committee Hansard*, 20 November 2008, pp. 46–47.

58 *Committee Hansard*, 20 November 2008, p. 61.

59 *Committee Hansard*, 20 November 2008, p. 59.

60 Western and Central Pacific Fisheries Commission, Fourth Regular Session, 2–7 December 2007, Opening Statement by FCC Chair to the Fourth Session of the WCPFC, WCPFC4–2007/DP28, 5 December 2007.

61 Western and Central Pacific Fisheries Commission, Fourth Regular Session, 2–7 December 2007, Opening Statement by FCC Chair to the Fourth Session of the WCPFC, WCPFC4–2007/DP28, 5 December 2007.

view that much progress had been made in the last year or two on improving the management of fish stocks in the region though a lot of work remained to be done.⁶²

4.33 At its 2008 December meeting, the WCPFC made notable gains with the adoption of a number of proposals supported by the Pacific islands. They included actions to reduce overfishing of bigeye and yellowfin tuna.⁶³ Tonga also enlisted the support of the WCPFC to have a Taiwanese vessel deemed as an illegal, unreported and unregulated vessel. This move was abandoned after Taiwan agreed to pay the fine imposed by Tonga for the breach.⁶⁴

4.34 Despite these positive moves to exert tighter control over the exploitation of fish in the region, the then Chair of the Forum Fisheries Committee recognised that while 'absolute commitment' to management and conservation was required this must be matched by a commitment to implement them.⁶⁵ A study by the Australian National Centre for Ocean Resources and Security observed similarly that:

...regardless of whether the WCPFC is the world's most advanced regional fisheries management organisation (RFMO), it all comes to nought if members do not 'own' its outcomes and are not engaged in its deliberations.⁶⁶

4.35 Thus, to protect their fishing interests, it is important for Pacific island countries to have a decisive voice in the WCPFC and to secure the support of all its members.

Capacity to engage in regional organisations and implement policy

4.36 Clearly, Pacific island countries value their membership of the WCPFC but unlike the developed countries, they have difficulty marshalling the resources

62 Edward Vrkic, *Committee Hansard*, 19 June 2009, p. 8.

63 For example: a cut of 10 per cent in longline fishing in 2009; closure of the high seas and EEZ to fishing Aggregating Devices for 2 months in 2009 and 3 months in 2010 (July–September); and agreement to close 2 high seas pockets from January 2010. Pacific Islands Forum Fisheries Agency, 'Tuna Commission meeting makes significant progress says Pacific Islands', posted 12 December 2008, <http://www.ffa.int/node/106> (accessed 22 December 2008).

64 Pacific Islands Forum Fisheries Agency, 'Tuna Commission meeting makes significant progress says Pacific Islands', 12 December 20-08, <http://www.ffa.int/node/106> (accessed 22 December 2008). According to a report in the *Dominion Post*, in January 2008, an RNZAF Orion operating out of Tonga caught a Taiwanese tuna boat fishing illegally in Tongan waters. The report indicated that Taiwan had suspended the boat's licence for three months and called the captain back for training but that Tonga wanted \$2.5 million for what it said was a violation of its sovereign rights, http://www.samoobserver.ws/index.php?option=com_content&view=article&id=1563:tonga-and-taiwans-diplomatic-fight&catid=1:latest-news&Itemid=50 (accessed 22 December 2008).

65 Western and Central Pacific Fisheries Commission, Opening Statement by the Chair of the Forum Fisheries Committee, WCPFC5-2008/DP17, 8 December 2008.

66 See also Quentin Hanich, Feleti Teo and Martin Tsamenyi, *Closing the Gaps: Building Capacity in Pacific Fisheries Governance and Institutions*, Australian National Centre for Ocean Resources and Security, University of Wollongong, April 2008, pp. 26–27.

necessary to be active participants. Addressing a meeting of the WCPFC, a representative from Tokelau referred to the major commitment of resources needed, among other things, 'to work through the documents and get to meetings'.⁶⁷ The demands on the resources of Pacific island countries, however, go beyond attendance at international meetings. The committee has already referred to the lack of capacity in Pacific island countries to protect their EEZs from illegal or unreported fishing activities.

4.37 A recent study published by the Australian National Centre for Ocean Resources and Security noted that 'while companies and nationals from DWFN reap the lion's share of the benefits', Pacific island governments bear the overwhelming share of the management costs.⁶⁸ It stated clearly:

Increasing demands upon national governments to implement necessary management and conservation measures is placing further pressure on Pacific island governments and regional institutions. This combination of events is exposing governance and institutional gaps at both the national and regional level that undermine the ability of Pacific island countries to meet these challenges and sustainably manage and develop their fisheries resources.⁶⁹

4.38 According to the study, Pacific island countries will require a strong institutional and governance capability to implement many critical elements including fisheries conservation and management, vessel registration, licensing and permits, gathering data, reporting and analysis, monitoring and enforcement, administration, stakeholder participation and consultation, regional cooperation, negotiation and advocacy.⁷⁰ Indeed, Pacific island countries have an enormous task in effectively managing their fish stocks and ensuring that the industry remains sustainable. Even PNG was prompted to note in 2007 that:

Our in-zone has now become so congested with management measures to such as extent that we are now feeling the burden of management and conservation measures which affects our legitimate development aspirations and our sovereignty.⁷¹

67 Western and Central Pacific Fisheries Commission, Fifth Regular Session, 8–12 December 2008, Tokelau, opening statement, WCPFC5–2008/DP18, 8 December 2008.

68 Quentin Hanich, Feleti Teo and Martin Tsamenyi, *Closing the Gaps: Building Capacity in Pacific Fisheries Governance and Institutions*, Australian Centre for Ocean Resources & Security, University of Wollongong, April 2008, p. 25.

69 Quentin Hanich, Feleti Teo and Martin Tsamenyi, *Closing the Gaps: Building Capacity in Pacific Fisheries Governance and Institutions*, Australian Centre for Ocean Resources & Security, University of Wollongong, April 2008, p. 23.

70 See also Quentin Hanich, Feleti Teo and Martin Tsamenyi, *Closing the Gaps: Building Capacity in Pacific Fisheries Governance and Institutions*, Australian Centre for Ocean Resources & Security, University of Wollongong, April 2008, pp. 26–27 and 28–34.

71 Western and Central Pacific Fisheries Commission, Papua New Guinea, *Opening Statement*, Fourth Regular Session, 3–7 December 2007, WCPFC4–2007/DP23, Guam, 3 December 2007.

4.39 Considering the size of Pacific island countries and the vast areas of ocean over which they have jurisdiction, the task of managing, monitoring and enforcing compliance is daunting.

Committee view

4.40 The fisheries sector is critical to the economic life of Pacific island countries and makes a vital contribution to nutrition and food security in the region.⁷² The committee notes the number of major problems Pacific island countries face in ensuring the sustainable development of their fishery industry—the risk of over-exploitation and the growing demand on their limited physical and human resources to effectively oversee, manage and administer all aspects of the industry. An island country on its own cannot hope to address the problem of over exploitation, sustainable development, and illegal activity in the fisheries sector. They need to obtain commitments and practical support from DWFNs for the conservation of fish stocks and the sustainable development of the fisheries industry. To do so, they require proficient advocates and negotiators to represent their individual and collective interests and the wherewithal to be effective members of regional organisations such as the WCPFC.

Conclusion

4.41 Sound management of the agricultural and fisheries sectors is central to the economic development of Pacific island countries. Furthermore, it is critical that the use of these resources does not compromise the social, environmental or economic well-being of future generations. Clearly, Pacific island countries would benefit from assistance to become more self-reliant and self-sufficient in their food supply by donor countries, such as Australia:

- helping to raise awareness of the importance of sustainable development;
- continuing research and development in the area of food security and resource management so that sustainable development of the land and sea is based on the best scientific evidence and analysis available;
- ensuring that the results of research are promoted as widely as possible throughout the region through improved extension services;
- building capacity in resource management;
- providing funds and practical support to help Pacific island countries monitor activities within their borders including their EEZ, enforce agreements and prevent illegal exploitation of their resources; and

72 DFAT stated that outside PNG's mineral wealth, fisheries 'was the most valuable resource' *Submission 68*, p. 9. See also, UN Economic and Social Council Commission on Sustainable Development, 'Integrated review of the thematic cluster of agriculture, rural development, land, drought, desertification and Africa in Small Island Developing States', Report of the Secretary-General, E/CN.17/2008/9, 5–16 May 2008, paragraphs 37–38 and Quentin Hanich, Feleti Teo and Martin Tsamenyi, *Closing the Gaps: Building Capacity in Pacific Fisheries Governance and Institutions*, Australian Centre for Ocean Resources & Security, University of Wollongong, April 2008, pp. 26–27.

- strengthening their capacity and that of the key regional organisations to undertake activities in coastal and marine areas consistent with their commitments to resource management and conservation.

4.42 In the following chapter, the committee turns its attention to sustainable development in the forestry and mining industries before considering environmental concerns arising from natural disasters and climate change.

Chapter 5

Forestry and mining

5.1 In this chapter, the committee continues its consideration of the sustainable development of the natural resources of Pacific island countries. It focuses on resource management in the forestry sector before examining mining and then the broader issue of managing resources in a region prone to natural disasters and the adverse effects of climate change.

Forestry

5.2 Forests are a vital part of the subsistence economies in a number of Pacific island countries. In particular, the region's forest industries in PNG, Solomon Islands, Fiji, and Vanuatu are important to both their formal and informal economies.¹ In PNG, 80 per cent of the population still live in rural areas and depend heavily on forest areas for their livelihood and culture.² Aside from timber, forests produce a range of goods for domestic use and for sale, among which are fuel wood, game, fruit, nuts, berries, roots and medicinal herbs. Notably, they provide a rich and diverse source of food and materials especially during times of hardship.³

Forests and sustainable development

5.3 All governments in the region have made a commitment to sustainable, multiple-use forestry. Even so, the future of the forests is under threat. In some countries, the forecasts regarding the effects of forest degradation on their economies are dire. DAFF noted:

Unsustainable rates of forest harvesting in many Pacific Island countries have led to a significant reduction in the forest resource and a decline in its productive capacity with potentially major impacts on forest biodiversity and the forest environment. Increasing sustainable forest management is important to address these issues, and to mitigate the impacts of climate change.⁴

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- 1 AusAID, *Pacific 2020, Background Paper: Forestry*, 2006, pp. 4 and 7, http://www.ausaid.gov.au/publications/pdf/background_forestry.pdf (accessed 2 December 2008).
 - 2 World Bank, Report No. 36503, 'Note on Cancelled Operation (NCO)' (PE-4398/GE4345), 13 October 2006, p. 3.
 - 3 AusAID, *Pacific 2020, Background Paper: Forestry*, 2006, p. 7, http://www.ausaid.gov.au/publications/pdf/background_forestry.pdf (accessed 2 December 2008).
 - 4 *Submission 42*, p. 3. See also, Andreas Schloenhardt, 'The illegal trade in timber and timber products in the Asia-Pacific region', *Research and Public Policy Series*, No. 89, Australian Institute of Criminology, 2008, p. 75.

5.4 Forest activity in Solomon Islands in particular has generated considerable disquiet. A number of international organisations have expressed concern about the 'years of unsustainable logging' in Solomon Islands and the 'anticipated depletion of its national forests'.⁵ For example, a 2008 World Bank publication warned that the existing rate of logging in Solomon Islands 'implies a rapid decline in timber stocks ending in depletion by 2015'.⁶ In its submission, Treasury noted that aggressive natural resource extraction, as is occurring in the Solomon Islands forests, 'will present serious adjustment problems as resources are depleted'.⁷

5.5 International organisations have also raised concerns about the use of PNG's forests. A 2006 World Bank assessment noted that 'deforestation and irretrievable loss of forest biodiversity in PNG was, and still is, imminent and severe'.⁸ DAFF informed the committee that many commentators have suggested that the larger forested countries of both Solomon Islands and PNG are 'exploiting resources at such a rate that their foreign exchange benefits will either disappear or be significantly reduced during the period to 2020'.⁹

5.6 The governments of these countries have taken steps to ensure better management of their forests. For example, over the past two decades the PNG Government has moved to exercise greater control over forest areas in order to enhance sustainability and overall sector efficiency. It has updated its Forestry Act, refined the adoption of sustainable forest management practice rules and, in some cases, imposed a moratorium when it was clear that violations needed investigation.¹⁰ The Solomon Islands Government has cancelled the licences of logging companies failing to submit acceptable public environment reports and in some cases has refused applications for new licences. Even so, recently the IMF found that since 2003 logging in Solomon Islands has steadily risen:

In 2007, logging increased by about 25 per cent and accounted for a quarter of real GDP growth, 65 per cent of exports, and almost 20 per cent of tax revenue. The sharp increase in logging activity was in part the result of the issuance of new licenses, re-entry into former logged areas, the approval of tree-felling operations to allow palm oil and reforestation projects to occur,

5 See for example, Asian Development Bank, *Asian Development Outlook 2008*, <http://www.adb.org/Documents/Books/ADO/2008/SOL.asp> 24 November 2008.

6 World Bank, *East Asia: Testing Times Ahead*, East Asia and Pacific Update, April 2008, p. 48.

7 *Submission 59*, p. 4.

8 World Bank, Report No. 36503, 'Note on Cancelled Operation (NCO)' (PE-4398/GE4345), 13 October 2006, p. 3.

9 *Submission 42*, p. 13.

10 World Bank, 'Note on Cancelled Operation (NCO)' PE-4398/GE4345, report number 36503, 13 October 2006, pp. 4 and 17.

favourable international prices, and continued strong demand from major log importers such as China.¹¹

5.7 A country report to the 2008 meeting of the Heads of Agriculture and Forestry Services stated that the Government of Solomon Islands had limited influence over the decisions of customary landowners in the issuing of logging licences. It also stated that 'related efforts to legislate for better forest management had been largely unsuccessful'.¹² The committee now considers some of the major impediments to sound and prudent management of forests in relevant Pacific island countries.

Causes of forest degradation—priorities

5.8 In 2005, participants in a regional awareness raising tour were told that the strong conservation values of Pacific people towards their forests were 'slowly diminishing as the need for money takes priority and as population expands'.¹³ A 2006 assessment for the World Bank expressed similar concerns about the preference given in PNG to short-term gains that produce long-term problems, such as land degradation.¹⁴ It noted that improvements in logged areas are often 'little more than putting in forestry skidding roads, which are then not maintained'. It explained:

Many households in these areas use their temporarily increased incomes to increase their dependency on consumer goods. However, when logging ends, little sustained development or income base remains, so households revert to exploiting the now-degraded land resource base.¹⁵

5.9 This trend persists today. The Prime Minister of PNG explained that the reasons for deforestation were complex but put simply, 'it is driven by the fact that the world values forests more dead than alive'. He indicated that many 'deforest their land so as to trade low-value commodities like timber, beef, palm oil, soy, coffee, and cocoa'.¹⁶ According to the Prime Minister, rural communities must be empowered to

11 International Monetary Fund, 'Staff Report for the 2008 Article IV Consultation', 10 September 2008 in Solomon Islands: 2008 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion, IMF Country Report No. 08/358, November 2008, p. 17.

12 *Report of the 3rd Regional Meeting of Heads of Agriculture and Forestry Services (HOAFS)*, 3–5 September 2008, p. 28.

13 *Investing in Forests and Trees for a Secure Future for our People*, A regional Awareness Raising Tour of Local and Global Importance, organised by the Land Resources Division of the Secretariat of the Pacific Community, 3–6 October 2005, Fiji, p. 5.

14 World Bank, Report No. 36503, 'Note on Cancelled Operation (NCO)' (PE-4398/GE4345), 13 October 2006, p. 4.

15 World Bank, Report No. 36503, 'Note on Cancelled Operation (NCO)' (PE-4398/GE4345), 13 October 2006, p. 4.

16 Prime Minister of Papua New Guinea's Address to the Lowy Institute for International Policy, Sydney, 7 November 2008, http://lowyinstitute.richmedia-server.com/sound/Pacific_regional_challenges.pdf (accessed 12 January 2009).

develop their natural environment without destroying it, thereby 'creating sustainable wealth for themselves and future generations'.¹⁷

5.10 Poor logging practices contribute significantly to the problem of forest degradation. A recent study of forestry in Fiji, PNG, Solomon Islands and Vanuatu was highly critical of harvesting methods. It referred to:

...poor attitudes towards improved logging practices, dismal road construction and maintenance, tendencies to disregard exclusion zones (e.g. buffer strips along streams), high logging intensities that leave severely damaged residual stands behind and training programs that focus on the wrong people and wrong subjects.¹⁸

5.11 Clearly communities must become aware of the importance of sound management of their forests and have the capacity and incentive to work toward sustainable development. Landowners, however, are not the only ones swayed by immediate financial gain or responsible for the health of a country's forests. The promise of short-term rewards combine with other factors to influence the behaviour of all engaged in the forestry industry, notably governments.

Understanding sustainable development

5.12 The recent study of forestry practice in four Pacific island countries noted that 'conflicting political and economic interests often prioritize the liquidation of today's natural forests over their sustainable use'. Although governments have put in place regulations, the study noted poor compliance with, and monitoring and auditing of, the codes of logging practices (COLP) and the short-sightedness that characterises the approach taken toward forestry in these countries.¹⁹ This time the criticism was levelled at all who have a major role in forestry, including governments, land owners and logging companies and operators:

Local people, many of them landowners themselves but without the necessary influence to press for more sustainable management, and officials of respective forestry services have been delegated to a passive-bystanders' role, although this general finding bears out differently in the four countries visited. The result of this secondary role is that a lack of interest in is joined by a lack of enthusiasm for implementing COLPs. On the ground, this

17 Prime Minister of Papua New Guinea, Address to the Lowy Institute for International Policy, Sydney, 7 November 2008, http://lowyinstitute.richmedia-server.com/sound/Pacific_regional_challenges.pdf (accessed 12 January 2009).

18 Thomas Enters Tan and Associates Thailand, *Independent assessment of the implementation of codes of logging practice in Fiji, Papua New Guinea, Solomon Islands and Vanuatu*, Secretariat of the Pacific Community, April 2007, p. 12.

19 Thomas Enters Tan and Associates Thailand, *Independent assessment of the implementation of codes of logging practice in Fiji, Papua New Guinea, Solomon Islands and Vanuatu*, Secretariat of the Pacific Community, April 2007, pp. 13 and 15.

translates into diminished interest in monitoring and auditing COLP provisions, a prerequisite to enforcing compliance with the COLPs.²⁰

5.13 Overall, it found that all stakeholders in PNG, Vanuatu and Solomon Islands had a 'very weak' commitment to, and understanding of, sustainable forest management. In Fiji, it was deemed to be 'weak'.²¹ The study placed a high importance on awareness raising and support for sustainable forest management and the codes of logging practice among policy makers and landowners in Vanuatu and Solomon Islands.

Capacity and resources to manage forests

5.14 Despite the overall poor record of forest management, there are positive cases demonstrating a commitment 'to continue battling for changes in attitudes and practices' in the forestry sector in Pacific island countries.²² ANZ cited examples in PNG where some organisations engaged in the forestry industry 'develop roads and start to build infrastructure for people in outlying areas'. They also build churches, schools, health facilities that 'actually provide a community with social wellbeing that they never had previously'.²³

5.15 Mr Talbot, DAFF, also acknowledged that some forest companies were endeavouring to develop the skills of their workforce and help the local community. Even so, he recognised that some of the problems in the forestry sector stemmed from a lack of technical skills. He informed the committee of the need to build up the technical management skills of people who look after the forests including the 'need to be able to participate in certification schemes'.²⁴

5.16 The study of the four Pacific island countries also referred to the limited financial and human resources in the forestry sector.²⁵ It found 'research in Fiji,

20 Thomas Enters Tan and Associates Thailand, *Independent assessment of the implementation of codes of logging practice in Fiji, Papua New Guinea, Solomon Islands and Vanuatu*, Secretariat of the Pacific Community, April 2007, p. 11.

21 Thomas Enters Tan and Associates Thailand, *Independent assessment of the implementation of codes of logging practice in Fiji, Papua New Guinea, Solomon Islands and Vanuatu*, Secretariat of the Pacific Community, April 2007, pp. 11–15.

22 Thomas Enters Tan and Associates Thailand, *Independent assessment of the implementation of codes of logging practice in Fiji, Papua New Guinea, Solomon Islands and Vanuatu*, Secretariat of the Pacific Community, April 2007, p. 12.

23 Garry Tunstall, *Committee Hansard*, 24 March 2009, p. 64.

24 *Committee Hansard*, 20 November 2008, p. 68.

25 Thomas Enters Tan and Associates Thailand, *Independent assessment of the implementation of codes of logging practice in Fiji, Papua New Guinea, Solomon Islands and Vanuatu*, Secretariat of the Pacific Community, April 2007, p. 15.

Solomon Islands and PNG, to be inadequate'.²⁶ In this regard, both Fiji and Solomon Islands have raised concerns about the lack of an institute for forestry students. Fiji noted that Pacific students currently 'went overseas for forestry diplomas and degrees and it would be advantageous to offer such courses in the region'.²⁷ Solomon Islands has indicated that it requires assistance to determine the best species for reforestation and to develop a long-term forestry policy.²⁸

5.17 A regional workshop for improved forest practices concluded *inter alia* that more effort was needed to develop appropriate silvicultural techniques and advantage should be taken of extension methods being developed to transfer knowledge about reforestation to landowners.²⁹

Reinvestment for sustainable development

5.18 Governments also need the financial management skills and political will to ensure that revenue generated from forest activity and intended for reinvestment is used appropriately. Forestry companies operating in PNG pay a silvicultural levy to the PNG Forestry Authority. According to ITS Global, the levy is intended 'to maximise the probability of the forests regenerating themselves with the same species and as fast as local growing conditions allow'. It noted that the Forest Authority is failing to make those investments.³⁰ The PNG Forest Industries Association maintained that the governance problems in the forestry sector stem from 'institutional arrangements for forestry and the behaviour of those who can access funds'. It asserted that the problem is not between the forestry companies and the government, but:

26 Thomas Enters Tan and Associates Thailand, *Independent assessment of the implementation of codes of logging practice in Fiji, Papua New Guinea, Solomon Islands and Vanuatu*, Secretariat of the Pacific Community, April 2007, pp. 36, 45 and 51. See also, the 2007 Fiji Forest Policy Statement which supports the view that inadequate knowledge of forest resources and research effort is a limiting factor. *Fiji Forest Policy Statement*, November 2007, Summary, p. 2. Although Fiji has carried out a national forestry inventory, it understands that other things need to be done. See *Report of the 3rd Regional Meeting of Heads of Agriculture and Forestry Services (HOAFS)*, 3–5 September 2008, p. 25 and Fiji Government Online, Press Releases, no. 354, 'Department plans to retain forests', 11 February 2009, http://www.fiji.gov.fj/publish/printer_14203.shtml (accessed 26 February 2009).

27 *Report of the 3rd Regional Meeting of Heads of Agriculture and Forestry Services (HOAFS)*, 3–5 September 2008, pp. 25 and 27.

28 *Report of the 3rd Regional Meeting of Heads of Agriculture and Forestry Services (HOAFS)*, 3–5 September 2008, p. 28.

29 A regional workshop found, 'As in most societies, landowners in the Pacific have the dominant say in how land is used. This can lead to conflicts between local preferences and regional or national goals. Participatory land use planning is the current way of tackling this problem but it is hugely costly, both in the resources and in the time needed to carry out planning. More efficient ways of addressing these trade-offs need to be found'. Pacific Islands Forum Secretariat, 'Capacity Building on Restoration, Management and Rehabilitation of Degraded Forests and Deforested Land in the Pacific—A Regional Workshop for Improved Practices Enhancing Forest Functions', Workshop Report, Nadi, 28–31 October 2008.

30 *Submission 63*, p. 5.

...at the next level up the governance chain: where forestry funds do not trickle down' to local people because officials, the well connected and landowner companies take their cut.³¹

5.19 With regard to Solomon Islands, one study noted that the tax regime in Solomon Islands, primarily the tax on log exports, had contributed very considerable sums to government but there had been 'insufficient government investment in the sector to safeguard its future'.³²

5.20 This matter of the prudent use of revenue generated from natural resources for re-investment in sustainable development is again mentioned in the mining context and considered further in chapter 14 covering governance and financial management.

Illegal activities and corruption

5.21 Although illegal logging is not well documented or understood in the Pacific, it is recognised as a problem in some Pacific island countries.³³ A report prepared for the New Zealand Ministry of Agriculture and Forestry identified PNG and Solomon Islands as countries that supply 'suspicious wood'.³⁴ As with the fishing sector, unauthorised activities result not only in a loss of revenue to government but may cause serious long-term damage to the environment.

5.22 With regard to PNG, even though its forestry industry is regulated, issues with illegal and non-compliant operations remain and the underreporting of logging activity could be substantial.³⁵ Moreover, for years the logging industry in PNG has been dogged by allegations of corruption. For example, a World Bank evaluation found that sustainability in PNG's forestry sector had been compromised by major financial and operational malfeasance.³⁶ Also, a 2007 study, commissioned by the Government of PNG, chronicled the findings of various reviews of the logging industry in PNG, starting with the 1987 Barnett commission of inquiry. This inquiry referred to robber barons 'bribing politicians and leaders, creating social disharmony and ignoring laws

31 Appendix to *Submission 63*, p. 24

32 Overseas Development Institute, 'What can be learnt from the past? A history of the forestry sector in Papua New Guinea', *Papua New Guinea Forest Studies 1*, January 2007, p. 14.

33 See for example, Andreas Schloenhardt, 'The illegal trade in timber and timber products in the Asia-Pacific region', *Research and Public Policy Series*, No. 89, Australian Institute of Criminology, 2008, p. 75.

34 James Turner, Andres Katz and Joseph Buongiorno, *Implications for the New Zealand Wood Products Sector of Trade Distortions due to Illegal Logging*, A report prepared for the Ministry of Agriculture and Forestry, SCION, July 2007, p. 21.

35 See *Report of the 3rd Regional Meeting of Heads of Agriculture and Forestry Services (HOAFS)*, 3–5 September 2008, p. 27 and Overseas Development Institute, 'Issues and opportunities for the forest sector in Papua New Guinea', *Papua New Guinea Forest Studies 3*, January 2007, p. 31.

36 World Bank, Report No. 36503, 'Note on Cancelled Operation (NCO)' (PE-4398/GE4345), 13 October 2006, p. 8.

in order to gain access to, rip out and export the last remnants of, the province's valuable timber'. A 2003 review, cited in the 2007 report, found these barons to be 'as active as they ever were'.³⁷ The 2007 study concluded that despite reforms introduced since the mid-1990s, there would 'appear to be continuing significant instances of unlawful behaviour'. In its view, this situation may:

...reflect a more general malaise in Papua New Guinean society that tolerates such behaviour. Finding solutions under such circumstances is bound to take time and requires strong political leadership to carry the reform process forward.³⁸

5.23 A 2008 report published by the Australian Institute of Criminology noted that attempts to establish systems for controlling logging and sustainable development in PNG were often undermined by the national and provincial governments and that the logging industry was 'racked with problems and controversy'.³⁹ Mr John Talbot, DAFF, informed the committee that although PNG was taking some steps to manage the resources:

...at the political level there has also been a number of issues in terms of politicians taking bribes and forests being logged in either an unsustainable or an illegal manner'.⁴⁰

5.24 He stated that, 'Illegal logging is being done under the carpet to actually assist money laundering'.⁴¹

5.25 A report prepared for the New Zealand Ministry of Agriculture and Forestry found that illegal or unreported logging was also a problem in Solomon Islands. It noted that the concentration of economic activity in the hands of a few players requires 'strong institutions and control to ensure logging concessions are properly administered'.⁴² In a paper published by the Australian Institute of Criminology, Andreas Schloenhardt cited reports on widespread corruption in the Solomon Islands'

37 Overseas Development Institute, 'What can be learnt from the past? A history of the forestry sector in Papua New Guinea', *Papua New Guinea Forest Studies 1*, January 2007, p. 19. It should be noted that while the paper had been commissioned by the Government of Papua New Guinea and funded by the European Commission, the views expressed were not necessarily those of the Government of Papua New Guinea nor of the European Commission.

38 Overseas Development Institute, 'What can be learnt from the past? A history of the forestry sector in Papua New Guinea', *Papua New Guinea Forest Studies 1*, January 2007, p. 21.

39 Andreas Schloenhardt, 'The illegal trade in timber and timber products in the Asia-Pacific region', *Research and Public Policy Series*, No. 89, Australian Institute of Criminology, 2008, p. 73.

40 *Committee Hansard*, 20 November 2008, p. 68.

41 *Committee Hansard*, 20 November 2008, p. 68.

42 James Turner, Andres Katz and Joseph Buongiorno, *Implications for the New Zealand Wood Products Sector of Trade Distortions due to Illegal Logging*, A report prepared for the Ministry of Agriculture and Forestry, SCION, July 2007, p. 22.

logging industry and allegations about large Malaysian logging companies exercising influence by paying bribes instead of taxes.

5.26 According to an IMF mission, better monitoring of logging in Solomon Islands:

...would not only generate revenues that could finance much-needed social and development spending (for example, for financing free primary education or for funding more vocational training), but would also encourage sustainable logging activity.⁴³

5.27 It urged the authorities 'to enhance monitoring by employing qualified personnel'. The previously-mentioned study of forest practices in four Pacific island countries also recommended that improvements be made to the monitoring, auditing and control systems.⁴⁴ This suggestion raises the issue of the capacity of Pacific island countries to exercise control over activities in their forests, especially in areas that are often remote and difficult to access.⁴⁵ In relation to fishing, the committee has already drawn attention to the limited capacity of Pacific island countries to monitor their EEZs.

Summary

5.28 An understanding of the importance of sustainable development coupled with the necessary knowledge and skills to manage forests effectively is central to ensure that forests in Pacific island countries are viable and long term enterprises. But education alone is insufficient to address the problem of poor harvesting practices and over exploitation. Appropriate policies, political will, technical capacity to manage forests and adequate resources to enforce compliance with government policies are also needed.

5.29 In this regard, the role of governments in managing forests is critical. Ultimately they are responsible for formulating and implementing policies designed to enhance the sustainable development of their forests. Clearly, helping local communities to manage forests better through R&D, education and technical assistance is central to sustainable development. Government commitment and adequate funding is also required to ensure that those engaged in the timber and logging industry comply with the rules and regulations governing the use of forests.

43 IMF, Solomon Islands: 2008 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussions, IMF Report No. 08/358, November 2008, p. 11.

44 Thomas Enters Tan and Associates Thailand, *Independent assessment of the implementation of codes of logging practice in Fiji, Papua New Guinea, Solomon Islands and Vanuatu*, Secretariat of the Pacific Community, April 2007, p. 13.

45 Andreas Schloenhardt, 'The illegal trade in timber and timber products in the Asia-Pacific region', *Research and Public Policy Series*, No. 89, Australian Institute of Criminology, 2008, pp. 72–75.

Mining

5.30 A number of Pacific island countries, including Fiji, PNG and Solomon Islands, have rich mineral reserves. A recent report by the Commission on Sustainable Development found that for a few small island developing states, mining operations have contributed meaningfully to the rural economy:

Papua New Guinea has porphyry-copper, silver and gold mines; Fiji is endowed with large porphyry-copper deposits and two gold mines; the Solomon Islands recently opened its first gold mine.⁴⁶

5.31 PNG, in particular, has a long history of mining operations which now form a significant part of its economy, accounting for 85 per cent of exports. Indeed, the mining industry in PNG is one of the largest in the Asia–Pacific region. The major mines are Lihir Gold, Porgea and Ok Tedi. There is also the proposed liquefied natural gas (LNG) project.

Environmental concerns

5.32 The Pacific Islands Forum identified environmental degradation as one of the major challenges facing the mining industry in the region.⁴⁷ Similarly, the University of Queensland's Consortium on Community Building and Responsible Resource Development was of the view that mining operations, particularly large-scale ones, present significant challenges in the region.⁴⁸ It cited environmental pollution and social dislocation as a possible and serious downside to be avoided.⁴⁹

5.33 Indeed, experience shows that over the years poor mining practices have caused 'physical dislocation and environmental degradation in rural areas'.⁵⁰ For example, exploitation has seriously degraded the land in Nauru. In 2003, the UN Department of Economic Development and Environment estimated that, 'by the time primary mining is completed this early 21st century, nearly two-thirds of the island

46 UN Economic and Social Council Commission on Sustainable Development, 'Integrated review of the thematic cluster of agriculture, rural development, land, drought, desertification and Africa in Small Island Developing States', Report of the Secretary-General, E/CN.17/2008/9, 5–16 May 2008, paragraph 31.

47 Pacific Islands Forum Secretariat, 'Forum Outlines Key Challenges to Mining', Press Statement, 28 February 2007, <http://www.forumsec.org/pages.cfm/newsroom/press-statements/2007/forum-outlines> (accessed 21 January 2009).

48 *Submission 6*, p. 3.

49 *Submission 6*, p. 3.

50 See for example, UN Economic and Social Council Commission on Sustainable Development, 'Integrated review of the thematic cluster of agriculture, rural development, land, drought, desertification and Africa in Small Island Developing States', Report of the Secretary-General, E/CN.17/2008/9, 5–16 May 2008, paragraph 32.

will have been converted from a gently undulating, productive forestland to an almost totally unproductive pinnacle and pit topography'.⁵¹

5.34 Located in the Western Province of PNG, Ok Tedi also provides a warning of the damage and dislocation that mining may cause to the environment and to the livelihood and the culture of local communities.⁵² In the past, tailings and rock waste from this mine were discharged into the Fly River and its tributaries causing extensive damage to the river and disruption to the social fabric of local people; a legacy that will continue long after the mine closes. Mitigation and remediation measures are currently in place and a program of community development projects operates to assist local people.⁵³

5.35 Although by its nature mining causes environmental and, in some cases, social disruption, the Pacific 2020 report highlighted the critical role of government in minimising the risk of environmental damage due to the extraction of minerals. It argued that without effective governance, mining 'will not only cause local environmental damage, but also generate prosperity only in the short run and do nothing to lay the foundations for long-term growth'.⁵⁴

5.36 The committee has already raised concerns about the importance of capacity in the governments of Pacific island countries to manage their natural resources in a sustainable and effective way. The mining sector further underlines this now dominant theme.

5.37 For instance, the proposed PNG LNG project highlights the requirement for the PNG Government to have expertise across a range of disciplines to oversee the project effectively. The project involves 'in excess of US\$10 billion for the initial phase' and is 'the largest private sector investment ever contemplated in PNG'.⁵⁵ To start with, the government needs people with the relevant scientific and technical

51 Department of Economic Development and Environment, *First National Report to the UN Convention to Combat Desertification, Republic of Nauru*, April 2003, p. 5.

52 Peter S. Adler, Janesse Brewer and Caelan McGee, *The Ok Tedi Negotiations*, the Keystone Center, 24 August 2007, Executive Summary. See also Glenn Banks, *Papua New Guinea Baseline Study*, International Institute for Environment and Development, October 2001, p. 17.

53 Peter S. Adler, Janesse Brewer and Caelan McGee, *The Ok Tedi Negotiations*, the Keystone Center, 24 August 2007, Executive Summary. See for example, Glenn Banks, *Papua New Guinea Baseline Study*, International Institute for Environment and Development, October 2001, pp.16–17; George W. Pring, University of Denver College of Law, *Mining, Environment and Development*, published by UNCTAD, 2007, p. 23; Department of Resources, Energy and Tourism, May 2008, p. 7.

54 AusAID, *Pacific 2020, Challenges and Opportunities for Growth*, May 2006, p. 13. Also see UNCTAD, *Mining, Environment and Development*, Papers prepared for UNCTAD, n.d., p. 16. It stated that 'with effective planning, modern technology and careful management, much of the degradation historically associated with mining can be avoided and mining can be pursued at an acceptable environmental cost'.

55 *Committee Hansard*, 26 March 2009, p. 38.

skills to assess the environmental implications of this project. According to Mr Peter Graham, Esso Highlands Ltd, the project co-venturers have spent two years developing the environmental impact statement. The document is made up of 'some 5,000 pages and 36 independent studies'.⁵⁶ Even though the co-venturers have published the document on their website and undertaken to provide copies to anyone who asks for it, the Government of PNG confronts the difficult challenge of sifting through and analysing the contents of the document. The magnitude of this project places a heavy demand on the capacity of the PNG Government to supervise it effectively. Should it proceed, the government will have to manage not only environment and social issues, but also the revenue stream created by the project. The way in which governments oversee and support these large projects is discussed further in chapter 14 on governance and financial management.

5.38 The large scale commercial mining operations underscore the importance of governments having the necessary expertise to analyse the environment and social impacts of proposed projects and to manage the revenue windfall from these operations. Donor countries, such as Australia, could assist the governments of the Pacific island countries to build their capacity in these areas.

Summary

5.39 As with agriculture and fisheries, concerns abound about resource management in the forestry and mining sector, including the tendency for short term gains to crowd out consideration of the long term economic sustainability of the economy and the environment. The occurrence of natural disasters and the adverse effects of climate change magnify the importance of sound sustainable development.

Sustainable development, natural disasters and climate change

5.40 To this stage, the committee has considered the major threats posed to the sustainable development of the region's natural resources. The pressure from population growth, the over-exploitation of resources, poor harvesting practices, lax or inappropriate management of resources, and inadequate monitoring of, and compliance with, regulations increase the vulnerability of the region's natural resources. Fragile environments already under strain are less able to withstand the added effects of a natural disaster or changes in climate.

Natural disasters

5.41 In chapter 3, the committee noted the damage caused to the economies of Pacific island countries by natural disasters and the growing concerns about the effects of climate change on economic development in the region. In this section, the committee looks at the measures being taken to minimise the adverse effects of natural hazards and climate change on Pacific island countries.

56 *Committee Hansard*, 26 March 2009, p. 46.

5.42 The natural disasters that strike Pacific island countries have far-reaching effects on land use and serious environmental consequences especially when combined with unsustainable development behaviour.⁵⁷ The committee has noted the over exploitation of trees and poor road construction that degrade the land. These damaging practices also increase the vulnerability of the environment to the effects of weather extremes and highlight the importance of developing and implementing sustainable environmental management regimes.

5.43 Indeed, as noted in a United Nations environment paper 'land use and land cover changes are eroding the natural buffers' that protect communities from serious risk. The resulting environmental degradation 'is known to transform a hazard into a disaster or to increase several times fold the impact of a disaster'.⁵⁸ For example, the Ministerial Conference on Environment and Development in Asia and the Pacific noted that the storm damage caused by Cyclone Ofa, which devastated Samoa, was 'amplified by the loss of resilient traditional housing and farming practices and loss of mangrove areas'. It stated:

Poor logging and farming practices now result in greater flooding and soil loss and these, in turn, cause loss of valuable soil from the land and siltation of coastal coral reef and sea grass communities.⁵⁹

5.44 Clearly, an environment weakened by the pressure from increases in population, by overuse and poor practices is also more susceptible to changes in climate.

Climate change

5.45 Numerous studies identify the lower lying small island states as being among the most vulnerable countries to the adverse effects of climate change.⁶⁰ In some

57 Ministerial Conference on Environment and Development in Asia and the Pacific 2000, 'Review of the state of the environment of the pacific islands', Kitakyushu, Japan, 31 August–5 September 2000.

58 UN Environment Programme, *Environmental Management and Disaster Preparedness: Building a multi-stakeholder partnership*, 2005, p. iii.

59 Ministerial Conference on Environment and Development in Asia and the Pacific 2000, 'Review of the state of the environment of the pacific islands', Kitakyushu, Japan, 31 August–5 September 2000. *Pacific 2020* also noted that the 'environments on which so many Pacific island people depend are arguably being degraded. They are certainly being managed in ways that cannot be sustained, creating significant negative impacts for present and future generations. As well, many of the forest resources are particularly vulnerable to natural catastrophes, especially cyclones. Mangrove forests, for example, can help to mitigate the effect of natural disasters, particularly in small island states.' AusAID, *Pacific 2020, Background Paper: Forestry*, January 2006, p. 4, http://www.ausaid.gov.au/publications/pdf/background_forestry.pdf (accessed 2 December 2008).

cases, changes in weather patterns are already creating problems.⁶¹ The *Garnaut Climate Change Review* noted that small rises in sea level have been associated with saline intrusion into gardens and household water supplies. It cited examples of village communities that have been displaced by the destruction of food and water supplies because of unexpectedly high king tides.⁶² A number of witnesses also highlighted concerns about the damaging effects of changes in climate in the Pacific region.⁶³ The attachment to AusAID's submission, *Pacific Economic Survey 2008*, stated that climate change is 'the biggest long-term threat':

The most recent assessment by the International Panel on Climate Change (IPCC, 2007) highlighted the special vulnerability of small island states to climate change, including changing rainfall patterns and temperature increases, the potential for an increase in extreme weather events, and, in the longer term, rising sea levels.⁶⁴

5.46 Dr Hearn informed the committee that communities experiencing salination and reduced crop yields on previously fertile soils because of changes in climate are 'very concerned and very frightened' by them.⁶⁵ Professor Jane McAdam similarly spoke of dire circumstances where people are no longer able to grow traditional crops with consequences such as increases in diabetes. She noted that as the water starts encroaching on the land and mosquito infestations begin, there have been increases in malaria.⁶⁶

5.47 Despite growing concerns about the effects of changes in climate, a recent UN report described the overall response by Pacific island countries to these changes as 'project-based, ad hoc and heavily dependent on external resources'. It stated that some of the common reasons for such a feeble response include 'competing priorities, lack of national government commitment, limited capacity and the dominance of international priorities over national ones in the climate change agenda'.⁶⁷

60 See for example, Food and Agriculture Organization of the UN, *Climate change and food security in Pacific island countries*, Rome, 2008, p. 5; Ministerial Conference on Environment and Development in Asia and the Pacific 2000, 'Review of the state of the environment of the pacific islands', Kitakyushu, Japan, 31 August–5 September 2000.

61 See for example, Food and Agriculture Organization of the UN, *Climate change and food security in Pacific island countries*, Rome, 2008; Ministerial Conference on Environment and Development in Asia and the Pacific 2000, 'Review of the state of the environment of the pacific islands', Kitakyushu, Japan, 31 August–5 September 2000.

62 Ross Garnaut, *The Garnaut Climate Change Review*, Final report, Cambridge University Press, 2008, pp. 149–151.

63 *Submissions 1, 10, 14 and 65*.

64 AusAID, *Pacific Economic Survey: connecting the region*, 2008, p. 4.

65 *Committee Hansard*, 20 November 2008, p. 45.

66 *Committee Hansard*, 24 March 2009, p. 38.

67 Food and Agriculture Organization of the UN, *Climate change and food security in Pacific island countries*, Rome, 2008, p. 14.

5.48 It recognised the critical importance of subsistence and commercial agriculture to local food security and export earning revenues. In its view, the 'implementation of adaptation measures to build resilience of food systems is critical to avoiding enormous economic losses in agricultural, forestry and fisheries'.⁶⁸ The study made a number of observations based on case studies of climate change undertaken in Pacific island countries. They included:

- a clear need to focus on supporting agricultural production in the context of changing climatic conditions and future climate change scenarios;
- the limited human capacity among Pacific island countries which highlights the need to focus on capacity development;
- the potential opportunities for increased food in coastal marine area through mariculture/aquaculture;
- a lack of awareness and information available to governments and communities to enable them to assess the potential of climate change and to make appropriate decisions; and
- real progress can only be made with support from development partners.⁶⁹

5.49 It argued that Pacific island countries should focus on adaptation and, to a lesser extent, on mitigation. It suggested they need to concentrate on:

...win-win measures, such as switching to drought resistance crop varieties, improving climate information dissemination systems and farm level management, strengthening the enforcement of fisheries and forestry legislation and eliminating bureaucratic inefficiencies in government.⁷⁰

5.50 One of the major challenges for Pacific island countries is to find the resources to meet the challenges posed by climate change. Peceli Vocea, Governor of the Bank for Fiji, argued that, because of their greater susceptibility to the adverse effects of changes in climate, poor and developing countries will bear a bigger burden of the adaptation and mitigation costs:

As a result, rehabilitation costs of climatic events are sometimes met at the expense of planned developmental programs, which add pressure to Government finances.⁷¹

68 Food and Agriculture Organization of the UN, *Climate change and food security in Pacific island countries*, Rome, 2008, p. vii.

69 Food and Agriculture Organization of the UN, *Climate change and food security in Pacific island countries*, Rome, 2008, p. 13.

70 Food and Agriculture Organization of the UN, *Climate change and food security in Pacific island countries*, Rome, 2008, p. 16.

71 IMF, Statement by the Hon. Peceli Vocea, Governor of the Bank for Fiji at the Joint Annual Discussion, Boards of Governors Meeting, Press Release No. 49, 13 October 2008, <http://www.imf.org/external/am/2008/speeches/pr49e.pdf> (accessed 14 October 2008).

5.51 The President of Kiribati similarly noted the limited resources available to combat the effects of climate change. He told the United Nations General Assembly that seawall construction was Kiribati's main adaptation measure but that protection was limited to public infrastructure. He stated, 'We simply do not have the resources to extend the protection to private properties.' Ultimately, though, he noted, that low-lying countries such as Kiribati 'will have to face up to the reality of their islands being unable to support life and to plan accordingly beyond existing adaptation strategies'.⁷² According to the President:

While the international community continues to point fingers at each other regarding responsibility for and leadership on this issue, our people continue to experience the impact of climate change and sea level rise. And practical solutions continue to evade us.⁷³



Rising sea levels and flooding cause damage in low-lying islands of the Pacific. Here people in Kiribati are repairing a breakwater damaged by strong currents (image courtesy of the Pacific Calling Partnership at the Edmund Rice Centre).

72 Statement by His Excellence Anote Tong, President of the Republic of Kiribati, General Debate of the 63rd Session of the UN General Assembly, 25 September 2008.

73 Statement by His Excellence Anote Tong, President of the Republic of Kiribati, General Debate of the 63rd Session of the UN General Assembly, 25 September 2008.

5.52 This observation highlights the importance not only of raising the level of awareness and understanding of climate change and its potential threat to sustainable development and food security but also ensuring that these countries have the resources, including human capacity, to meet the challenges. For some low-lying islands, the matter of resettlement is a real prospect.

Summary

5.53 With their small populations and land mass, Pacific island countries are not in a position to make a significant difference to the advent or extent of climate change. Their main efforts focus on adapting to change as best they can and ensuring that human activity does not expose their environment to greater risk from the damaging effects of natural disasters and changes in climate. In this regard, donor countries such as Australia can assist them. Indeed, the potential adverse effects of changes in climate strengthen the need for research into sustainable development, raising awareness of the need for best practice in managing land and marine resources and capacity building covering all facets of resource management. For the low lying small island states, Australia could take a leadership role to find, and help these countries implement, practical solutions to deal with the detrimental effects of climate change.

Conclusion

5.54 The committee has highlighted the importance of agriculture, fishing, forestry and mining to Pacific island countries. It has also noted the critical need to ensure that these resources are used and managed in a manner that does not endanger the physical environment and livelihoods of communities and allows the economy as a whole to benefit. In many cases, the committee drew attention to problems within each sector due in part to inadequate education on, and research and development into, the sustainable development of natural resources in the region. It also identified difficulties with poor resource management practices and attitudes toward sustainable development, the lack of human capacity and inadequate physical resources. Finally, it found that weak political will to manage natural resources effectively and to promote and enforce best management practices compounds the problems. These themes around the importance of research, development, education and capacity building across a range of activities, even at this stage of the report, are firmly established and are key areas in which Australia could have a significant role in assisting Pacific island countries to meet their economic challenges.

Chapter 6

Australia's assistance—sustainable development

6.1 In the previous chapters, the committee considered the many challenges facing Pacific island countries in their endeavours to achieve economic development and to lift the living standards of their people. It recognised that there is potential to improve economic performance in all key sectors of the economy—agriculture, fisheries, forestry and mining. In this regard, a number of themes emerged centred on food security, the sustainable development of natural resources, and physical and human capacity constraints. In this chapter, the committee looks at the assistance Australia provides to the region in the area of food security and sustainable development.¹

6.2 Pacific Island Forum Leaders place a high priority on achieving food security for the region and have called on all countries, where possible, 'to increase the production and supply of healthy food'.² At the recent Pacific Islands Forum Economic Ministers' meeting, ministers called on development partners to assist by 'providing resources to overcome the structural and systemic problems of food security'. They noted that donors could assist in a number of ways, including 'technical and financial assistance to countries committed to raising agricultural productivity and domestic food and fisheries production'.³

6.3 The committee notes that based on 2007–08 figures only a small proportion of Australia's total ODA to the region goes to environment and natural resource management (almost 1.6 per cent) and to rural development (2.7 per cent). For 2008–09, these figures rose to 2.15 per cent and 5.3 per cent respectively. Currently, the largest proportion of ODA goes to governance and other sectors such as education and infrastructure. Australia's assistance to these sectors is considered in later chapters. For the moment, the committee concentrates on natural resource development and management.

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- 1 ANZ made the general observation that Australian expertise in resource management would be 'invaluable in assisting PNG (and other resource rich Pacific island states) move to more sustainable, transparent resource management practices'. *Submission 51*, pp. 6–7.
 - 2 Pacific Islands Forum Secretariat, *Forum Communiqué*, Thirty-ninth Pacific Islands Forum, Niue, 19–20 August 2008, Annex A, *The Pacific Plan*, p. 10.
 - 3 Pacific Islands Forum Secretariat, Forum Economic Ministers' Meeting, Port Vila, Republic of Vanuatu, 27–29 October 2008, paragraph 8. Sustainable development is also one of the four main pillars of the Pacific Plan with a number of objectives including reducing poverty and improved natural resource and environmental management. Pacific Islands Forum Secretariat, *The Pacific Plan*, revised version 2007.

Food security

6.4 The Australian Government recognises the growing challenge to ensure that the world's population is adequately fed. In his 2009 Budget Statement, the Australian Minister for Foreign Affairs made a renewed commitment to food security and rural development. He stated that Australia could lead the work in increasing agricultural productivity through agencies such as the Australian Centre for International Agricultural Research (ACIAR).⁴

6.5 Although AusAID is the agency largely responsible for Australia's ODA budget, much of the funding directed to resource management and rural development is allocated to smaller agencies or sections within relevant departments. ACIAR is active in the region and assists developing countries in the area of sustainable development by funding research designed to solve agricultural problems and helping to build research capacity.⁵ It commissions research groups and institutions—including universities, the CSIRO and state departments, private consultants and non-government organisations—to carry out agricultural research projects in partnership with their counterparts in developing countries.⁶ In its proposed 2009–10 Annual Operation Plan, ACIAR intends to place more emphasis on improving food and nutritional security in Pacific island countries.⁷ It will allocate 22 per cent of its research expenditure in 2009–10 to PNG and the Pacific.

6.6 In PNG, ACIAR's programs are directed toward sustainable and secure improvements in food supply and rural incomes for smallholders, increased productivity and enhanced access to markets.⁸ According to ACIAR, it also concentrates on Fiji, Solomon Islands, Samoa, Tonga and Vanuatu where it is concerned with:

...adaptation to changes in microclimate, identification and management of constraints to productivity in both staple and high-value crops, and identification and development of new high-value horticultural crops (fruits, vegetables and ornamentals) for domestic, regional and international markets.⁹

6.7 ACIAR has an officer based in PNG and another in Suva with the SPC. Their work is supplemented by regular visits by research scientists and other managers in ACIAR to ensure that the interaction with the people with whom they work is

4 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2009-10: Australia's International Development Assistance Program*, 12 May 2009, p. 6.

5 *Submission 67*, p. 3.

6 *Submission 67*, p. 3.

7 *Submission 67*, p. 24.

8 *Submission 67*, p. 7.

9 *Submission 67*, pp. 8–9.

continuous allowing people to get involved.¹⁰ It made clear that it works in partnership with Pacific island countries to address their priorities and does not try to superimpose on those countries what it thinks they should be researching.¹¹



An ACIAR expert discussing improved planting material with a Fijian nursery officer (image courtesy of ACIAR).

6.8 Part of ACIAR's research is directed towards improving nutrition as well as food security. In the view of Mr Hearn, ACIAR, 'nutritional security is an equally important point'. He explained that some of the staple crops produced in the region may not be very high in nutritional value and that ACIAR could improve that by better crop breeding to get, for example, a higher concentration of vitamin A into sweet potato. In his view, ACIAR's work is partly scientific and partly educational.¹² He added that ACIAR also looks at the biosecurity aspects, 'because pest and disease management, soil management and crop nutrition management are a very important part of enhancing the productivity of the countries we are dealing with'.¹³

10 *Committee Hansard*, 20 November 2008, p. 40.

11 *Committee Hansard*, 20 November 2008, p. 39.

12 *Committee Hansard*, 20 November 2008, p. 41.

13 *Committee Hansard*, 20 November 2008, p. 39.

Agriculture—research, development and capacity building

6.9 ACIAR is aware of the importance of working with small landholders through involving local people in practical hands-on experience as a way of building capacity which, according to ACIAR, is much appreciated by the participants.¹⁴ It stated that it is 'crucial during design and implementation of projects to involve farmers and extension workers, and to include training and packaging of research results in a form useful to farmers, members of industry and policymakers'.¹⁵ It believed that the government could assist by providing 'a greater incentive for improved extension and the funding of extension to get the information out there'.¹⁶ ACIAR is also attempting to enhance broader adoption of the results of research not just through government extension services but also through NGOs.

6.10 The benefits from ACIAR's engagement in the region are not limited to research and development but also involve capacity building through education and training. ACIAR informed the committee that it has 'significantly' increased the number of postgraduate awards (John Allwright Fellowships) and provides 'a limited number of in-country postgraduate diploma and Masters degree awards' that are linked to ACIAR projects:

This has resulted in a larger body of trained agricultural, forestry and fisheries researchers becoming available to these countries in an environment where taking a larger cohort of researchers out of the system for several years would potentially damage capacity within small national agricultural research systems.¹⁷

6.11 According to ACIAR, the scheme 'builds linkages between government and universities in the region and helps develop the research capacity of the universities'.¹⁸ It submitted that 'discipline-specific and some broader training opportunities is one of ACIAR's key priorities'.¹⁹ By way of example, ACIAR invests \$1–1.5 million annually on training in PNG.²⁰

CSIRO

6.12 CSIRO is Australia's peak scientific research organisation and is also engaged in the Asia–Pacific region. For more than 30 years, it has been involved in research to

14 *Committee Hansard*, 20 November 2008, pp. 39 and 41.

15 Australian Centre for International Agricultural Research, *ACIAR Country Profiles 2008–09, Papua New Guinea*, p. 9.

16 *Committee Hansard*, 20 November 2008, p. 44.

17 *Submission 67*, p. 4.

18 *Submission 67*, p. 4.

19 *Submission 67*, p. 4.

20 ACIAR, *Submission 67*, p. 7.

improve scientific knowledge about the region. According to CSIRO, it has extensive capability in agriculture and integrated water management and:

...could make a significant contribution to enhancing food security in the region through research and development to enhance agricultural productivity, address market failures inhibiting rural livelihoods, and address social safety nets to reduce social vulnerability. This capability can be harnessed along with environmental and climate change capability to research integrated and systems based solutions for the region.²¹

6.13 It informed the committee that it is starting projects in PNG in collaboration with AusAID. One such project is 'exploring incentive mechanisms that can be used to protect natural assets', particularly ones that 'can link environmental stewardship with poverty alleviation'.²²

6.14 The committee notes that the Minister for Foreign Affairs in his Budget Statement indicated that in 2009–10, programs promoting food security through rural development would be expanded including in the Pacific.²³ ACIAR has received additional funding to expand its collaborative research partnerships between Australian researchers and their counterparts in developing countries. It will also enhance its partnership with CSIRO and other centres of Australian expertise.²⁴ This increased funding would build on successful projects such as 'assisting local farmers in the Solomon Islands to identify better performing varieties of subsistence root crops'.²⁵ The committee welcomes this additional funding but as noted before, emphasises the importance of ensuring that both subsistence and small commercial producers benefit from the results.

Recommendation 1

6.15 The committee recommends that the Australian Government continue to fund research and development on sustainable development in Pacific island countries. The committee recommends further that the government through AusAID ensure that individual research projects working to improve agriculture and land use practices are part of a wider strategy that enables the results of

21 *Submission 50*, p. 5.

22 *Submission 50*, p. 6.

23 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2009-10: Australia's International Development Assistance Program*, 12 May 2009, p. 20.

24 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2009-10: Australia's International Development Assistance Program*, 12 May 2009, p. 20.

25 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2009-10: Australia's International Development Assistance Program*, 12 May 2009, pp. 20–21.

research to reach a broader range of producers, including those in more remote areas.

Fisheries—research, development and capacity building

6.16 Pacific Islanders rely on coastal fishing and, as with agriculture, this resource also needs prudent management based on solid research. ACIAR stated that it had been 'heavily involved in developing some of the mariculture related technologies that would be suitable for village-level application particularly in the countries that have little in the way of land resources to apply to productive use'. Over the last decade, it has become increasingly involved in 'freshwater aquaculture as a means of supplementing animal protein inputs', particularly in upland areas in Papua New Guinea, and in Solomon Islands, Vanuatu and Fiji.²⁶ ACIAR has also undertaken research in other areas including the seaweed industry in the Pacific region and sea cucumber fisheries management.²⁷

6.17 The committee has noted concerns about the overfishing of key tuna stocks, largely from DWFNs and unauthorised fishing.²⁸ In 2007, Pacific Islands Forum Leaders adopted the Vava'u Declaration on Pacific Fisheries Resources. In doing so, they made a commitment *inter alia* to promote domestic fisheries; develop and manage coastal/inshore fisheries; and maintain regional solidarity in managing the region's tuna.²⁹

6.18 As mentioned earlier, there are two main fisheries organisations through which Pacific island countries pursue their individual and joint interests—the FFA and the WCPFC. Both organisations are active, and have to a limited degree been successful in their efforts to conserve fish stocks and prevent illegal fishing. They conduct research into fish stocks, their conservation and management. According to ACIAR, 'the knowledge base that is driving the management decision making is quite sound in this part of the world'.³⁰

6.19 One of the main problems for the sustainable development of the fishing industry stems from the number of countries engaged in fishing in the region and their different priorities. In this regard, the regional organisations have a critical role in

26 *Committee Hansard*, 20 November 2008, p. 51.

27 See for example, ACIAR, Dennis J. McHugh, *The seaweed industry in the Pacific islands*, A joint study undertaken by ACIAR and the Secretariat of the Pacific Community, Canberra 2006; ACIAR, *Final Report, A sea cucumber fisheries management project in PNG: a project feasibility review* the ACIAR, project number FIS/2002/110, August 2008; ACIAR, project number FIS/2001/075, *Sustainable aquaculture development in Pacific Islands region and northern Australia*.

28 *Committee Hansard*, 20 November 2008, p. 48.

29 The Vava'u Declaration on Pacific Fisheries Resources, 'Our fish, our future', Annex B to *Forum Communiqué*, Thirty-eighth Pacific Islands Forum, 16–17 October 2007.

30 *Committee Hansard*, 20 November 2008, p. 50.

achieving a united commitment to sustainable development and devoting resources to the effective management of fish stocks in the region.

6.20 DFAT informed the committee that Australia is a strong supporter of, and a major donor to, these organisations and also to the Secretariat of the Pacific Community (SPC). According to DFAT, Australia is working within these agencies 'to advance practical action to implement the Vava'u Declaration on Fisheries Management'.³¹ Mr Kalish informed the committee that DAFF had decided 'to engage more closely through the Forum Fisheries Agency and engage directly with the principal proponents of fisheries management in those Pacific island countries'. He stated further that, at that time, the department had not identified any specific follow-up action that it would take, although it had 'identified follow-up actions that could be taken'.³²

6.21 For 2008–09, Australia provided \$2.3 million to the FFA.³³ In its 2009 budget, the Australia Government provided additional funding for 2009–10 for both the FFA and SPC around strengthening fisheries management, including in the area of surveillance.³⁴ AusAID and DAFF have also funded research projects on various aspects of fisheries in the Pacific region, leading to the publication of a number of reports.³⁵

6.22 The committee noted the limited resources of Pacific island countries to participate effectively in the activities of these regional organisations and the heavy burden they bear in meeting their obligations as members, especially of the WCPFC. Australian assistance could help Pacific island countries, especially the smaller islands, to ease the strain of membership. One particular area that the committee believes should be addressed is the unfair burden that Pacific island countries bear in the management and conservation of fish stocks in the region. The committee notes that while DWFNs 'reap the lion's share of the benefits', Pacific island countries are largely responsible for the management costs.³⁶

31 *Submission 68*, p. 28.

32 *Committee Hansard*, 20 November 2008, p. 57.

33 *Submission 65*, Annex 1.

34 Dr Jane Lake, *Committee Hansard*, 19 June 2009, p. 60.

35 For example, Kate Barclay with Ian Cartright, *Capturing Wealth from Tuna: case studies from the Pacific*, ANU, (Kate Barclay was an AusAID Postdoctoral Fellow with additional funds for research provided by AusAID and DAFF). In 2007 AusAID published *Valuing Pacific fish, A framework for Fisheries-related Development Assistance in the Pacific*, November 2007. AusAID also helped to fund the commissioning of *Closing the Gaps: Building Capacity in Pacific Fisheries Governance and Institutions*, Australian National Centre for Ocean Resources and Security, April 2008.

36 See paragraphs 4.35–4.36.

Recommendation 2

6.23 The committee recommends that the Australian Government take an active advocacy role in the Western and Central Pacific Fisheries Commission urging Distant Water Fishing Nations to make a greater contribution, commensurate with their fishing operations in the southwest Pacific, to the costs of managing fish stocks in the region.

Managing resources

6.24 The committee has also highlighted the limited capacity of Pacific island countries to undertake the many responsibilities associated with managing, administering and promoting both their individual and the region's fishing interests. It noted the prevalence of illegal fishing in the region and the challenge faced by Pacific island countries of monitoring their large EEZs.

Pacific Boat Patrol Project

6.25 Australia's 21-year-old Pacific Boat Patrol Project forms an important part of Australia's endeavours to help Pacific island countries deter illegal, unregulated and unreported fishing. The boats are also used in quarantine enforcement, search and rescue, disaster relief, medical evacuation and general police work. DFAT described the program as 'the centrepiece of Australia's Defence engagement with the Pacific'.³⁷ Under this program, Australia has donated 22 Pacific class patrol boats to 12 Pacific island countries to assist them police their EEZs. Defence has an Australian Navy maritime surveillance adviser and one or two technical advisers in each country supported by the program.³⁸ Australia also pays for the life extension programs for every boat, for logistic support, spare parts and expertise to repair the vessels and provides for the training for all patrol boat crews.³⁹ According to Brigadier Andrew Nikolić, the Pacific patrol boats are halfway through their life extension refits, with the first of the 22 boats not due to reach the end of its extended design life until 2017–18. Despite the assistance provided by Australia, he advised the committee that:

Crewing, operating and maintaining the boats is a recipient nation responsibility that is difficult for most Pacific Island states to achieve, predominantly due to funding constraints. The rising cost of fuel, for example, varies greatly between the countries, and this has increased dependence on Australia for financial supplementation.⁴⁰

6.26 Indeed, Air Commodore Anthony Jones noted that one of the factors undermining the effectiveness of the program is the cost of fuel and the ability of recipient governments to support the program. He informed the committee that the

37 *Submission 68*, p. 27.

38 *Committee Hansard*, 19 June 2009, p. 22.

39 *Committee Hansard*, 19 June 2009, p. 23.

40 *Committee Hansard*, 21 November 2008, p. 87.

boats average around 36 days a year on patrol out of an average of 55 days a year at sea. According to the Air Commodore, Defence would be looking for 'at least 100 days a year to effectively patrol the EEZs of these countries'.⁴¹ Even so, he indicated one or two patrol boats 'is not really the most effective way of guarding against illegal fishing or illegal activities'.⁴²

6.27 Brigadier Nikolić informed the committee that Defence was considering options for a follow-on capability in consultation with other agencies but that it remained committed to the existing program.⁴³ The *Defence White Paper 2009* also referred to the Pacific Patrol Boat Program. It indicated that the government had directed Defence, DFAT and other government agencies 'to develop an approach to regional maritime security that reflects Australia's commitment to assisting our neighbours in these areas in future'. Further, it suggested that the government would seek measures 'to enhance the capacity of regional countries to enforce their sovereignty, protect their resources and counter transnational crime'.⁴⁴ In June 2009, Defence informed the committee that the program was now fully funded and had been allocated \$427 million to see it through to 2028 when the last boat would reach the end of its life.⁴⁵

6.28 The table below summarises sea days for 2008 and the first half of 2009 (to mid-June 2009). It shows clearly that in many cases the number of days spent on patrol falls far short of expectations.⁴⁶

41 *Committee Hansard*, 19 June 2009, p. 22.

42 *Committee Hansard*, 19 June 2009, p. 22.

43 *Committee Hansard*, 21 November 2008, p. 87.

44 Department of Defence, *Defending Australia in the Asia Pacific Century: Force 2030*, Defence White Paper 2009, p. 99.

45 *Committee Hansard*, 19 June 2009, p. 20.

46 No data available for Fiji following the suspension of the program.

Table 6.1: PPB sea days for 2008 and first half of 2009

Boat Name	Country	Patrol		SAR/Medivac		Gov/VIP		Other		Total	
		2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
TE KUKUPA	Cook Islands	29	59	0	0	0	10	9	4	38	73
TEANOAI*	Kiribati	33	22	0	0	0	3	10	7	43	32
LOMOR*	Marshall Islands	23	21	0	13	7	22	0	0	30	56
REMELIHK*	Palau	8	45	0	0	0	3	2	1	10	49
NAFANUA*	Samoa	9	30	5	1	0	8	4	4	18	43
TE MATAILI	Tuvalu	31	28	1	4.5	11	5.5	0	0.5	43	38.5
TUKURO*	Vanuatu	8	31	0	3	24	19	2	0	34	53
AUKI	Solomon Islands	12	42	0	6	1	0	17	4	30	52
LATA	Solomon Islands	10	65	3	0	14	5	4	9	31	79
Solomon Islands Total		22	107	3	0	15	5	21	13	61	131
INDEPENDENCE	FSM	38	79	3	2	0	1	19	5	60	87
MICRONESIA	FSM	0	28	0	0	6	4	16	6	22	38
PALIKIR*	FSM	28	73	0	4	0	30	0	3	28	110
FSM Total		64	180	3	6	6	35	35	14	108	235
NEIAFU	Tonga	0	0	0	0	7	0	12	0	19	0
PANGAI	Tonga	0	34	0	0	0	20	0	1	0	55
SAVEA	Tonga	3	18	2	1	0	20	2	18	7	57
Tonga Total		3	52	2	1	7	40	14	19	26	112
MORESBY	PNG	23	16	0	3	0	0	9	28	32	47
DREGER	PNG	38	13	0	0	4	3	18	10	60	26
SEADLER	PNG	0	24	0	2	0	0	6	23	6	49
RABAU	PNG	0	0	0	0	0	0	6	1	6	1
PNG Total		61	53	0	5	4	3	39	62	104	123

***Notes:**

- Kiribati – RKS TEANOI underwent a LEP in mid 2008, reducing the number of sea days.
- Samoa – MV NAFANUA underwent biennial slipping in late 2008, reducing the number of sea days.
- Vanuatu – the Police Commissioner used RVS TUKURO for non patrol duties and did not replace the fuel used, resulting in DCP stopping provision of fuel for 6 months and affecting patrol days.
- RMI – LOMOR underwent a LEP in late 2008, and was unserviceable for two months in early 2009.
- FSM – MICRONESIA has been undergoing LEP since April 2009, and has not conducted patrols.
- Cook Islands – TE KUKUPA underwent biennial slipping in 2008, reducing the number of sea days.
- Tuvalu – HMTSS TE MATAILI underwent biennial slipping in late 2008, reducing its time at sea.
- Palau – Critical defect in REMELIHK has precluded normal operations since mid-Mar 09.

6.29 These statistics raise important questions about the program's effectiveness in achieving the stated objective of providing 'a credible maritime surveillance capability, which enhances the capacity of the participating countries to protect their maritime resources'. In Volume II of this report, focusing on the security challenges facing PNG and the island states of the southwest Pacific, the committee examines the Patrol Boat Program in more detail and investigates its capacity to contribute to the region's maritime surveillance capability.

6.30 The Pacific Boat Patrol Project also signals broader concerns about ODA, including funding recurrent spending, creating aid dependency and building local capacity that will last. These matters are considered in the third part of this report.

Forestry

6.31 In 2006, member states of the Pacific Islands Forum recognised the scarcity and vulnerability of forestry resources in many Pacific island countries. They undertook to enhance the sustainable management of these resources in the region through existing and new forms of cooperation. In 2007, Forum Leaders requested the SPC to take a leading role in developing forestry initiatives and national sustainable development strategies. SPC understands that assisting Pacific island countries with the management of their forests is one of its important roles. The committee has noted that Australia is a strong supporter of regional organisations such as the SPC. In 2008–09, the Australian government provided \$9.7 million to the Secretariat.

6.32 DAFF is actively engaged in capacity building in the management of forests in the region and often assists with funding for workshops organised by the SPC.⁴⁷ Under its Asia Pacific Forestry Skills and Capacity Building Program, the department also works with other organisations in the Pacific to improve capacity for sustainable forest management.⁴⁸ The following table gives an indication of the projects currently under way to help build professional capacity in technical management and certification of forests and to encourage best practice in degraded forest rehabilitation and management.⁴⁹

47 For example, it provided some funding for the short course on strengthening national Forestry policy held 26–30 November in Pohnpei and for a regional workshop on capacity building for the restoration, management and rehabilitation of degraded forests and deforested land in the Pacific, 28–31 October 2008 in Nadi, Fiji.

48 *Committee Hansard*, 20 November 2008, pp. 67 and 70.

49 *Committee Hansard*, 20 November 2008, p. 67.

Table 6.2: Asia–Pacific Forestry Skills and Capacity Building Program—Phase 1 of successful projects with contractual arrangements in place⁵⁰

Description	Project country	Grantee(s)	Amount of funding
Skills training and capacity building in forest certification and sustainable forest management	Solomon Islands, Papua New Guinea and Indonesia	ForestWorks	\$400,000
Workshop to build capacity to restore and manage over logged secondary forests	Fiji	Secretariat of the Pacific Community- Forest and Trees Programme	\$74,000
Workshop to strengthen codes of practice for forest harvesting	Primarily Papua New Guinea but will also include Cambodia, China, Lao PDR and Vietnam	Secretariat of the Pacific Community—Forest and Trees Programme and the United Nations Food and Agriculture Organisation (FAO) Regional Office for Asia and the Pacific	\$90,000
Development of generic chain of custody procedures to demonstrate legality of forest products	Papua New Guinea	Papua New Guinea Forest Industries Association	\$106,600
Development of guidelines and the delivery of training packages for the verification of legality of tropical timber imports to Australia	Indonesia and Papua New Guinea	URS Forestry	\$175,000
Delivery of a short course on forest policy development for representatives from the Pacific Islands	Fiji	Southern Cross University	\$9,000
Salary contribution to support the United Nations Food and Agriculture Organisation’s Global Forest Resource Assessment Process	Global	United Nations Food and Agriculture Organisation	\$55,000
Support for the Australian-Swiss led Initiative on regional implementation on the global input in support of the United Nations Forum on Forests program (UNFF) and provide regional input back to UNFF	Switzerland	Swiss Foundation for Development and International Cooperation	\$80,000

50 DAFF, http://www.daff.gov.au/data/assets/word_doc/0004/777964/table-of-projects.doc (accessed 13 January 2009).

6.33 The Australian government is also developing an illegal logging policy that would require legal certification of imported timber and wood products through accredited certification schemes.⁵¹ DAFF informed the committee that the policy is being developed as the department goes through a consultation phase with both industry and NGOs and then through a regulatory impact stage.⁵²

6.34 ACIAR is also engaged in collaborative work in the region to improve management of Pacific forests. For example, one of its subprograms for PNG involves maximising social and environmental returns from planted and native forests, particularly landowner land use options and product diversification. Reafforestation strategies for rehabilitating degraded areas are also part of this subprogram. More broadly in the region, ACIAR's forestry program looks to develop emerging plantation opportunities 'through improved silviculture management, enhanced genetic resources and development of disease and pest detection and control methods'. As noted in the section on agriculture, ACIAR supports research capacity building and the adoption of the results from previous research.⁵³

Minimising the effects of natural disasters and climate change

6.35 The effects from natural disasters has been a regular item on the agenda of the Pacific Islands Forum since the first meeting in 1971 when it was agreed in principle to establish a Regional Disaster Fund. In 2005, Pacific Islands Forum Leaders endorsed the Pacific Regional Framework for Action for Building the Resilience of Nations and Communities to Disasters. The development and implementation of policies and plans for the mitigation and management of natural disasters is also a priority identified in the Pacific Plan for immediate implementation.⁵⁴

6.36 The committee noted earlier that Pacific island countries have limited funds to invest in measures to combat the effects of natural disasters. Australia has a long and consistent record of coming readily to the aid of its Pacific neighbours when disaster strikes. For example, in early December 2008 the government announced it would allocate up to \$1 million to assist Papua New Guineans adversely affected by severe sea swells.⁵⁵ A month later, Australia contributed \$3 million in response to the floods in Fiji, which included \$1 million for emergency flood assistance and \$2 million for

51 *Submission 42*, p. 14.

52 *Committee Hansard*, 20 November 2008, p. 70.

53 ACIAR, *Annual Operational Plan 2008–09, Research that Works*, 2008, pp. 16–28, http://www.aciar.gov.au/publication/AOP_current (accessed 10 February 2009).

54 Pacific Islands Forum Secretariat, *The Pacific Plan for strengthening regional cooperation and integration*, revised version 2007.

55 The Hon Stephen Smith, MP, Australian Minister for Foreign Affairs and The Hon Joel Fitzgibbon, MP, Minister for Defence, 'Australian Relief Supplies for PNG Floods', Media release, AA0874, 12 December 2008, http://www.ausaid.gov.au/media/release.cfm?BC=Media&ID=1893_7468_30_0_6445 (accessed 28 January 2009).

longer term recovery and reconstruction.⁵⁶ The committee acknowledges Australia's contribution to emergency relief in the region.

6.37 Furthermore, the Prime Minister announced in February 2009 that the government had agreed 'to develop a policy framework to enable rapid deployment of civilian experts to assist in international disaster relief, stabilisation and post conflict reconstruction efforts.'⁵⁷ AusAID is leading the whole-of-government taskforce that will develop this deployable civilian capacity (DCC). It will be responsible for pre-identifying, training, deploying rapidly and sustaining civilian technical expertise in a range of situations and environments. Civilians will be selected for their expertise and drawn from within Commonwealth, State and local governments and from the non-government and private sector. According to AusAID, Australia will join 'Canada, the United Kingdom, the United Nations and the United States of America in developing civilian deployable capacities'.⁵⁸

6.38 In this regard, it should be noted that a World Bank policy paper identified a tendency to react after an event rather than plan ahead. It suggested that many Pacific island countries make a rational decision 'not to reduce risks (to natural disasters) as long as donors respond generously to disasters, whether or not preventative efforts have been taken'. It also suggested that 'donors face strong public pressure to respond rapidly to disasters and often mobilize funds outside their normal budgets for this, whereas funding for preventative action is often constrained'.⁵⁹ These findings highlight the importance of both aid recipients and donors placing a high priority on the prevention and containment of damage caused by natural disasters when formulating programs dealing with the environment.

6.39 Some work by Australian agencies is clearly intended to minimise the adverse effects of natural disasters. Over many years, Australia has given assistance to help Pacific island countries improve the robustness of their environment. This strengthening helps to provide a necessary buffer against the effects of natural disasters and to improve their overall resilience to the effects of natural disasters. ACIAR, in particular, is supporting research to address increased productivity and diversification through new crops, products and value-adding and the development of

56 The Hon Stephen Smith, MP, Australian Minister for Foreign Affairs, 'Further Australian Assistance for Fiji Floods', Media release, 16 January 2009, http://www.foreignminister.gov.au/releases/2009/fa-s185_09.html (accessed 28 January 2009).

57 Australian Government, *Responding to the Australia 2020 Summit*, 2009, p. 243, http://www.australia2020.gov.au/docs/government_response/2020_summit_response_10_world.pdf (accessed 4 April 2009).

58 AusAID website, http://www.ausaid.gov.au/hottopics/topic.cfm?ID=4340_2958_671_9343_142

59 World Bank, *Not if but When Adapting to natural hazards in the Pacific Islands Region*, A policy note, 2006, p. viii.

sustainable forestry and fisheries and management systems.⁶⁰ The committee strongly supports the work of this organisation.

Regional response to climate change

6.40 In 2005, the Pacific Islands Forum Leaders also endorsed the Pacific Islands Framework for Action on Climate Change as a regional platform for 'deepening and broadening regional cooperation on addressing climate change'.⁶¹ The stated goal was to ensure Pacific island people build their capacity to be resilient to the risks and impacts of climate change.

6.41 The decision to nominate climate change as the designated theme of the 2008 Pacific Island Forum clearly signalled the growing significance that Pacific island countries attach to this matter. At this meeting, Leaders adopted the Niue Declaration on Climate Change in which they affirmed their commitment to the ongoing development and implementation of Pacific-tailored approaches to combating climate change.⁶² They encouraged the Pacific's development partners 'to increase their technical and financial support for climate change action on adaptation, mitigation and, if necessary, relocation'. They also suggested that these partners ensure 'their assistance aligns with regional and national priorities and supports existing regional and national delivery mechanisms'. With regard to the consumption of energy, they encouraged development partners:

...to increase investment in and support for Pacific Island Countries' efforts to move towards alternative and renewable energy sources, which reduce the emissions of our region and improve energy efficiency, as well as help to address the growing unaffordability of fuel.⁶³

6.42 The recent 2009 Forum Leaders' meeting again underlined the importance of climate change to the region. Noting the threat posed to the very viability of some of their communities, Leaders adopted a 'call to action on climate change'. They acknowledged that 'some habitats and island states face obliteration' and they need to adapt to the changes in climate that are 'already inevitable'. While stating that they stand ready to lead their people in this adaptation process, they accepted that they

60 ACIAR, *Annual Operational Plan 2008–09: Research that works*, pp. 19–20.

61 Pacific Islands Forum Statement on Climate Change delivered on behalf of Pacific Forum by His Excellency Mr Ludwig Scotty, MP, President of the Republic of Nauru, at Post Forum Dialogue, 18 October 2007.

62 Pacific Islands Forum Secretariat, 'Forum Leaders Endorse the Niue Declaration on Climate Change', Press statement (92/08), 26th August 2008, <http://www.forumsec.org.fj/pages.cfm/newsroom/press-statements/2008/forum-leaders-endorse-niue-declaration-on-climate-change.html> (accessed 12 January 2009).

63 Pacific Islands Forum Secretariat, 'Forum Leaders endorse the Niue Declaration on Climate Change', Press statement (92/08), 26 August 2008, <http://www.forumsec.org.fj/pages.cfm/newsroom/press-statements/2008/forum-leaders-endorse-niue-declaration-on-climate-change.html> (accessed 12 January 2009).

could not do this alone and asked for 'increased support, prioritised to those developing countries most vulnerable and least able to respond'.⁶⁴ The Garnaut Report noted that climate change had risen to the top of the political agenda in the Pacific and would require an Australian response.⁶⁵

Australia's response to climate change in the region

6.43 According to the Department of Climate Change, Pacific island countries make a minimal contribution to green house gas emissions which in 2005 accounted for only 0.04 per cent of total world emissions. As a consequence, Australia's climate change support for these countries, outside of PNG, focuses more on adaptation than on mitigation.⁶⁶ The department also noted that the capacity of Pacific island countries to adapt to climate change is low while 'the cost of adaptation is high'.⁶⁷ It stated further:

Australia has comparative strengths in climate change science and adaptation which are relevant to, and can assist with, the region's needs. Assisting Pacific Island countries to prepare for and respond to the impacts of climate change is therefore a central element of the Government's climate change support in the Pacific region.⁶⁸

6.44 In this regard, Australia has committed \$150 million over three years, with \$35 million in 2008–09, to meet climate adaptation needs in vulnerable countries in the Pacific region.⁶⁹ A team in the Department of Climate Change, together with AusAID, administer this International Climate Change Adaptation Initiative (ICCAI). According to the Department, the main objectives are to:

- establish a sound policy, scientific and analytical basis for long-term Australian action to help developing partner countries adapt to the impacts of climate change;
- increase understanding in partner countries of the impacts of climate change on their natural and socioeconomic systems;
- enhance partner country capacity to assess key climate vulnerabilities and risks, formulate appropriate adaptation strategies and plans, and mainstream adaptation into decision making; and

64 *Forum Communiqué*, Pacific Islands Forum Secretariat, Fortieth Pacific Islands Forum, Cairns, Australia, 5–6 August 2009, Annex A, 'Pacific Leaders' Call to Action on Climate Change'.

65 Ross Garnaut, *The Garnaut Climate Change Review*, Final report, Cambridge University Press, 2008, pp. 149–151.

66 *Submission 71*, p. 4.

67 *Submission 71*, p. 5.

68 *Submission 71*, p. 5.

69 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2009–10: Australia's International Development Assistance Program*, 12 May 2009, p. 40.

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- identify and help finance priority adaptation measures to increase the resilience of partner countries to the impacts of climate change.⁷⁰

6.45 Some of the more hands-on activities undertaken by AusAID to provide support for climate change adaptation involve improved water resource management in the Pacific and include:

- the construction of about 300 large rainwater tanks in Funafuti, the capital of Tuvalu, and making available a highly qualified water engineer, who will help Tuvalu maximise the contribution of both Australian and other donors to its Water and Sanitation Strategy; and
- small grant schemes in Fiji, Vanuatu, Samoa, Tonga and Solomon Islands, which provide funds for projects such as the construction of rainwater tanks to increase water storage capacity and small solar desalination stills capable of producing enough fresh water for drinking.⁷¹

6.46 Also, through the Pacific Islands Climate Prediction Project, the Australian Bureau of Meteorology is working with climate dependent industries and government agencies in ten Pacific countries on tailored long-range (3 to 6 months) climate predictions. This support will assist water resource managers to plan for expected rainfall shortages by increasing storage capacity.⁷² CSIRO and the Department of Meteorology are currently working together on enhanced climate modelling to support 'downscaling climate change projections from the global to regional scales suitable for application to the complex terrain' of Pacific island countries.⁷³ CSIRO suggested, however, that a 'systematic study of the wider and more integrated implications of climate change and possible proactive adaptation responses for the region is urgently needed'. It also noted that there was a similar need to support modelling possible climate change impacts to inform policy and investment decisions.⁷⁴

70 *Submission 71*, pp. 5–6.

71 AusAID website, <http://www.ausaid.gov.au/keyaid/adaptation.cfm> (accessed 28 January 2009).

72 AusAID website, <http://www.ausaid.gov.au/keyaid/adaptation.cfm> (accessed 28 January 2009).

73 *Submission 50*, p. 7.

74 *Submission 50*, p. 7.



Managing fresh water supplies is challenging in many Pacific island countries. AusAID has funded and provided water tanks for example in Kiribati (image courtesy of AusAID).

6.47 As noted earlier, Australia has signed Pacific Partnerships for Development with PNG, Samoa, Solomon Islands, Kiribati, Vanuatu, Nauru, Tonga and Tuvalu.⁷⁵ DFAT mentioned that this initiative commits Australia and its Pacific partners to work together to meet common challenges relating to climate change, which are considered in the development of each partnership. The detailed media release accompanying the signing of these partnerships does not refer to climate change adaptation measures specifically though in general terms they refer to focusing on 'more sustainable economic growth and reform and improved economic livelihoods'.⁷⁶ Furthermore, the partnerships themselves show no evidence that environmental concerns have been integrated into the nominated priorities. Only the agreement with Samoa nominated climate change as an immediate partnership priority outcome (partnership priority outcome 5).

6.48 The committee also draws attention to the findings of the OECD Development Assistance Committee (DAC) review that commented on Australia's renewed emphasis on environment and the development of a new environment and development assistance policy. It suggested that AusAID should build on Australia's

75 See paragraph 1.12 and *Submission 71*, p. 3.

76 Prime Minister of Australia, Media Releases, 'Port Moresby Declaration', 6 March 2008; 'Prime Minister Signs Partnership for Development with PNG and Samoa', 20 August 2008; 'Pacific Partnerships for Development with Solomon Islands and Kiribati', 27 January 2009.

recent initiatives to consider more systematically 'environmental threats and opportunities throughout the aid program'.⁷⁷ It saw scope for Australia to integrate environmental concerns more effectively throughout its aid program.⁷⁸

6.49 In addition, the review noted Australia's commitment to having 'a leadership role in humanitarian preparedness and response in its highly disaster-prone region'. It observed further that Australia is 're-orienting its structures within AusAID and the wider government to reflect international good practice in this area'. In its view, the planned review of the Humanitarian Action Policy (2005) is timely, and would 'be critical to incorporate emerging themes, including the impacts of climate change'. The review recommended, however, that to reap the benefits of the policy, Australia should, 'alongside the review, set out a clear plan of action for how it will continue to put the policy into practice'.⁷⁹

6.50 AusAID informed the committee that the review of its Humanitarian Action Policy was only in phase one of a two-phase process. It was currently undertaking 'a rapid assessment of Australian humanitarian and emergency assistance and an analysis of current international humanitarian architecture'.⁸⁰

Committee view

6.51 The committee notes that the CSIRO was of the view, inter alia, that a 'systematic study of the wider and more integrated implications of climate change and possible proactive adaptation responses for the region is urgently needed'.⁸¹ It also takes account of the OECD review that there is scope for Australia to integrate environmental concerns more effectively throughout its aid program.

6.52 This matter relates to how well Australia's ODA program comes together as a cohesive and strategic whole and is discussed in Part III of this report on the effectiveness of Australia's contribution to economic growth and development in the region.

Mitigation

6.53 Although the Australian Government focuses on adaptation, it is also working with Pacific island countries on mitigation, mainly in PNG. On 6 March 2008, Australia and PNG signed the Australia–PNG Forest Carbon Partnership which recognises that sustainable forest management is an integral part of climate change management. According to AusAID:

77 OECD Development Assistance Committee, *2008 Peer Review of Australia*, p. 12.

78 OECD Development Assistance Committee, *2008 Peer Review of Australia*, p. 13.

79 OECD Development Assistance Committee, *2008 Peer Review of Australia*, p. 95.

80 AusAID, answer to written question on notice following public hearing on 19 June 2009.

81 See paragraph 6.46.

Australia's International Forest Carbon Initiative (IFCI) aims to demonstrate that reducing emissions from deforestation can be part of an effective international response to climate change. Total funding allocated for the initiative to date is \$200 million over five years, focused on Indonesia and Papua New Guinea.⁸²

6.54 Through this partnership, Australia intends to assist PNG develop its 'avoided deforestation policies, forest carbon measurement system and demonstration activities'. This process would enable PNG to participate in future international forest carbon markets. According to AusAID, 'credible accounting of changes in forested areas is also essential for such participation'. Thus as a preliminary measure, Australia is to support PNG 'in the development of a rigorous forest carbon measurement and accounting system'.⁸³

Resettlement

6.55 The relocation of communities whose environment has become uninhabitable because of the effects of climate change is another major consideration facing Australian authorities. The committee has noted concerns about a situation developing where communities in the region may be forced to abandon their land because of rising sea levels. For example, the AFP noted in its submission the possibility of a future need to relocate whole communities because of the effects of global warming.⁸⁴ The Garnaut Report recognised that Kiribati, the Marshall Islands, Tokelau and Tuvalu were vulnerable to rising sea levels, and even with moderate climate change, human habitation may not be possible on the islands. It suggested that:

Their small populations make them relatively easy to absorb into larger countries, and the international community and the islanders themselves would expect Australia and New Zealand to be the main countries of resettlement.⁸⁵

6.56 Some commentators support the view that Australia has an important role assisting these communities. Taking up this point, the Lowy Institute informed the committee:

82 AusAID website, <http://www.ausaid.gov.au/keyaid/mitigation.cfm> (accessed 28 January 2009).

83 AusAID website, <http://www.ausaid.gov.au/keyaid/mitigation.cfm> (accessed 28 January 2009).

84 *Submission 62*, paragraphs 3.3 and 3.4. According to the Asian Development Bank and CIA World Factbook, the Government of Tuvalu appealed to Australia and New Zealand in 2000 'to take in Tuvaluans if rising sea levels should make evacuation of the country necessary'. Asian Development Bank, Tuvalu, Country Information, <http://www.adb.org/Tuvalu/country-info.asp> (accessed 26 September 2008) and CIA, *World Factbook*, Tuvalu, <http://www.cs.usyd.edu.au/~dasymond/mirror/factbook/print/tv.html> (accessed 8 December 2008).

85 Ross Garnaut, *The Garnaut Climate Change Review, Final Report*, Cambridge University Press, 2008, pp. 149–151. The report noted that 'The numbers of people exposed to small increases in sea level are much larger in Papua New Guinea, in coastal and low-lying river areas of West Papua, and in other island areas of eastern Indonesia'.

Australia has to acknowledge that the only viable future for the people of low-lying atoll states like Kiribati and Tuvalu lies in migration. Given that Australia will be at the centre of future plans to address the forced relocation of the populations of the atoll states, it would be in Australia's interest to develop a plan now to manage their migration.⁸⁶

6.57 In agreeing with this view, Professor McAdam argued that the issue of relocation is simply not one to be considered when the land goes under. She noted that already people were moving from outer-lying islands towards the capitals and that there was little scope for people in Kiribati and Tuvalu to move to higher ground. The difficulty was knowing when rising sea levels and the knock-on effects would reach a tipping point forcing people to move. According to Professor McAdam, the issue was how best to address the problem in terms of law and policy. She said:

What is needed is a number of mobility or migration pathways, if you like. Perhaps initially—and Australia has started to do this—there needs to be a temporary or circular migration scheme whereby people have the opportunity to come and work in Australia or New Zealand, for example, but can also return.⁸⁷

6.58 But longer term, she suggested that people may wish to migrate permanently and some thought should be given to 'structuring programs whereby people can plan their own and their family's movement'. To her mind, this raised a number of questions such as: can you relocate a whole country together and what does that mean, then, in terms of the actual status of the state? At what point does a state cease to exist and the people become stateless? Are there international law obligations that then kick in? Professor McAdam argued that 'we want to get to a point where we do not need to start considering those kinds of issues, and we have this opportunity to plan'.⁸⁸ She stated further:

Many people are not going to qualify under Australia's migration program, nor under New Zealand's. I think it is very important to start thinking about humanitarian resettlement options. Currently, these people do not fit the definition of a refugee under the 1951 refugee convention—it would take some quite creative jurisprudence to enable that to be the case—but certainly they do have protection needs. Whether it is creative thinking, humanitarian thinking or a combination of both that leads to some migration or protection outcomes for these people, the point is to start thinking about planning that now before we actually do get people setting off in boats, coming to the Australian mainland and saying, 'I'm here. Now you have to help.' That is the risk, ultimately, if we do not do anything.⁸⁹

86 *Submission 14*, pp. 4–5.

87 *Committee Hansard*, 24 March 2009, p. 39.

88 *Committee Hansard*, 24 March 2009, pp. 38–39.

89 *Committee Hansard*, 24 March 2009, p. 39.

6.59 Aside from legal considerations, there are also practical measures that could be taken to address the possibility that communities from the low lying areas may have to resettle. Acknowledging the possibility that the 100,000 people in Kiribati may have to move one day, their president suggested that his country has no choice but to formulate a 'long-term merit-based relocation strategy'. Part of this strategy involves the upskilling of people 'to make them competitive and marketable at international labour markets'.⁹⁰

6.60 When asked about the possibility of forced re-location from Pacific island countries such as Kiribati and Tuvalu, DFAT informed the committee that it was not aware of any government consideration of this matter. Invited to comment again on whether these two islands were under consideration, DFAT replied no.⁹¹

Committee view

6.61 The committee is concerned about the lack of government attention to formulating policy around the possibility that some Pacific island communities may have to re-locate because of rising sea levels or related environmental changes. The committee believes that the Australian Government should allow ample time to consider closely and carefully the legal and policy framework that may be required should such an eventuality arise. The committee believes that Australia could also make a valuable and significant contribution in practical ways to prepare those most at risk of having to resettle. It notes that the Government of Kiribati wants their people to be competitive and marketable. Australia could be a vital partner with countries such as Kiribati by helping with research, training, education and labour mobility arrangements to equip people, should they have to move, to take up productive positions in their new location. It believes that should migration be necessary from these Pacific Island countries, the basic principle underpinning the formulation of Australia's policy should be their 'migration with merit and dignity'.⁹²

Recommendation 3

6.62 The committee recommends that the Australian Government consider whether it may be necessary to review the legal and policy framework required in the event that regional communities may be forced to resettle as a consequence of changes in climate.

90 Statement by His Excellency Anote Tong, President of the Republic of Kiribati, General Debate of the 63rd session of the UN General Assembly, 25 September 2008. UN News Centre, 'Small island nations' survival threatened by climate change, UN hears'. 25 September 2008, <http://www.un.org/apps/news/story.asp?NewsID=28265> (accessed 29 April 2009).

91 *Committee Hansard*, 21 November 2008, p. 28.

92 UN News Centre, 'Small island nations' survival threatened by climate change, UN hears'. 25 September 2008, <http://www.un.org/apps/news/story.asp?NewsID=28265> (accessed 29 April 2009).

6.63 The committee also notes that currently AusAID is reviewing its Humanitarian Action Policy. The committee recommends that AusAID take this opportunity to consider whether it is necessary to incorporate in its Humanitarian Action Policy emerging legal and humanitarian matters associated with climate change.

6.64 The committee recommends further that the Australian Government review the need for an education and training program designed specifically to assist those communities in the region most at risk from the damaging effects of changes in climate. The intention would be to determine how best to assist people to remain productive members of their community in a changing environment.

6.65 Finally, the committee recommends that the Australian Government ensure that environmental matters including climate change be integrated more effectively throughout its aid programs to the region. This means that prevention and adaptation measures addressing the adverse effects of natural disasters and climate change would be considered when formulating policy and designing ODA projects, for example in the resource development, infrastructure, education, health and governance sectors.

6.66 The need for people to leave their communities or homeland because of the effects of climate change also poses a security challenge in the region and will be discussed in the second volume of this report. At this stage, the committee notes that on 3 June 2009, the United Nations General Assembly passed a resolution expressing its deep concern 'that the adverse impacts of climate change, including sea-level rise, could have possible security implications.' It invited relevant UN organs 'to intensify their efforts in considering and addressing climate change, including its possible security implications'.⁹³ This resolution followed appeals from the small island developing nations urging the United Nations to consider the security implications of climate change. They were concerned that their tireless appeals 'had failed to produce practical solutions for people living in low-lying states'.⁹⁴

Conclusion

6.67 The committee commends the work being done by Australia to help Pacific island countries with the sustainable development of their resources. The activities of agencies such as ACIAR, CSIRO and the relevant departments appear to be well targeted in research and development, awareness raising and capacity building. The committee takes this opportunity, however, to highlight a number of matters that remain of concern to the committee. The most important of these include: the apparent under-use of the boats in the Patrol Boat Program, the need to mainstream environmental issues into Australia's assistance program and the importance of planning ahead for changes in climate, especially the possibility of communities

93 UN General Assembly, A/RES/63/281.

94 Statement by His Excellence Anote Tong, President of the Republic of Kiribati, General Debate of the 63rd Session of the UN General Assembly, 25 September 2008.

having to re-locate. The proposed deployable civilian capacity also requires further examination and is discussed in chapter 20.

Chapter 7

Opportunities for commercial development

7.1 For many Pacific island countries increased and sustainable production from the land and sea offers not only the hope of improved self-sufficiency and food security but also the potential to boost economic development through new and expanded markets. In this chapter, the committee moves beyond sustainable development and self-sufficiency to consider opportunities for greater commercial activity.

Cash crops

7.2 For Pacific islanders engaged in subsistence agriculture, cash cropping on the side is important because it provides the smaller sums of money needed to purchase a range of goods and services, including education. Dr Vladimir Pacheco, Foundation for Development Cooperation, noted that people in the country or remote areas can survive without money but sometimes need cash to pay for things outside their economy such as visits to the doctor, medical treatment, medicine, school fees or travel.¹ He explained that people in remote areas do not require cash as much but, 'when they do, it is because they actually need it'.² The Australian High Commissioner to PNG also mentioned the importance of cash crops to subsistence farmers. He noted it is one thing to grow your own food so that no-one goes hungry, but there is nothing to generate cash to send children to school.³

7.3 The development of cash crops is also an important catalyst for economic growth. Professor Helen Hughes argued that economic development in Pacific island countries will come from local investment and agricultural development. She suggested that farmers who develop cash crops will save, which then triggers a chain reaction of further economic activity:

Houses will improve so people will start to go into building; bus routes will develop, truck routes will develop; markets will develop. They will invest in all sorts of little businesses.⁴

7.4 A number of key factors, however, influence the capacity of Pacific island countries to boost production for cash income or for more ambitious commercial purposes.

1 *Committee Hansard*, 26 March 2009, p. 68.

2 *Committee Hansard*, 26 March 2009, p. 68.

3 *Committee Hansard*, 19 March 2009, p. 6.

4 *Committee Hansard*, 24 March 2009, p. 32.

Impediments to commercial production

7.5 Mr Andrew McGregor, Managing Director of the Trade and Development Office, Fiji, stated that a revolution was 'occurring in the export of horticultural and other high value agricultural products from developing countries'.⁵ He was concerned that Pacific island countries were not part of this export revolution.

7.6 While the atoll countries, with their poor agronomic conditions, offer little prospect for developing a notable export market for food produce, some of the larger islands have potential. The Australia Fiji Business Council was of the view that Fiji has great opportunities 'to diversify its agricultural sector and become a regional agricultural powerhouse by growing agricultural exports and becoming more self-sufficient in agricultural production, especially for its voracious tourism industry'.⁶ Its continuing reliance on sugar as its main agricultural product and falling receipts for sugar exports to the European Union hampers its economic development.⁷ According to Dr Hearn, ACIAR, Fiji, with its fertile land and good rainfall, could produce alternative crops that suit the Fijian conditions.⁸

7.7 Tonga also has a 'good growing climate' and the scope to improve its agriculture and boost income in rural areas.⁹ It is 'well-placed geographically to serve winter markets in both southern and northern hemispheres'. Tonga's earlier success in exporting squash to Japan demonstrates the opportunities for Pacific island countries to develop an overseas market for their agricultural products.¹⁰ Recently, Tongan farmers began to export baby squash to Korea and butter nut to the United Kingdom. Producers are working with the private sector to develop further export diversification, including the production of maize for stock feed and conducting trials with sweet

5 Andrew M. McGregor, 'The export of horticultural and high-value agricultural products from the Pacific Islands', *Pacific Economic Bulletin*, vol. 22, no. 3, October 2007, p. 81.

6 *Submission 58*, p. 2.

7 Australia Fiji Business Council, *Submission 58*, p. 2. See also Statement by the Hon. Mahendra Pal Chaudhry, Governor of the Bank of Fiji at the Joint Annual Discussion, IMF, Press Release No. 44, 22 October 2007.

8 *Committee Hansard*, 20 November 2008, p. 46.

9 Asian Development Bank, *Transforming Tonga*, 2008, p. 6; and Office of the Prime Minister, Nuku'alofa, Economic Update, July 2008, <http://www.pmo.gov.to/releases-mainmenu-29/231-economic-update-july-2008.html> (accessed 20 February 2009).

10 The export of squash, which became a major foreign exchange earner for Tonga, peaked in the early 1990s but unfortunately has since declined. According to a 2008 country report, the near collapse of the squash sector was due to 'heavy competition in overseas markets and rising input costs, resulting in the government imposing levies to discourage new entrants.' *Report of the 3rd Regional Meeting of Heads of Agriculture and Forestry Services (HOAFS)*, 3–5 September 2008, p. 28.

potato in the hope of securing markets in Japan.¹¹ PNG and Solomon Islands are also well suited to develop their agricultural export industries.

Quality of produce and reliability of supply

7.8 The prospect of profitable and sustainable markets will encourage new or expanded business activities. Even so, producers in Pacific island countries are in competition with businesses throughout the world and securing markets is no easy task. If producers from Pacific island countries are to take advantage of opportunities to develop a successful export industry, they need to satisfy the tastes and requirements of overseas markets—they have to ensure consistent quality of produce and reliability of supply.¹² For example, in building up its squash export industry, Tonga had to satisfy the requirements of the overseas market. To be considered of exportable quality, squash had to 'be between 1.2–2.7 kg per fruit, free from blemishes and skin distortions and at the right stage of maturity'.¹³

7.9 But a number of commentators and witnesses were of the view that Pacific island countries lack the necessary capacity at the individual and institutional level in key areas of production, including value adding to their agricultural products and in marketing.¹⁴ At the recent meeting of the Heads of Agriculture and Forestry Services in September 2008, Kiribati recognised that capacity building was needed in areas such as food processing, and business and marketing. Vanuatu also noted that the potential benefits of local food production were not being realised due, in part, to the lack of technical skills required for value-added production.¹⁵ Dr Hearn, ACIAR, stated that one way to help farmers get their produce to market was 'to try to enhance the quality and the marketability of produce'.¹⁶ Mr Jim Redden, Institute for

11 Office of the Prime Minister, Nuku'alofa, Economic Update, July 2008, <http://www.pmo.gov.to/releases-mainmenu-29/231-economic-update-july-2008.html> (accessed 20 February 2009).

12 Mr Paul Ross, DAFF, *Committee Hansard*, 20 November, p. 54 and *Report of the 3rd Regional Meeting of Heads of Agriculture and Forestry Services (HOAFS)*, 3–5 September 2008, p. 25.

13 This information is taken from a Paper prepared by the Ministry of Agriculture and Fisheries, Kingdom of Tonga, for the Regional Workshop on the Constraints, Challenges and Prospects for Commodity-based Development, Diversification, and Trade in the Pacific Islands Economies, Nadi, Fiji, 18–20 September 2001, p. 9.

14 Australian Centre for International Agricultural Research, *ACIAR Country Profiles 2008–09, Papua New Guinea*, p. 9.

15 *Report of the 3rd Regional Meeting of Heads of Agriculture and Forestry Services (HOAFS)*, 3–5 September 2008, pp. 25 and 29. See also Mr McGregor who argued that improved market access offers Pacific island countries the prospect of being part of the revolution in the export of agricultural products. Andrew M. McGregor, 'The export of horticultural and high-value agricultural products from the Pacific Islands', *Pacific Economic Bulletin*, vol. 22, no. 3, October 2007, p. 87.

16 *Committee Hansard*, 20 November 2008, p. 45.

International Trade, also cited the importance of improved marketing as a means of securing export markets.¹⁷

Quarantine restrictions

7.10 Producers in Pacific island countries must also meet international sanitary and phytosanitary standards.¹⁸ Quarantine restrictions, however, appear to be one of the major barriers to trade for Pacific island countries. Mr McGregor stated that quarantine is 'the weak link' in their horticultural export marketing chain. He gave the example of improving quarantine procedures for taro, an important Pacific island country fresh export, which could increase export earnings by 'some A\$15 million annually and benefit at least 25,000 small farmers in at least three Pacific island countries'.¹⁹ As another example, he noted that 'a most unfavourable fruit fly status for exporting fruit and vegetables' hampers progress in PNG and Solomon Islands.²⁰ He argued that it is possible to 'ameliorate a significant number of the phytosanitary constraints that adversely affect' the export trade from the region.²¹ Professor Ron Duncan also noted that quarantine and other restrictions by importing countries on agricultural products that raise the costs of exporting are an important issue for developing Pacific agriculture.²² He supported the findings of Mr McGregor that Pacific countries have not been able to participate in the virtual revolution in exports of high-value agricultural products that has occurred in recent years. He also noted the need for them to:

...overcome the quarantine and quality barriers to their development of niche agricultural export markets in Australia, New Zealand, and the United States. Potential also exists elsewhere for these exports as in Japan and the EU.²³

17 *Committee Hansard*, 25 March 2009, p. 31.

18 See for example, Professor Ron Duncan, 'Pacific Trade Issues', Pacific Institute of Advanced Studies in Development and Governance, University of the South Pacific, Suva, Fiji, ADB *Pacific Studies Series*, 2008, p. 24.

19 Andrew M. McGregor, 'The export of horticultural and high-value agricultural products from the Pacific Islands', *Pacific Economic Bulletin*, vol. 22, no. 3, October 2007, pp. 87 and 97.

20 Andrew M. McGregor, 'The export of horticultural and high-value agricultural products from the Pacific Islands', *Pacific Economic Bulletin*, vol. 22, no. 3, October 2007, pp. 85 and 87.

21 Andrew M. McGregor, 'The export of horticultural and high-value agricultural products from the Pacific Islands', *Pacific Economic Bulletin*, vol. 22, no. 3, October 2007, p. 92.

22 Professor Ron Duncan, 'Pacific Trade Issues', Pacific Institute of Advanced Studies in Development and Governance, University of the South Pacific, Suva, Fiji, ADB *Pacific Studies Series*, 2008, pp. x–xi.

23 Professor Ron Duncan, 'Pacific Trade Issues', Pacific Institute of Advanced Studies in Development and Governance, University of the South Pacific, Suva, Fiji, ADB *Pacific Studies Series*, 2008, p. xi.

7.11 In Mr McGregor's view, Pacific island countries require 'timely export protocol development'. But he cited Fiji, the most successful exporter of horticultural products in the region, which, in his view, 'is making agonisingly slow progress in meeting quarantine requirements'.²⁴ Mr Paul Ross, DAFF, similarly noted that a major challenge for Pacific island countries was being able to meet the requirements of importing countries, including compliance with 'any conditions for import that might be imposed on their products'.²⁵



An ACIAR officer testing fruit fly methods as part of the South Pacific Regional Fruit Fly Program in Tonga (image courtesy of ACIAR).

Research and development for export

7.12 Research and development is important not only for boosting agricultural productivity in Pacific island countries, but also for helping them to secure export markets for their agricultural products. It could be directed at enhancing the quality, marketability and reliability of supply and ensuring that produce satisfies international sanitary and phytosanitary standards. It follows that any research and development project should take account of the export potential of agricultural products. Again, the importance of ensuring that the results of this research reach a wide audience is critical.

24 Andrew M. McGregor, 'The export of horticultural and high-value agricultural products from the Pacific Islands', *Pacific Economic Bulletin*, vol. 22, no. 3, October 2007, p. 92.

25 *Committee Hansard*, 20 November 2008, p. 54.

7.13 Evidence suggested that Pacific island countries require assistance to help them build a solid reputation for the quality and safety of their products and to market their produce effectively. In this regard, the SPC was of the view that national and international support for research and development in the agriculture and forestry sectors in the Pacific had been inadequate for a number of decades. It argued that this lack of attention needed to be addressed if countries were 'to capitalise on the opportunities represented by high global food prices'.²⁶

Business management skills

7.14 The fishing industry in the region also highlights the potential for Pacific island countries to obtain greater economic advantage from their resources from value-adding. According to a study published by the Australian Centre for Ocean Resources and Security, fisheries 'have long been viewed as the primary development opportunity for many of the region's developing island states'.²⁷ A report on fisheries published by the Pacific Islands Forum Secretariat observed that almost without exception, the Pacific Islanders consulted during the project 'indicated a strong motivation towards capturing more of the wealth generated by regional tuna resources in the domestic economies of Pacific island countries'.²⁸ But, while the region is home to the largest tuna fishery in the world, evidence shows that DWFNs are the major beneficiaries of the resources in the EEZs of Pacific island countries. Mr Theofanes Isamu, Chair of the Forum Fisheries Committee, noted recently that Pacific island countries and territories catch just \$200 million worth of tuna from their fisheries 'while foreign nations fishing in the same waters catch over \$1 billion'.²⁹ Along similar lines, a recent study by the Australian Centre for Ocean Resources and Security found that fishing vessels from distant water fishing nations continue to catch approximately 90 per cent of tuna from FFA members' EEZs.³⁰

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- 26 Secretariat of the Pacific Community, Statement by the Secretariat of the Pacific Community on behalf of Pacific island countries and Territories at the UN-sponsored World Food Summit 08, Rome, 4 June 2008, http://www.spc.int/corp/index.php?option=com_contentandtask=viewandid=236andItemid=1 (accessed 16 January 2009).
- 27 Quentin Hanich, Feleti Teo and Martin Tsamenyi, *Closing the Gaps: Building Capacity in Pacific Fisheries Governance and Institutions*, Australian Centre for Ocean Resources and Security, University of Wollongong, April 2008, p. 23.
- 28 Kate Barclay with Ian Cartright, *Capturing Wealth from Tuna: case studies from the Pacific*, Asia Pacific Press, ANU, Canberra 2007, p. 22.
- 29 Pacific Islands Forum Fisheries Agency, 'Pacific Islands push for action on Bigeye and Yellowfin Tuna at WCPFC this week', 8 December 2008, <http://www.ffa.int/node/101> (accessed 22 December 2008).
- 30 Quentin Hanich, Feleti Teo and Martin Tsamenyi, *Closing the Gaps: Building Capacity in Pacific Fisheries Governance and Institutions*, Australian Centre for Ocean Resources and Security, University of Wollongong, April 2008, p. 24.

7.15 The extent to which Pacific island countries use their marine resources for their own commercial purposes varies greatly. Many Pacific island countries are not engaged directly in commercial fishing. On the other hand, PNG has successfully used its rich tuna resources to its advantage. Mr Kalish noted that PNG has dramatically increased its catch of tuna species within its zone by vessels flying its flag. Since 1996, when the catch was about 20,000 tonnes, it has risen tenfold to more than 200,000 tonnes. In addition, the catch of tuna and tuna-like species, including billfish, in their zone is in excess of 400,000 tonnes.³¹ He said:

They have also increased the capacity of their processing sector, so they have canneries, loining facilities and adequate facilities for shipping the product to other ports. They have been very effective in taking advantage of their resources in the ocean, but also using the capacity they have on land to further value add to the product.³²

7.16 PNG's potential to develop its fisheries industry contrasts with that of many of the smaller Pacific island countries which face 'very basic impediments' to developing the sector, for example access to water.³³ Mr Kalish explained further that it would be difficult for a small operation in a Pacific island country to compete with some established canneries:

The biggest canneries in the world used to be...in Bangkok. Now the cannery in Ecuador at Guayaquil is destined to become the world's largest cannery, and there are vessels from Latin America that are now fishing in the western and central Pacific Ocean and carrying product back to those canneries.³⁴

7.17 While most Pacific island countries may not have the economic infrastructure and, in the case of water, the natural resources to establish processing plants for fish, there are opportunities to extract greater benefit from commercial fishing. ACIAR suggested that Pacific island countries could expand their involvement in the industry by even fairly rudimentary value adding by the owners of the fish stocks before they are exported.³⁵

7.18 The lack of skills and experience in the management and ownership of businesses, however, constrains development in the fisheries sector in Pacific island countries. A recent report concluded that it was a mistake to assume that, because small-scale fishers are skilled at fishing, they can 'upscale to medium and larger scale fishing enterprises'. It cited the findings of another study that 'fishing was different to

31 *Committee Hansard*, 20 November 2008, p. 63.

32 *Committee Hansard*, 20 November 2008, p. 63.

33 *Committee Hansard*, 20 November 2008, p. 63.

34 *Committee Hansard*, 20 November 2008, p. 64.

35 *Committee Hansard*, 20 November 2008, p. 51.

managing fishing and medium and larger-scale fisheries businesses, and small-scale fishers were unlikely to have management skills'.³⁶

Marketing and negotiation skills

7.19 The ability of Pacific island countries to promote and protect their trading interests through qualified personnel, including skilled trade negotiators, is particularly important. Many commentators, however, refer to a lack of capacity among Pacific island countries to negotiate market access and to resolve access issues.³⁷ They point to countries that are chronically under resourced and without the necessary human and physical capabilities to conduct bilateral and multilateral negotiations that are commonplace for most nations.³⁸ For example, the cost of maintaining overseas diplomatic and trade missions on a per capita basis for Pacific island countries is greater than that of more populous countries. Thus, without the resources and skilled personnel, Pacific island countries have a weak voice in international trade negotiations and may find themselves marginalised in a fiercely competitive world market.³⁹ A number of unions argued that it 'is essential that regional negotiating capacity be built alongside the negotiating capacity of individual states and the key stakeholders at all levels of involvement'.⁴⁰

7.20 The returns obtained from DWFNs operating in the EEZ of Pacific island countries illustrate this weakness. To operate in the EEZ of Pacific island countries, DWFNs pay a licence fee to the relevant country. These access and licence fees are a major source of revenue for some Pacific island governments. For example, they contribute between 40 to 60 per cent of government revenues in Kiribati and Tuvalu which rely heavily on this income to deliver basic services for their people.⁴¹ The

36 Kate Barclay with Ian Cartwright, *Capturing Wealth from Tuna: case studies from the Pacific*, Asia Pacific Press, ANU, Canberra 2007, p. 57.

37 Andrew M. McGregor, 'The export of horticultural and high-value agricultural products from the Pacific Islands', *Pacific Economic Bulletin*, vol. 22, no. 3, October 2007, p. 86.

38 See also *Submission 1*, p. 6; *Submission 10*, p. 8.

39 See for example, Commission on Growth and Development, *The Growth Report, Strategies for Sustained Growth and Inclusive Development*, The International Bank for Reconstruction and Development/World Bank, 2008, p. 78, <http://cgd.s3.amazonaws.com/GrowthReportComplete.pdf> (accessed 27 October 2008). See also P.P. Wong, E. Marone, P. Lana, M. Fortes, D. Moro, J. Agard and L. Vicente, 'Island systems' in R. Hassan, R. Scholes and N. Ash, editors, *Ecosystems and Human Well-Being: Current State and Trends: Findings of the Condition and Trends Group* (The Millennium Ecosystem Assessment, vol. 1). Washington, D.C., Island Press, 2005, p. 675. See also Professor Ron Duncan, 'Pacific Trade Issues', Pacific Institute of Advanced Studies in Development and Governance, University of the South Pacific, Suva, Fiji, *ADB Pacific Studies Series*, 2008, p. 24.

40 *Submission 10*, p. 8.

41 DAFF *Submission*, p. 11; OECD, 'Fisheries: Improving Policy Coherence for Development', *Policy Brief*, September 2008, p. 2 and Kiribati—Opening Statement, Fifth Regular Session, 8–12 December 2008, WCPFC5-2008/DP21, 8 December 2008.

findings of a number of studies, however, indicate that access fees are well below the 'true resource rents'.⁴² A recent study by the Australian Centre for Ocean Resources and Security noted that despite their critical dependence on the region's fisheries, 'island FFA members struggle to earn a reasonable return' from the fisheries resources within their EEZs. It argued that historically, the access agreements and other arrangements allowing DWFNs to operate in the region have 'returned more economic benefits to the DWFNs and their vessels than to the island States which own the rights to the fisheries in question'.⁴³ DFAT noted that licence fees paid by the DWFNs amount to a modest US\$60 million per annum, or 4–6 per cent of the total landed value of the fish catch.⁴⁴ Mr Smith, ACIAR, informed the committee:

There is a push by the coastal states to get a greater proportion of that margin, and equally a pushback from the distant water fishing countries to actually hold the line. That tension is really being managed through the Western and Central Pacific Fisheries Commission.⁴⁵

7.21 In some cases, the payment for the rights to fish in a country's EEZ takes the form of development aid or funding for projects. A recent study by the Australian Centre for Ocean Resources and Security stated:

Fisheries resources have also, to a degree, motivated some distant water fishing States to build and maintain relationships throughout the region that include significant aid budgets. These complicated relationships can bring a Pandora's box of development, governance and foreign policy ramifications.⁴⁶

7.22 DAFF's submission also noted that DWFNs 'often tie their access arrangements with contributions to other activities such as building and road

42 OECD, 'Fisheries: Improving Policy Coherence for Development', *Policy Brief*, September 2008, p. 4. The Brief noted that countries in the Pacific region receive on average only between 3–6 per cent of the value of the catch. It suggested that fisheries access agreements 'may be inconsistent with efforts to promote the sustainable development of coastal states'. See also Quentin Hanich, Feleti Teo and Martin Tsamenyi, *Closing the Gaps: Building Capacity in Pacific Fisheries Governance and Institutions*, Australian Centre for Ocean Resources and Security, University of Wollongong, April 2008, p. 25.

43 Quentin Hanich, Feleti Teo and Martin Tsamenyi, *Closing the Gaps: Building Capacity in Pacific Fisheries Governance and Institutions*, Australian Centre for Ocean Resources and Security, University of Wollongong, April 2008, p. 24.

44 *Submission 68*, p. 10. See also OECD, 'Fisheries: Improving Policy Coherence for Development', *Policy Brief*, September 2008, p. 4. As noted previously the Brief stated that countries in the Pacific region receive only 3–6 per cent of the value of the catch. See also Quentin Hanich, Feleti Teo and Martin Tsamenyi, *Closing the Gaps: Building Capacity in Pacific Fisheries Governance and Institutions*, Australian Centre for Ocean Resources and Security, University of Wollongong, April 2008, p. 25.

45 *Committee Hansard*, 20 November 2008, p. 49.

46 Quentin Hanich, Feleti Teo and Martin Tsamenyi, *Closing the Gaps: Building Capacity in Pacific Fisheries Governance and Institutions*, Australian Centre for Ocean Resources and Security, University of Wollongong, April 2008, p. 25.

infrastructure and are proactive about protecting their interests in their continued access to the waters of Pacific island countries'.⁴⁷ Mr Kalish explained:

In many cases the payment is not necessarily in the form of cash. It could be the building of a hospital, the development of freezer facilities or ice production facilities and the like. Some of these activities do not necessarily contribute to the development of the fishing industry in those countries and they also limit the way in which the money can be used.⁴⁸

7.23 If Pacific island countries are to bargain effectively in reaching fishing agreements with DWFNs, they need skilled advocates. As noted by Dr Ben Saul, 'If you have two or three international lawyers in the relevant department in PNG then you simply cannot match the level of analysis of and the amount of resources that you can contribute to international treaty negotiations or free trade deals or whatever'.⁴⁹ The lack of capacity to negotiate means that Pacific island countries are at a disadvantage, compared to the larger DWFNs, when seeking agreement on licensing arrangements.

7.24 Clearly, to ensure that Pacific island countries are able to represent their economic interests effectively in trade negotiations, they need qualified and skilled personnel who can match those they are dealing with. This lack of skilled and trained personnel, mentioned in chapter 2 and again here, is also raised in different contexts throughout later chapters and is one of the dominant themes in this report.

7.25 As the Pacific islands' major trading partner, Australia is in an ideal position to assist these countries to participate more fully and effectively in the region and, more broadly, in world markets.

Mining—expanding export earnings

7.26 A 2007 Pacific Islands Forum paper also recognised the potential for expanding the mining sector in some Pacific island countries. It cited the major mining and energy discoveries and developments in PNG over the recent past and suggested that 'geologically, this potential exists throughout Melanesia, in Solomon Islands, Vanuatu and Fiji'.⁵⁰ Along similar lines, evidence before the committee drew attention to the prospects for expanding mining operations in some Pacific island countries. The Australia Papua New Guinea Business Council noted the potential developments in the commercialisation of Papua New Guinea's energy reserves. In its view, they 'offer export earnings and the opportunity to develop in-country value

47 *Submission 42*, p. 11.

48 *Committee Hansard*, 20 November 2008, p. 66.

49 *Committee Hansard*, 24 March 2009, p. 42.

50 Pacific Islands Forum Secretariat, 'Forum Outlines Key Challenges to Mining', Press Statement, 28 February 2007, <http://www.forumsec.org/pages.cfm/newsroom/press-statements/2007/forum-outlines> (accessed 21 January 2009).

adding industries'. Furthermore, it argued that 'the need to develop PNG's oil and gas is urgent'.⁵¹

7.27 Solomon Islands is another Pacific island country that has much scope to build a mining industry, thereby boosting local employment and associated economic activity and adding to government revenue.⁵²

7.28 Many international companies from Australia, South Africa and Canada are engaged in mining and exploration activities in the region.⁵³ There is also increasing interest in mineral prospecting from companies with origins in China and India.⁵⁴ These large mining and petroleum companies are well equipped to market their products and to negotiate business deals. Apart from environmental concerns, one of the main challenges for Pacific island countries is, therefore, not necessarily generating demand for, or securing access to, markets for their mineral and energy resources. Their main task is to attract foreign investors to help develop their mining sector and to ensure that government revenue derived from mining activities is well managed. In this regard, the mining industry presents another set of problems for countries endeavouring to develop their export markets. These difficulties relate closely to the business and investment environment in Pacific island countries, including economic infrastructure, the skills base, quality and delivery of essential services, the regulatory environment and issues such as law and order and political stability. These challenges in attracting private investors are not confined to the mining sector and are considered in relevant sections in following chapters.

Tourism

7.29 The natural beauty of the region is one of its strongest assets and offers great prospects for economic growth through the tourist industry. Tourism is already an important industry in the region and makes a major contribution to the economies of the Pacific islands. It appears that this niche market offers considerable promise as a way to boost economic development.⁵⁵ For example, the expanding tourism industry in Fiji and Samoa now accounts for about 25 per cent of GDP and some 50 per cent of GDP for the Cook Islands and Palau.⁵⁶ According to DFAT, Tonga's tourist industry is 'modest but with potential for expansion', while 'continuing growth in Vanuatu's

51 *Submission 70*, p. 6.

52 The University of Queensland's Consortium on Community Building and Responsible Resource Development, *Submission 6*, p. 3.

53 New Guinea Gold Corporation, http://www.newguineagold.ca/PNG/papua_new_guinea.html (accessed 24 June 2009).

54 *Minerals for Life*, Quarterly Bulletin, April–June 2008, p. 4.

55 See for example, Pacific Islands Forum Secretariat, *Submission 69*, p. 2.

56 *Submission 31*, p. 5.

tourism sector will be crucial to providing employment opportunities for its young and rapidly growing population'.⁵⁷

7.30 According to Mr Steven Noakes, Pacific Asia Tourism Pty Ltd, tourism can generate 'the biggest multiplier impact from export dollars'.⁵⁸ Among other things, tourism:

- is consumed at the point of production;
- has the potential to support other economic activities;
- is labour intensive and provides a wide range of different employment opportunities for both skilled and unskilled workers;
- creates opportunities for many small and micro entrepreneurs;
- is a source of community pride, promotes local culture and creates a greater awareness of the natural environment and its economic value.⁵⁹

7.31 Tourism provides government with a source of revenue that can be used to promote further economic development.⁶⁰ It also operates as a powerful incentive for countries to create an attractive business environment by investing in infrastructure such as electricity, water reticulation, sewerage and surface transport.⁶¹

7.32 There are, however, some key impediments to developing this industry, including a lack of appropriate skills and training, such as in hospitality (considered in chapter 10). According to an ESCAP study, if the skills shortage does not improve in the near future, 'this could be the major bottleneck for development of the industry'.⁶² Poor economic infrastructure, an unwelcoming investment environment, political instability and uncertain access to land also adversely affect the development of tourism and are discussed in greater detail in later chapters.

Conclusion

7.33 The committee notes the commercial opportunities that exist for Pacific island countries to develop and expand their agricultural and fisheries sectors. In some cases, donor countries such as Australia could assist Pacific island countries to become more internationally competitive. They would benefit from research and development

57 DFAT website, country information, <http://www.dfat.gov.au/geo/tonga/index.html> (accessed 15 October 2008).

58 *Committee Hansard*, 26 March 2009, p. 60.

59 *Submission 31*, p. 2.

60 For example, Qantas noted that for many Pacific island countries 'the potential to increase receipts from tourism is seen as a better long-term prospect', *Submission 41*, p. 2.

61 *Submission 41*, p. 2.

62 ESCAP, *Improving Employment opportunities in Pacific Island Developing Countries*, 2007, p. 19.

designed to improve the quality and reliability of products suitable for export. The committee also notes that Pacific island countries face difficulties meeting the import requirements of overseas markets. There is potential for Australia to assist these countries in this regard through helping them to understand the requirements of importing countries and to build the technical capacity needed to be able to satisfy international standards. Pacific Island countries would also benefit from capacity building in the areas of business management, marketing, trade negotiation and industry specific skills such as hospitality.

Chapter 8

Australia's assistance—expanding markets

8.1 As chapter 7 makes clear, Pacific island countries have great potential to develop their economies especially through securing and expanding export markets for their products and services. It noted, however, a number of factors that close off these commercial opportunities. As a major donor to the region, Australia is ideally placed to assist Pacific island countries open up these opportunities. In this chapter, the committee describes some of the steps Australia is taking to help countries in the region grow their economies through trade.

Research and development

8.2 ACIAR is aware of the importance of bridging the 'disconnection between the farmers and the markets'.¹ In its research and development programs, ACIAR takes account of food production as an export commodity. Indeed, part of ACIAR's research is focused on identifying and evaluating market constraints with a view to improving profitability as well as sustainability. It uses a multidisciplinary approach to its research, including social and economic research, to motivate small farmers to link into markets.² In its proposed 2009–10 Annual Operation Plan, ACIAR stated that its aim was to provide additional opportunities to increase farm income and to maximise returns from market development. It would give attention to value-adding to agricultural, fisheries and forestry products.³ For example, in its Fiji program, ACIAR has placed a high priority on economic and technical research aimed at developing crop and agricultural industry alternatives to sugar.⁴ Dr Hearn believed that scientifically ACIAR, which is working with Fiji researchers, was 'making headway there...and certainly getting the marketability of those crops and hopefully the export'.⁵

8.3 With regard to fishing, ACIAR noted that its research aimed 'to underpin the scientific data for good decision making and, secondly, to try to get a bit more value adding'. It acknowledged that Pacific island countries confront major challenges in becoming more involved in the processing of fish products for export. Dr Hearn stated:

1 *Committee Hansard*, 20 November 2008, p. 41.

2 *Committee Hansard*, 20 November 2008, p. 41.

3 *Submission 67*, p. 24.

4 *Submission 67*, p. 15.

5 *Committee Hansard*, 20 November 2008, p. 46.

...one of the ambitions is to research into how early stage value adding can be undertaken so it is not just becoming a case of sending raw fish all the time.⁶

Non-tariff barriers

8.4 The committee noted the difficulties that Pacific island countries have in meeting the import requirements of overseas countries. As major markets for produce from Pacific island countries, Australia and New Zealand are particularly important. A recent analysis noted that Forum island countries (FICs) have raised concerns about the implementation of sanitary and phytosanitary measures in Australia and New Zealand. It found that most FICs have limited resources to overcome Australian/New Zealand quarantine requirements. It stated:

Many do not have adequate treatment facilities to eliminate pests in the pre-shipment phase and treatment options at the border can diminish the value of goods as, for example, would fumigation of organic produce. Both Australia and New Zealand require import permits for quarantine materials to be obtained in advance, which can be a difficult administrative barrier. Permits are emphasized in particular for fresh fruit or vegetables or any food item containing dairy, egg, meat, or animal products.⁷

8.5 Some witnesses supported the view that Pacific island countries find Australia and New Zealand's regulations governing agricultural importation 'hard to understand and comply with'.⁸ For example, Mr Jim Redden, Institute for International Trade, informed the committee that quarantine—high sanitary and phytosanitary standards—is one of the main impediments Pacific island countries face in gaining access to Australia's market.⁹ The Australia Pacific Islands Business Council cited particular examples of the non-tariff barriers that exist in the region. It understood that limitations exist on the import of meat products into Australia from some Pacific island countries because 'abattoir facilities do not meet Australian quarantine standards'. It suggested:

Australia could assist the development of viable primary industries in these countries by providing support through the aid program for bringing up to standard facilities in Pacific Island countries which restrict their ability to meet Australian quarantine and health standards.¹⁰

6 *Committee Hansard*, 20 November 2008, p. 51.

7 Nathan Associates Inc., *Pacific Regional Trade and Economic Cooperation Joint Baseline and Gap Analysis*, submitted to Pacific Islands Forum Secretariat, December 2007, p. 10.

8 *Committee Hansard*, 25 March 2009, p. 31. The Asian Development Bank also made this observation, in *Transforming Tonga*, 2008, p. 37. It suggested that 'Quarantine regulations in Australia and New Zealand present a major barrier to Tongan exporters'.

9 *Committee Hansard*, 25 March 2009, p. 31.

10 *Submission 60*, p. 7.

8.6 The Council also referred to the difficulties encountered importing tuna or any other fish species into Australia, and then the requirement to obtain a re-export permit to export the same product to other Pacific island countries. In its view, the regulations of the Australian Quarantine and Inspection Service (AQIS) are 'unnecessarily restrictive, and it is proving very difficult to obtain export permits, not to mention the time involved in inspections plus the cost of inspections to have the re-export permit granted'.¹¹

8.7 The Department of Agriculture, Fisheries and Forestry (DAFF) is engaged in activities designed to assist Pacific island countries understand and meet international standard processes and to build capacity to develop national food regulatory frameworks. In conjunction with other government agencies, it is 'involved to the extent resources permit in a range of mutually beneficial capacity building activities aimed at addressing some of these challenges' in biosecurity in quarantine systems, and participation in international standard setting processes.

8.8 Mr Paul Ross, DAFF, explained that their assistance had 'primarily been in terms of providing training and increasing awareness of the requirements for international trading'.¹² DAFF gave the example of funding Pacific island participants to attend seminars and forums on food import and export inspection and certification systems, establishing standards for plants and food that are traded internationally and on animal standard setting.¹³

8.9 The department described its budget as 'modest' with the vast majority of its aid money coming from external sources. Mr Ross informed the committee that it uses AusAID funding and is 'involved in programs that they undertake'. From time to time it has also used funds from the Food and Agricultural Organization of the UN.¹⁴

8.10 Mr Redden cited the beef industry in Vanuatu as an example of the benefits to be gained from Australian assistance in quarantine matters. He noted that although Vanuatu has a good beef industry, it was 'having great problems getting access to the markets of Australia and New Zealand'. Together, the Vanuatu, Australian and New Zealand Governments worked successfully to enable Vanuatu's beef industry to meet Australia and New Zealand's quarantine standards. According to Mr Redden, beef from Vanuatu is now exported across the Pacific to Australia, New Zealand and even Japan.¹⁵

8.11 He was strongly of the view that despite the current global financial crisis, Australia needs 'to stick to building the fundamentals of reform, the fundamentals of

11 *Submission 60*, p. 6.

12 *Committee Hansard*, 20 November 2008, p. 54.

13 *Submission 42*, p. 8 and *Committee Hansard*, 20 November 2008, p. 54.

14 *Committee Hansard*, 20 November 2008, pp. 54–55.

15 *Committee Hansard*, 25 March 2009, p. 27.

competitive productivity, of increasing the education and training and the capacity building commitments to the Pacific islands'. To his mind, based on past successes, this approach was 'the way forward'.¹⁶ In this regard, the committee notes that the Minister in his 2009 Budget Statement cited the Pacific Regional Agricultural Marketing Access Program which is intended to increase agricultural exports to Australia and other destinations by helping Pacific island countries meet trading partners' quarantine requirements.¹⁷ This program provides an ideal opportunity for Australia to review its own requirements to ensure that its importing regime is not unnecessarily onerous for Pacific island countries.

8.12 The Pacific Islands Forum has also established a regional Trade Facilitation Programme which is managed and coordinated by the Secretariat and funded by Australia and New Zealand. Its main concern is with the harmonisation of procedures, process and policies affecting the movement of goods across the region, including sanitary and phytosanitary measures. The Pacific Islands Forum Secretariat is also exploring the potential of using aid for trade funding to help remove the trade supply-side constraints.¹⁸

Committee view

8.13 The committee supports the work that Australian agencies are doing in assisting Pacific island countries overcome some of the barriers that impede the development of export markets for their products.

Trade negotiation skills

8.14 The chronic lack of trade and negotiation skills in Pacific island countries constrains their capacity to bargain and market themselves effectively in the global economy. Australia's efforts to assist Pacific island countries build trade negotiating skills is closely associated with the proposed PACER Plus agreement, an initiative still in its early stages.

PACER Plus

8.15 In 2007, the Australian Government indicated it would commence preparations for the negotiation of a comprehensive trade and economic agreement between Australia–New Zealand and Pacific Islands Forum countries ('PACER Plus'). The agreement was to establish a framework for the gradual trade and

16 *Committee Hansard*, 25 March 2009, p. 27.

17 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, Budget Statement 2009–10: Australia's International Development Assistance Program, 12 May 2009, p. 20.

18 Pacific Island Countries Secretariat website, 'Aid-for-trade and project proposal formulation', <http://www.forumsec.org.fj/pages.cfm/speeches-2006/sg-foc-speech-.html>

economic integration of all 16 Forum members and was to have a strong capacity building component.¹⁹ The then Minister for Foreign Affairs noted:

Under the agreements, we could provide more aid targeted at economic growth or, in some cases, the establishment of trust funds. We could offer assistance with attracting investment and promoting trade; help Pacific countries meet Australian import requirements for their export products; and provide assistance with infrastructure projects that help build the capacity to trade.²⁰

8.16 Elected in 2007, the new Australian Government supported the emphasis placed on capacity building in PACER Plus. In August 2008, the Prime Minister, Mr Kevin Rudd, stated that the government's intention was to have an integrated trade and development assistance approach 'looking at incorporating capacity building into the agreement'.²¹ The current Minister for Trade similarly indicated that PACER Plus would be a 'truly trade-plus agreement' and have capacity-building assistance as a central tenet of the agreement.²²

8.17 Progress toward this agreement has been slow and the recent Forum Leaders' meeting held in August 2009 indicated that a lot of preparatory work still remained. At this meeting, Leaders 'directed that Trade Ministers should discuss a framework for PACER Plus negotiations including timelines and identification of issues'.²³

8.18 The Institute for International Trade envisages that PACER Plus could, among other things, seek to address barriers to economic integration and assist with the trade-related capacity-building needs of PNG and the southwest Pacific. At the moment, the institute offers a Pacific Islanders Trade Training Program. Under this program, it conducts trade training modules of one week's duration for Pacific Islanders. The aim in general is to strengthen trade policy knowledge and develop participants' capacity to negotiate trade agreements. The program is also intended to 'deal extensively with the benefits and challenges of a PACER Plus trade agreement for the region'. The first module held in September 2008:

19 Department of Foreign Affairs and Trade, *Trade Statement 2007*, pp. 87–88.

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

21 The Hon Kevin Rudd MP, Prime Minister of Australia, 'Even Closer Economic Relations', Speech to Australian and New Zealand CEOs at a lunch hosted by the Auckland Chamber of Commerce, 19 August 2008, http://www.pm.gov.au/media/speech/2008/speech_0433.cfm (accessed 26 September 2008).

22 The Hon Simon Crean MP, Minister for Trade, 'Enhancing prosperity in the Pacific', Third Informal Meeting of Officials on PACER Plus, Adelaide, 16 February 2009, http://www.trademinister.gov.au/speeches/2009/090216_pacer.html (accessed 30 April 2009). See also *Submission 42*, p. 5.

23 Pacific Islands Forum Secretariat, *Forum Communiqué*, Fortieth Pacific Islands Forum, Cairns, Australia, 5–6 August 2009, paragraph 22.

...produced a very practical, down to earth discussion of the realities facing Pacific island nations, their trade related development priorities and initial discussion of some key negotiating priorities.²⁴

8.19 In March 2009, Mr Redden explained the involvement of Pacific Islanders in module three of the program:

...we have 20 officials arriving next week...Originally we catered for 14 representatives, one from each of the 14 Pacific island forum countries. Since then the demands have been so great they want extra officials to come along to attend the training so we are stretching the AusAID budget, but we are now up to 20 officials coming and they are still asking for more representation. It shows the thirst for knowledge and the desire of Pacific island officials to receive this sort of training. They are extremely bright and enthusiastic and pick up the fundamentals of negotiation and are very keen to look after the interests of their people.²⁵

8.20 The fourth module in May 2009 'dealt with the complex issues of labour mobility and agriculture'. It discussed, *inter alia*, 'the history and current dilemmas facing agricultural trade negotiators in the WTO and in preferential trade agreements' and the future for Pacific Islands 'to increase food production while increasing food security options'.²⁶

Committee view

8.21 The committee sees great value in the trade negotiating training programs conducted by the Institute for International Trade. Although linked closely with the proposed PACER Plus agreement, the committee sees a broader benefit in the program dealing with trade issues of relevance to Pacific Islanders that may not tie directly to this particular agreement. It would like to see the program continue, regardless of progress toward PACER Plus, and even expand to include more of the technical issues associated with the non-tariff barriers to trade in the region. DAFF and AQIS would be ideal partners to assist develop, and participate in, this aspect of the training modules.

Recommendation 4

8.22 The committee recommends that the government continue to support the work of the Institute for International Trade in conducting training modules for Pacific islanders. It also recommends that the government consider expanding these courses to include more of the technical issues associated with the non-tariff barriers to trade in the region. Further, that the Department of Agriculture,

24 The University of Adelaide, Institute for International Trade, 'Capacity Building in Developing Countries', <http://www.iit.adelaide.edu.au/educ/develop> (accessed 13 July 2009).

25 *Committee Hansard*, 25 March 2009, p. 28.

26 The University of Adelaide, Institute for International Trade, 'Capacity Building in Developing Countries', <http://www.iit.adelaide.edu.au/hot/> (accessed 13 July 2009).

Fisheries and Forestry and the Australian Quarantine and Inspection Service assist as partners in the development and delivery of such training modules.

Concerns about PACER Plus

8.23 As noted above, PACER Plus is still in an early stage of development. During the inquiry, some witnesses raised a number of specific issues about the proposed agreement, including the consultation process and social impact assessments. In this regard, at the Recent Forum Leaders' meeting, Leaders noted 'the need for Forum Island Countries to undertake national consultations with all stakeholders and capacity building for negotiations'.²⁷ The committee underlines the importance of undertaking broad consultations that would take account of the social implications of a PACER Plus agreement.

Mining

8.24 According to a number of witnesses, the PNG LNG project is one particular commercial enterprise that has enormous potential to lift PNG's economic productivity and consequently assist directly in alleviating poverty in the country. They identified a clear role for Australia to be a partner with PNG in supporting this enterprise. Esso was of the view that, in this regard, Australia could make a significant contribution for example, through capacity building, partnerships and embedded consultants in various departments—Department of Petroleum and Energy; Department of Lands and Physical Planning; Department of Environment and Conservation.²⁸ Mr Peter Graham, Esso Highlands Ltd, singled out two particular areas in which the Australian Government could assist the PNG Government to involve its people and business in the project. They were through:

- workplace development, creating local jobs and training people in technical and professional skills needed during the construction phase; and
- supplier development, purchasing local goods and services, transferring knowledge and skills and increasing targeted local suppliers' capabilities to help meet global standards.²⁹

8.25 Mr Graham informed the committee that Esso was pleased with the Australian Government's response to the request from the Government of PNG for assistance. In a joint communiqué, Australia indicated that it would begin:

...to work with Exxon Mobil to assist Port Moresby Technical College to develop in PNG the skills required for the LNG project. Over time, this

27 Pacific Islands Forum Secretariat, *Forum Communiqué*, Fortieth Pacific Islands Forum, Cairns, Australia, 5–6 August 2009, paragraph 22.

28 *Committee Hansard*, 26 March 2009, p. 39.

29 *Committee Hansard*, 26 March 2009, p. 39.

focus will be broadened to include other technical colleges and areas of tertiary education.³⁰

8.26 Recently, AusAID informed the committee that Australia was ready to move forward to support the Port Moresby Technical College which would form a key part of the Higher Education Schedule in the PNG–Australia PPD.³¹

8.27 Clearly, there is much scope for the Australian Government to assist the Government of PNG to support and facilitate this project and any other large scale mining operation in Pacific island countries, thereby increasing local capacity and economic activity. Assistance could be of benefit in a number of important areas, including special skills training, managing revenue earned from such enterprises and the government's administrative capacity to analyse impact statements and process numerous licence applications. For example, the Maritime Union of Australia noted the potential for the Queensland and the Federal governments to work with unions in the development of a sustainable skill base to ensure that labour from both countries would be available for projects as required.³² It referred to a capacity-building model developed by the ACTU and affiliated unions when the PNG gas and pipeline project was under active consideration. It suggested:

In relation to projects such as the PNG Gas project, Australia is well positioned to provide regional leadership in building the maritime skills base in the region. Australia has a world class maritime training and education system, represented by colleges like the Australian Maritime College in Launceston, Challenger TAFE in Fremantle, the Hunter Institute at Newcastle, the Maritime Skills Centre in Port Adelaide and the maritime studies centres in a number of our Universities such as Wollongong.³³

8.28 It noted the unions' model has application to the PNG LNG project:

The idea behind the PNG LNG Project was to build capacity by training PNG nationals in Australia and ensuring that they gained relevant work experience in key industry sectors. This example centres on building the economy through skills and education.³⁴

8.29 The Maritime Union of Australia recommended that AusAID become involved in such joint projects to work alongside the stakeholders to assist with advice

30 Australian High Commission Papua New Guinea, 'Joint Communiqué on the PNG–Australia Partnership for Development', Media release, 3 November 2008, <http://www.png.embassy.gov.au/pmsb/MR081104.html> (accessed 7 April 2009).

31 AusAID, answer to written question on notice no. 9 following public hearing on 19 June 2009.

32 *Submission 52*, p. 5.

33 *Submission 52*, p. 6.

34 *Submission 52*, p. 5.

and resources and to monitor the effectiveness of the model.³⁵ The matter of developing skills is discussed in a later chapter.

Tourism

8.30 The committee has noted that tourism is likely to provide great opportunities for economic growth and that a number of donor countries have been active in assisting this sector as a means of alleviating poverty. Mr Noakes, Pacific Asia Tourism Pty Ltd, cited the work of the New Zealand Government which, in his view, had been 'very proactive' for many decades in supporting the development of sustainable tourism in the region.³⁶ According to Mr Noakes, for over 20 years Europe has also been a major contributor to the region in developing tourism in areas including infrastructure—seaports and airports, training institutions—and support for marketing or small business development. He also referred to the success of the US global development alliance concept, which includes a tourism component.

8.31 Pacific Asia Tourism informed the committee, however, that Australia had not shown the same level of engagement of many other OECD economies in using tourism as one of its tools to achieve its international development agenda:

Compared to most OECD countries, Australia has been a slow mover in developing an understanding and applying practical applications which include developing Pacific island tourism within programs offered via agencies such as AusAID.³⁷

8.32 Mr Noakes suggested:

There is a growing understanding out of Australia—catching up with our colleagues in the Northern Hemisphere—of how sustainable tourism can be a tool to assist in the reduction of poverty in the developing world... We have an enormous collective capacity to assist and do more in the Pacific islands than we have done here in Australia.³⁸

8.33 In his view, different Australian governments have taken some action in this sector, but it has been 'relatively fragmented and ad hoc and certainly not part of the strategic agenda for Australia's engagement'. He contended:

If you look at the AusAID website or if you knock on the door of AusAID in Canberra and you talk tourism, there is just nobody at home. It does not fit.³⁹

35 *Submission 52*, p. 5.

36 *Committee Hansard*, 26 March 2009, p. 52.

37 *Submission 31*, p. 2.

38 *Committee Hansard*, 26 March 2009, p. 53.

39 *Committee Hansard*, 26 March 2009, pp. 52 and 54.

8.34 He pointed out that the tourism sector in the Pacific needs skills that the islanders could learn in places like Australia, while the Australian industry may require skills that South Pacific islands can fill. He argued that the expansion of unskilled, temporary migration opportunities for Pacific islanders to work in the tourist and hospitality sector in Australia would be desirable and support both the Australian and Pacific tourist industries.⁴⁰ Again this matter of skills development is taken up in a later chapter.

8.35 Mr Noakes was also of the view that the Australian Government could develop something similar to a Pacific island sustainable tourism growth and opportunity strategy that would identify and address key barriers to tourism and trade in the region.⁴¹ Furthermore, he saw an opportunity for partnerships between AusAID and USAID in terms of sustainable tourism.⁴² Pacific Asia Tourism noted a number of initiatives and made suggestions associated with the tourism industry that Australia could implement to benefit the economies of Pacific island countries. They included that the Australian Government:

- adopt pro-poor tourism strategies and agreements in the Pacific Islands that have 'imagination and political will';
- through AusAID, place sustainable tourism amongst its key priorities for infrastructure and entrepreneurial support for the Pacific Islands;
- expand unskilled temporary migration opportunities for Pacific Islanders to work in the tourism and hospitality sector in Australia;
- develop a strategy that would identify and address key barriers to the tourism trade in the Pacific Islands; and
- support micro-financing instruments for community-based tourism projects.⁴³

8.36 Pacific Asia Tourism also recognised the important role of the South Pacific Tourism Organisation (SPTO) as the peak agency for the region but noted that it suffers from lack of resources to undertake its vital work for the Pacific destinations.⁴⁴ It suggested that SPTO needs a 5-year rolling commitment from the Australian

40 *Committee Hansard*, 26 March 2009, p. 54.

41 *Committee Hansard*, 26 March 2009, p. 55.

42 *Committee Hansard*, 26 March 2009, p. 57.

43 *Submission 31*, pp. 5–7.

44 According to its website, the South Pacific Tourism Organisation (SPTO) is the mandated inter-governmental organisation for the tourism sector in the South Pacific. In the early 1980s an informal association of South Pacific national tourism organisations was formed, which subsequently became the SPTO. SPTO is an organisation with a membership that substantially represents both the public and private sectors.

<http://www.spto.org/spto/export/sites/spto/about/index.html> (accessed 29 April 2009).

Government to underpin some of its key functions. AusAID informed the committee that it does not provide funding to the SPTO.⁴⁵

8.37 It should be noted that at their recent meeting in August, Leaders agreed that providing greater support to tourism, described as the region's largest economic driver, was a priority area.⁴⁶

Committee view

8.38 The committee notes the criticism levelled at Australia's approach to using tourism as a way to alleviate poverty through economic development, particularly the observation that Australia's actions have been 'relatively fragmented and ad hoc and certainly not part of the strategic agenda for Australia's engagement'.⁴⁷

Recommendation 5

8.39 In light of the growing awareness among major donors (EU, US and New Zealand) of the value of using sustainable tourism to assist developing countries alleviate poverty and promote broad-based economic growth, the committee recommends that the Australian Government incorporate this sector as an identifiable program in its ODA policy framework for the region.

Pacific Investment Commissioner

8.40 The committee has noted the difficulties that Pacific island countries have in promoting their products in the global economy. There is no doubt that Pacific island countries are perceived by the outside world, including Australia, as offering limited commercial opportunities. Austrade informed the committee that:

...in a highly competitive world where attractive business destinations offer opportunities through expanding infrastructure, increasing consumer affluence and prosperous and growing markets, the image of the Pacific lags.⁴⁸

8.41 According to Mr Pat Stortz, Austrade, when people are considering investing, they think of growth markets such as Asia, China, India, the Middle East and not normally of investment opportunities in the Pacific unless it is in the resort or hotel business.⁴⁹ The appointment of an Australian Pacific Investment Commissioner was an Australian initiative designed to help Pacific island countries attract overseas

45 AusAID, answer to written question on notice no. 1 following public hearing on 19 June 2009.

46 Pacific Islands Forum Secretariat, *Forum Communiqué*, Fortieth Pacific Islands Forum, Cairns, Australia, 5–6 August 2009, Annex C, 'Recommendations for Progressing the Pacific Plan', paragraph v.

47 Steven Noakes, *Committee Hansard*, 26 March 2009, p. 52.

48 *Submission 61*, p. 8.

49 *Committee Hansard*, 20 November 2008, pp. 22–23.

interest. The Australian Government's first Pacific Investment Commissioner was appointed in August 2006 for a two-year trial. A joint initiative of AusAID and Austrade, this position was intended to facilitate 'new sustainable Australian private sector investment projects throughout the South Pacific'.⁵⁰ The commissioner was to help Australian companies to identify and progress joint ventures and commercial partnerships in PNG, Fiji, Solomon Islands, Vanuatu, Samoa, Tonga, Kiribati, Cook Islands, Tuvalu, Nauru and New Caledonia. His role consisted of 'both educating Australian companies about the opportunities and finding credible opportunities in the Pacific' that he could bring back to Australia.⁵¹

8.42 The commissioner's work included some institutional strengthening in the form of bringing senior people from investment promotion agencies (IPAs) from across the Pacific to Brisbane to run an intensive course on strategies to attract foreign investment. According to Austrade:

That was done to build the skills of those IPAs in the region, as well as to build a network for the then new Pacific Investment Commissioner to know who is out there and to begin to develop relationships so that they could work together in facilitating that investment.⁵²

8.43 Mr Stortz said that the work of the commissioner 'got a lot of profile and a lot of interest and we have got a very good portfolio of Australian companies now who are genuinely interested in investing if the right opportunity comes up'.⁵³ He stated that raising the 'importance of investment to a lot of senior people in the island states, including politicians' was also a positive outcome. According to Mr Stortz, the commissioner sent a very positive message and quite often he received 'front-page local newspaper coverage when he arrived in the smaller island states, even places like Samoa and Tonga'.⁵⁴ DFAT's 2007 trade statement also noted that companies in Australia and the Pacific were benefiting from the work of the commissioner.⁵⁵

8.44 Based on positive responses to the initiative, Mr Stortz contended that there was 'scope out there and it is just a matter of raising awareness of the interest on the part of Australian companies to engage and invest'.⁵⁶ Austrade informed the committee that the trial had finished in August 2008 and it was keen to pursue the initiative.⁵⁷ Mr Stortz concluded:

50 Department of Foreign Affairs and Trade, *Trade Statement 2007*, pp. 87–88.

51 *Committee Hansard*, 20 November 2008, p. 24.

52 *Committee Hansard*, 20 November 2008, p. 21.

53 *Committee Hansard*, 20 November 2008, p. 25.

54 *Committee Hansard*, 20 November 2008, p. 25.

55 Department of Foreign Affairs and Trade, *Trade Statement 2007*, pp. 87–88.

56 *Committee Hansard*, 20 November 2008, p. 23.

57 *Committee Hansard*, 20 November 2008, pp. 21 and 23.

...we have done the homework, we have done the spadework, and now we want to do the engagement between the potential investors from Australia and the opportunities that we have identified overseas.⁵⁸

8.45 He explained, however, that the organisation was not resourced for outwards investment and therefore would be totally reliant upon AusAID to fund the position of a Pacific Investment Commissioner.⁵⁹ In June 2009, AusAID informed the committee that the commissioner program was still being 'reviewed'.⁶⁰

Recommendation 6

8.46 The committee notes the positive results from the two-year trial of an Australian Pacific Investment Commissioner and recommends that the Australian Government give serious consideration to the re-appointment of, and funding for, a Pacific Investment Commissioner.

Conclusion

8.47 In examining the economic challenges facing Pacific island countries, the committee so far has concentrated on food security and sustainable development. Following this consideration, the committee described Australia's research and capacity-building programs designed to assist Pacific island countries in these areas. It also looked at the potential for Pacific island countries to increase economic activity through expanding markets for their goods and services. In this regard, the committee described Australian research and capacity building programs directed at helping Pacific island countries overcome some of the barriers to trade.

8.48 In the following chapters, the committee continues its examination of the challenges and impediments to economic growth in Pacific island countries, including economic infrastructure, skills, government effectiveness and the business environment.

58 *Submission 61*, p. 4 and *Committee Hansard*, 20 November 2008, p. 25.

59 *Committee Hansard*, 20 November 2008, p. 24.

60 *Committee Hansard*, 9 June 2009, p. 61.

Chapter 9

Business environment—infrastructure

9.1 To develop and grow, an economy needs the support of key physical infrastructure—airports, roads, ports, electricity, water and telecommunications. The geographic isolation, small and dispersed populations and susceptibility to natural disasters makes the development and maintenance of infrastructure a major challenge for Pacific island countries.¹ Poor economies of scale mean that it is more difficult and expensive to provide facilities and services. Their weak fiscal situation, evident in their reliance on official development assistance, also makes it harder for Pacific island countries to devote resources to building necessary infrastructure.² This chapter examines the state of infrastructure in Pacific island countries and its role in economic development.

State of infrastructure

9.2 In 2006, a World Bank study found that Pacific island countries 'demonstrate worse infrastructure performance than could be expected for their level of GDP'. It accepted that the costs of providing infrastructure services are naturally high in the Pacific but argued:

...in some Pacific countries infrastructure performance is worse than in comparator countries (such as Caribbean islands) with similar levels of income, and which share some 'disadvantages', such as small scale or vulnerability to natural disaster. Even within the Pacific region, some countries with greater inherent challenges demonstrate better performance in certain infrastructure sectors.³

9.3 In its view, 'the inherent disadvantages of scale and topography alone cannot explain poor performance in infrastructure...some underperformance is due to poor

1 For example, the Department of Infrastructure, Transport, Regional Development and Local Government noted the geographic isolation, climatic extremes and 'massive infrastructure shortfalls that make transport a particularly challenging issue for the region'. *Committee Hansard*, 20 November 2008, p. 72.

2 See for example, World Bank, *The Pacific Infrastructure Challenge: A review of obstacles and opportunities for improving performance in the Pacific islands*, January 2006, p. 4, <http://siteresources.worldbank.org/INTPACIFICISLANDS/Resources/PacificReportFinal.pdf> (accessed 2 December 2008).

3 World Bank, *The Pacific Infrastructure Challenge: A review of obstacles and opportunities for improving performance in the Pacific islands*, January 2006, p. 4, <http://siteresources.worldbank.org/INTPACIFICISLANDS/Resources/PacificReportFinal.pdf> (accessed 2 December 2008).

institutional performance'.⁴ The study concluded that 'better policies, institutions and management can help to improve the overall level of infrastructure performance in Pacific countries'.⁵

9.4 Evidence before the committee highlighted the poor state of economic infrastructure across the region.⁶ Witnesses noted deficiencies in roads, bridges, the supply of energy, potable water, telecommunications, aviation and shipping facilities.⁷

Infrastructure and economic performance

9.5 Many reviews and surveys by international and regional bodies draw a direct connection between economic infrastructure and economic development and share the view that infrastructure throughout the region is a major barrier to economic development and investment.⁸ The Australia Pacific Islands Business Council and the Australia Fiji Business Council noted the economic consequences that all countries in the region face because of deteriorating infrastructure. They argued:

Without good infrastructure no business, whether private or government, will thrive and remote communities especially will remain weak and be denied access into the mainstream economy.⁹

4 World Bank, *The Pacific Infrastructure Challenge: A review of obstacles and opportunities for improving performance in the Pacific islands*, January 2006, p. 4, <http://siteresources.worldbank.org/INTPACIFICISLANDS/Resources/PacificReportFinal.pdf> (accessed 2 December 2008).

5 World Bank, *The Pacific Infrastructure Challenge: A review of obstacles and opportunities for improving performance in the Pacific islands*, January 2006, p. 5.

6 See for example, Mr John Millet, *Submission 21*, p. 6. A number of unions argued that many Island States have experienced 'a decrease in standards of infrastructure, often accompanied by a failure to keep pace with demand as populations increase and there is also a common drift to urban areas'. *Submission 10*, p. 6. See also Anis Chowdhury and Yogi Vidyattama, 'Macroeconomic Policies for Growth in Small Pacific Islands Economies', UN University, World Institute for Development Economics Research, Research Paper no. 2007/24, May 2007, p. 1.

7 *Submission 60*, p. 8 and *Submission 58*, p. 10. ANZ noted that 'Critical utilities for economic growth, including potable water, electricity and telecommunications, are not widely available in PNG, especially in rural areas'. *Submission 51*, p. 5. The Pacific Islands Forum Secretariat cited the failure to maintain water supply assets, except in Vanuatu and PNG, which 'accounted for approximately 20 to 30 [per cent] of loss through undetected leakages and illegal connections'. *Submission 69*, p. 15.

8 OECD, the Development Assistance and Investment Committees and the OECD's Development Co-operation Directorate and the Directorate for Financial and Enterprise Affairs. 'Mobilising Private Investment for Development: Policy Lessons on the Role of ODA', *The DAC Journal*, vol. 6, no. 2, 2005, pp. 14–15. AusAID, *Pacific 2020 Challenges and Opportunities for Growth*, May 2006, p. 57; IMF Executive Board Concludes 2007 Article IV Consultation with Papua New Guinea Public Information Notice (PIN) No. 08/32, 12 March 2008, <http://www.imf.org/external/np/sec/pn/2008/pn0832.htm> (accessed 9 October 2008); *Submission 68*, pp. 4 and 10; *Submission 69*, p. 15.

9 *Submission 60*, p. 8 and *Submission 58*, p. 10.

9.6 For example, a number of Pacific island countries have noted the lack of marketing facilities, including effective storage and processing facilities, as a major impediment to trade in agricultural products.¹⁰

9.7 Companies engaged in the Pacific have no doubt that the state of economic infrastructure influences business decisions. Gladstone Pacific Nickel Ltd noted that one of the major impediments to the progress of a major project to mine lateritic nickel ore in the Solomon Islands was a lack of infrastructure.¹¹ ANZ's operations in PNG are confined to those areas of the country where it has access to infrastructure and utilities that can reliably support its operations. In its view, 'infrastructure development and maintenance represents an ongoing barrier to PNG's economic growth and one which requires a comprehensive policy response'. ANZ argued:

Addressing some of PNG's infrastructure constraints, including poor road and telecommunication networks, would help connect rural areas with commercial hubs, enable farmers to get their produce to market, improve access to services (including banking services) and information and reduce the cost of doing business in PNG more broadly.¹²

9.8 A number of other witnesses similarly contended that providing roads may be one of the most efficient ways to stimulate economic growth in areas not served by roads.¹³ Dr Hearn noted that quite often the production at the farm level is being achieved, but developing marketing systems that could get produce into the towns or export markets would be 'a tremendous breakthrough'.¹⁴ He suggested that governments and/or aid donors could help by improving infrastructure—not necessarily double-laned highways—to enable people to get their produce to market.¹⁵ Clearly, an improvement in physical infrastructure, including at a regional level, could pave the way for new or expanding industries.¹⁶

10 See chapter 7, paragraphs 7.8–7.9 and also representations from Kiribati, Tonga, Vanuatu, *Report of the 3rd Regional Meeting of Heads of Agriculture and Forestry Services (HOAFS)*, 3–5 September 2008, pp. 25, 28 and 29. Fiji Government Online, J Cokanasiga, Minister for Primary Industry and Sugar, 'Remarks at the Fiji College of Agriculture', 10 December 2008, http://www.fiji.gov.fj/publish/printer_13707.shtml

11 Presentation Memorandum to the Australia Pacific Islands Business Council, attachment to *Submission 60*.

12 *Submission 51*, p. 5.

13 See chapter 7, paragraphs 7.8–7.9 and Asian Development Bank, *Tonga: Outer Islands Agriculture Development Project*, Performance Evaluation Report, July 2006, p. 22.

14 *Committee Hansard*, 20 November 2008, pp. 44–45.

15 *Committee Hansard*, 20 November 2008, pp. 44–45.

16 OECD, The Development Assistance and Investment Committees and the OECD's Development Co-operation Directorate and the Directorate for Financial and Enterprise Affairs. 'Mobilising Private Investment for Development: Policy Lessons on the Role of ODA', *The DAC Journal*, vol. 6, no. 2, 2005, p. 28.



Deteriorating infrastructure is a major barrier to economic development in many Pacific island countries. Australia's aid program targets infrastructure for example through the Regravelling and Sealing Project, one of Australia's biggest aid projects in PNG in recent years (image courtesy of AusAID).

Funding

9.9 Adequate funding is needed for developing and maintaining necessary infrastructure to support business.¹⁷ But a recent study by the ADB noted that funding for rural development had fallen short in many Pacific islands countries. It cited Solomon Islands where, for example, '80 per cent of the national road network is not maintained and is out of service as a result, and 68 per cent of villages have no road access at all due to historic underinvestment'. It reported further that under-funding had extended to 'irrigation systems, wharves, coastal shipping, and health and

17 See for example, Australia Fiji Business Council, *Submission 58*, p. 10; *Submission 60*, p. 8.

education services critical to raising the productivity of agriculture, livestock activities and fishing'.¹⁸

9.10 The Pacific Islands Forum Secretariat advised the committee that overburdened governments with no or limited funding for road maintenance 'is a serious and chronic issue in the Pacific'.¹⁹ Indeed, a 2006 World Bank study found that improving access to and the quality of infrastructure in the Pacific would require considerable investment:

If total investment levels were to be maintained at their current levels, a significant re-allocation of resources would be required. For example, Fiji, which has enjoyed relatively high levels of total investment due to its strong tourism and manufacturing sectors, would need to devote about 25 per cent of those investments to the infrastructure sectors. At the other extreme, Solomon Islands would need to allocate almost their entire current investment spending to infrastructure.²⁰

9.11 Even so, evidence suggested that a lack of capital investment is only one factor contributing to the state of economic infrastructure in Pacific island countries. A number of witnesses attributed the deficiencies in the region's infrastructure to both a lack of capital investment and poor planning.²¹ They also drew attention to the skills and expertise needed to operate or support physical infrastructure.

State-owned enterprises

9.12 For a number of years, international studies have pointed to the dominance of state-owned enterprises in public and semi-public utilities in the region and their failure to provide incentives for the construction and maintenance of infrastructure. The operation of these state-owned monopolies tend to lack effective planning and oversight, stifle competition and provide little motivation for efficiency and innovation in the infrastructure sector. In effect, this public ownership structure

18 Asian Development Bank, *Living with High Prices*, policy brief, 2008, p. 26. The IMF Public Information Notice No. 08/139 stated that Solomon Islands 'remains beset with poor infrastructure, landownership issues, a shortage of skilled labour and unreliable and costly services'. IMF Executive Board Concludes 2008 Article IV Consultation with the Solomon Islands, Public Information Notice (PIN) No. 08/139, October 2008, p. 2; IMF Executive Board Concludes 2007 Article IV Consultation with Papua New Guinea Public Information Notice (PIN) No. 08/32, 12 March 2008, <http://www.imf.org/external/np/sec/pn/2008/pn0832.htm> (accessed 9 October 2008).

19 *Submission 69*, p. 15.

20 World Bank, *The Pacific Infrastructure Challenge: A review of obstacles and opportunities for improving performance in the Pacific islands*, January 2006, p. 7, <http://siteresources.worldbank.org/INTPACIFICISLANDS/Resources/PacificReportFinal.pdf> (accessed 2 December 2008).

21 See for example, Pacific Islands Forum Secretariat, *Submission 69*, p. 15; Australia Fiji Business Council, *Submission 58*, p. 10 and ANZ, *Submission 51*, p. 5.

discourages and may even block private sector participation.²² For example, the Pacific Islands Forum Secretariat noted that economic infrastructure in the region, with the exceptions of a few Pacific island countries, is 'inappropriately regulated and provided by monopoly usually government entities'. It stated further that prices 'are set on a political rather than economic criterion'.²³ ESCAP noted that 'to make the utilities more efficient, international donors and development agencies have often proposed privatization or international private participation, but such measures have yet to be introduced in most countries'.²⁴

9.13 Indeed, a recent comprehensive report on infrastructure services in the Pacific argued that international best practice suggested that liberalisation and competition where possible is the best way forward for the infrastructure sector. It indicated that unbundling monopolistic enterprises, developing open access regimes, or reducing barriers to entry would be a step in the right direction. It recognised the need for 'a new strategy for promoting and maintaining infrastructure, away from the highly political investment processes of the past' and for encouraging partnerships with the private sector.²⁵

9.14 The report drew particular attention to Samoa which, in its view, stands out as a Pacific island country that, through 'aggressive market liberalization reforms with greatly strengthened regulatory capacity', has achieved notable success particularly in the telecommunications and air transport sectors.²⁶

Human capacity

9.15 Mr Andrew Tongue, Department of Infrastructure, Transport, Regional Development and Local Government, highlighted the importance of considering 'soft'

22 See for example, World Bank, *The Pacific Infrastructure Challenge: A review of obstacles and opportunities for improving performance in the Pacific islands*, January 2006, p. 6, <http://siteresources.worldbank.org/INTPACIFICISLANDS/Resources/PacificReportFinal.pdf> (accessed 2 December 2008); UN Economic and Social Commission for Asia and the Pacific, *Economic and Social Survey of Asia and the Pacific 2008: Sustaining Growth and Sharing Prosperity*, http://www.unescap.org/survey2008/download/01_Survey_2008.pdf (accessed 1 October 2008), p. 73 and Philip C. Erquiaga, Director General, Pacific Department, Asian Development Bank, Speech Pacific 2020 Conference, Sydney, 11 May 2006.

23 *Submission 69*, p. 13.

24 UN Economic and Social Commission for Asia and the Pacific, *Economic and Social Survey of Asia and the Pacific 2008: Sustaining Growth and Sharing Prosperity*, http://www.unescap.org/survey2008/download/01_Survey_2008.pdf (accessed 1 October 2008), p. 73.

25 Asian Development Bank, Technical Assistance Consultant's Report, *REG: Improving the Delivery of Infrastructure Services in the Pacific*, Project Number 38633, December 2007, vol I, Executive Summary, p. 10.

26 Asian Development Bank, Technical Assistance Consultant's Report, *REG: Improving the Delivery of Infrastructure Services in the Pacific*, Project Number 38633, December 2007, vol I, Executive Summary, p. 8.

as well as hard infrastructure. Thus, while recognising the pressing need for improved physical infrastructure, he noted that 'part of sustainability in the region is about the people who manage ports and shipping lines and who are able to grasp commercial opportunities'. He acknowledged that the process of building capacity is slow and requires a long-term commitment, but observed that investment in people 'seems to generate opportunity for the countries involved'.²⁷ The Pacific Islands Forum Secretariat similarly noted that many entities do not have the training facilities, skilled staff and expertise to undertake operations and maintenance of economic infrastructure.²⁸ This lack of capacity cuts across a broad range of skills, including lack of analytical and technical skills and expertise at both policy and delivery phases.²⁹

9.16 These observations about inadequate capital investment in infrastructure, poor planning and oversight, absence of competition, and lack of human capacity have relevance for both Pacific island countries and donor countries in the way in which they identify and prioritise infrastructure projects and then allocate funds.

9.17 The committee now examines the telecommunications and aviation industries to illustrate the importance of implementing reforms to make the infrastructure sector more efficient and competitive. It also highlights the concern that, if Pacific island countries sit on the sidelines during this period of growth in technology, they risk being left further behind.³⁰

Telecommunications

9.18 Information and communication technologies (ICT) are critical to economic growth: they connect customers and suppliers and could be the pathway that ends the 'tyranny of distance' for Pacific island countries.³¹ The Prime Minister of Samoa highlighted the importance of ICT to the success of business in Pacific island countries. He gave the example of a tourist operator at Lalomanu who relies on mobile phones and internet connections to sell beach accommodation and place orders for supplies. Similarly, he stated:

27 *Committee Hansard*, 20 November 2008, p. 81.

28 *Submission 69*, p. 16. Mr Motteram, Treasury, referred to road construction in PNG as a key infrastructure need but noted the scarcity of skilled labour which may be going to the mining sector because of the mining boom. See *Committee Hansard*, 20 November 2008, pp. 9–10.

29 *Submission 69*, p. 13.

30 United Nations Economic and Social Commission for Asia and the Pacific, *Enhancing Pacific Connectivity*, United Nations, 2008, p. 56, <http://www.unescap.org/icstd/research/pacific-connectivity/Enhancing-Pacific-Connectivity.pdf> (accessed 1 December 2008).

31 See Pacific Islands Forum Secretariat, *The Pacific Plan for Strengthening Regional Cooperation and Integration, Pacific Regional Digital Strategy*, p. 1 and Mr Oliver's explanation about the mobile phone producing economic benefits in terms of better communications between suppliers and marketers, *Committee Hansard*, 20 November 2008, p. 31.

A planter at Falealupo not only needs to access information and advice from the extension services of the Ministry of Agriculture but also needs to get an idea of local and international market prices of the produce using mobile phone and internet connections and having access to radio and television services.³²

9.19 Despite the recognised need to have appropriate and efficient communication systems, a number of witnesses raised concerns about the quality and costs of the service. Mr Tunstall, ANZ, informed the committee that the poor standard of telecommunications services in Pacific island countries is a major difficulty for commercial business. He explained that ANZ has its branch telecommunications networks down on a regular basis due to infrastructure breakdowns, towers being pulled down or out of order and solar panelling not working.³³ An ESCAP study also indicated that costs for internet and mobile telephone access tended to be higher in Pacific island nations compared to those in peer small island economies elsewhere, even when adjusted for income status.³⁴

9.20 It suggested that removing constraints on telecommunications innovation should put millions of dollars into the pockets of telecom customers in the Pacific and provide funds for new infrastructure which in turn would attract more business and investment.³⁵ Another recent review of telecommunications in the Asia–Pacific region reached similar conclusions about the benefits to be gained from reform. It observed:

Theoretically, in a deregulated market, and using the technologies available, the sky is the limit. However, the current situation resembles a technological communications straitjacket.³⁶

9.21 Commentators generally refer to the closed nature of the sector as a major impediment. For example, Mr Lawrence Oliver, Department of Infrastructure, noted that although each country is different, a telephone company was typically 'a utility'. He stated:

There was no regulator separate from the operator, and that is still the case in a number of countries. All of these are quite important barriers to

32 Hon Tuilaepa Lufesolai Sailele Malielegaoi, Prime Minister, Government of Samoa, Keynote Statement, Pacific Telecommunications Conference, Pacific Economic Bulletin, vol 23, no. 3, 2008, p. 67, http://peb.anu.edu.au/pdf/PEB23_3%20-%20SAMOA%20PM%20ADDRESS_WEB1.pdf (accessed 1 December 2008).

33 *Committee Hansard*, 24 March 2009, p. 55.

34 UN Economic and Social Commission for Asia and the Pacific, *Enhancing Pacific Connectivity*, 2008, p. 2, <http://www.unescap.org/icstd/research/pacific-connectivity/Enhancing-Pacific-Connectivity.pdf> (accessed 1 December 2008).

35 UN Economic and Social Commission for Asia and the Pacific, *Enhancing Pacific Connectivity*, 2008, p. 2, <http://www.unescap.org/icstd/research/pacific-connectivity/Enhancing-Pacific-Connectivity.pdf> (accessed 1 December 2008).

36 Esther Batiri Williams, 'Pacific Island States', in *Digital Review of Asia Pacific 2007–2008*, ORBICOM and the International Development Research Centre, pp. 252–262.

overcome when trying to expand telecommunications penetration, which generally requires bringing in private sector investment from elsewhere.³⁷

9.22 Although the dominance of monopolies in Pacific island countries has frustrated the development of their ICT sector, these structures are being dismantled in several countries with impressive results. DFAT referred to the liberalisation of the mobile phone market in PNG which 'has expanded coverage and reduced consumer prices significantly, providing a boost to small business'.³⁸ Professor Duncan cited Samoa which now:

...has several Internet service providers and has opened its mobile phone sector. As a result, Internet and mobile phone use has expanded rapidly.³⁹

9.23 Mr Jim Redden referred to the success in Vanuatu which had recently opened up its telecommunications to foreign competition, resulting in lower costs for, and increased access to, telecommunications in rural areas and for the disadvantaged.⁴⁰ Mr Oliver noted the critical connection between competition and the rapid increase in mobile penetration and cited one company in particular, Digicel, which is making significant inroads in Papua New Guinea, Fiji, Tonga and Samoa.⁴¹

9.24 Digicel is an Irish-owned company that gained experience in the Caribbean with building mobile markets in small island countries where there had been an incumbent operator. Benefiting from this experience, the company has since successfully broadened its operation to Pacific island countries. Mr Oliver noted some 'extraordinary developments', for example, in Samoa where the number of mobile numbers tripled within a matter of weeks of Digicel commencing business.⁴² By December 2007, Digicel had 60,000 subscribers in Samoa using 'some 42 base stations providing 95 per cent coverage of the two main islands plus Apolima and Manono'.⁴³

37 *Committee Hansard*, 20 November 2008, p. 31.

38 *Submission 68*, pp. 6–7. See also Asian Development Bank, *Asian Development Outlook 2008*, p. 254, <http://www.adb.org/Documents/Books/ADO/2008/SAM.asp> (accessed 14 October 2008). It noted the 'liberalization of the mobile telephone market in 2006, when a new entrant slashed the costs of international mobile phone calls by about 50 per cent'.

39 Professor Ron Duncan, *Pacific Trade Issues*, Pacific Institute of Advanced Studies in Development and Governance, University of the South Pacific, Suva, Fiji, *ADB Pacific Studies Series*, 2008, p. 20.

40 *Committee Hansard*, 25 March 2009, p. 30.

41 *Committee Hansard*, 20 November 2008, p. 30.

42 *Committee Hansard*, 20 November 2008, p. 30.

43 Asian Development Bank, Technical Assistance Consultant's Report, *REG: Improving the Delivery of Infrastructure Services in the Pacific*, Project Number 38633, December 2007, Vol. II, Part 2f: National Strategy: Samoa, p. 29.

9.25 A recent review reported that Digicel's entry into the Pacific had been characterised by 'speed, technical quality and coverage'.⁴⁴ Indeed, Australia's High Commissioner to PNG, His Excellency Chris Moraitis, was of the view that the introduction of mobile phone competition in PNG has brought about a great social and economic revolution in that country. When he arrived in PNG in late 2006, mobile phones were 'a monopoly and not very reliable'. With the arrival of Digicel and its quite aggressive campaign, telecommunications underwent dramatic change. According to Mr Moraitis, GDP grew by about 1.82 per cent. He noted:

There was an attempt to roll back the liberalisation once the monopoly provider realised that they were going to be clobbered. Unfortunately for them, but fortunately for the people, it was too late...you could not roll back the situation.⁴⁵

9.26 The High Commissioner informed the committee that the people were reluctant to give up the service. Previously, a producer wanting to sell coffee would travel by bus or truck to gain information on the market. He explained that today the producer would use his mobile phone to obtain this information thereby saving 'a lot of money'.⁴⁶ It should also be noted that, according to a recent review, Digicel appoints nearly 100 per cent local staff in each country supported by a roving management team of approximately.¹⁰

44 Asian Development Bank, Technical Assistance Consultant's Report, *REG: Improving the Delivery of Infrastructure Services in the Pacific*, Project Number 38633, December 2007, Vol. II, Part 2e: National Strategy: Papua New Guinea, p. 38.

45 *Committee Hansard*, 19 March 2009, p. 15.

46 *Committee Hansard*, 19 March 2009, p. 15.



The introduction of affordable mobile phone services around the Pacific, including PNG, has produced great economic benefits for both individuals and businesses (image courtesy of Digicel Pacific).

9.27 Despite recent improvements in the availability of telecommunications services in Pacific island countries, the use of technology, particularly the internet, still lags behind even those countries of comparable size and income. Those with access to computers, for example, experience difficulties.

More reforms needed

9.28 Despite clear evidence of the economic benefits that flow from better telecommunications services, more needs to be done. A recent UN report concluded that laws and policies have not kept pace with developments in the internet, mobile telephony and broadband. It referred to data indicating that the regulatory and ownership status in many Pacific island economies remains uncompetitive. Although there have been moves toward increased competition in some Pacific economies, it noted:

In some cases, governments and/or operators continue to pursue policies or practices that hinder progress in connectivity infrastructure, services, and pricing—to considerable social cost. Others, such as Samoa, are making considerable progress in these arenas, to considerable social benefit.⁴⁷

9.29 For example, the Australia Pacific Islands Business Council noted that while the recent start of an independent mobile telephone operator in a number of countries was positive:

...international telecommunications, internet access, and domestic land line service provision still requires reform in virtually every country if they are to have a world standard service.⁴⁸

9.30 Along similar lines, the Australia Fiji Business Council indicated that if Fiji is to have a world standard service, its telecommunication services require further reforms.⁴⁹ A number of other witnesses also referred to the regulatory environment in Pacific island countries which, although changes were taking place, still posed a major impediment to developing a vibrant ICT sector. Mr Oliver observed:

My sense is that the larger ones among them, those that have introduced competition, recognise the need for particular skills, expertise and resources in this area. But it still remains the case—and this is more so in the smaller countries—that the telecommunications operator is the only expert source of advice on communications policy issues to the government. That can be a problem at times in the sense that there is likely to be some protection of exclusive privileges in that situation.⁵⁰

9.31 With regard to the much smaller islands, Mr Oliver noted that they would struggle to establish the necessary underpinnings of a competitive telecommunications market—providing for interconnection, an independent regulator, and a transparent and a non-discriminatory universal access regime. Even though small island countries may not be expected to have a vigorous competitive market, in his view, they should not have an exclusive arrangement.⁵¹

Committee view

9.32 Without doubt, improved telecommunications offer Pacific island countries enormous opportunities to develop their economies and to increase productivity. Reforms to the sector have already demonstrated the potential to lower transaction costs, to open up and expand markets and, through exchange of information, improve

47 UN Economic and Social Commission for Asia and the Pacific, *Enhancing Pacific Connectivity*, 2008, pp. 2–3, <http://www.unescap.org/icstd/research/pacific-connectivity/Enhancing-Pacific-Connectivity.pdf> (accessed 1 December 2008).

48 *Submission 60*, p. 8 and *Submission 58*, p. 10.

49 *Submission 58*, p. 10.

50 *Committee Hansard*, 20 November 2008, p. 33.

51 *Committee Hansard*, 20 November 2008, p. 36.

products or services and increase productivity through greater efficiencies.⁵² More needs to be done both to consolidate achievements and to build on them. The Australian Government should seize opportunities to encourage Pacific island countries to liberalise their telecommunications markets.

Aviation

9.33 Air transport similarly demonstrates the link between infrastructure and economic development. The Department of Infrastructure, Transport, Regional Development and Local Government noted that a lack of funding, infrastructure and equipment was a challenge for the aviation industry in Pacific island countries.⁵³ Qantas informed the committee that regional travel is expensive in local terms with 'schedules infrequent and often unreliable'.⁵⁴ As noted in chapter 3, this situation was due:

...in part to thin passenger and cargo traffic volumes which restrict demand for air travel in any one State (with the exception of PNG) and in part to inadequate tourist infrastructure and trained personnel.⁵⁵

9.34 As an example of the economic consequences of poor aviation services, Qantas cited the withdrawal of the larger oil companies from some of the smaller markets, including Kiribati and Tuvalu, because 'the volumes required are too small to sustain operations and the costs of shipping imported fuel too high'.⁵⁶

9.35 Aviation safety, in particular, is a continuing challenge for Pacific island countries. Mr David Callaghan, Qantas, informed the committee that his company was deeply concerned about the 'relatively poor state' of aviation infrastructure in these countries.⁵⁷ Qantas described a situation where the majority of runways have poor surface markings and are often unfenced; navigation aids are intermittent; aircraft handling equipment is limited; and terminal facilities do not meet current safety and security requirements.⁵⁸ Mr Callaghan added:

52 See for example, Leonard Waverman, Meloria Meschi and Melvyn Fuss, *The Impact of Telecoms on Economic Growth in Developing Countries*, p. 2, noted the substantial positive boost that mobile telephony has on economic growth.

<http://web.si.umich.edu/tprc/papers/2005/450/L%20Waverman-%20Telecoms%20Growth%20in%20Dev.%20Countries.pdf>

53 *Submission 43*, p. 2.

54 *Submission 41*, p. 4.

55 *Submission 41*, p. 4.

56 *Submission 41*, p. 5.

57 *Committee Hansard*, 24 March 2009, p. 73.

58 *Submission 41*, p. 5.

There is virtually no night-flying in any of these places because runway lights and facilities are so bad that you cannot do it.⁵⁹

9.36 According to Qantas, this limitation greatly restricts connectivity and the viability of airline schedules. Mr Andrew Tongue, Department of Infrastructure, Transport, Regional Development and Local Government, used PNG to convey the extent of the infrastructure challenge. He informed the committee that in PNG:

...there are around 22 major airstrips, but because of the climate conditions those airstrips basically need a reseal every three years. That imposes a significant burden on the government to find the money, in the order of 7 to 10 million kina a year, just to maintain their stock of infrastructure let alone expand it.⁶⁰

9.37 According to Mr Tongue, safety standards vary depending on the size of the nation and its economic capacity, with possibly 'Fiji towards one end and some of the smaller nations towards the other end'. As an example, he cited Nauru which needed assistance to buy fire engines to meet even basic aviation safety standards.⁶¹

9.38 There is also difficulty keeping pace with advances in technology. With regard to air traffic control, Mr Tongue observed that while the infrastructure is in place, it is fairly basic and, looking forward, new technologies for managing airspace will start to become common globally. He noted the importance of the region moving with other countries such as the US and Australia as they adopt new technology. To meet these changes, some Pacific island countries will need to make future investments.⁶²

Trained personnel

9.39 Air transport also highlights the importance of having not only the physical infrastructure but also appropriately qualified and trained personnel to use, maintain and repair it. Pilots, engineers, security, customs and quarantine personnel using sophisticated equipment are needed. The Department of Infrastructure, Transport, Regional Development and Local Government noted, however, that the paucity of appropriately trained people at all levels is a challenge for the aviation industry in Pacific islands countries.⁶³ For example, Mr Tongue drew attention to the limited capacity to manage airspace, provide basic safety services and to run regulatory

59 *Committee Hansard*, 24 March 2009, p. 73.

60 *Committee Hansard*, 20 November 2008, p. 74.

61 *Committee Hansard*, 20 November 2008, p. 74.

62 *Committee Hansard*, 20 November 2008, p. 79.

63 *Submission 43*, p. 2.

systems to ensure that private operators meet basic safety standards.⁶⁴ Qantas made a similar observation particularly about the lack of trained personnel. It noted:

...the limited capability of the smaller island states to absorb or maintain technological development—in particular due to their lack of skilled indigenous manpower and technical training facilities—has made the aviation sector dependent upon donor funds and technical resources of the larger Pacific rim countries and beyond. There is no indication that this is likely to change—Fiji and the French territories excepted.⁶⁵

9.40 Mr Callaghan explained that the great number of safety problems from the regulatory point of view together with the lack of oversight and of trained personnel in these countries, 'make it very, very difficult for us to consider going back into many of these markets'.⁶⁶ The matter of brain drain adds to this problem of having appropriately trained and skilled technicians. He pointed out that people can be trained in the Pacific but they leave as soon as they have internationally recognised qualifications.⁶⁷

Other impediments

9.41 The handicaps to expanding and further developing the aviation industry mirror those holding back advances in infrastructure in other sectors—small markets, absence of competition, inadequate investment and lack of trained personnel. The committee has noted the dominance of state-owned enterprises in providing essential services in Pacific island countries with the concomitant problems of inefficiencies and poor delivery of service. This tendency is evident in the aviation industry. Mr Tongue noted:

...the extent to which national governments will prop airlines up because of that national pride issue of having their logo on the tail and having a brand in the global market.⁶⁸

9.42 In his view, this type of ownership had 'possibly inhibited the development of a deep market in the region such that you could book a ticket from, say, Brisbane to Fiji and then climb on a relatively clean, modern jet to another part of the region and then get on a smaller plane to do a hop to a small island'.⁶⁹

64 *Committee Hansard*, 20 November 2008, p. 74. Mr Callaghan concluded that countries such as Australia and New Zealand find it difficult to operate in the Pacific without appropriate regulation and trained personnel to maintain the facilities in the region. *Committee Hansard*, 24 March 2009, p. 75.

65 *Submission 41*, p. 4.

66 *Committee Hansard*, 24 March 2009, p. 73.

67 *Committee Hansard*, 24 March 2009, p. 75.

68 *Committee Hansard*, 20 November 2008, p. 82.

69 *Committee Hansard*, 20 November 2008, p. 77.

9.43 As with telecommunications, some Pacific island countries have made definite moves to remove barriers to entry and to develop more open access regimes. Samoa in particular demonstrates the economic benefits and improved economic prospects that flow from the liberalisation of its telecommunications and aviation services. In the assessment of a recent ADB study, 'the country's economy and opportunities for productive private investment have been palpably transformed'.⁷⁰ In its *Development Outlook 2008*, the bank observed:

The merits of reform and of stimulating competition have been demonstrated by a reduction in airfares since the introduction in late 2005 of Polynesian Blue Airlines—a joint venture between Virgin Blue and government-owned Polynesian Airlines...⁷¹

9.44 The IMF also commented on this re-structuring of Polynesian Airlines into a joint venture with a foreign airline indicating that this move 'helped to reduce airfares to Samoa by around half, resulting in a significant increase in tourist arrivals'.⁷² Mr Tongue noted, however, that some countries still rely on limited services and that growth would be constrained unless the routes could be 'thickened up' to the point where there is a daily service.⁷³ He suggested that with economic growth and as the market grows, for example with the advent of the Chinese market, 'the routes will start to get denser and the pressure to try and open the region up as a tourism product by air will grow'. This situation should in turn 'start to force some of these changes'. Nonetheless, he could not pin point the timing for that development but indicated that it would be 'some years away'.⁷⁴ The Department of Infrastructure, Transport, Regional Development and Local Government noted the recent entry of low-cost carriers but observed that:

...the sector continues to face challenges typical of remote and regional services, including servicing a number of non-commercially viable routes to smaller states. It is becoming increasingly difficult for small and government-owned regional carriers to remain viable in the current market conditions.⁷⁵

9.45 With regard to freight, Mr Tongue informed the committee it had been growing in the general region at the rate of about seven per cent but was also 'sensitive

70 Asian Development Bank, Technical Assistance Consultant's Report, *REG: Improving the Delivery of Infrastructure Services in the Pacific*, Project Number 38633, December 2007, Vol II, Part 2f: National Strategy: Samoa, p. 31.

71 Asian Development Bank, *Asian Development Outlook 2008*, p. 254, <http://www.adb.org/Documents/Books/ADO/2008/SAM.asp> (accessed 14 October 2008).

72 IMF, 'IMF Executive Board Concludes 2007 Article IV Consultation with Samoa', Public Information Notice (PIN) No. 07/62, 1 June 2007.

73 *Committee Hansard*, 20 November 2008, p. 76.

74 *Committee Hansard*, 20 November 2008, p. 77.

75 *Submission 43*, p. 2.

to whether the services are dailies or less'. He explained that freight is expensive in Pacific island countries but:

If you can get dailies, you can start to build freight dependent enterprises because you have got that continuity of supply, but at less than dailies it is expensive...Once the market is thick enough and you can get the wider-body aircraft in, then you have got more capacity for freight and freight rates drop, so there are some inherent disadvantages in the size of the market.⁷⁶

9.46 Mr Tongue explained further that there had been some attempts to develop multilateral arrangements that would 'free up the market so that you would start to see the emergence of some dominant carriers who could develop the region, and products in the region, to offer movement around the region'. In his view, however:

Nations in the region see a degree of national pride in having their own carrier and, whilst there have been various studies by the ADB and others about how to free the market up, progress is slow.⁷⁷

Shipping

9.47 The problems with shipping infrastructure reflect those of other sectors. According to AusAID's 2009 economic review of the Pacific, ports in the region are 'inefficient, expensive and slow', which 'makes it hard to export perishable goods and it degrades the quality of goods reaching markets'.⁷⁸ For example, Dr Lake, AusAID, referred to a statement by the Prime Minister of Vanuatu that 'the ineffective operation of their ports facilities, which are some of the slowest and most expensive in the region, is a major constraint to Vanuatu's exporting to other parts of the world'.⁷⁹ Mr Tongue explained that shipping costs are quite high in the region for reasons similar to aviation cargo, particularly its 'fairly concentrated ownership structure'.⁸⁰ The Pacific Islands Forum Secretariat noted also that as with aviation, 'safety of shipping in the region is a major concern'.⁸¹

Summary

9.48 The committee has identified infrastructure in Pacific island countries as a major impediment to economic development. It found that poor economic infrastructure especially in transport, storage and processing facilities creates problems for producers in getting their produce to market. The committee also noted

76 *Committee Hansard*, 20 November 2008, p. 76.

77 *Committee Hansard*, 20 November 2008, p. 77.

78 Commonwealth of Australia, *09 Pacific Economic Survey: engaging with the world*, AusAID, Canberra, September 2009, p. 103.

79 *Committee Hansard*, 19 June 2009, p. 60.

80 *Committee Hansard*, 20 November 2008, p. 80.

81 *Submission 69*, p. 15.

the enormous benefits to business that have already been achieved through reforms to the telecommunications sector. Experience, especially in telecommunications, shows the advances that can be made through increased private sector engagement.

Australia's assistance

9.49 A number of witnesses suggested that Australia could work with Pacific island countries 'to identify, prioritize and support the building and rebuilding of essential infrastructure which would require extensive funding, training and monitoring standards'.⁸²

9.50 In this regard, the Australian Government recognises that because of their small size, many Pacific island countries have difficulty generating sufficient internal revenue to finance the construction and maintenance of important economic infrastructure.⁸³ Improving this infrastructure, particularly with regard to transport, is already a high priority for the Australian Government which has a record of supporting infrastructure projects by providing practical funding. For example, AusAID's 2008 Annual Report recorded that it funded:

- the maintenance of approximately 2000 kilometres of road in nine PNG provinces, which included regravelling and resealing 404 kilometres of roads;
- the maintenance of 340 kilometres of the Highlands Highway—a key economic lifeline for PNG which, according to AusAID, delivered 'significant improvements in mobility and access for PNG people and reduced the travel time between Lae and Goroka from five to four hours';⁸⁴ and
- the rehabilitation and enhancement of existing infrastructure in Solomon Islands, including 75 kilometres of roads and bridges in Guadalcanal and Malaita.⁸⁵

9.51 Funding infrastructure also goes to small but necessary projects such as the purchase of two vehicles for Nauru that meet international aerodrome fire fighting standards. Australia's Civil Aviation Safety Authority (CASA) is providing technical assistance for this project.⁸⁶

9.52 In addition, the 2008 Budget Statement announced that a new Pacific Regional Infrastructure Facility was to be established to improve basic infrastructure services in the Pacific. It would involve Australia, multilateral development banks and

82 *Submission 10*, p. 6.

83 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, Budget Statement 2008–09: Australia's International Development Assistance Program, 13 May 2008, p. 28.

84 AusAID, *Annual Report 2007–08*, p. 45.

85 AusAID, *Annual Report 2007–08*, p. 64.

86 *Submission 43*, paragraph 13.

'potentially, other donor partners'.⁸⁷ Australia would 'invest \$127 million over four years, with \$5.5 million in 2008-09'. According to the Budget Statement, support would be 'country specific, targeted to address local constraints to growth and challenges to nation building and stability'.⁸⁸

9.53 On 19 August 2008, Australia, New Zealand, the World Bank and the Asian Development Bank launched the Pacific Region Infrastructure Facility to coordinate major donor support for improvements in basic infrastructure services. Under this initiative, funding of up to \$200 million over four years would be available to assist Pacific island countries develop and maintain critical economic and other infrastructure. Initially, Kiribati, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu were to be the main beneficiaries. Transport was identified as a priority, though water sanitation, energy, telecommunications and utility reform were also included.⁸⁹ The European Union recently indicated its keen interest in joining this facility and its willingness to contribute substantial funds to the initiative.⁹⁰

9.54 The committee welcomes this initiative as it addresses a longstanding concern about the lack of coordination among donor countries in the region.

9.55 Information provided by AusAID shows that Australian funding for infrastructure increased to the region from \$81,181,145 for 2006-07 to \$114,342,299 for 2007-08. These figures represent 10.6 per cent and 13 per cent respectively of Australia's total ODA to PNG and the Pacific.⁹¹

9.56 The Pacific Partnerships for Development provide some detail on the infrastructure assistance that Australia intends to provide to individual Pacific Island countries. The partnership with PNG places transport infrastructure as priority outcome 1. Its objectives are to achieve 100 per cent of the 16 NDP priority national roads in good condition by 2015; 22 regional airports meeting safety certification standard by 2015; and improved port operations. The partnership with Vanuatu and Solomon Islands identified the development of essential infrastructure to support economic growth and service delivery as a priority. In Vanuatu, assistance would be provided to rehabilitate and improve maintenance of roads, expand access and reduce

87 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, Budget Statement 2008-09: Australia's International Development Assistance Program, 13 May 2008, p. 28.

88 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, Budget Statement 2008-09: Australia's International Development Assistance Program, 13 May 2008, p. 28.

89 Pacific Islands Forum Secretariat, *Forum Communiqué*, Thirty-ninth Pacific Islands Forum, Niue, 19-20 August 2008, paragraph 25.

90 Delegation of the European Commission to Australia and New Zealand, 'The EU at the Pacific Islands Forum: 4-7 August 2009', Media release, <https://promo-manager.server-secure.com/em/message/email/view.php?id=113737&du=1002559> (accessed 17 July 2009).

91 AusAID, answer to written question on notice. See Table 18.1.

costs of telecommunications and power services and for reforms to improve maritime and aviation transport. Importantly, the plan anticipated that local employment and private sector development would result from road maintenance activities. In Solomon Islands, the emphasis was on increasing the proportion of the rural population with reliable access to markets and services; reliable and affordable access to energy; and affordable access to telecommunications. Improved economic infrastructure was also recognised as a priority in the PPDs with Samoa, Nauru and Tonga.⁹²

Human capacity

9.57 As noted earlier, the problem with inadequate economic infrastructure extends to what one witness termed 'soft infrastructure'—the trained and skilled people required to operate and maintain the hardware. Mr Tongue saw 'the people side as being a necessary adjunct to any hard, physical infrastructure' and was of the view that Australia 'is well placed to offer that assistance'.⁹³

9.58 The Department of Infrastructure, Transport, Regional Development and Local Government stated in its submission that it provides aviation security support in PNG and the Pacific through staff exchanges and aviation security training and the provision of equipment.⁹⁴ It noted that in 2004 the then-Department of Transport and Regional Services placed Australian officials in the position of Deputy Chief Executive Officer and Aviation Security Adviser in the PNG Civil Aviation Authority. According to the department, significant improvements have been made since then.⁹⁵

9.59 The department has also been involved in 'a whole range of training activities to do with port security [and] port management, such as how to manage a port and make it turn a dollar, the basics of billing systems and all those sorts of things that underpin activity in the area'.⁹⁶ Mr Tongue explained that there are a range of approaches to building technical capacity in maritime security, from short courses delivered in country to secondment into Australian organisations to experience how Australia performs these tasks and to gain higher level knowledge. He cited people from Papua New Guinea undertaking a university-level course at the Australian Maritime College as an example of the sorts of programs that are on offer.

9.60 Skills shortages in the region are not confined to economic infrastructure. Indeed, one of the themes dominating the report so far is the lack of human capacity

92 Partnerships for Developments between Australia and the relevant Governments, see AusAID's website, <http://www.aisaid.gov.au/country/partnership.cfm> (accessed 20 July 2009). See also, The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, Budget Statement 2009–10: Australia's International Development Assistance Program, 12 May 2009, pp. 45–47.

93 *Committee Hansard*, 20 November 2008, p. 82.

94 *Submission 43*, paragraph 6.

95 *Submission 43*, paragraph 10.

96 *Committee Hansard*, 20 November 2008, p. 82.

across all economic sectors. The committee has mentioned skill shortages in areas such as resource management, marketing, trade negotiations, activities associated with mining and in business management to name just a few. In the following chapters, the committee considers in detail the education and training available to Pacific islanders.

Chapter 10

Education and training

10.1 Education and training are the fundamental building blocks for economic and human development. They open up opportunities for employment and economic activities otherwise not possible, and provide both the incentive and necessary skills for economic progress. Furthermore, they deliver 'benefits down-stream in health, governance, productivity, gender equality and nation-building'.¹ The Millennium Development Goals (MDGs) recognise the critical importance of education. MDG 2 seeks to achieve universal access to primary education; and MDG 3 aims to eliminate gender disparities in primary and secondary schooling by 2005 and at all levels by 2015.² But as noted previously, a number of Pacific island countries are 'seriously off track' in reaching their development goals. In this and the following chapters on employment, the committee looks at the role of education and training in economic development in Pacific island countries.

Skills shortages and unskilled workforce

10.2 As noted on a number of occasions in this report, skills shortages exist in many Pacific island countries. This situation adversely affects economic development because the countries must rely on low or unskilled labour or import highly-paid experts from overseas.³ In many cases, opportunities to start a business or expand production are foregone. The skills shortage cuts across all sectors of the economy—land, resource and business management, transport including aviation safety, hospitality, marketing and trade negotiation. There are skills shortages particularly in mining, oil and gas projects and in the forestry, banking and tourism sectors.⁴ For example, the Gladstone Pacific Nickel Ltd project to mine lateritic nickel ore in the Solomon Islands has workers who are 'under educated and untrained'.⁵

10.3 According to Mr Ian Clarke, President, Australia Papua New Guinea Business Council, with some projects, such as the PNG LNG, 'there is initially going to be a

1 The Hon Stephen Smith MP, Minister for Foreign Affairs and The Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2009–10: Australia's International Development Assistance Program*, 12 May 2009, p. 4.

2 United Nations, Millennium Development Goals, Goal 2, http://mdgs.un.org/unsd/mdg/Resources/Static/Products/Progress2008/MDG_Report_2008_En.pdf#page=16, p. 14, (accessed 7 May 2009).

3 DEEWR, *Submission 64*, p. 9.

4 See for example ANZ Group, *Submission 51*, p. 5; ITS Global, *Submission 63*, pp. 25–26; Commonwealth of Australia, *Tracking Development and Governance in the Pacific*, AusAID, Canberra, 2008, p. 14.

5 Presentation Memorandum to the Australia Pacific Islands Business Council, attachment to *Submission 60*.

need to bring in skilled labour, because PNG does not have the technical workers—the welders and the plumbers'. However, he did not believe skills shortages would be an ongoing issue.⁶ The Construction, Forestry, Mining and Energy Union (CFMEU) argued that 'Skills shortages are already a capacity constraint on PNG's economy'.⁷ Fiji, Samoa and Tonga might face a similar challenge of skills shortage should migration continue at the existing rate.⁸

10.4 Even so, there is no shortage of potential labour in the region. At a time of skills shortage, many Pacific island countries have a large pool of unskilled workers which is increasing as a result of growing populations. The committee now considers the link between education and training in Pacific island countries and the skills shortage in the region.

Basic education

10.5 Despite investments in education by the island governments, educational achievements have stalled.⁹ In some countries, there is mounting concern about the increasing number of students not completing basic education; falling attendance rates at secondary schools; decreasing levels of literacy and numeracy; and low quality of, and inequitable access to, education.¹⁰ In 2008, as many as one million children were said to be out of school.¹¹ There is, however, significant variation between Pacific island countries in the performance of their education systems to the extent that AusAID concluded that progress toward universal primary education is mixed and 'the region as a whole is not on track'.¹²

10.6 According to the ADB, some Pacific island countries have 'a long tradition of near universal primary education', with participation rates averaging above 90 per

6 *Committee Hansard*, 25 March 2009, p. 61.

7 *Submission 55*, p. 4.

8 Institute for International Trade, *Research study on the benefits, challenges and ways forward for Pacer Plus*, Final Report, June 2008, pp. 47–48; also see Pacific Islands Forum Secretariat, *Submission 69*, p. 6.

9 The World Bank, *Opportunities to Improve Education Sector Performance*, Summary report, Working paper 38865, January 2007, p. 1. The Forum Basic Education Action Plan Review found that the quality of education in the Pacific island region is alarming. The progress made in the 1990s had stalled by the year 2000. Pacific Island Forum Secretariat, *Report on the Review of the Forum Basic Education Action Plan and Associated Regional Processes*, Forum Education Ministers' Meeting, Tonga, 24–26 March 2009, p. xv.

10 The World Bank, *Opportunities to Improve Education Sector Performance*, Summary report, Working paper 38865, January 2007, p. 1.

11 Commonwealth of Australia, *Tracking Development and Governance in the Pacific*, AusAID, Canberra, 2008, p. 1.

12 Commonwealth of Australia, *Tracking Development and Governance in the Pacific*, AusAID, Canberra, 2008, p. 7.

cent.¹³ Most Polynesian countries 'have achieved close to universal primary education', with Niue, Samoa, Tonga and Tuvalu on the way to see their children, boys and girls alike, 'able to complete a full course in primary schooling'. Fiji is also 'progressing well' toward this goal.¹⁴

10.7 In stark contrast, primary school enrolment and completion rates are poor in the Melanesian countries of PNG, Solomon Islands and Vanuatu and in the Micronesian countries of Kiribati and Nauru. Importantly, with about three quarters of the region's population, these countries are clearly 'off-track' or in the case of Solomon Islands and Kiribati 'of concern' in reaching their education MDGs. They face substantial difficulties with regard to compulsory education enrolments and the number of drop-outs before completing primary school. PNG is said to have the biggest challenge regarding enrolment of children in schools, with more than half a million children still outside the education system. Some estimates suggest that in PNG:

- one in five (19 per cent) children does not attend school; and six out of ten children entering grade one drop out by grade six;¹⁵
- 45 per cent of children in elementary and primary school are girls but only one in three complete primary schooling, with the figure decreasing and gender disparities growing with the level of education;¹⁶ and
- 54 per cent of Papua New Guineans are literate and complete primary school; and six per cent complete secondary school.¹⁷

10.8 In its latest report, AusAID noted that only 53 per cent of children in PNG are enrolled in school but of the number of children who start school, only 45 per cent are expected to complete primary school. It concluded, '630,000 children (or 76 per cent of all primary school aged children) are not finishing primary school'.¹⁸

13 Asian Development Bank, *Education and Skills: Strategies for Accelerated Development in Asia and the Pacific*, June 2008, p. 9.

14 Pacific Islands Forum Secretariat, *Report on the Review of the Forum Basic Education Action Plan and Associated Regional Processes*, Forum Education Ministers' Meeting, Tonga, 24–26 March 2009, pp. 10–21; AusAID, *Tracking Development and Governance in the Pacific*, August 2009, p. 15. According to the World Bank, five out of nine countries (with two-thirds of the region's primary school population) are likely to meet primary school enrolment targets but only two countries, Samoa and Tonga, are likely to meet the goal of grade 5 survival rates, meaning that many students 'have little chance of mastering basic literacy and numeracy skills'. The World Bank, *Opportunities to Improve Education Sector Performance*, Summary report, Working paper 38865, January 2007, p. 2.

15 ITS Global, *Submission 63*, p. 3 and Mr John Millett, *Submission 21*, p. 6.

16 Crawford School of Economics and Government, *Submission 2*, p. 6.

17 DFAT, *Submission 68*, p. 7.

18 Commonwealth of Australia, *Tracking Development and Governance in the Pacific*, AusAID, Canberra, August 2009, p. 15.

Table 10.1: Net primary enrolment (NPE) rates in Pacific island countries and progress against MDG¹⁹

Melanesia	Fiji	PNG	Solomon Islands	Vanuatu	
	On track NPE rate of 94 per cent in 2006. Primary completion rate increased from 91 per cent in 1996 to 99 per cent in 2003.	Off track NPE rate and primary completion rate were the lowest in the region in 2007, estimated at 53 per cent and 45 per cent.	Of concern NPE increased from 56 per cent in 1999 to 94 per cent in 2005. Primary completion rate declined from 85 per cent in 1991 to 79 per cent in 2005.	Off track NPE rate improved from 75 per cent in 1989 to 85 per cent in 2007. Primary completion rate declined from 90 per cent in 1990 to 59 per cent in 2006.	
Polynesia	Cook Islands	Niue	Samoa	Tonga	Tuvalu
	Of concern NPE rate increased from 92 per cent in 2001 to 100 per cent in 2007. Primary completion rate declined from 98 per cent in 1996 to 85 per cent in 2007.	On track NPE rate increased from 90 per cent in 2002 to 100 per cent in 2006. Primary completion rate increased from 91 per cent in 1998 to 100 per cent in 2005.	On track (limited data) NPE rate was 90 per cent in 2004. Primary completion rate was 94 per cent in 2000.	On track NPE rate increased from 89 per cent in 1996 to 95 per cent in 2005. Primary completion rate increased from 84 per cent in 1990 to 89 per cent in 2004.	On track (limited data) NPE rate increased from 98 per cent in 1991 to 100 per cent in 2002. Primary completion rate was 100 per cent in 2002.
Micronesia	FSM	Kiribati	Marshall Islands	Nauru	Palau
	Of concern NPE rate increased from 92 per cent in 2000 to 100 per cent in 2006. Primary completion rate was 67 per cent in 2000.	Of concern NPE rate increased from 76 per cent in 1990 to 97 per cent in 2005. Primary completion rate decreased from 98 per cent in 1990 to 82 per cent in 2003.	Of concern No change in NPE rate or primary completion rate between 1999 and 2003. NPE rate was 90 per cent in 2003. Primary completion rate was 89 per cent in 2005.	Off track (limited data) NPE rate declined from 75 per cent in 1992 to 60 per cent in 2002. Primary completion rate was 92 per cent in 2002.	Of concern NPE rate increased from 82 per cent in 1990 to 93 per cent in 2005. Primary completion rate was 80 per cent in 2007.

19 The table is based on Commonwealth of Australia, *Tracking Development and Governance in the Pacific*, AusAID, Canberra, August 2009, p. 15.

10.9 Vanuatu was doing better than its Melanesian neighbours. AusAID explained that although enrolments at a basic education level have risen quite rapidly in Vanuatu:

...there are still problems with people falling out of the system at rather rapid rates the further up they go. As they reach years 8, 9 and 10 the attrition rate becomes quite marked...We might expect to see a lagging from there on literacy.²⁰

10.10 Indeed, the latest AusAID report shows that completion rates in Vanuatu for primary school declined from 90 per cent in 1990 to 59 per cent in 2006.²¹

10.11 Also, a large number of over-aged children are enrolling in schools in Pacific island countries.²² World Vision Australia observed that their retention rates remain low and in some cases are falling: children starting school aged 9 or 10 find it hard to adjust, eventually leading them to drop out of school.²³

Literacy and numeracy

10.12 A publication by the Pacific Islands Forum Secretariat noted that there is 'little valid and reliable data in the region on quality measures for education'.²⁴ The following table based on World Bank data provides some statistics on literacy skills in selected countries.

Table 10.2: Literacy²⁵

	Fiji	Kiribati	PNG	Samoa	Solomon Islands	Tonga	Vanuatu
Literacy	93.7	-	64.1	99.4	-	99.6	91.7

20 Mr Robert Tranter, *Committee Hansard*, 12 March 2009, p. 26.

21 Commonwealth of Australia, *Tracking Development and Governance in the Pacific*, AusAID, Canberra, August 2009, p. 15.

22 Pacific Islands Forum Secretariat, *Report on the Review of the Forum Basic Education Action Plan and Associated Regional Processes*, Forum Education Ministers' Meeting, Tonga, 24–26 March 2009, pp. 10–11.

23 World Vision drew attention to positive developments in this regard in one of its projects in the Solomon Islands which 'focuses on preparing children aged 3–5 to go to school' and is proving effective with girls enrolling in similar numbers to boys, *Submission 47*, p. 5.

24 Pacific Islands Forum Secretariat, *Report on the Review of the Forum Basic Education Action Plan and Associated Regional Processes*, Forum Education Ministers' Meeting, Tonga, 24–26 March 2009, p. xv.

25 CIA, *World Fact Book*—Fiji (accessed 11 May 2009); World Bank, *World Development Indicators database*, compilation of data from different years, http://ddp-ext.worldbank.org/ext/ddpreports/ViewSharedReport?REPORT_ID=5550andREQUEST_TYPE=VIEWADVANCEDandDIMENSION=YES (accessed 8 May 2009).

10.13 The paucity and unreliability of statistical information on education in the region, however, makes it hard to determine the actual levels of literacy and numeracy. Mr Robert Tranter, AusAID, provided a telling example:

People will always overstate their literacy levels. In Vanuatu, for example, literacy rates at one point were stated to be about 70 per cent amongst adults. A recent survey, which took a significant sample of the population and did testing around people's ability to read and write in Bislama, showed that the literacy rate would be more in the order of between 30 per cent and 35 per cent. It can highlight some overstating in statistics when they are done in a cursory way.²⁶

10.14 This conclusion is supported by a Pacific Islands Forum Secretariat study, which found that existing data painted 'a picture of stagnating quality or even regression'.²⁷

10.15 These observations about the lack of literacy and numeracy skills in some Pacific island countries are worrying. According to an AusAID study, many children in the region are leaving primary school unable to read, write or solve basic mathematical tasks.²⁸ For example, in Vanuatu, almost three in ten of Year 6 students could not write a simple dictated sentence.²⁹

10.16 Consistent with school attendance, performance on literacy also varies among Pacific island countries. Professor Helen Hughes and Mr Gaurav Sodhi, Centre for Independent Studies, argued that the Pacific is 'sharply divided between islands that are functionally literate and those that remain basically illiterate'.³⁰ The Pacific is 'bipolar': one group of islands (Cook Islands, French Polynesia, Guam, New Caledonia, Samoa and Tonga) have moderate population growth and reasonable education.³¹ Indeed, 'indicators for Fiji and Polynesian countries compare favourably to major Asian countries'.³² Tonga has a very high literacy rate, estimated to be at 98 per cent in English and Tongan.³³

26 *Committee Hansard*, 12 March 2009, p. 25.

27 Pacific Islands Forum Secretariat, *Report on the Review of the Forum Basic Education Action Plan and Associated Regional Processes*, Forum Education Ministers' Meeting, Tonga, 24–26 March 2009, p. xv.

28 Commonwealth of Australia, *Tracking Development and Governance in the Pacific*, AusAID, Canberra, 2008, p. 7.

29 Commonwealth of Australia, *Tracking Development and Governance in the Pacific*, AusAID, Canberra, 2008, p. 7.

30 *Submission 11*, attachment, p. 9.

31 Hughes and Sodhi, *Submission 11*, attachment p. 2; and 'Pacific Performance and Outlook, Background Paper' for *Pacific Economic Survey 2008*, pp. 28–29.

32 See findings of 'Pacific Performance and Outlook, Background Paper' for *Pacific Economic Survey 2008*, p. 29.

33 HE Mr Bruce Hunt, *Committee Hansard*, 25 September 2008, p. 5.

10.17 The second group of islands, including Solomon Islands and PNG, are performing poorly. A research paper noted 'the relatively low enrolment and literacy rates for both girls and boys' in both countries.³⁴ Indeed, they have 'some of the highest population growth rates in the world and high levels of illiteracy'.³⁵

Secondary education

10.18 The UN commented that for children 'to reach their full potential and countries to develop, the gains made in universal primary education must be replicated at the secondary level'. It noted, however, that in Oceania at present, 'almost two thirds of children of secondary school age are out of school'.³⁶ AusAID also noted that secondary school enrolment rates are low in most countries (around 30 per cent in Solomon Islands and Vanuatu).³⁷ Even Polynesia, which has good enrolments rates at the primary level, has 'access issues at secondary level particularly for children in remote areas'.³⁸ Statistics taken from the ESCAP Economic and Social Survey 2009 show the latest available statistics for enrolment rates in some Pacific island countries though the data is quite old:

Table 10.3: Secondary level enrolment rates in some Pacific island countries³⁹

	Cook Islands	Fiji	Kiribati	Samoa	Solomon Islands	Tonga	Vanuatu
Secondary level—Net enrolment rate (per cent)	64.4 (2000)	79.1 (2006)	68.3 (2005)	66.0 (2004)	27.3 (2003)	60.4 (2003)	38.1 (1999)

These figures contrast with secondary school attendance rates for Australia 87.2 in 2006 and Japan 98.7 in 2006.

34 'Pacific Performance and Outlook, Background Paper' for *Pacific Economic Survey 2008*, pp. 28–29. It noted 'A particular concern is the decline in the enrolment rate in primary education for both girls and boys in PNG and the widening gap between girls and boys'.

35 Hughes and Sodhi, *Submission 11*, Attachment, p. 2.

36 United Nations, Millennium Development Goals, Goal 2, http://mdgs.un.org/unsd/mdg/Resources/Static/Products/Progress2008/MDG_Report_2008_En.pdf#page=16, p. 14 (accessed 7 May 2009).

37 Commonwealth of Australia, *Tracking Development and Governance in the Pacific*, AusAID, Canberra, 2008, p. 7.

38 Pacific Islands Forum Secretariat, *Report on the Review of the Forum Basic Education Action Plan and Associated Regional Processes*, Forum Education Ministers' Meeting, Tonga, 24–26 March 2009, p. xv.

39 Table 13b, ESCAP, *Economic and Social Survey of Asia and the Pacific 2009: Addressing Triple threats to development*, New York 2009, p. 187.

Non-formal education

10.19 At their meeting in Tonga in March 2009, the Pacific Islands Forum education ministers noted the 'growing alarm over the large numbers of young people, both boys and girls, who leave school without adequate skills to further their education or obtain employment'. In their view, the formal sector of the economy offered few employment opportunities and a great need existed for non-formal education (NFE) that would provide training in life-skills.⁴⁰

10.20 Rather than 'a *central* basic education strategy with a national place and role in its own right', NFE is often seen as a 'supplementary basic education strategy'. NFE activities are expanding into areas such as environment education, legal literacy and sustainable micro-enterprise development. It is increasing links between the community and schools through 'incorporation of what started as NFE programs into school programs and for government employees'.⁴¹ An ADB study explained:

Local communities, church groups, and NGOs offer functional literacy and skills development programs...Others provide flexible skills development programs emphasizing functional literacy, microbusiness, and other livelihood skills to help youth and adults with low educational attainment to develop their potential to generate income in informal sector self-employment and wage employment.⁴²

10.21 World Vision Australia acknowledged the vital role of informal education, stating that it 'operates as a safety net to catch the many people who have not achieved literacy and numeracy through the formal system', and prepares people for vocational education and employment.⁴³

10.22 Donor investment in NFE is said to be considerable, directed to both continuing education and training aimed at poverty alleviation and governance.⁴⁴ NFE, however, is hamstrung by a number of factors. It lacks national policies, plans and coordination, which has led to the duplication of some training activities and gaps in programs. This sector also lacks funding for human resources infrastructure and,

40 Pacific Islands Forum Secretariat, *Pacific Regional Initiatives for the Delivery of Basic Education*, Draft financing proposal, 9th EDF, p. 1.

41 Pacific Islands Forum Secretariat, *Pacific Regional Initiatives for the Delivery of Basic Education*, Draft financing proposal, 9th EDF, p. 5.

42 Asian Development Bank, *Better Learning, Better Future: Education and Training Sector Strategy for the Pacific*, July 2005, p. 18.

43 *Submission 47*, p. 5.

44 Pacific Islands Forum Secretariat, *Pacific Regional Initiatives for the Delivery of Basic Education*, Draft financing proposal, 9th EDF, p. 5.

according to a Pacific Islands Forum Secretariat paper, is 'a neglected area of research and policy information'.⁴⁵

10.23 The paper suggested that NFE and formal education need to improve their sharing of resources and ideas and student mobility between them. NFE is also said to 'overwhelmingly favour males at the post-secondary and technical tertiary level, although training courses for women and girls increase at community level'.⁴⁶

Vocational education

10.24 The small number of students with secondary qualifications and the many who need transitional courses to qualify for classes create significant challenges for vocational and higher education and training in the region.⁴⁷ Thus, although vocational education is a pathway to employment, enabling people to earn their own livelihoods, an ADB study found that it suffers from the low educational attainment even in basic subjects such as maths, science and English. It concluded that 'Time is consequently wasted in remedial instruction, and dropout levels are high'.⁴⁸

10.25 Technical and vocational education and training (TVET) is provided through schools as part of the formal education system, which includes pre-vocational in secondary schools and post-secondary technical institutions; centre-based trade training; and apprenticeships. Almost all Pacific island countries have some skills courses in secondary schools and centres, and half of the countries have an apprenticeship system in place.⁴⁹ An ADB paper divided the Pacific island countries into three groups in terms of their needs for vocational education and training:

- Papua New Guinea, Solomon Islands, and Vanuatu should be 'training for the informal sector, particularly rural agriculture and related occupations'.
- Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, and Tuvalu, should focus training on the informal sector, 'with special emphasis on delivering services to remote areas and outer islands'. Improvements should be made regarding financial sustainability, affordability of TVET systems and dependence on external financing. Training should facilitate migration.

45 Pacific Islands Forum Secretariat, *Review of Implementation of the Forum Basic Education Action Plan*, Forum Education Ministers' Meeting, Auckland, 26–28 November 2007, pp. 7 and 13–14.

46 Pacific Islands Forum Secretariat, *Pacific Regional Initiatives for the Delivery of Basic Education*, Draft financing proposal, 9th EDF, p. 5.

47 Hughes and Sodhi, *Submission 11*, attachment, p. 12.

48 Asian Development Bank, *Education and Skills: Strategies for Accelerated Development in Asia and the Pacific*, June 2008, p. 104.

49 Asian Development Bank, *Skilling the Pacific: Technical and Vocational Education and Training*, Executive Summary, 2008, pp. 11–12.

- Cook Islands, Fiji, Palau, Samoa, and Tonga 'have relatively good prospects from tourism, emigration, and remittances'. Their top priorities are 'to expand training for the wage sector and fill vacancies created by emigration'.⁵⁰

Higher education

10.26 The statistics on enrolment at tertiary institutions in Pacific island countries are outdated and incomplete. Data taken from the ESCAP Economic and Social Survey 2009 show the latest available statistics for gross enrolment rate (per cent) in some Pacific island countries:

- Fiji 15.4 (2005)
- Tonga 6.0 (2004)
- Vanuatu 4.8 (2004)⁵¹

10.27 Mr John Millett, who spent some 30 years working in various capacities in the region, informed the committee that 1,200 students graduate annually from universities in PNG.⁵² Ms Jenny Hayward-Jones, Lowy Institute, was of the view that unless there are more university graduates in the region, foreign investors will continue to employ expatriates and the development of needed skills will not occur.⁵³

10.28 In the case of Tonga, it should be noted that, although there is a very small campus of the University of the South Pacific in Nuku'alofa, many students go abroad to study—Australia, New Zealand, the west coast of America or Hawaii.⁵⁴ The Australian High Commissioner to Tonga informed the committee that Tongans claim 'to have the highest number of PhDs per capita in the world'. In his view:

Having been there for two years, I would be prepared to say that they could be right. You do meet a lot of PhD doctors in Tonga. They will move through the education system and get the best out of it.⁵⁵

10.29 The committee now considers the major impediments to improving the standard of education and training in Pacific island countries.

50 Asian Development Bank, *Education and Skills: Strategies for Accelerated Development in Asia and the Pacific*, June 2008, p. 33.

51 These figures contrast sharply with 2006 figures for Australia (72.7 per cent), Japan (57.3 per cent) and New Zealand (79.7 per cent). Table 13b, ESCAP, *Economic and Social Survey of Asia and the Pacific 2009: Addressing Triple threats to development*, New York 2009, p. 187.

52 *Submission 21*, p. 6. Mr Millett worked in the region as a civil engineer from the early 1960s, then as managing director of a 'new statutory financial institution, director of the Institute of National Affairs and then a privately funded "think tank"'.

53 *Committee Hansard*, 24 March 2009, p. 13.

54 *Committee Hansard*, 25 September 2008, p. 5.

55 *Committee Hansard*, 25 September 2009, p. 5.

Impediments to higher educational standards

Affordability

10.30 A 2007 paper prepared by the Pacific Islands Forum Secretariat recognised that although most Pacific island governments provide 'free education', many parents are still unable to meet additional costs 'such as transportation, maintenance of school buildings and contribution fees'.⁵⁶ Mr Geoffrey Tooth, DFAT, noted:

My experience of Papua New Guineans is that the parents and the children have a great love of education and a great desire for it. In recent years they have been required to fund their education, and from everything I have seen, parents do put aside a great deal of their limited disposable income to ensure their children do get whatever schooling is available to them. But, as I said, there is a long way to go...⁵⁷

10.31 Pacific Islands Forum education ministers noted that while many countries have enjoyed high rates of access to education, this was 'in danger of slipping in the face of increasing poverty as children from poor families tend to have poor attendance rates'.⁵⁸ Children who are engaged in paid or domestic work are most at risk of not completing primary school, which is a particular issue for students from outer islands. Their 'absence from local farming or fishing enterprises is a hardship for their families'.⁵⁹ Furthermore, the global financial crisis may affect many families working small plantations: if nobody buys their produce, they will not have money to send their children to school.⁶⁰ For such children, there is a lack of 'meaningful "second-chance" learning opportunities' in Pacific island countries.⁶¹ An ADB report stated that the poor 'need to be the primary focus of education policy and public action' and that 'a basic, high-quality service' would address this disengagement from education.⁶²

10.32 The cost of education also influences access to vocational and higher education where opportunities exist for only a minority, approximately 5–20 per cent

56 Pacific Islands Forum Secretariat, *Review of Implementation of the Forum Basic Education Action Plan*, Forum Education Ministers' Meeting, Auckland, 26–28 November 2007, p. 11.

57 *Committee Hansard*, 21 November 2008, p. 20.

58 Pacific Islands Forum Secretariat, *Report on the Review of the Forum Basic Education Action Plan and Associated Regional Processes*, Forum Education Ministers' Meeting, Tonga, 24–26 March 2009, p. xv.

59 Commonwealth of Australia, *Tracking Development and Governance in the Pacific*, AusAID, Canberra, 2008, p. 7; and the World Bank, *Opportunities to Improve Education Sector Performance*, Summary report, Working paper 38865, January 2007, p. 3.

60 HE Chris Moraitis, *Committee Hansard*, 19 March 2009, p. 6.

61 Pacific Islands Forum Secretariat, *Report on the Review of the Forum Basic Education Action Plan and Associated Regional Processes*, Forum Education Ministers' Meeting, Tonga, 24–26 March 2009, p. xvi.

62 Asian Development Bank, *Better Learning, Better Future: Education and Training Sector Strategy for the Pacific*, July 2005, p. 34.

of those entering the labour market and to those 'who can afford to pay'.⁶³ An ADB study found that in PNG, many students 'drop out and do not receive certificates because their parents cannot afford continued tuition charges'.⁶⁴

10.33 The World Bank noted that a number of government policies could assist poor students to participate in education: governments could establish sliding scale fees or provide means-tested scholarships; and quota systems could be used to ensure equitable selection of students.⁶⁵

Physical access

10.34 Physical access to schools is difficult for children in rural and remote villages and in the outer islands, making the traditional delivery of education unviable.⁶⁶ With regard to secondary education, the World Bank noted that 'most secondary schools are in urban areas [and] outer island students face expenses for travel and boarding away from home'.⁶⁷ The same applies to vocational training, where students in rural areas and outer islands do not have ready access to organised skills development.⁶⁸ Ms Hayward-Jones remarked:

In Melanesia it is a case of capacity and in a way geography and logistics. In Papua New Guinea, the Solomons and even Vanuatu...the terrain is very difficult to cover.⁶⁹

Facilities

10.35 The physical learning environment is said to be poor in most countries, ranging from inadequate learning materials to the lack of maintenance of school buildings and infrastructure.⁷⁰

63 Asian Development Bank, *Skilling the Pacific: Technical and Vocational Education and Training*, Executive Summary, 2008, p. xxi.

64 Asian Development Bank, *Education and Skills: Strategies for Accelerated Development in Asia and the Pacific*, June 2008, p. 102.

65 The World Bank, *Opportunities to Improve Education Sector Performance*, Summary report, Working paper 38865, January 2007, p. 7.

66 Pacific Islands Forum Secretariat, *Report on the Review of the Forum Basic Education Action Plan and Associated Regional Processes*, Forum Education Ministers' Meeting, Tonga, 24–26 March 2008, p. xiv.

67 The World Bank, *Opportunities to Improve Education Sector Performance*, Summary report, Working paper 38865, January 2007, p. 3.

68 *Pacific Education Development Framework 2009–2015*, March 2009, p. 10.

69 *Committee Hansard*, 24 March 2009, p. 14.

70 Pacific Islands Forum Secretariat, *Report on the Review of the Forum Basic Education Action Plan and Associated Regional Processes*, Forum Education Ministers' Meeting, Tonga, 24–26 March 2009, pp. xvi and 6.

10.36 Information and communication technologies (ICT) has the potential to improve work and study opportunities through distance learning in remote Pacific island communities. The use of ICT in schools and other educational institutions, however, is limited.⁷¹ Internet and computer access levels for Pacific island primary and secondary schools would be 'well below 10 per cent' but in urban tertiary institutes access could be as high as 70 per cent. In general, approximately 17 per cent of the Pacific population have access to the Internet.⁷² The problems with infrastructure noted in the previous chapters flow through to the education sector. For example, the lack or shortage of electricity in most of the outer islands makes it difficult to have ICT systems in place. The need for technicians to service ICT equipment is a further complication.⁷³

10.37 The Pacific Islands Forum Secretariat argued that educational institutions 'fully comprehend' the need for ICT access in schools but the costs for equipment, development and training, and access to services hinder the facilitation of universal access and economic and social inclusion.⁷⁴ It is estimated that 'an investment of some \$50 million would be required for basic development ICT in education'.⁷⁵

71 Pacific Islands Forum Secretariat, *Pacific ICT Capacity and Prospects*, Working Paper, 2001, p. 12.

72 Robert Whelan, *eLearning in the South Pacific: Current Status, Challenges and Trends Survey Findings from the Pacific eLearning Observatory*, Draft, 21 September 2007, p. 20, http://www.usp.ac.fj/fileadmin/files/schools/dfl/pdsu/pdfs/pelo_survey_full.pdf (accessed 26 February 2009). Project internet address is <http://www.usp.ac.fj/pelo/>.

73 Pacific Islands Forum Secretariat, *Review of Implementation of the Forum Basic Education Action Plan*, Forum Education Ministers' Meeting, Auckland, 26–28 November 2007, paragraph 64.

74 Pacific Islands Forum Secretariat, *Pacific ICT Capacity and Prospects*, Working Paper, 2001, pp. 6–7.

75 Robert Whelan, *eLearning in the South Pacific: Current Status, Challenges and Trends Survey Findings from the Pacific eLearning Observatory*, Draft, 21 September 2007, p. 25, http://www.usp.ac.fj/fileadmin/files/schools/dfl/pdsu/pdfs/pelo_survey_full.pdf (accessed 26 February 2009). Project internet address is <http://www.usp.ac.fj/pelo/>.



Telecommunications facilitate education and learning for children in remote Pacific island communities, for example in Nauru (image courtesy of AusAID).

Teacher training and supply of teachers

10.38 Inadequate literacy and numeracy skills are said to result from a number of factors, including lack of 'ongoing professional development of teachers in the area of literacy and numeracy'.⁷⁶

10.39 While teacher competence is 'of crucial importance in improving student achievement levels', the supply of qualified teachers also 'remains an issue despite

76 Pacific Islands Forum Secretariat, *Review of Implementation of the Forum Basic Education Action Plan*, Forum Education Ministers' Meeting, Auckland, 26–28 November 2007, pp. 12–13.

considerable attention and investment over the years'.⁷⁷ Remote village schools, in particular, lack trained teachers and proper infrastructure, such as classrooms and storage facilities.⁷⁸ According to the World Bank, 'school quality on the outer islands needs special attention', with difficulties to staff remote schools with trained teachers.⁷⁹ Ms Hayward-Jones noted:

It is difficult to get teachers to go out to some of the remote areas and to provide them with the right kind of housing so that they will stay. The government's capacity to pay teachers is often questionable.⁸⁰

10.40 As a result, several countries employ 'under-trained teachers so as to ensure the continuation of school programmes'.⁸¹ Universities also have difficulties attracting qualified staff apart from short-term guest lecturers.⁸²

Curriculum and relevance

10.41 In many island countries, the curriculum is said to lack meaningfulness and relevancy and several countries have a limited variety of courses on offer.⁸³ The Pacific Education Development Framework noted that despite efforts at redevelopment to meet vocational and life skill needs, the school curricula 'remain largely academic and do not fully meet the needs of all Pacific students'.⁸⁴ The Pacific Islands Forum Secretariat noted that the secondary education system lacks 'relevance to village life and to the country's labour market needs'. Thus, despite limited public sector employment opportunities, too much emphasis rests 'on the expectation of

77 The World Bank, *Opportunities to Improve Education Sector Performance*, Summary report, Working paper 38865, January 2007, p. 5.

78 Pacific Islands Forum Secretariat, *Review of Implementation of the Forum Basic Education Action Plan*, Forum Education Ministers' Meeting, Auckland, 26–28 November 2007, paragraph 38.

79 The World Bank, *Opportunities to Improve Education Sector Performance*, Summary report, Working paper 38865, January 2007, p. 3.

80 *Committee Hansard*, 24 March 2009, p. 14.

81 Pacific Islands Forum Secretariat, *Review of Implementation of the Forum Basic Education Action Plan*, Forum Education Ministers' Meeting, Auckland, 26–28 November 2007, paragraph 52.

82 Hughes and Sodhi, *Submission 11*, attachment, p. 12.

83 Pacific Islands Forum Secretariat, *Report on the Review of the Forum Basic Education Action Plan and Associated Regional Processes*, Forum Education Ministers' Meeting, Tonga, 24–26 March 2008, p. xvi; PIFS, *Review of Implementation of the Forum Basic Education Action Plan*, Forum Education Ministers' Meeting, Auckland, 26–28 November 2007, p. 14.

84 *Pacific Education Development Framework, 2009–2015*, agreed to by Pacific Islands Forum Education Ministers, March 2009, p. 8.

future white collar jobs or professional employment'.⁸⁵ The ADB argued that because of its importance, training for those working in the informal sector should be the 'top priority'.⁸⁶ In chapter 4, the committee highlighted the importance of education for food security and cited, for example, Fiji which called for agricultural sciences to be incorporated in the school curricula at primary and secondary level.⁸⁷

10.42 Many commentators and organisations, such as the ADB, drew attention to the problem of the disjunction in school-to-work transitions.⁸⁸ Indeed, the Pacific Education Development Framework suggested that training systems tend to operate in isolation of labour market demand.⁸⁹ Equally damning, the ADB study on skills in the Pacific noted that most TVET systems in the region 'tend to operate in the dark both on skills demand and on supply'.⁹⁰ One study observed that courses—such as welding—are offered because staff is on the roster, regardless of labour market demand.⁹¹ An ESCAP study noted the gap in skills in many Pacific island countries suggesting that they:

...continue to rely on traditional types of training, through schools and tertiary institutions, and expect the products of that training to fit into contemporary labour markets. But economic structures have changed over the last decade while skill development and training have failed to adapt.⁹²

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- 85 Pacific Islands Forum Secretariat, *Review of Implementation of the Forum Basic Education Action Plan*, Forum Education Ministers' Meeting, Auckland, 26–28 November 2007, p. 15 and AusAID, *Pacific 2020—Background paper: Employment and labour markets*, May 2006, pp. 9–10.
- 86 Asian Development Bank, *Skilling the Pacific: Technical and Vocational Education and Training in the Pacific*, Executive Summary, 2008, p. 8.
- 87 See paragraph 4.9.
- 88 AusAID, *Pacific 2020—Background paper: Employment and labour markets*, May 2006, pp. 9–10 and Pacific Islands Forum Secretariat, *Review of Implementation of the Forum Basic Education Action Plan*, Forum Education Ministers' Meeting, Auckland, 26–28 November 2007, p. 14.
- 89 *Pacific Education Development Framework, 2009–2015*, agreed to by Pacific Islands Forum Education Ministers, March 2009, p. 10.
- 90 Asian Development Bank, *Skilling the Pacific: Technical and Vocational Education and Training in the Pacific*, 2008, p. 127.
- 91 'In Samoa, most TVET providers use traditional time-based courses...In Vanuatu, rural training lasts 2 years without achievement of skill levels needed to be productive in the labour market', Asian Development Bank, *Skilling the Pacific: Technical and Vocational Education and Training*, 2008, p. 127; see also AusAID, *Pacific 2020—Background paper: Employment and labour markets*, May 2006, pp. 9–10.
- 92 ESCAP, *Improving Employment Opportunities in Pacific Island Developing Countries*, United Nations, 2007, p. 18.

10.43 It indicated that tourism was now one of the leading sectors but skills-training had not changed to support the development of the industry in the region.⁹³ Yet another study underscored the need to bring business education, especially relating to entrepreneurship and innovation, into schools to orientate young people towards business activity.⁹⁴ For example, participants to the Solomon Islands people's survey 2008 identified the lack of business knowledge and training as a widespread problem.⁹⁵ The Australia Pacific Islands Business Council also called for aid programs to focus more on business development, particularly the building of business and entrepreneurial skills.⁹⁶

10.44 According to the ADB, the Fijian TVET authority is 'arguably one of the best providers of trade training in the region' and was a model for other Pacific island countries. It has developed a testing system to ensure the standard for training. It involved employers in the review of the training content which focuses on 'practical applications' and 'has an enterprise ethos'.⁹⁷ Even so, the Australia Fiji Business Council urged the Fijian Government and aid donors to work closely with business to identify future employment needs so that 'the education system is tuned to produce workers with the appropriate skills and training to enable their absorption into the workforce'.⁹⁸

10.45 Concerns have also been raised about the appropriateness of university courses for Pacific economies and conditions. Fiji's Acting High Commissioner to Australia noted that the courses on offer in Fiji 'do not fully meet Fiji's manpower and workforce needs because a good number of specialised study programmes are not available in Fiji'. These include engineering, architecture, veterinary science, forestry, fisheries, forensic science and meteorology. He argued that this situation created a need to recruit overseas engineers, businesses and consultants 'at exorbitant rates' for major construction works.⁹⁹

Standards

10.46 The *Pacific 2020* background paper on employment commented on the standards reached in technical and training institutes in the region. It noted that there had been 'little attempt to establish minimum competency standards' and suggested:

93 ESCAP, *Improving Employment Opportunities in Pacific Island Developing Countries*, United Nations, 2007, p. 18.

94 AusAID, *Pacific 2020—Background Paper: Employment and labour markets*, May 2006, p. 14.

95 Australian National University Enterprise, *People's survey 2008*, p. 13.

96 *Submission 60*, p. 4.

97 Asian Development Bank, *Education and Skills: Strategies for Accelerated Development in Asia and the Pacific*, June 2008, p. 103.

98 *Submission 58*, p. 7.

99 *Submission 28*, pp. 15–17.

A regional approach to the setting and administration of competency standards through a regional accreditation system involving governments and business would better align training standards with the realities and needs of regional labour markets and facilitate greater global skilled migration.¹⁰⁰

10.47 Mr Edward Vrkic, Pacific Islands Forum Secretariat, acknowledged the Forum education ministers' support for 'benchmarking standards and standardising'.¹⁰¹

Committee view

10.48 The committee believes that the training and skilling of Pacific island people for employment in their own labour markets is of paramount importance and strongly supports attempts to align education and training with local needs. It notes the many and persistent calls for attention to be given to the informal sector.

10.49 There are a number of other areas in the education systems in Pacific island countries that require attention, including gender disparity in school enrolments, inadequacies in services for those with disabilities, and early childhood education. Although the committee has not dealt with them here, they nonetheless remain important issues that should be addressed.

Funding

10.50 Finance for education in Pacific island countries comes from multiple sources and includes 'allocations from government budgets, support from external development partners, and funding from parents and non-government providers'. In most Pacific island countries, 'primary education is a government responsibility, and secondary education is predominantly church run'.¹⁰² For example, in PNG churches administer approximately half of the education system.¹⁰³ An ADB study suggested that 'Government and church collaboration is the usual way to expand the provision of education services where public funds are scarce'. However, while aid agencies provide 'a large part of education spending', '[m]uch of it is not reflected in the official budget'.¹⁰⁴

10.51 On average, Pacific island governments allocate approximately 17 per cent of the budget to education.¹⁰⁵ An ADB study noted that because such a large proportion

100 AusAID, *Pacific 2020—Background Paper: Employment and labour markets*, May 2006, p. 14.

101 *Committee Hansard*, 19 June 2009, p. 13.

102 Asian Development Bank, *Better Learning, Better Future: Education and Training Sector Strategy for the Pacific*, July 2005, pp. 29–30.

103 HE Chris Moraitis, *Committee Hansard*, 19 March 2009, p. 6.

104 Asian Development Bank, *Better Learning, Better Future: Education and Training Sector Strategy for the Pacific*, July 2005, pp. 29–30.

105 Asian Development Bank, *Skilling the Pacific: Technical and Vocational Education and Training*, Executive Summary, 2008, p. 31.

of government resources was already allocated to education and training, 'it is unlikely that they will be able to afford to increase it'.¹⁰⁶ As an example, to achieve universal basic education, PNG 'would require a doubling of ongoing spending by 2015, and large up-front investments in school infrastructure'.¹⁰⁷

10.52 While Pacific island governments allocate significant funding towards improving their education systems, the World Bank described the outcomes as 'weak'.¹⁰⁸ In addition, there are growing demands on the education budget:

...resources for education are becoming relatively scarcer as the education agenda expands to meet increasing populations, expansion of compulsory education years, the broadening of education to include Early Childhood Education (ECE) and life skills learning, and the drive for equity.¹⁰⁹

10.53 Some commentators claim that universal basic education is still out of reach for too many children under 15 years of age because more than half the education budget is allocated to the tertiary sector.¹¹⁰ For example, the World Bank noted that tertiary education 'consumes a disproportionate amount of education budgets' and suggested:

Given the unmet needs in primary and secondary education, Pacific governments have the opportunity to reallocate tertiary funds, to achieve a larger impact on their most urgent priorities.¹¹¹

10.54 Despite this allocation, funding and resources are also issues for the vocational and higher education systems. Many TVET institutions have inadequate resources to carry out their functions. According to the Lowy Institute, universities suffer from 'chronic under-funding, staff shortages and inadequate facilities'.¹¹² The ADB was of the view that infrastructure development is one of the most 'salient' needs of the Pacific islands higher education sector.¹¹³

106 Asian Development Bank, *Better Learning, Better Future: Education and Training Sector Strategy for the Pacific*, July 2005, p. 33.

107 AusAID, *Tracking Development and Governance in the Pacific*, 2008, p. 15.

108 The World Bank, *Opportunities to Improve Education Sector Performance*, Summary report, Working paper 38865, January 2007, p. 4.

109 University of South Pacific, PRIDE Draft Financing Proposal 9th EDF, p. 2, http://www.usp.ac.fj/fileadmin/files/Institutes/ioe/pdf/PRIDE_DFP_9th_EDF.pdf (accessed 4 December 2008).

110 Mr John Millett, *Submission 21*, p. 6. See also Hughes and Sodhi, *Submission 11*, attachment, p. 12.

111 The World Bank, *Opportunities to Improve Education Sector Performance*, Summary report, Working paper 38865, January 2007, p. 4.

112 *Submission 14*, p. 4.

113 Asian Development Bank, *Education and Skills: Strategies for Accelerated Development in Asia and the Pacific*, June 2008, p. 59.

Governance and administration

10.55 The problem with education in some Pacific island countries is not only the lack of funds but also the capacity of governments to deliver education as an essential service. Ms Hayward-Jones observed that while Pacific island countries may well have sufficient money in the budget, 'getting it out to the provinces and spending it on the right things [schoolbooks and attendance] is proving to be more difficult'.¹¹⁴ According to the review of the Forum Basic Education Action Plan, all Pacific island countries 'have major capacity gaps in their systems that are holding them back in responding to the access, quality and equity challenges'. These include: 'the ability and skills to efficiently manage sector resources (at national, state, provincial and school level) including donor provided resources'. Pacific Island countries were also deemed to have capacity shortfalls in their ability to:

- develop and analyse policies at sectoral and sub-sectoral level;
- develop, manage and modify education management information systems (EMIS);
- develop and nurture stakeholder relationships with other government departments, civil society, and other educational authorities; and
- track sector performance because of a lack of fully institutionalised monitoring and evaluation systems.¹¹⁵

10.56 PNG provides an example of some of the administrative and capacity constraints it faces delivering an education service. For example, schools must deal with both the provincial and national education offices and are often forced to wait 6-12 months for a teacher to be placed on the payroll. According to Palms Australia, issues such as the delays and frustration caused by dealing with the bureaucracy 'are most profound for rural or isolated communities due to unreliable communications infrastructure'.¹¹⁶

10.57 The World Bank also noted the need for governments to set up good policies and 'well-functioning institutional structures for social service delivery'. It suggested that a coherent policy and regulatory framework is needed with quality assurance mechanisms such as an accreditation system.¹¹⁷

10.58 Governance issues also apply to vocational and higher education. According to ADB, strategic planning is, in addition to infrastructure development mentioned

114 *Committee Hansard*, 24 March 2009, p. 14.

115 Pacific Islands Forum Secretariat, *Report on the Review of the Forum Basic Education Action Plan and Associated Regional Processes*, Forum Education Ministers' Meeting, Tonga, 24–26 March 2009, p. 23.

116 *Submission 44*, p. 3.

117 The World Bank, *Opportunities to Improve Education Sector Performance*, Summary report, Working paper 38865, January 2007, p. 4.

earlier, another of the most pressing needs of the Pacific islands higher education sector.¹¹⁸ The Papua New Guinean TVET administration 'can be seen as dysfunctional' according to ADB, with each authority having:

...its own board and management structures; develops its own policies and forges its own linkages with enterprises, is responsible for some registration and certification of training providers, and each uses different criteria in the process.¹¹⁹

10.59 The World Bank argued that the focus should be on improving effective resource management.¹²⁰ In its view, future improvements in education would be related to how well policy makers manage existing resources and how effective they are in engaging partners outside the sector in broad governance activities. These activities include gathering and using data, increasing transparency, decentralising services and mobilising community participation. Also, resources and priorities should be better aligned, tracking mechanisms improved and teacher development, standards and curriculum reformed. For example, in most systems, teacher salaries 'represent over 90 per cent of recurrent budgets' and is an area where efficiencies could be made.¹²¹

10.60 The World Bank also recognised that governance activities involve numerous 'stakeholders inside and beyond ministries of education'. For example, the private sector plays a role in the form of curriculum development, mentoring and providing apprenticeship opportunities. Thus, public-private partnerships between the government and communities and churches are important to raise and manage additional funds. The World Bank suggested that changing the governance structure means 'altering in some way the society-wide frameworks within which the education system performs'.¹²²

Conclusion

10.61 The education and training systems in Pacific island countries face a multitude of challenges. In particular, governments have difficulties finding the resources and the management skills to deliver appropriate education services to many

118 Asian Development Bank, *Education and Skills: Strategies for Accelerated Development in Asia and the Pacific*, June 2008, p. 59.

119 Asian Development Bank, *Education and Skills: Strategies for Accelerated Development in Asia and the Pacific*, June 2008, p. 101.

120 The World Bank, *Opportunities to Improve Education Sector Performance*, Summary report, Working paper 38865, January 2007, p. 4.

121 Pacific Islands Forum Secretariat, *Report on the Review of the Forum Basic Education Action Plan and Associated Regional Processes*, Forum Education Ministers' Meeting, Tonga, 24–26 March 2009, p. xvi.

122 The World Bank, *Opportunities to Improve Education Sector Performance*, Summary report, Working paper 38865, January 2007, pp. 5–6.

of their children, particularly those living in remote communities. As a result, in many countries:

- children in remote areas have difficulties attending school;
- schools are poorly equipped with inadequate learning materials and school buildings;
- there is a chronic shortage of qualified teachers;
- the curriculum does not meet the needs and priorities of local communities; and
- the vocational system is not producing graduates with the higher level skills needed to support their economies.

10.62 In some Pacific island countries, notably PNG, Solomon Islands, Vanuatu and Nauru, the education system is failing to the extent that school attendance and the levels of literacy and numeracy are very poor for a significant proportion of the population. As noted at the beginning of this chapter, education and with it literacy and numeracy skills are the essential building blocks of any society. By failing to achieve basic universal education, a number of Pacific island countries are undermining their country's economic potential and severely curtailing opportunities for their people to develop.

Chapter 11

Australia's assistance—education and training

11.1 The committee has identified some of the daunting challenges that Pacific island countries face in developing their economies. As noted earlier, some of these constraining factors, such as small populations and land mass, remoteness and susceptibility to natural disasters, cannot be changed. Such disadvantages can be minimised, however, and education is one such weapon to help counter adverse effects. In this chapter, the committee touches briefly on some of the regional initiatives in education and training before looking in greater depth at Australia's contribution to assisting Pacific island countries improve education and training opportunities for their people.

Regional initiatives

11.2 There are many regional frameworks and initiatives that address education in Pacific island countries. The committee has already mentioned the educational Millennium Development Goals (MDGs) as central policy drivers in setting objectives for Pacific island countries and donor countries and organisations. Some of the other initiatives and their objectives or functions include:

- *Pacific Plan*—expands and standardises training programmes and technical qualifications through:
 - a *National Qualifications Register*;¹ and
 - a *Regional Qualifications Register (RQR)*²
- *Regional benchmarks for literacy, numeracy and life skills*.³
- *Pacific Education Development Framework (PEDF)*—coordinates regional activities and provides advocacy and leadership in policy dialogue.
- *Pacific Regional Initiative for the Delivery of Basic Education (PRIDE)*—improves the quality of basic education by strengthening education planning and implementation processes.

1 Pacific Islands Forum Secretariat, *Six-monthly Pacific Plan Progress Report*, 2008, p. 57; Pacific Islands Forum Secretariat, *2008 Pacific Plan Annual Progress Report*, pp. 84–85.

2 The Register is AusAID-funded and in the implementation stage, with 'agreement in principle' to fund further development of the register. Pacific Islands Forum Secretariat, *Review of Implementation of the Forum Basic Education Action Plan*, Education Ministers' Meeting, Auckland, 26–28 November 2007, p. 7.

3 South Pacific Board for Educational Assessment, <http://www.spbea.org.fj/index.html> (accessed 24 February 2009).

- *Pacific Islands Regional Information and Communications Technologies Policy and Strategic Plan*—aims at reducing professional isolation 'at all educational levels and especially in rural and remote communities'.⁴
- *Pacific eLearning Observatory*—monitors the development of ICT in education.⁵
- *One Laptop per Child*—an initiative of a US non-profit organisation which donates laptop computers for school children in rural and remote communities.⁶ The first trials are underway in Solomon Islands and another ten pilot trials will follow in other Pacific island countries.⁷

11.3 Work in special technical and professional areas is also being done in the region, for example in nursing and seafaring.⁸

Australia's engagement in Pacific education and training

11.4 Australian funding for the education sector in the Pacific and PNG reached a peak as a percentage of Australia's overall ODA for the region in the late 1990s–2000 at around 23 per cent. Over time, it declined to 10 per cent in 2006–07 but has again started to rise and in 2007–08 stood at \$102.5 million or 12 per cent of ODA for the region.⁹ The Australian Government acknowledged the growing importance of education in its 2009–10 Budget Statement:

Education is a flagship sector of Australia's increased aid program and will become the program's largest sector with support extending from basic education to technical and vocational skills training and improving tertiary level qualifications.¹⁰

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- 4 Pacific Islands Forum Secretariat, *Pacific Islands Regional Information and Communications Technologies Policy and Strategic Plan*, April 2002, p. 5.
 - 5 Robert Whelan, *eLearning in the South Pacific: Current Status, Challenges and Trends Survey Findings from the Pacific eLearning Observatory*, Draft, 21 September 2007, p. 6, http://www.usp.ac.fj/fileadmin/files/schools/dfl/pdsu/pdfs/pelo_survey_full.pdf (accessed 26 February 2009). Project internet address is <http://www.usp.ac.fj/pelo/>.
 - 6 For more information on the One Laptop per Child initiative, see: <http://laptop.org/en/vision/index.shtml> (accessed 24 April 2009).
 - 7 Pacific Islands Forum Secretariat, *Six-monthly Pacific Plan Progress Report*, 2008, p. 40.
 - 8 Department of Infrastructure, Transport, Regional Development and Local Government, *Submission 43*, p. 11. Cooperation with a number of organisations ensures that the curriculum is relevant to the industry and the courses are accredited by the International Maritime Organization. AusAID, *Pacific Economic Survey 2008: Connecting the region*, 2008, pp. 78–79.
 - 9 AusAID, Answer to a written question on notice 1, 12 March 2009.
 - 10 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2009-10: Australia's International Development Assistance Program*, p. 4.

11.5 In the Pacific, Australia's assistance programs support the achievement of the MDGs for example through improving the governance of education systems and strengthening service delivery.¹¹ Mr Robert Tranter, AusAID, explained:

The big issue in the education program we are supporting is around quality of teaching and the quality of the curriculum and addressing costs in the system. We do not want the cost of education to become an obstacle for families. They should not start making choices about taking their kids out of school.¹²

Pacific Partnerships for Development

11.6 Education and capacity building have been given priority in the Pacific Partnerships for Development (PPDs) and Australia's overall Pacific engagement strategy, 'in addition to the programs that already go on in relation to bilateral assistance in the education sphere'.¹³

11.7 The focus of the PPDs differs from country to country. For example, in the PPDs with Kiribati and Vanuatu education receives close attention. The main objective in Kiribati is to improve literacy and numeracy skills of school-aged children by ensuring that its public schools 'have the necessary resources and support to deliver quality education services'.¹⁴ In Vanuatu, the focus is on achieving the goal of universal primary education and increasing training and employment opportunities. The Samoa–Australia agreement seeks to increase school enrolment, reduce drop-out rates and improve teacher retention.¹⁵

11.8 Interestingly, education is not given a high priority in the partnership with Solomon Islands, although this country together with PNG is one of the countries in the region that is not performing well in school attendance or literacy.¹⁶ Australia's

11 AusAID, *Submission 65*, p. 18 and AusAID, *Better Education: A Policy for Australian Development Assistance in Education*, Summary, May 2007, p. 7; see also AusAID, <http://www.ausaid.gov.au/keyaid/education.cfm> (accessed 28 April 2009). Ms Corinne Tomkinson, Director, Pacific Projects, DFAT, explained that the 'single most important thing' that Australia could do in the Pacific would be to assist in providing education and training. *Committee Hansard*, 21 November 2008, p. 22.

12 *Committee Hansard*, 12 March 2009, p. 26.

13 Mr Richard Rowe, *Committee Hansard*, 21 November 2008, pp. 19 and 22.

14 Australia–Kiribati Partnership for Development, attachment A, http://www.ausaid.gov.au/hottopics/pdf/Australia_Kiribati_Partnership_for_Development.pdf (accessed 16 February 2009).

15 Samoa–Australia Partnership for Development, attachment A, http://www.ausaid.gov.au/hottopics/pdf/Australia_Samoa_Partnership_for_Development.pdf (accessed 16 February 2009).

16 Australia–Solomon Islands Partnership for Development, p. 3, http://www.ausaid.gov.au/hottopics/pdf/Australia_Solomon_Islands_Partnership_for_Development.pdf (accessed 11 May 2009).

partnership with PNG has progressed to the stage where an implementation schedule for each priority outcome (education is priority 2) has been developed. Thus, there is much more detail on the education programs under this partnership.

11.9 The Australian Government allocated \$377 million in aid funding to PNG for 2009–10.¹⁷ Approximately 10 per cent of this aid is for education, funding teachers, school buildings and other education infrastructure.¹⁸ As part of the PPD, the Australian Government and PNG negotiated the funding of the education sector until 2015, taking into consideration the estimated cost of 'school buildings, teacher training, teacher institutions, curriculum materials, overheads, payroll' as well as the funding from both countries. Australia's contribution is anticipated to grow significantly, 'from around \$38 million this year to \$100 million by 2015'. According to the schedule, Australia commits to providing a minimum of 65 per cent of its total funding for the education sector to support progress towards universal basic education. For example, the aim is to raise the net enrolment rate from 53 per cent to 70 per cent, in order to get some of the hundreds of thousands of children who currently do not go to school to enrol in schools.¹⁹

This will include support for safe and functional school buildings, grants to schools, support for teacher training, textbooks and curriculum materials and support for education administration at national and sub-national levels. The remainder of the funding will be available for technical and financial support for post-basic education and institutional capacity building at all levels of administration, including support to the Department of Education's HIV/AIDS and gender strategic plans.²⁰

11.10 The funding gap between what is required and the contributions from Australia and PNG are 'the subject of further discussion within PNG in terms of their own budget appropriation processes and with other donors such as New Zealand, the World Bank and the EU'.²¹

11.11 Australia will also provide technical assistance to PNG to strengthen education administration in planning financial and project management and procurement.²²

17 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2009–10: Australia's International Development Assistance Program*, p. 45.

18 Schedule to the Papua New Guinea–Australia Partnership for Development, Priority Outcome 2: Basic Education, 10 June 2009, p. 6.

19 Ms Margaret Callan, *Committee Hansard*, 19 June 2009, p. 53.

20 Schedule to the Papua New Guinea–Australia Partnership for Development, Priority Outcome 2: Basic Education, 10 June 2009, p. 6.

21 Ms Margaret Callan, *Committee Hansard*, 19 June 2009, p. 53.

22 Schedule to the Papua New Guinea–Australia Partnership for Development, Priority Outcome 2: Basic Education, 10 June 2009.

11.12 The 2009–10 budget indicated that Australia would provide assistance to:

- Fiji to support education systems;
- Tonga to improve technical and vocational skills in areas of industry in demand domestically and abroad;
- Tuvalu to improve access to and quality of education and vocational skills; and
- Nauru to improve education services, including technical and vocational education training.

11.13 Australia also contributes to a number of regional programs, including the Australia–Pacific Technical College.

Australia–Pacific Technical College

11.14 The Australian Government established and funds the Australia–Pacific Technical College (APTC) to improve the job readiness of young people in the region. It is administered by AusAID.²³ The APTC's objective is to increase 'the pool of skilled workers in targeted industry sectors'. It:

...assists Pacific Islands Forum member countries to build human capital and thus improve their long-term economic sustainability. The APTC will improve the capacity of these countries to adapt to climate change by training skilled workers in several industry sectors, including tourism and hospitality, trades, and health and community services.²⁴

11.15 Pacific Islands Forum Leaders supported the proposal to establish the college and expected it would 'make a significant contribution to developing a skilled and competitive Pacific workforce'.²⁵

11.16 The APTC has its headquarters in Suva, Fiji, and training centres and country offices in Fiji, Papua New Guinea, Samoa and Vanuatu.²⁶ The current goal for the college is to train 3,000 students over four years to Australian qualification standards 'to enable them to compete for job opportunities locally, regionally and internationally'.²⁷ According to the 2009–10 Budget Statement, the college is on track

23 APTC, <http://www.aptc.edu.au/support/index.html> (accessed 26 November 2008).

24 DEEWR, *Submission 42*, p. 19, Senate Standing Committee on Education, Employment and Workplace Relations, *Inquiry into Effects of Climate Change on Training and Employment Needs*.

25 Thirty-seventh Pacific Islands Forum, *Forum Communiqué*, 24–25 October 2006, Fiji, p. 3.

26 AusAID, *Submission 65*, p. 11; DEEWR, *Submission 64*, p. 15.

27 AusAID, *Submission 65*, p. 11.

to deliver the 3,000 students by June 2011.²⁸ There are expectations that the APTC could bridge the gap between national and international standards which currently exists in the Pacific islands.²⁹ Australia has provided \$149.5 million in funding for the college over four years.³⁰

11.17 According to DEEWR, the APTC's role is to 'enhance rather than compete with existing training at local institutions and partner with other Pacific training and education providers to build on existing strengths within the region'.³¹ The APTC uses two Australian registered training organisations (RTOs) contracted to AusAID—Box Hill Institute and Sunshine Coast Institute of TAFE—to deliver training.³²

Courses

11.18 The APTC provides training in tourism and hospitality, automotive, manufacturing, construction, electrical and health and community services.³³ People who complete a course receive an accredited Australian qualification.³⁴ As of July 2008, hospitality and tourism had been the most popular choice of study among the applicants, with one in three wishing to undertake training in that field. Nonetheless, most of the 584 students enrolled at the APTC study in the School of Automotive, Construction, Electrical and Manufacturing (57 per cent).³⁵

11.19 AusAID noted that the APTC 'has been struggling with the quality of the entrants' due to the gap between the standard of local technical training and that provided at the APTC. According to AusAID, the presence of the APTC, however, has lifted the quality of local training because of the competition. Students are also realising that 'they need to get to a particular standard'.³⁶

28 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2009–10: Australia's International Development Assistance Program*, p. 25.

29 Asian Development Bank, *Skilling the Pacific: Technical and Vocational Education and Training*, Executive Summary, 2008, p. 15.

30 DFAT, *Submission 68*, p. 30. 'Options for a longer term arrangement will be considered' after 2011, DEEWR, *Submission 64*, p. 14, footnote 19.

31 DEEWR, *Submission 64*, p. 14.

32 APTC, <http://www.aptc.edu.au/aboutus/assurance.html> (accessed 26 November 2008). These two institutes have been appointed through a competitive public process; DEEWR, *Submission 64*, p. 14, footnote 21.

33 APTC, <http://www.aptc.edu.au/aboutus/> (accessed 11 August 2009).

34 DEEWR, *Submission 42*, p. 19; Senate Standing Committee on Education, Employment and Workplace Relations, *Inquiry into Effects of Climate Change on Training and Employment Needs*.

35 DEEWR, *Submission 64*, p. 15.

36 Dr Jane Lake, *Committee Hansard*, 19 June 2009, p. 53.

11.20 To ensure equity of access for students from all Pacific island countries, the Australian Government established a scholarship scheme of \$10 million.³⁷ The APTC offered 509 scholarships in 2007–08. Up until July 2008, 67 students had graduated from the college, most of them from the School of Hospitality and Tourism.³⁸

Alignment with local needs

11.21 In the previous chapter, the committee noted the strong criticism levelled at TVET in the region, including training systems that tended 'to operate in isolation of labour market demand' or 'in the dark both on skills demand and supply'.³⁹ This criticism has direct relevance for Australian assistance. DEEWR informed the committee that it provided policy advice on the development of the APTC and is a member of the college's Technical Advisory Group (TAG). TAG provides:

...strategic advice to AusAID on a range of technical and industry issues to ensure training would lead to employment and improved productivity, and that the APTC has close links to industry. A key role of the TAG is to assist AusAID to evaluate the performance of the APTC in meeting the training needs for key industries essential to the economy of the region.⁴⁰

11.22 According to DEEWR, the college is intended to address the region's skills needs and increase workforce competitiveness as well as to assist mobility of skilled workers within the Pacific island countries and developed countries. DEEWR explained that training corresponds to the 'labour and skill demands of employers' and not to reported skills shortages in Australia.⁴¹ There are Campus–Country Industry Advisory Groups to facilitate contact between the college and respective governments and industries and to ensure the relevance of the courses to the host nations.⁴²

11.23 Even so, Fiji's Acting High Commissioner to Australia proposed that 'Australia could consult more effectively with the island governments regarding their manpower needs allowing the island Governments to identify the areas of study in line with their respective priority needs'.⁴³ Dr Max Quanchi told the committee that Australian assistance programs should acknowledge the needs of the Pacific. He explained:

...training Pacific Islanders to be motor mechanics might be good for the Australian motor industry later on, but surely marine, sanitation and water supply engineers, aircraft maintenance, radio/TV/internet technicians, and

37 DEEWR, *Submission 64*, pp. 14–15.

38 DEEWR, *Submission 64*, p. 15.

39 See paragraphs 10.57–10.60.

40 DEEWR, *Submission 64*, p. 15.

41 DEEWR, *Submission 64*, p. 14.

42 DEEWR, *Submission 64*, p. 14.

43 *Submission 28*, pp. 15–17.

wind/wave/solar energy expertise are the types of training needed in societies where basic utilities are non-existent or break down regularly, roads are rare and air and sea communication the norm. Training Pacific Islanders to construct, for example, a local deep-water port facility, is a high priority.⁴⁴

11.24 Mr Steven Noakes, Pacific Asia Tourism, told the committee of a sense within the region that 'the big guys are bringing in their ideas and their resources, and what happened to our investment in our place and our need for vocational education and training?'⁴⁵ Pacific Asia Tourism called for the Australian Government to:

Review the purpose, function and performance of the Australian Vocational and Technical Colleges in the Pacific with a view to applying those resources to build the capacity of existing post-secondary institutions to undertake those functions.⁴⁶



The Australia–Pacific Technical College offers a number of courses for Pacific island students, including one in hospitality (image courtesy of AusAID).

11.25 AusAID explained that Australia is currently conducting a mid-term review of the APTC. It is to examine how the APTC model can evolve into 'something that

44 *Submission 24*, p. 5.

45 *Committee Hansard*, 26 March 2009, p. 55.

46 *Submission 31*, p. 6. See also Mr Steven Noakes, *Committee Hansard*, 26 March 2009, p. 55.

provides a broader and a more demand-driven range of technical training that meets the long-term needs of the region, rather than just being a couple of specific areas'.⁴⁷

Committee view

11.26 The committee notes the weight of evidence suggesting that there is a serious disconnection between the courses offered by training institutions in the region and the requirements of local businesses and industries.

Recommendation 7

11.27 The committee recommends that the mid-term review of the APTC give careful and explicit attention to the criticisms raised by international institutions and by witnesses to this inquiry that regional training institutions are not meeting or anticipating the needs of local business or industries.

Range of activities

11.28 The committee has also referred to other training and capacity building activities conducted by various Australian government agencies, including ACIAR and DAFF. Nurses training is another scheme of particular relevance to the assistance Australia provides in education and training.

11.29 The Australian Government funds the Kiribati–Australia Nurses Initiative (KANI) that is run by the Griffith University for 2007–2013 and has been allocated \$6 million in funding. The program:

...will enable I-Kiribati youth to attain Australian nursing qualifications and industry experience. In Australia, I-Kiribati nurse educators attain further education and skills development to Australian standards to strengthen Kiribati nursing education outcomes and health care services.⁴⁸

11.30 In 2008, there were 21 nursing students enrolled in the Diploma of Nursing and a further four students in the Diploma of Community Welfare, and an i-Kiribati Nurse Educator in the post registration degree program.⁴⁹

47 Dr Jane Lake, *Committee Hansard*, 19 June 2009, p. 55.

48 AusAID,
http://www.ausaid.gov.au/country/cbrief.cfm?DCon=2926_3342_8174_197_5140andCountryID=20andRegion=SouthPacific (accessed 16 February 2009).

49 Griffith University, *Vice Chancellor's Report to Council*, 6 May 2008, p. 11,
<http://www.griffith.edu.au/office-vice-chancellor/pdf/report-to-council-may-08.pdf> (accessed 16 February 2009).



The Kiribati–Australia Nursing Initiative and Australian Scholarships provide an opportunity for i-Kiribati nurses to obtain a qualification and nurse educators to attain further skills development (image courtesy of AusAID).

11.31 A number of witnesses proposed that Australia should consider additional training initiatives.⁵⁰ The Maritime Union of Australia (MUA) suggested Australia's assistance could build linkages between training institutions to share skills development and to provide relevant work experience for Pacific island nationals in key industry sectors.⁵¹ According to the MUA, Australia is 'well positioned to provide regional leadership in building the maritime skills base in the region' with its 'world class maritime training and education system'. It continued:

This will enhance the growth of a maritime capability in Australia; while at the same time contribute to a resolution to the global shortage of maritime skills. Such a strategy is also directly relevant to the shipping policies of respective countries in the region.⁵²

11.32 Mr Peter Graham, Managing Director, Esso Highlands Ltd, explained that in relation to its gas project in PNG, the company provides training in technical skills and supplier capabilities in order to have skilled workers at their disposal. The company is planning to develop training facilities in Port Moresby and in the Southern Highlands, with the aim that the Port Moresby technical college turn out 750 and the Southern Highlands college approximately 100 graduates a year. Esso proposed that

50 Mr Ian Clarke, *Committee Hansard*, 25 March 2009, p. 61.

51 *Submission 52*, pp. 4–5.

52 *Submission 52*, paragraphs 5.12 and 5.13.

the Australian Government educate and train the local people in the technical and professional skills needed for the project and any future operations (see paragraphs 8.24–8.29).⁵³

11.33 World Vision Australia recommended that the Australian Government 'Encourage and support PIC governments to establish or reinvigorate networks of well resourced and staffed Rural Training Centres to provide relevant vocational and socially relevant training to people in their local area'.⁵⁴

Committee view

11.34 The committee notes the worthwhile suggestions for increasing Australian engagement in education and training in areas most likely to create jobs for local people. It also notes, however, the concerns raised in the previous chapter about the important but neglected informal economy and the critical role of the non-formal education sector. Without detracting from the effectiveness of the formal education system, the committee would like to see recognition given to the non-formal sector in Australia's assistance.

Recommendation 8

11.35 The committee notes the important role of the non-formal education sector, particularly in PNG, and recommends that AusAID give attention to the role of informal education in formulating and implementing its education assistance policy.

Scholarships

11.36 A significant share of Australia's assistance for education is delivered through scholarships. The OECD peer review of Australia's development aid noted that in the 2006/07 budget, \$1.4 billion over five years was allocated to the *Australian Scholarships* initiative.⁵⁵ This initiative consists of three scholarship schemes of which AusAID administers two. The *Australian Development Scholarships* (ADS) provides for up to 1,000 students a year across 31 countries to undertake undergraduate or postgraduate study in Australia.⁵⁶ In 2007, 978 students commenced study under this scheme but only 189 or just over 19 per cent of the total were from PNG and the Pacific region.⁵⁷ The *Australian Leaderships Awards* (ALA) are offered to high achievers from the Asia–Pacific region to undertake postgraduate study and a leadership development program in Australia.

53 *Committee Hansard*, 26 March 2009, pp. 39–42.

54 *Submission 47*, p. 5.

55 OECD Development Assistance Committee, *2008 Peer Review of Australia*, p. 71.

56 AusAID, <http://www.ausaid.gov.au/scholar/> (accessed 28 April 2009).

57 AusAID, <http://www.ausaid.gov.au/publications/pdf/studentstats.pdf> (accessed 14 July 2009).

11.37 Administered by DEEWR, the *Endeavour Awards* provide opportunities for citizens of the Asia–Pacific region to undertake study, research and professional development in any field of study in Australia, or for Australians to go overseas.⁵⁸ Up to 1,100 students study in Australia and under Australian Government-funded scholarship programs annually.⁵⁹ Over 370 international students were granted Endeavour Awards in 2008 but of that number less than 20 came from PNG and the southwest Pacific.⁶⁰ A 2009–10 budget initiative, the *Prime Minister's Pacific–Australia Awards*, will provide an additional \$3 million over four years 'to supplement existing scholarships for high achieving postgraduate students in the Pacific region'. Approximately 30 scholarships will be awarded per year. The scholarships comprise a short-term work placement in Australia.⁶¹

11.38 The Australian scholarships program is set to double in size over five years to 19,000 scholarships for the Asia–Pacific region.⁶²

Scope for improvement

11.39 A number of witnesses could see scope to expand the scholarship program, for example to the aviation industry. Qantas concluded:

Wider provision of technical training through scholarships for local aircraft engineers and pilot training would help in preparing local people for future employment in areas currently taken up by expatriate personnel. In saying this, we are conscious that retention problems arise when trained local personnel are attracted to wider opportunities available in Australia, New Zealand and beyond.⁶³

11.40 The Lowy Institute proposed that Australia could grant visas and create work opportunities for the scholarship graduates in the public and private sectors. They could then apply the newly acquired skills at home and thus contribute to a more professional working environment. The Institute also proposed that the scholarship

58 DEEWR, *Submission 42*, p. 19, Senate Standing Committee on Education, Employment and Workplace Relations, *Inquiry into Effects of Climate Change on Training and Employment Needs*.

59 AusAID, *Submission 65*, p. 11. The yearly cost of the scholarships is over \$55 million.

60 Australian Government 2008 Endeavour Award Holders, http://www.endeavour.deewr.gov.au/endeavour_alumni/2008_award_holders.htm (accessed 30 August 2009).

61 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2009-10: Australia's International Development Assistance Program*, p. 26.

62 The Lowy Institute, *Submission 14*, p. 4.

63 *Submission 41*, p. 11; see also Pacific Island Forum Secretariat, *Submission 69*, pp. 15–16.

program be extended to high school students, facilitating their access to higher quality education or employment opportunities.⁶⁴

11.41 Fiji's Acting High Commissioner informed the committee of his country's appreciation of Australia's support for, and funding of, education for Fijians.⁶⁵ He proposed that Australia review its scholarships to Fiji nationals and, instead of sponsoring Fijians at local institutions, it should increase the number of scholarships allowing study in Australia. The High Commissioner also suggested that as an alternative to scholarships (which is still the preferred option), Australia and other donors could fund the expansion of local institutions as this would address workforce shortages and staff retention challenges.⁶⁶

11.42 The OECD noted that there is room to improve the targeting of scholarships by linking them more closely with support for capacity development.⁶⁷ It used Australia's aid in Vanuatu to demonstrate this need:

Scholarships represent 11 per cent to 12 per cent of the aid budget...Despite their importance, scholarships are not closely connected with the aid programme and their impact is not documented. While being responsive to government needs, Australia could promote a more systematic approach linking scholarships and capacity development. It could build on the increased integration of AusAID's support within the scholarship unit of the ministry of education to do so.⁶⁸

Graduate associations

11.43 The Australian Government has a longstanding scholarship program in PNG. As a result, there is an Australia–Papua New Guinea alumni association with hundreds of alumni. His Excellency Chris Moraitis, Australia's High Commissioner to PNG, noted that 'It is actually a good body of civil society who have good connections with Australia. There are lawyers, doctors, engineers—a whole variety of areas. That is something that AusAID continues to provide'.⁶⁹

Committee view

11.44 The committee supports the Australian Government's extensive scholarship program and draws attention to the various suggestions on how Australia could enhance this program. It notes in particular the observation made by the OECD peer review that 'scholarships are not closely connected with the aid programme and their

64 *Submission 14*, p. 4.

65 *Submission 28*, p. 7.

66 *Submission 28*, pp. 16–17.

67 OECD Development Assistance Committee, *2008 Peer Review of Australia*, p. 70.

68 OECD Development Assistance Committee, *2008 Peer Review of Australia*, p. 110.

69 *Committee Hansard*, 19 March 2009, p. 8.

impact is not documented'. Further, that Australia could 'promote a more systematic approach linking scholarships and capacity development'. These observations are similar in nature to the criticism levelled at regional training institutions not meeting local needs.

Recommendation 9

11.45 The committee recommends that the Australian Government ensure that its scholarship scheme for Pacific islanders complements the education and training priorities as determined by Pacific island countries.

11.46 With regard to building on the linkages established while studying in Australia, the committee notes with interest His Excellency Moraitis' remark about the Australia–PNG alumni association. It believes that initiatives of this kind provide an excellent opportunity for the government to build stronger ties and relationships with its neighbours. The committee refers to its report on *Australia's public diplomacy* (2007) where it discussed at length the benefits and size of the alumni networks. It pointed out that many of the students who study in Australia eventually occupy key positions in their communities and acknowledged the potential for these students to be goodwill ambassadors for Australia. The committee concluded that while the benefits of these networks are acknowledged at different levels of government and the education sector, more could be done to maintain and deepen links well after study in Australia finishes. The committee reiterates its recommendation:

...that the government take a more active role in working with Australian educational institutions to develop stronger and more effective alumni programs for overseas students who have studied in Australia.

Brain drain

11.47 The committee touched on the problem of brain drain in its consideration of training air safety personnel. Unfortunately, the allure of overseas employment for trained Pacific islanders cuts across all areas of employment. The Australia Pacific Islands Business Council noted that the flight of intellectual capital:

...is a significant impediment to the long term economic, political and social development of these economies. Australia is a willing partner in this flight, and it is our view that steps need to be taken to staunch the flow.⁷⁰

11.48 For example, it argued that scholarships are often seen by Pacific island nationals 'as a means of positioning themselves to qualify for migration to Australia'. The council suggested that the period in which the scholarship recipient is precluded from applying for a migration visa be extended in order for their home country to gain

70 Australia Pacific Islands Business Council, *Submission 15*, pp. 11–12, to the Foreign Affairs, Defence and Trade Committee's inquiry on *Australia's Relationship with Papua New Guinea and the Island States of the South-West Pacific*, 12 August 2003.

the benefit of their skills and knowledge.⁷¹ The Australia Fiji Business Council would like the Australian Government to continue studying brain drain or conduct a study of AusAID scholarship recipients over the last ten years to establish 'how many of them are still contributing to the economic development of their country of origin'. In its view, there is a need to have a more accurate picture of the loss of intellectual capital from the region.⁷²

Recommendation 10

11.49 The committee recognises the problem of brain drain in the Pacific region and recommends that the Australian Government fund a study of both its scholarship recipients from the region and graduates from the APTC to obtain a greater understanding of the nature and extent of brain drain and of the incentives required to retain knowledge and experience in the region.

Statistics

11.50 In the previous chapter, the committee discussed the poor quality of statistics on school enrolment and retention rates and literacy and numeracy levels in Pacific island countries. Various submitters pointed out how important accurate data is for the improvement of education. The Australian Government has acknowledged the need to improve Pacific islands' statistical information and increased its funding for this purpose in the 2009–10 Budget.⁷³ The committee supports the work of the Australian Bureau of Statistics and the Australian Government in this field and urges them to continue their cooperation with the island nations to improve the collection and accuracy of data on literacy, numeracy and school enrolment and retention in the Pacific island countries.

Governance

11.51 The committee identified the lack of capacity in the administrations of Pacific island countries to deliver education services as a major impediment to improving overall education performance. In this regard, AusAID assists Pacific island countries and PNG to develop budgets for the education sector. In addition to setting wider objectives such as enrolment rates, the government establishes detailed costings for the delivery of education services.⁷⁴ AusAID noted, however, that this assistance had not generated desired outcomes:

...work on policy advice and budget management has generally not improved service delivery, but attempts to supply services directly often

71 Australia Pacific Islands Business Council, *Submission 15*, p. 12 to the Foreign Affairs, Defence and Trade Committee's inquiry on *Australia's Relationship with Papua New Guinea and the Island States of the South-West Pacific*, 12 August 2003.

72 Australia Fiji Business Council, *Submission 58*, attachment, pp. 7–8.

73 AusAID, *Tracking Development and Governance in the Pacific*, 2009, p. 80.

74 Mrs Margaret Callan, *Committee Hansard*, 12 March 2009, p. 31.

achieve good results that fall away once projects are complete. Assistance therefore needs to be informed by a more complete understanding of the entire service delivery system—setting policy, managing at central and decentralised levels, delivering at point of service, and achieving of outcomes.⁷⁵

11.52 This observation about the limited lifespan of donor assistance when it comes to technical assistance has much broader application to the provision of aid in general and is discussed in Part III of this report.

11.53 Governments in Pacific island countries not only have to manage the internal administrative challenges affecting the delivery of educational services but they must also deal with the numerous donors that provide assistance.

Donors

11.54 Most of the education assistance to Pacific island countries is bilateral.⁷⁶ There are many external parties active in the Pacific education sector, including close neighbours Australia and New Zealand; other countries such as Japan and the United States; and non-state actors and international organisations—the United Nations, ADB and the European Union. Australia is the largest donor.⁷⁷ A report on Pacific education noted that Pacific island countries:

...are generally sourcing their technical support for education from approximately five to seven agencies, often two to three bilateral donors and the equivalent number of regional and international development partners. Provided the support is delivered in a harmonised manner the so-called donor fatigue should not be a major issue for Pacific countries in education.⁷⁸

11.55 Evidence suggested, however, that donor requirements place a strain on the already limited human resources of Pacific island countries. Donors have their own strategic objectives that guide their education assistance to the region.⁷⁹ Education officials are said to be 'often overwhelmed' by donor and NGO reporting requirements. This situation is exacerbated by 'considerable overlap' among donors and duplication of aid delivery and the 'Weak consultative processes, inadequate

75 AusAID, *Tracking Development and Governance in the Pacific*, 2008, p. 18.

76 Mr Edward Vrkic, *Committee Hansard*, 19 June 2009, p. 12.

77 The United States provides funding mainly to its associate countries in the region. Asian Development Bank, *Skilling the Pacific: Technical and Vocational Education and Training*, Executive Summary, 2008, pp. 38–39.

78 Pacific Islands Forum Secretariat, *Report on the Review of the Forum Basic Education Action Plan and Associated Regional Processes*, Forum Education Ministers' Meeting, Tonga, 24–26 March 2009, pp. xxiii–xxiv.

79 Asian Development Bank, *Skilling the Pacific: Technical and Vocational Education and Training*, Executive Summary, 2008, pp. 38–39.

needs analysis and the failure to include appropriate resource allocations'. Some Pacific island countries also have difficulty absorbing and building upon donor assistance: funding cannot be adequately allocated because Pacific island countries have not clearly articulated their needs; 'nor are they ready to say "no" when they perceive offers of support to be inappropriate'.⁸⁰

11.56 The challenge is for the different actors to ensure that their priorities and those of the Pacific Islands Forum education ministers align and form a strong basis for the Pacific islands education policy. Clearly, there is a need to coordinate the assistance more effectively. A report by the Pacific Islands Forum Secretariat found that:

...countries are seeking improved coordination and harmonisation of such technical assistance. While significant harmonisation efforts are already underway among a number of development partners and regional agencies...more is desired.⁸¹

11.57 According to the Secretariat, harmonising donor practices 'will go a long way to assist small island countries who struggle with multiple formats and requirements for the same procedures'. Accountability guidelines and requirements mandated by donors should be simplified and standardised 'as much as possible'.⁸² Further, the Pacific Islands Forum Secretariat indicated that assistance needs to be:

- 'long term, predictable and transparent to allow for recipient countries to make medium and long term plans';
- 'supportive to, and aligned and integrated with, national educational plans and priorities'; and
- focussed on national priorities rather than 'primarily on advancing the agenda of donors or development partners'.⁸³

Committee view

11.58 Evidence to this inquiry shows that Pacific island governments require training to build their capacity to deliver and manage their education services, as well as deal with donor requirements. The committee urges the Australian Government to continue its support for building capacity in the administration of education and to

80 Pacific Islands Forum Secretariat, *Pacific Regional Initiatives for the Delivery of Basic Education, Draft Financing Proposal*, 9th EDF.

81 Pacific Islands Forum Secretariat, *Report on the Review of the Forum Basic Education Action Plan and Associated Regional Processes*, Forum Education Ministers' Meeting, Tonga, 24–26 March 2009, p. xxiii.

82 Pacific Islands Forum Secretariat, *Report on the Review of the Forum Basic Education Action Plan and Associated Regional Processes*, Forum Education Ministers' Meeting, Tonga, 24–26 March 2009, p. 58.

83 Pacific Islands Forum Secretariat, *Report on the Review of the Forum Basic Education Action Plan and Associated Regional Processes*, Forum Education Ministers' Meeting, Tonga, 24–26 March 2009, p. xxiv.

strive for improved cooperation and coordination with the activities of other donors to reduce the burden on the recipient countries.

Gender equality

11.59 The committee also raised the issue of gender equality in the education systems of some Pacific island countries. In this regard, Dr Jane Lake, Assistant Director General, Pacific Branch, AusAID, explained that all Australia's programs 'focus on improving gender equity in education' and work at the school level.⁸⁴

Review of Australia's assistance to education and training in the region

11.60 Mr John Davidson, AusAID, informed the committee that the government is reviewing the effectiveness of Australia's approach to education and its funding. AusAID has engaged a number of international experts to examine Australia's education aid. The review is likely to be finalised in October–November 2009.⁸⁵

11.61 The committee has drawn attention to a number of its concerns relating to Australia's assistance to the region that are already the subject of recommendations. The committee suggests that the review consider these matters—the extent to which Australia's education and training assistance aligns with the needs and priorities of Pacific island countries and the problem of brain drain. In addition, the committee suggests that the review look closely at the non-formal education sector and whether Australian assistance in this area could be of benefit. The committee also notes that the *Prime Minister's Pacific–Australia Awards* comprise a short-term work placement in Australia and suggests that the review consider closely the effectiveness of this arrangement.⁸⁶

84 *Committee Hansard*, 19 June 2009, p. 49.

85 *Committee Hansard*, 19 June 2009, p. 49.

86 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2009–10: Australia's International Development Assistance Program*, p. 26.

Chapter 12

Workforce

12.1 Throughout the report so far, the committee has identified serious gaps in much needed skills across all sectors of the economies of Pacific island countries. Improvements in educational achievements in Pacific island countries would certainly allow them to use this valuable workforce resource to develop their economies. The committee has noted, however, that some of the smaller islands lack substantial renewable resources and have limited opportunities to expand their economies. With a growing population already putting a strain on these resources, education, although critical, may not be the complete answer to achieving a more productive workforce and economy. Some Pacific island countries, including Fiji, Samoa, Tonga, Kiribati and Tuvalu, use remittances to help support their economies. In this chapter, the committee considers the nature of the workforce in Pacific island countries with a particular focus on unemployment, job opportunities and labour mobility.

Statistics

12.2 The available data on workforce participation in the Pacific region is not accurate, nor is it comparable across the region due in part to the different measurements used. The United Nations Economic and Social Commission for Asia and the Pacific's (ESCAP) 2008 economic and social survey explained that some Pacific island countries 'include all people engaged in subsistence activities as economically active, while others only include those who indicate that they are working for cash'.¹ Statistics on unemployment suffer from the same problem as each country has 'its own criteria for determining who counts as unemployed'. ESCAP's survey explained:

In Fiji, Papua New Guinea, Samoa and Solomon Islands, the unemployed are people in the labour force who are currently not working but are actively seeking work. In Tonga, the unemployed also include people not actively looking for a job.

12.3 ESCAP suggested that because unemployment is hard to define in the rural areas of Pacific island countries, the region 'needs some agreed definitions in order to reflect the realities of rural life'.² Because of the poor quality of the data, the statistics used in this chapter should be regarded as indicative.

Employment in Pacific island countries

12.4 Labour force participation rates in the region vary from 83.5 per cent in Vanuatu to 59.2 per cent in Fiji and Samoa.³ A high proportion of employment in the

1 ESCAP, *Economic and Social Survey of Asia and the Pacific 2008*, p. 76.

2 ESCAP, *Economic and Social Survey of Asia and the Pacific 2008*, p. 77.

3 DEEWR, *Submission 64*, p. 6.

Pacific island countries is in the informal or subsistence economy, where agriculture, fisheries and forestry generate approximately 80 per cent of employment.⁴

Informal economy

12.5 The extent to which Pacific Islanders are engaged in the subsistence economy differs between countries. For example, according to ESCAP's 2008 survey, about 90 per cent of the 2.3 million workers in PNG were employed in rural areas.⁵ Fiji does not fit this pattern of employment, with more than half of its workers employed in urban areas.⁶ A Lowy Institute policy paper provided an example of the division of labour between the formal and informal sectors in various Pacific island countries. It found that by 2015, only 5.8 per cent of PNG's working age population is expected to be in formal sector employment; 10.4 per cent in Solomon Islands; and 12 per cent in Vanuatu.⁷

12.6 Clearly, traditional and informal sectors are by far the dominant components in most Pacific island countries, with the formal sector forming only a minor part of the economy.⁸

Formal economy

12.7 The public sector accounts for most employment in the formal economies of Pacific island countries—on average 30–40 per cent, with the exception of Kiribati where it makes up 70 per cent.⁹ Employment opportunities, therefore, are limited in the narrow and weak private sector in many Pacific island countries.¹⁰ For example, manufacturing and construction provide only a small fraction of the available work, with manufacturing having a large informal component. More workers are employed

4 DEEWR, *Submission 64*, pp. 6–7; Dr Simon Hearn, *FADT Committee Hansard*, 20 November 2008, p. 38. See also Foundation for Development Cooperation, *Submission 53*, p. 5 and Asian Development Bank, *Skilling the Pacific: Technical and Vocational Education and Training*, Executive Summary, 2008, p. 8.

5 Professor Satish Chand, Papua New Guinea Policy Forum, organised by the Crawford School, Australian National University, at the National Portrait Gallery, 23 June 2009.

6 ESCAP, *Economic and Social Survey of Asia and the Pacific 2008*, p. 77.

7 Jenny Hayward-Jones, *Beyond Good Governance: Shifting the Paradigm for Australian Aid to the Pacific Islands Region*, Lowy Institute for International Policy, Policy brief, September 2008, p. 8.

8 AusAID, *Submission 65*, p. 10.

9 Hughes and Sodhi, *Submission 11*, attachment, p. 15. The *Asian Development Outlook 2009* noted that Kiribati's large public sector provides two-thirds of all paid employment, p. 281 and Benedict Y. Imbun, 'Is the potential of labour's contribution to development acknowledged in the Pacific island countries?', *Pacific Economic Bulletin*, Volume 24, Number 1, 2009, pp. 96–97.

10 AusAID, *Submission 65*, p. 10.

in the services sector than in the manufacturing sector.¹¹ Tourism and maritime industries are considerable sources of employment in the private sector.

Unemployment and underemployment

12.8 Labour market data for Pacific island countries is particularly unreliable.¹² Even so, available indicators show that unemployment poses a significant challenge.¹³

12.9 According to Mr John Millett, 1.25–1.5 million of PNG's population of 6–7 million is unemployed, and '7 out of 10 new entrants to the work force [are] excluded from the monetised economy'. He pointed out that 'over the period 1980 to 2006 some 13 million person-years of labour resource—almost two-thirds of the available increase—were not availed for development, despite land abundance'.¹⁴ Unemployment rates, however, vary considerably across the region, from Kiribati's and Vanuatu's 1.6 per cent to Solomon Islands' 32.1 per cent.¹⁵

12.10 Even though statistics are unreliable, evidence indicates that the rates of underemployment are also high in most countries, where many work in the subsistence and small-scale cash cropping sectors.¹⁶ Professor Helen Hughes and Mr Gaurav Sodhi, Centre for Independent Studies, suggested that in stagnated economies, mainly the large countries in the Pacific, underemployment and unemployment can be as high as 80 per cent of the male population.¹⁷ They observed:

More than two million men—four out of five—are unemployed in towns or underemployed in villages. More than 100,000 men join the labour force annually. Most of these will never work and never earn an income. Every day, men and boys can be seen languishing in villages and towns, and by the roadside.¹⁸

11 Benedict Y. Imbun, 'Is the potential of labour's contribution to development acknowledged in the Pacific island countries?', *Pacific Economic Bulletin*, Volume 24 Number 1, 2009, pp. 96–97.

12 Professor Ron Duncan, Papua New Guinea Policy Forum, organised by the Crawford School, Australian National University, at the National Portrait Gallery, 23 June 2009. Also see Benedict Y. Imbun, 'Is the potential of labour's contribution to development acknowledged in the Pacific island countries?', *Pacific Economic Bulletin*, Volume 24, Number 1, 2009, Crawford School of Economics and Government, Australian National University, p. 98.

13 An Institute for International Trade study noted that unemployment is 'possibly the greatest economic, social and development challenge' facing Pacific island countries. Institute for International Trade, *Research study on the benefits, challenges and ways forward for Pacer Plus*, Final Report, June 2008, p. 39.

14 Mr John Millett, *Submission 21*, pp. 5–6. Mr Millett lived and worked in PNG for some 30 years in various professional capacities.

15 DEEWR, *Submission 64*, p. 6.

16 ESCAP, *Improving Employment Opportunities in Pacific Island Developing Countries*, 2007, p. 4.

17 Hughes and Sodhi, *Submission 11*, attachment, p. 12.

18 Hughes and Sodhi, *Submission 11*, p. 1 and attachment, p. 16.

12.11 In most Pacific island countries, women and youth have a higher unemployment rate than men; and the unemployment is higher in rural areas than in the urban environment.¹⁹

Youth

12.12 The labour force in most Pacific island countries is very young: on average, 45 per cent of the population is in the 15–24 years age group.²⁰ Unemployment of young males is a significant problem in the region with a high percentage of them having 'little chance of gaining formal sector employment', largely because they are new entrants to the labour market with little work experience.²¹ According to an ESCAP study, the rate of population growth creates difficulties finding employment 'for the growing number of young and relatively better-educated people with aspirations beyond village-based and family-oriented agricultural and fishing activities'. It noted:

This is of particular concern in the more populous countries of Melanesia which, unlike Micronesia and Polynesian countries and territories, do not enjoy historical migration outlets to developed countries particularly Australia, New Zealand and the United States.²²

12.13 Professor Helen Ware, University of New England, noted that there are 'some one million unemployed and underemployed young men' in the region, of which approximately 700,000 are in PNG alone.²³ The PNG economy absorbs only 30 per cent of people coming of working age.²⁴ Mr Youn informed the committee that in Fiji, 'It is conservatively estimated that there are 12,000 school leavers a year coming out of the education system...and job creation at the moment is nil'.²⁵ The Australia Fiji Business Council suggested that the number of young people leaving the education system and joining the economy exceeds by many times the number of new jobs being created in the economy.²⁶

19 See for example AusAID, *Pacific Economic Survey 2008: Connecting the region*, 2008, p. 3; Pacific Islands Forum Secretariat, *Employer Employee Survey Report*, p. 19, http://www.forumsec.org.fj/UserFiles/File/Employer_Employee_Survey_Report.pdf (accessed 23 February 2009).

20 ESCAP, *Improving Employment Opportunities in Pacific Island Developing Countries*, 2007, p. 6.

21 AusAID, *Pacific 2020—Background paper: Employment and labour markets*, May 2006, pp. 4–5. Australia Pacific Islands Business Council noted that high population growth aggravates the situation, with more people entering the labour market every year without an equivalent increase in employment opportunities, *Submission 60*, p. 2.

22 ESCAP, *Improving Employment Opportunities in Pacific Island Developing Countries*, 2007, p. 9.

23 *Submission 48*, p. 1.

24 Mr John Millett, *Submission 21*, p. 3.

25 *Committee Hansard*, 25 March 2009, p. 60.

26 *Submission 58*, p. 2.

12.14 According to an ESCAP study, unemployment figures may 'understate the magnitude' of youth unemployment as 'many youths drop out of the labour force and give up actively seeking work when it becomes clear that few opportunities exist'.²⁷ They are 'the least employable group in the formal sector' and thus remain in the subsistence economy or in the informal sector.²⁸

12.15 Furthermore, high youth unemployment constitutes one of the highest risks to stability in the region.²⁹ The Australia Pacific Islands Business Council observed that the youth bulge was 'rapidly approaching adulthood, with little clear prospect of being able to enter the mainstream economy'. In its view:

There is across the region a tsunami of youth unable to find meaningful employment and providing a real social, economic and security challenge.³⁰

12.16 AusAID acknowledged that youth unemployment is 'a major challenge'.³¹ World Vision Australia called for support programs to address youth unemployment and concerns in general.³²

Women

12.17 In addition to youth, women, who constitute nearly half of the labour force, are another disadvantaged group in the labour market. As with employment figures in general, there is a shortage of data regarding women's participation in the work force.

12.18 Studies indicate that gender has implications for employment prospects, particularly where 'strong historical and cultural traditions have assigned gendered roles and these have produced gender differentiated skills sets'.³³ For example, the UN found that in developing regions, women are 'more likely than men to be in vulnerable employment situations', the difference being ten percentage points or more in a number of regions, including Oceania.³⁴ It noted that more jobs need to be created for

27 ESCAP, *Improving Employment Opportunities in Pacific Island Developing Countries*, 2007, p. 7.

28 Benedict Y. Imbun, 'Is the potential of labour's contribution to development acknowledged in the Pacific island countries?', *Pacific Economic Bulletin*, Volume 24, Number 1, 2009, p. 103.

29 Australia Pacific Islands Business Council, *Submission 60*, p. 2.

30 *Submission 60*, p. 2. ESCAP, *Economic and Social Survey of Asia and the Pacific 2009*, p. 14, also made the connection between economic growth and youth unemployment. It stated 'In the Pacific, where economic growth has not kept pace with high rates of population growth, large youth populations combined with school dropouts make youth employment a major concern for this subregion'.

31 AusAID, *Submission 65*, p. 10; also see AusAID, *Pacific 2020—Background paper: Employment and labour markets*, May 2006, pp. 4–5.

32 *Submission 47*, p. 6; also see Oxfam, *Submission 26*, p. 3.

33 AusAID, *Pacific 2020—Background paper: Employment and labour markets*, May 2006, p. 10.

34 United Nations, *Millennium Development Goals Report 2008*, p. 10, http://mdgs.un.org/unsd/mdg/Resources/Static/Products/Progress2008/MDG_Report_2008_En.pdf#page=10 (accessed 12 May 2009).

women, and institutions need to help them combine work and family responsibilities.³⁵

12.19 In the Pacific region, a significant majority of women are self-employed especially in the informal sector and have a large role in caring for children and livestock.³⁶ They also face problems with 'low wages in agriculture and industry compared to the male counterparts, and the "glass ceiling syndrome" across all sectors of the economy'.³⁷ They have difficulties accessing credit, and ageing women, who have not worked in formal employment, rely on financial support from working children and often provide unpaid childcare.³⁸

12.20 The *Pacific Economic Survey 2008* stated that the available data indicated that 'further improvements are needed to achieve equity in terms of employment outcomes'.³⁹

Implications for the region

12.21 Unemployment affects economic and human development. It is also the breeding ground for social instability and, if the unemployed turn to crime and violence, a situation may escalate into a security concern, both domestically and regionally. The Australia Pacific Islands Business Council argued that 'if increasing numbers of young people find themselves economically deprived the problem [of law and order] is likely to grow'.⁴⁰ The Australian Federal Police (AFP) agreed:

...as a result of demographic factors such as the youth bulge and urban drift; the breakdown of traditional justice mechanisms particularly within urban areas large numbers of unemployed youth are now vulnerable to the lure of criminal entities promising to alleviate their poverty and boredom...⁴¹

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- 35 United Nations, Millennium Development Goals Report 2008, p. 8, http://mdgs.un.org/unsd/mdg/Resources/Static/Products/Progress2008/MDG_Report_2008_En.pdf#page=10 (accessed 12 May 2009).
- 36 Pacific Islands Forum Secretariat, *A Vision for Private Sector Development in Forum Island Countries*, May 2004, p. 10. According to an ESCAP study, women tend to be 'under-represented in formal employment categories except those regarded as "traditional" occupations for women'. ESCAP, *Improving Employment Opportunities in Pacific Island Developing Countries*, 2007, p. 18. AusAID, *Pacific 2020—Background Paper: Employment and labour markets*, May 2006, p. 10.
- 37 Pacific Islands Forum Secretariat, *A Vision for Private Sector Development in Forum Island Countries*, May 2004, p. 10.
- 38 Nic Maclellan and Peter Mares, *Labour mobility in the Pacific: creating seasonal work programs in Australia*, Paper for conference on Globalisation, Governance and the Pacific Islands, State, Society and Governance in Melanesia Project, Australian National University, 25–27 October 2005, pp. 10–11.
- 39 Pacific Performance and Outlook, Background Paper for *Pacific Economic Survey 2008*, p. 29.
- 40 *Submission 60*, p. 2.
- 41 *Submission 62*, p. 3.

12.22 The committee discusses these concerns in its second volume on security issues.

Opportunities for job creation

12.23 Governments can shape labour markets by removing barriers and creating incentives for sustainable economic growth.⁴²

Labour markets

12.24 The Pacific Islands Forum Secretariat suggested there was a need for labour market reforms and policy development, including harmonisation of labour market legislation and regulation, and a regional framework including skills development.⁴³ It commented that labour markets could be improved by increasing stakeholder consultation and gender equality, among other things.⁴⁴

12.25 Along similar lines, Dr Benedict Imbun, senior lecturer at the University of Western Sydney, argued that in order to achieve economic development, governments will need to 'acknowledge the significance of the labour force and formulate policies to efficiently and effectively manage' it.⁴⁵ In his view, they need to address the difficulty and costs of hiring and the flexibility of working hours as labour market operations are said to be unnecessarily restricted.⁴⁶

12.26 A *Pacific 2020* background paper suggested that addressing the issue of gender-based unemployment and underemployment would remove barriers to employment for a large group of people.⁴⁷ Some of the means to do so include policy review; introduction of quotas, especially in training; training of decision makers 'to better understand and deal with gender based employment issues'; and development of family-friendly employment policies, including in the private sector.⁴⁸

12.27 The paper found that 'labour market regulation appears to have had only minor effects on employment because it has not been binding'.⁴⁹ It was also of the view that policies are likely to have little impact without overall employment

42 AusAID, *Pacific 2020—Background Paper: Employment and labour markets*, May 2006, pp. 12–13.

43 *Submission 69*, p. 19.

44 *Submission 69*, p. 6.

45 Benedict Y. Imbun, 'Is the potential of labour's contribution to development acknowledged in the Pacific island countries?', *Pacific Economic Bulletin*, Volume 24, Number 1, 2009, p. 96.

46 Benedict Y. Imbun, 'Is the potential of labour's contribution to development acknowledged in the Pacific island countries?', *Pacific Economic Bulletin*, Volume 24, Number 1, 2009, p. 106. Benedict Imbun is a senior lecturer in Management at the University of Western Sydney and studied PNG mining extensively from the perspective of employment relations and human resource management dimensions.

47 AusAID, *Pacific 2020—Background Paper: Employment and labour markets*, May 2006, p. 10.

48 AusAID, *Pacific 2020—Background Paper: Employment and labour markets*, May 2006, p. 15.

49 AusAID, *Pacific 2020—Background Paper: Employment and labour markets*, May 2006, p. 12.

growth.⁵⁰ Likewise, Dr Imbun suggested that 'simply reforming labour legislation is not sufficient to ensure improved labour market outcomes'. He noted that other factors such as 'birth, death and migration rates; education policies; the domestic investment climate; the impact of globalisation; and attitudes towards gender roles' affect 'the supply of and/or demand for labour in the region, and thus affect labour market outcomes'.⁵¹

12.28 The lack of accurate and reliable data on the workforce and unemployment in Pacific island countries complicates policy making. One commentator noted that 'More often than not, politicians develop policies in ignorance of available labour market data'.⁵² In their joint submission, Australian Services Union (ASU), Community and Public Sector Union (CPSU) and Communications, Electrical and Plumbing Union (CEPU) called for data and analysis to map women's contribution to economies.⁵³

Economic activity

12.29 Education and training is another way of addressing unemployment especially in light of the skills shortage in the region. This was considered at length in the two previous chapters. But even improvements in the delivery of education services will not of themselves solve the region's unemployment problem and must be accompanied by economic activity that creates jobs. For example, an ADB report noted that youth unemployment:

...reflects the economy failing to generate enough decent jobs in relation to growth in the labor market. Attempts at training youth in crash, sometimes massive, programs have failing records the world over.⁵⁴

12.30 Thus, if employment opportunities are to grow in Pacific island countries, economic activity in the region will have to pick up.

12.31 In its earlier chapters, the committee noted the potential for Pacific island countries to boost economic activity through raising productivity, value-adding, improving economic infrastructure, marketing, education and training. It looked at both the formal and informal sectors with the emphasis on the private sector. Indeed, this sector has the potential to grow and open up job opportunities.

Private sector

12.32 The OECD pointed out the critical role of the private sector in creating jobs and suggested that 'fostering entrepreneurship—including women's

50 AusAID, *Pacific 2020—Background Paper: Employment and labour markets*, May 2006, p. 10.

51 Benedict Y. Imbun, 'Is the potential of labour's contribution to development acknowledged in the Pacific island countries?', *Pacific Economic Bulletin*, Volume 24, Number 1, 2009, p. 109.

52 Benedict Y. Imbun, 'Is the potential of labour's contribution to development acknowledged in the Pacific island countries?', *Pacific Economic Bulletin*, Volume 24, Number 1, 2009, p. 101.

53 ASU, CPSU and CEPU, *Submission 10*, pp. 8–9.

54 Asian Development Bank, *Skilling the Pacific: Technical and Vocational Education and Training*, 2008, p. 66.

entrepreneurship—and developing small and medium-sized enterprises are key drivers of economic growth [and] job creation' and constitute 'a major source of employment'.⁵⁵ A number of witnesses agreed with this view. The Australia Fiji Business Council submitted that the key to employment growth would 'be the development of a vibrant and sustainable SME sector'.⁵⁶ The ANZ stated that 'over the medium-to-long term, promoting the domestic private sector and attracting foreign investment will be crucial...in generating employment opportunities and income'.⁵⁷

12.33 Dr Imbun argued, however, that there had been 'little emphasis on sectors that drive' economic growth due to the dominance of the public sector.⁵⁸ The OECD also noted that in developing countries and the donor community, 'employment creation outside the public sector has not featured prominently in sector policies'.⁵⁹

12.34 The committee has noted two particular industries that offer enormous potential for job creation: tourism and mining. They promise not only to absorb workers for their specific industry but to encourage the growth of local supply chains—businesses and cottage industries to provide, for example, fresh foods, building materials, transport, health, education and ICT services. Tourism, in particular, has become a major driver of economic growth in the region and offers job opportunities, particularly for women and young people, including the unskilled, as the industry has good training and education components.⁶⁰

12.35 The operations of multinational companies harnessing petroleum, gas and other natural resources offer employment in resource-rich countries such as PNG and Solomon Islands. Esso Australia submitted that the company's gas project in PNG would create employment opportunities to the extent of 15,000 during the construction phase and 850 during the operation phase. Of these positions, 3,500 to 5,000 could be filled by Papua New Guineans, the rest, usually with higher-level skills, need to be brought in from overseas.⁶¹

12.36 Despite the potential for the private sector to grow and create jobs, this sector faces major impediments. The committee has already considered some of these constraints such as the poor state of economic infrastructure and skills shortage, and deals with others, including the business environment, access to land and finance, later in this report.

55 OECD, *Making Poverty Reduction Work: OECD's Role in Development Partnership*, 2005, p. 47.

56 *Submission 58*, p. 5.

57 *Submission 51*, p. 7.

58 Benedict Y. Imbun, 'Is the potential of labour's contribution to development acknowledged in the Pacific island countries?', *Pacific Economic Bulletin*, Volume 24, Number 1, 2009, p. 97.

59 OECD, DAC Network on Poverty Reduction, Povnet task team on employment and labour markets—terms of reference, 2007–08, p. 2.

60 Pacific Asia Tourism Pty Ltd, *Submission 31*, pp. 3–4.

61 Esso Australia Pty Ltd, *Submission 34*, p. 2; *Committee Hansard*, 26 March 2009, p. 41.

12.37 While Papua New Guinea is said to have 'the economic size and opportunities to generate its own employment', smaller island countries may require continued access to external labour markets.⁶² An ADB Paper found that for the smaller island countries, with their limited resources to create formal employment opportunities outside government, the export of labour services to higher-income countries 'will be a significant activity' for many years.⁶³

12.38 The committee now turns to labour mobility as a means of addressing employment issues in Pacific island countries.

Labour mobility

12.39 It is generally accepted that overseas employment benefits both individuals and countries in the region through remittances and developing 'a wider skills base thereby assisting regional economic development'.⁶⁴ Research shows that migrant workers have increased their productivity, which is said to compensate for their absence.⁶⁵ Work experience overseas is considered valuable:

Such industry mentoring, placements, internships and other short-term on-the-job opportunities will provide longer-lasting professional relationships and create regional networks of practitioners and mentors that can offer ongoing support. The opportunity to participate in an Australian workplace will also build capacity in a range of other professional skills beyond climate change adaptation.⁶⁶

12.40 Thus, labour mobility is considered by many to be 'crucial' for the economies of the smaller Pacific island countries in dealing with the demographic pressures, high levels of unemployment and underemployment particularly of young people.⁶⁷ Labour mobility not only provides an opportunity for finding employment but also for contributing to family finances through remittances. For example, through maritime employment, many families receive regular remittances that in some countries constitute more than a quarter of GNP.⁶⁸ In 2003, 'an estimated 4000 Pacific island seafarers engaged in international shipping remitted approximately US\$19 million in

62 Institute for International Trade, *Research study on the benefits, challenges and ways forward for Pacer Plus*, Final Report, June 2008, pp. 47–48.

63 Asian Development Bank Pacific Department, *Background Paper: Small Pacific States*, September 2007, p. 2.

64 See for example Australian Chamber of Commerce and Industry, *Submission 29*, p. 7.

65 Terrie Walmsley, S. Amer Ahmed and Christopher Parsons, *The Impact of Liberalizing Labour Markets in the Pacific Region*, GTAP working paper no 31, revised 2009, p. 10.

66 National Climate Change Adaptation Research Facility, *Submission 29*, p. 4, Senate Standing Committee on Education, Employment and Workplace Relations, *Inquiry into Effects of Climate Change on Training and Employment Needs*.

67 Institute for International Trade, *Research study on the benefits, challenges and ways forward for Pacer Plus*, Final Report, June 2008, p. 40.

68 Department of Infrastructure, Transport, Regional Development and Local Government, *Submission 43*, p. 4; AusAID, *Pacific Economic Survey 2008: Connecting the region*, p. 78.

foreign exchange to their countries'.⁶⁹ Indeed, labour mobility in the Pacific islands region has increased over the last two decades.⁷⁰

Migration

12.41 The Australia Pacific Islands Business Council argued that the private sector 'will never' absorb all school leavers in some of these countries, which is why labour migration and returned remittances 'will be of increasing importance'.⁷¹ In this way, migration is seen as a 'means of relieving population pressure on the already scarce resources' of some Pacific Island countries 'whilst increasing both the earning potential of the migrant abroad' through higher salaries and remittances. Therefore, as argued by a number of researchers:

Migration in the region should be viewed neither as merely a response to ailing economies nor simply a development strategy, but more as an intrinsic part of life that many islanders take almost for granted.⁷²

12.42 Fiji's Acting High Commissioner submitted that migrant workers have also become 'an invaluable development partner in improving living standards of individuals, households and even for the community at large'.⁷³ Emigration has also 'encouraged educational achievement and returned remittances to the islands. These have often been used for further investment in education'.⁷⁴

12.43 Permanent migration, however, may have adverse consequences. The emigration rates of tertiary qualified people are high, with Tonga, Samoa and Fiji 'in the top ten tertiary emigration rates for middle income countries'.⁷⁵ The flight of skilled workers has left a deficit in both the public and private sectors and generated a demand for substitute labour.⁷⁶ This, in turn, has created problems in relation to wages in the form of a dual pay system: expatriates doing the same job as locals are paid salaries many times higher.⁷⁷ Big oil and gas projects have to recruit foreign workers,

69 AusAID, *Pacific Economic Survey 2008: Connecting the region*, p. 78. See also paragraphs 2.10–2.11.

70 Foundation for Development Cooperation, *Submission 53*, p. 7.

71 *Submission 60*, p. 4.

72 Terrie Walmsley, S. Amer Ahmed and Christopher Parsons, *The Impact of Liberalizing Labour Markets in the Pacific Region*, GTAP working paper no 31, revised 2009, p. 7.

73 *Submission 28*, p. 9.

74 Hughes and Sodhi, *Submission 11*, attachment, p. 3.

75 DEEWR, *Submission 64*, p. 7.

76 Benedict Y. Imbun, 'Is the potential of labour's contribution to development acknowledged in the Pacific island countries?', *Pacific Economic Bulletin*, Volume 24, Number 1, 2009, pp. 102–103.

77 Benedict Y. Imbun, 'Is the potential of labour's contribution to development acknowledged in the Pacific island countries?', *Pacific Economic Bulletin*, Volume 24, Number 1, 2009, p. 105.

which might cost up to four times as much as that of employing a local worker.⁷⁸ Another study concluded that 'The outflow of skilled workers does tend to both widen wage gaps and lower average levels of skill, reducing outputs and already dwindling tax bases'.⁷⁹ Further:

If the country has had to endure an extended period with few or virtually no skilled workers, a 'transitory brain drain' a worsening of living standards and of both the quality of education, and health care, together with dramatic reductions in wages and output.⁸⁰

12.44 Some countries are also concerned that 'scarce public expenditures' on higher education may be lost through emigration.⁸¹

12.45 Although there is demand for labour in Australia and New Zealand, one study found employment options favour skilled workers.⁸² Another represented current Australian and New Zealand migration policies allowing permanent migration of skilled workers as the "'worst case" scenario', which contributed to an exodus of the skilled workforce from Pacific island countries.⁸³ The OECD observed:

Greater coherence is needed between migration policies and development policies...Attention should also be focused on the implications of OECD country policies that actively recruit doctors, nurses, scientists and other skilled professionals to migrate to the developed world without any compensation for the investment in those skills made by the low income countries.⁸⁴

12.46 Fiji noted that the 'Brain drain for a small developing economy like Fiji is unavoidable but...the best option open to us under the circumstances, is to see how best we can re-engineer the situation to bear some positive spin for our own

78 Terrie Walmsley, S. Amer Ahmed and Christopher Parsons, *The Impact of Liberalizing Labour Markets in the Pacific Region*, GTAP working paper no 31, revised 2009, pp. 4–5.

79 Terrie Walmsley, S. Amer Ahmed and Christopher Parsons, *The Impact of Liberalizing Labour Markets in the Pacific Region*, GTAP working paper no 31, revised 2009, p. 4.

80 Terrie Walmsley, S. Amer Ahmed and Christopher Parsons, *The Impact of Liberalizing Labour Markets in the Pacific Region*, GTAP working paper no 31, revised 2009, p. 5.

81 Devesh Kapur and Megan Crowley, *Beyond the ABCs: Higher Education and Developing Countries*, Working Paper 139, Center for Global Development, 2008, p. 48.

82 Benedict Y. Imbun, 'Is the potential of labour's contribution to development acknowledged in the Pacific island countries?', *Pacific Economic Bulletin*, Volume 24, Number 1, 2009, p. 103.

83 Institute for International Trade, *Research study on the benefits, challenges and ways forward for Pacer Plus*, Final Report, June 2008, pp. 40–41.

84 OECD, *Making Poverty Reduction Work: OECD's Role in Development Partnership*, 2005, p. 40.

economy'.⁸⁵ One method proposed to recapture these public expenditures is 'through an appropriately administered exit tax'.⁸⁶

Conclusion

12.47 Unemployment, particularly youth unemployment, is a growing problem in many Pacific island countries. While temporary and permanent migration of workers is a way of relieving the unemployment situation, it also has a downside particularly with regard to brain drain. As noted earlier, migration and remittances are vital to the economic viability of some of the smaller Pacific island countries. For others, however, the loss of skilled workers may create problems.

12.48 In the following chapter, the committee considers the ways in which Australia is providing assistance to Pacific island countries to help them tackle the problem of unemployment in the region.

85 Government of Fiji, *Submission 28*, p. 8.

86 Devesh Kapur and Megan Crowley, *Beyond the ABCs: Higher Education and Developing Countries*, Working Paper 139, Center for Global Development, 2008, p. 48.

Chapter 13

Australia's response to unemployment

13.1 In its 2009–10 Budget, the Australian Government recognised the problem of unemployment in Pacific island countries. Among the initiatives to help the region with this problem, it indicated that it would expand its support for technical and vocational training.¹ The committee has already discussed these measures.² In this chapter, it considers the newly established Pacific Seasonal Labour Pilot Scheme as another means of addressing the unemployment problem in the region.

Pacific Seasonal Labour Pilot Scheme

13.2 After a number of years of lobbying from some Pacific island countries and from sectors within Australia, the Australian Government announced on 18 August 2008 the establishment of the Pacific Seasonal Labour Pilot Scheme (hereafter 'scheme').³ The Memoranda of Understanding (MOU) between the governments of Australia and Kiribati, Tonga and Vanuatu were signed on 24 November 2008. It is expected that an MOU with the Government of Papua New Guinea will be signed in the course of 2009.⁴

13.3 As stated in the MOUs, the scheme aims to stimulate economic development in Pacific partner countries by 'providing employment opportunities, remittances and options for up-skilling'.⁵ The Hon Duncan Kerr MP, Parliamentary Secretary for Pacific Island Affairs, explained that the scheme was also intended 'to complement the Pacific island nations' own integrated development planning', deepen Australia's bilateral partnerships and strengthen its overall engagement with the region.⁶ The

1 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2009-10: Australia's International Development Assistance Program*, p. 13.

2 AusAID summarised some of these measures: Australia's aid program focuses on improving employment opportunities through skilling to increase workforce competitiveness. The objective is to 'create employment opportunities, supporting and maintaining reliable infrastructure, increasing opportunities for education and skills development including through the Pacific Seasonal Worker Pilot Scheme'. *Submission 65*, p. 10.

3 The Hon Stephen Smith MP, Minister for Foreign Affairs, 'Seasonal Worker Pilot Scheme', Media release, 18 August 2008.

4 The Hon Duncan Kerr SC MP, Parliamentary Secretary for Pacific Island Affairs, 'Pacific Seasonal Worker Pilot Scheme MOUs Signed', Media release, 25 November 2008.

5 Australian Government, Pacific Seasonal Labour Scheme: About the Pilot, <http://www.workplace.gov.au/workplace/Individual/Migrant/PacificSeasonalWorkerPilotScheme.htm> (accessed 20 January 2009); see also Mr Graham Carters, FADT *Committee Hansard*, 20 November 2008, p. 90 and Pacific Seasonal Labour Scheme, Memoranda of Understanding, http://www.workplace.gov.au/NR/rdonlyres/BB0F5513-76E4-4A55-9C67-5C6BC262BBE2/0/PSWPSMOU_Vanuatu_textonly.pdf (accessed 20 April 2009).

6 The Hon Duncan Kerr MP, Parliamentary Secretary for Pacific Island Affairs, 'Pacific Seasonal Worker Pilot Scheme, Memorandum of Understanding Signing Ceremony and Participant Briefing Session', Speech, 24 November 2008.

scheme is also a response to the requests by some Australian growers and is expected to 'provide long-term benefits' for Australia and the horticultural industry.⁷

Progress

13.4 The scheme commenced in mid-February 2009 as a six-month pilot, bringing approximately 100 Pacific islanders to Australia.⁸ Estimated to cost \$23.6 million, it provides for up to 2,500 workers from four Pacific island countries—Kiribati, Tonga, Vanuatu, each 'with a proven track record of sending labour' to work in the Australian horticulture industry, and Papua New Guinea.⁹ Each country has been allocated a number of visas.¹⁰

13.5 The scheme is confined to the Australian horticulture industry, which was chosen because of its seasonal and labour-intensive nature and limited requirement for mechanical harvesting.¹¹ Workers are allowed to stay and work in Australia for a minimum of six and maximum of seven months within a 12-month period. They have an opportunity to return to Australia provided they have complied with the

7 Australian Government, Pacific Seasonal Worker Pilot Scheme, Questions and answers, http://www.workplace.gov.au/NR/rdonlyres/59BA854A-F64F-4E33-8596-14857836B49A/0/PSWPSFactSheetsQandA_04.pdf (accessed 11 February 2009).

8 Mr Graham Carters, *Committee Hansard*, 20 November 2008, p. 85. In February, 50 Tongan guest workers arrived in Robinvale, Victoria, and mid-April further six workers arrived from Vanuatu to work in the Griffith region. Australian Government, Pacific Seasonal Worker Pilot Scheme, <http://www.workplace.gov.au/workplace/Individual/Migrant/LabourHireCompanies.htm> (accessed 16 April 2009).

9 Ms Louise McSorley, *Committee Hansard*, 20 November 2008, p. 88. This covers set up and monitoring of the scheme, airfares for Pacific government representatives to fly to Australia, evaluation, visa assessments and costs of the Workplace Ombudsman. See p. 90 of the same Hansard for the breakdown of the cost between government agencies. The Hon Stephen Smith MP, Minister for Foreign Affairs, 'Seasonal Worker Pilot Scheme', Media release, 18 August 2008.

10 Australian Government, Pacific Seasonal Labour Scheme, Information for labour hire companies, http://www.workplace.gov.au/NR/rdonlyres/E1D57FAA-2AD4-4355-A867-3B8E8C4DE401/0/PSWPSFactSheetsLabourHirecompanies_04.pdf (accessed 20 January 2009). Tonga and Vanuatu are eligible for 800 visas each; Kiribati for 250; and PNG for 650 for the duration of the scheme.

11 The Lowy Institute, *Labour mobility: an Australian seasonal work visa scheme for Pacific Islands labour*, June 2008, p. 4. See also Sunraysia Mallee, *Submission 19*, p. 4.

regulations.¹² Mr Kerr expressed a hope that Australia could achieve New Zealand's 80 per cent rate of returned seasonal workers.¹³

13.6 The pilot scheme is in its early stages and it would be premature of the committee to assess its success or otherwise. Existing studies on similar types of schemes and preliminary comments by those interested in the scheme, however, provide some insight into the potential advantages and disadvantages of the scheme.

Benefits of the scheme

Remittances

13.7 According to DEEWR, 'the main aim [of the scheme] is to enable seasonal workers to contribute to economic development in home countries through remittances'.¹⁴ In this regard, many submissions noted the importance of remittances as a source of income in the Pacific island countries. Through remittances, seasonal workers have the opportunity to contribute financially to the welfare of their families but also towards small business development, which has led some island governments to promote the emigration of labour.¹⁵

Training

13.8 The National Farmers' Federation noted that the horticulture industry is 'ideal' for those without experience to build their skills and advance from basic tasks to the semi-skilled level.¹⁶ Skilling has long-term effects on the individuals, as the Institute for International Trade observed:

Appropriate training will increase the skills of domestic labour on their return home and can increase individual capacity to start and manage new small and medium enterprises in their local communities.¹⁷

13.9 The Maritime Union of Australia (MUA) noted similarly that training not only benefits workers at home but can enhance their career options in the international labour market.¹⁸ According to a Lowy Institute report, growers are interested in

12 Australian Government, Pacific Seasonal Worker Pilot Scheme: Information for labour hire companies http://www.workplace.gov.au/NR/rdonlyres/E1D57FAA-2AD4-4355-A867-3B8E8C4DE401/0/PSWPSFactSheetsLabourHirecompanies_04.pdf (accessed 20 January 2009).

13 The Hon Duncan Kerr MP, Parliamentary Secretary for Pacific Island Affairs, 'Pacific Seasonal Worker Pilot Scheme, Memorandum of Understanding Signing Ceremony and Participant Briefing Session', Speech, 24 November 2008. Further details on the scheme are available at <http://www.workplace.gov.au/workplace/Individual/Migrant/PacificSeasonalWorkerPilotScheme.htm>.

14 *Submission 64*, p. 15.

15 Foundation for Development Cooperation, *Submission 53*, p. 7.

16 National Farmers' Federation, *Workforce from abroad employment scheme*, April 2008, p. 14.

17 Institute for International Trade, *Research study on the benefits, challenges and ways forward for Pacer Plus*, Final Report, June 2008, pp. 43 and 50; see also The Lowy Institute, *Submission 14*, p. 3.

18 *Submission 52*, paragraphs 5.18 and 5.19.

investing in training and building the capacity of guest workers, with packing and book-keeping identified as possible topics for training.¹⁹

13.10 AusAID explained that the scheme incorporates vocational and technical training in areas such as rural and business skills.²⁰ The government also provides additional training in financial literacy and enterprise development to improve the workers' skill base.²¹ It recognised that:

For many Pacific seasonal workers, waged employment will be a new experience and they will need to learn skills like budgeting and saving. Some will not have owned a bank account before coming to Australia.²²

13.11 The provision of training to seasonal workers has caused concern, however, about sending countries potentially ignoring their own responsibility to train their people.²³ In this regard, Pacific island governments are said to have recognised their responsibility to have a pool of 'work ready' workers with trade skills and qualifications.²⁴

People-to-people links

13.12 Labour schemes provide opportunities to develop relationships between the sending and receiving communities—to build personal and communal relationships, even sister city relationships.²⁵ The Lowy Institute noted that these effects 'far outweighed the social and economic costs of administering a scheme'.²⁶ As demonstrated by the New Zealand scheme, community projects, training and joint ventures could be a feature of the scheme.²⁷ Such exchanges:

19 The Lowy Institute, *Labour mobility: an Australian seasonal work visa scheme for Pacific Islands labour*, June 2008, p. 5.

20 Answer to question on notice 12, *Supplementary Budget Estimates*, Foreign Affairs, Defence and Trade Portfolio, 23 October 2008.

21 AusAID, *Submission 65*, p. 11.

22 Australian Government, Pacific Seasonal Worker Pilot Scheme, Managing money and remittances fact sheet, http://www.workplace.gov.au/NR/rdonlyres/086A9549-CD98-4FFB-BA07-E1F09D3734AA/0/PSWPSFactSheets_money_01.pdf (accessed 11 February 2009).

23 The Lowy Institute, *Labour mobility: an Australian seasonal work visa scheme for Pacific Islands labour*, June 2008, p. 7.

24 Pacific Islands Forum Secretariat, *2008 Pacific Plan Annual Progress Report*, Annex A, p. 36.

25 See for example, Nic Maclellan, 'Seasonal Workers for Australia—Lessons from New Zealand', *Farm Policy Journal*, Vol 5, No 3, August Quarter 2008, pp. 50–51; The Lowy Institute, *Labour mobility: an Australian seasonal work visa scheme for Pacific Islands labour*, June 2008, p. 6; the Hon Duncan Kerr MP, Parliamentary Secretary for Pacific Island Affairs, 'Pacific Seasonal Worker Pilot Scheme, Memorandum of Understanding Signing Ceremony and Participant Briefing Session', Speech, 24 November 2008.

26 The Lowy Institute, *Labour mobility: an Australian seasonal work visa scheme for Pacific Islands labour*, June 2008, p. 2.

27 Nic Maclellan, *Workers for All Seasons? Issues from New Zealand's recognised Seasonal Employer (RSE) program*, Swinburne Institute for Social Research, May 2008, p. 17.

...can maximise the positive social and economic outcomes of a seasonal labour scheme and begin to address the social impacts for overseas workers and their families.²⁸

13.13 Sunraysia Citrus Growers Inc. described how having guest workers from the Pacific islands had developed new friendships and relationships through 'the influence of a range of Pacific cultures which has brought enjoyment through song, food and community engagement'.²⁹

Additional advantages

13.14 Evidence suggested that the 'gains to the Pacific economies come unequivocally from the movement of unskilled labour', including in terms of equity of opportunity, income distribution and social stability.³⁰ Long-term benefits include a potential for change in governance and administration, with returned workers demanding better services and improvements to the business environment.³¹

13.15 While encouraging economic development in Pacific island countries, the pilot scheme is also expected to generate gains for Australia. The pilot was established to 'examine the benefits to the Australian economy and to employers who can demonstrate that they cannot source suitable Australian labour'.³² These could range from increased production in the horticulture sector to greater taxation revenue.³³ For example, the pilot scheme was established in the horticulture industry due to its demand for unskilled labour. According to the National Farmers' Federation, the lack of workers has caused up to \$700 million worth of produce being left unpicked annually.³⁴ There are claims that the cost of not establishing the labour scheme could have exceeded \$1.1 billion in foregone taxation revenue.³⁵ Bringing in guest workers for a longer period of time provides growers 'access to reliable and trained labour in the peak time of their harvest' (June–December) as opposed to training backpackers or grey nomads who stay in the job for a few weeks.³⁶

28 Nic Maclellan, *Workers for All Seasons? Issues from New Zealand's recognised Seasonal Employer (RSE) program*, Swinburne Institute for Social Research, May 2008, p. 19.

29 *Submission 9*, p. 1.

30 Majula Luthria, 'Seasonal migration for development? Evaluating New Zealand's RSE program—Overview', *Pacific Economic Bulletin*, Volume 23, Number 3, 2008, p. 166.

31 The Lowy Institute, *Labour mobility: an Australian seasonal work visa scheme for Pacific Islands labour*, June 2008, p. 10.

32 Pacific Seasonal Labour Scheme, Memoranda of Understanding, http://www.workplace.gov.au/NR/rdonlyres/BB0F5513-76E4-4A55-9C67-5C6BC262BBE2/0/PSWPSMOU_Vanuatu_textonly.pdf (accessed 20 April 2009).

33 The Lowy Institute, *Labour mobility: an Australian seasonal work visa scheme for Pacific Islands labour*, June 2008, p. 2.

34 National Farmers' Federation, *Workforce from abroad employment scheme*, April 2008, p. 14.

35 The Lowy Institute, *Labour mobility: an Australian seasonal work visa scheme for Pacific Islands labour*, June 2008, p. 2.

36 Sunraysia Citrus Growers Inc, *Submission 9*, p. 1.



The Pacific Seasonal Labour Scheme pilot has welcomed guest workers from Tonga and Vanuatu. This ni-Vanuatu worker has found employment on a fig plantation in Griffith, NSW (image courtesy of DEEWR).



As part of the Pacific Seasonal Labour Scheme, Tongan workers underwent a recognition of prior learning assessment for a Certificate II in horticulture at Sunraysia TAFE, which included a First Aid, Literacy, and IT skills component (image courtesy of DEEWR).

Concerns about the scheme

13.16 A number of studies and witnesses raised concerns about the scheme. They are considered below.

Brain drain

13.17 The problem of brain drain was discussed in previous chapters. The Construction, Forestry, Mining and Energy Union (CFMEU) was concerned about skilled workers from the region taking up lower-skilled jobs and using the scheme to migrate to Australia. It said this would only 'add to the skills shortages amongst those poor countries in an attempt to address labour market difficulties in a rich country'.³⁷

Breaches of visa conditions

13.18 A particular concern centred on workers overstaying their visa.³⁸ For example, one study noted that the horticultural sector is said to be one of the biggest offenders in relation to employing undocumented or illegal workers. Another study found that more than 1 in 4 growers admitted to having employed illegal immigrants.³⁹ The Lowy Institute report noted the importance of resolving the status of illegal workers. It proposed that government administrative costs cover dedicated staff in DIAC and DEEWR 'to manage the implementation, monitoring and compliance of the scheme' and related matters.⁴⁰

13.19 To minimise the risk of seasonal workers overstaying their visas, AusAID is assisting relevant countries to manage the immigration process and build capacity regarding the selection and management of the seasonal workers. It is also helping to put in place training programs.⁴¹ In addition, the Australian scheme has in-built incentives for compliance, including the opportunity for seasonal employees to return

37 *Submission 55*, p. 7.

38 Parliament of Australia, 'A seasonal guest-worker program for Australia?', Parliamentary Library, Research Brief, 5 May 2006, no. 16, 2005–06, ISSN 1832-2883, p. 14. It suggested, 'As 'structural demand' for foreign workers grows in a particular sector, links may develop between guest-worker programs and the 'informal economy', as employers and 'illegals' collude to circumvent the rules of the program.'

39 The Institute for International Trade noted that 'It would be naïve not to expect problems with overstays and illegal immigration'. Institute for International Trade, *Research study on the benefits, challenges and ways forward for Pacer Plus*, Final Report, June 2008, p. 43. Nic Maclellan and Peter Mares, *Labour mobility in the Pacific: creating seasonal work programs in Australia*, Paper for conference on Globalisation, Governance and the Pacific Islands, State, Society and Governance in Melanesia Project, Australian National University, 25–27 October 2005, p. 14. Peter Mares, *Labour shortages in Murray Valley horticulture: A survey of growers' needs and attitudes*, Institute for Social Research, Swinburne University of Technology, March 2006, pp. 3–4.

40 The Lowy Institute, *Labour mobility: an Australian seasonal work visa scheme for Pacific Islands labour*, June 2008, pp. 6–7.

41 Dr Jane Lake, *Supplementary Estimates Hansard*, Foreign Affairs and Trade Portfolio, 23 October 2008, p. 93.

to Australia for subsequent harvest seasons and not allowing families to accompany the workers to Australia.⁴²

Family welfare

13.20 A number of submissions raised concerns about possible adverse effects on close relatives, particularly children, of a family member working overseas for extended periods of time. These consequences include psychological stress on children and negative impacts on educational standards.⁴³ Suicide rates are also said to be high among Pacific youth, partly due to the migration of parents and relatives.⁴⁴ In New Zealand, some guest workers had resorted to substance abuse and gambling.⁴⁵ Infidelity and new relationships overseas may cause disintegration of families or the spreading of sexually transmitted diseases.⁴⁶ Migrant work is also said to affect gender roles in rural villages, with a loss of male role models. The population is also ageing, which may burden the 'already stressed health services' of the participating country.⁴⁷

Administration of scheme

13.21 The concerns about guest workers overstaying their visas or the effect of their absence on family members raises the importance of having sound selection and preparation procedures in place before migrant workers leave their home country.

42 Australian Government, Pacific Seasonal Worker Pilot Scheme, Overstaying the visa, http://www.workplace.gov.au/NR/rdonlyres/14C8D5F0-CB0E-4FC1-9F06-76B1C5C6931F/0/PSWPSFactSheetoverstayvisa_04.pdf (accessed 11 February 2009).

43 MADEC, *Submission 5*, p. 4.

44 Nic Maclellan and Peter Mares, *Labour mobility in the Pacific: creating seasonal work programs in Australia*, Paper for conference on Globalisation, Governance and the Pacific Islands, State, Society and Governance in Melanesia Project, Australian National University, 25–27 October 2005, pp. 10–11. As Maclellan pointed out, while 'Workers may wish to stay as long as possible to maximise their earnings[,] this may not be in the best interests of family at home'. Nic Maclellan, 'Seasonal Workers for Australia—Lessons from New Zealand', *Farm Policy Journal*, Vol 5, No 3, August Quarter 2008, p. 49.

45 LHMU, *Submission 17*, p. 4.

46 Nic Maclellan and Peter Mares, *Labour mobility in the Pacific: creating seasonal work programs in Australia*, Paper for conference on Globalisation, Governance and the Pacific Islands, State, Society and Governance in Melanesia Project, Australian National University, 25–27 October 2005, pp. 10–11.

47 Nic Maclellan and Peter Mares, *Labour mobility in the Pacific: creating seasonal work programs in Australia*, Paper for conference on Globalisation, Governance and the Pacific Islands, State, Society and Governance in Melanesia Project, Australian National University, 25–27 October 2005, pp. 10–11.

Evaluations of overseas seasonal labour schemes, however, have pointed to a lack of resources in some countries to administer the pre-departure stage effectively.⁴⁸

13.22 As noted earlier, AusAID is assisting relevant countries to manage the immigration process and build capacity regarding the selection and management of the seasonal workers. This is an important aspect of the scheme and should be monitored closely.

Training

13.23 In order to improve the skills of guest workers, Australian employers are required to provide on-the-job training. However, some submitters pointed out that the administrative costs for employers may be too high. For example, Mildura and District Educational Council (MADEC) noted that many growers may not be willing to provide this level of support, or that the associated cost may 'exclude many from participating' in the scheme.⁴⁹

Ensuring continuity of work

13.24 At the moment, labour hire companies and growers have to guarantee an average of 30 hours of work per week for six months.⁵⁰ According to MADEC, 'the nature of harvest work, inclement weather and unfavourable market conditions' can lead to significant periods without work.⁵¹ The Australian scheme has taken this into consideration, stipulating that while 'Workers should not move between growers on a daily or weekly basis to make up the 30 hours work per week [they] may move between growers to ensure six months' work'.⁵²

Worker exploitation

13.25 A number of submitters expressed concerns about the potential exploitation of seasonal workers as a result of their low level or lack of language, literacy and other

48 Veena Verma, *Canada's Seasonal Agricultural Workers Program as a Model of Best Practices in Migrant Worker Participation in the Benefits of Economic Globalization, The Mexican and Caribbean Seasonal Agricultural Workers Program: Regulatory and Policy Framework, Farm Industry Level Employment Practices, and the Future of the Program under Unionization*, Executive Summary, paragraph 13, pp. 7–8; The Lowy Institute, *Labour mobility: an Australian seasonal work visa scheme for Pacific Islands labour*, June 2008, p. 10.

49 *Submission 5*, pp. 3–4.

50 Pacific Seasonal Labour Scheme: Phase 1 information, PowerPoint presentation, <http://www.workplace.gov.au/workplace/Individual/Migrant/LabourHireCompanies.htm> (accessed 20 April 2009).

51 *Submission 5*, p. 3.

52 Pacific Seasonal Labour Scheme: Phase 1 information, PowerPoint presentation, <http://www.workplace.gov.au/workplace/Individual/Migrant/LabourHireCompanies.htm> (accessed 20 April 2009).

skills and their poor bargaining position.⁵³ CFMEU explained that the lower the skills, the higher the likelihood of exploitation.⁵⁴ The Australian Fair Trade and Investment Network (AFTINET) argued that due to the lack of language skills, many seasonal workers may be 'too afraid to speak up or change jobs' and might be unaware of their rights.⁵⁵

13.26 Nic Maclellan and Peter Mares, research fellows, Institute for Social Research, Swinburne University of Technology, argued that, to avoid exploitation, it was important to allow seasonal workers to organise collectively. They called for built-in safeguards 'to protect workers' rights, and guarantee freedom of association'.⁵⁶ The Hon Duncan Kerr MP, Parliamentary Secretary for Pacific Island Affairs, noted the challenge in developing a fair and efficient regulatory framework that protects the interests of those involved.⁵⁷

Pastoral care

13.27 According to a Lowy Institute report, growers consider their duty of care responsibilities as 'extremely important' and would have good quality accommodation and sufficient transport available.⁵⁸ However, concerns have been raised in this regard.⁵⁹ Local community support for the scheme is considered essential and there have been calls for employers, religious groups and community organisations to interact with the guest workers.⁶⁰ Pacific communities in Australia could play an important part in this process.⁶¹ Ms McSorley, Department of Education, Employment

53 AMWU, *Submission 15*, p. 3. It considered that 'the direct link between the employment relationship with a single employer and the right to stay in Australia to work' has the potential to make guest workers 'highly vulnerable to exploitation' and that employers would not see a 'need to pay the rates required to maintain the employment relationship'.

54 *Submission 55*, p. 8.

55 *Submission 12*, p. 11.

56 Nic Maclellan and Peter Mares, *Labour mobility in the Pacific: creating seasonal work programs in Australia*, Paper for conference on Globalisation, Governance and the Pacific Islands, State, Society and Governance in Melanesia Project, Australian National University, 25–27 October 2005, p. 20. Their work drew on the 'Pacific Labour and Australian Horticulture' project, which was funded through the Australian Research Council Industry Linkage scheme (see <http://www.sisr.net/cag/projects/pacific.htm>). As part of the research, Mr Mares also travelled to Canada with funding from the Canadian government's Faculty Research Program. Nic Maclellan works as Senior Policy Adviser for the Pacific with Oxfam International.

57 The Hon Duncan Kerr MP, Parliamentary Secretary for Pacific Island Affairs, 'Pacific Seasonal Worker Pilot Scheme, Memorandum of Understanding Signing Ceremony and Participant Briefing Session', Speech, 24 November 2008.

58 The Lowy Institute, *Labour mobility: an Australian seasonal work visa scheme for Pacific Islands labour*, June 2008, p. 6.

59 See for example MADEC, *Submission 5*, p. 2.

60 MADEC, *Submission 5*, p. 3.

61 Nic Maclellan, *Workers for All Seasons? Issues from New Zealand's recognised Seasonal Employer (RSE) program*, Swinburne Institute for Social Research, May 2008, p. 22. The Lowy Institute, *Submission 14*, p. 3.

and Workplace Relations, acknowledged the existing interest in the communities to get involved and the 'hope that we can set up a framework that allows that to develop and be appropriate for the circumstances in each region'.⁶²

13.28 A review of the New Zealand scheme outlined a number of ways in which the well-being of guest workers could be enhanced. A local doctor had become the doctor for all guest workers, and one culturally-aware police officer had been appointed as contact officer for the scheme.⁶³ Employers could also facilitate communication between seasonal workers and their families for example by providing telephones and computer terminals.⁶⁴

13.29 DFAT explained that 'the Australian Government is deliberately starting with a modest-sized scheme to trial and prove suitable approaches to the challenges that such schemes can present in terms of pastoral care and protection of worker rights'.⁶⁵

Cost of sending remittances home

13.30 The AMWU was concerned that workers may not have the capacity to return substantial amounts of money as remittances after paying expenses.⁶⁶ Mr Maclellan urged community organisations in both countries to cooperate to:

...develop ways for remittances to contribute to general development activities, through community trust funds, micro-finance schemes, small business programs, and the education of young women.⁶⁷

13.31 The cost of sending remittances to the Pacific islands is reportedly high. Australia and New Zealand have jointly developed and funded a *Reducing the Cost of Remittances Program* which enables workers to compare the costs of remittance service providers online.⁶⁸ Ms Amanda Rishworth MP, Chair of Australian Pacific Parliamentary Friendship Group, stated that the initiative would:

62 *Committee Hansard*, 20 November 2008, p. 87.

63 One employer had put in a pool, table tennis table and sky television connection for the guest workers; and a hostel owner had made improvements to the building to increase the comforts of the long-stay visitors. National Farmers' Federation, *Industry Perspective: New Zealand's Recognised Seasonal Employer Policy*, May 2008, pp. 13–14.

64 Nic Maclellan, 'Seasonal Workers for Australia—Lessons from New Zealand', *Farm Policy Journal*, Vol 5, No 3, August Quarter 2008, p. 50.

65 *Submission 68*, p. 18.

66 *Submission 15*, p. 4, paragraph 19.

67 Nic Maclellan, 'Seasonal Workers for Australia—Lessons from New Zealand', *Farm Policy Journal*, Vol 5, No 3, August Quarter 2008, p. 51.

68 Ms Amanda Rishworth MP, 'Remittance website to help Pacific Islanders', Media release, 27 March 2009, http://www.ausaid.gov.au/media/release.cfm?BC=MediaandID=5409_6262_8387_3545_1745 (accessed 6 May 2009); www.sendmoneypacific.org.

...improve transparency and promote competition in the money transfer service sector, all of which will help drive down the cost of sending money to the Pacific.⁶⁹

13.32 The website also provides a news service, financial information and notice boards. It is 'available in hard copy for distribution to community groups'.⁷⁰ The Australian Government 'will continue to work with money transfer service providers and other partners to help lower the cost of remittances'.⁷¹

13.33 Despite good intentions, online information may be out of reach for most seasonal workers due to their lack of literacy skills, including computer literacy. A study noted that while 'Internet access was increasing dramatically, these cheaper but technologically complex forms of communications were underutilised [by ni-Vanuatu workers in New Zealand] since most workers were under-educated'.⁷²

13.34 In order to use the online information service, seasonal workers require access to, and the skills to use, computer terminals and internet.⁷³ The committee therefore believes that for seasonal workers to be able to make use of the website, they may have to learn basic computing skills in addition to financial literacy skills.

Relationship with Australian workers

13.35 A common concern is linked to the assumption that seasonal workers take jobs away from locals.⁷⁴ For example, according to the Federation of Ethnic Communities' Councils of Australia (FECCA), a perception could develop that foreign

69 Ms Amanda Rishworth MP, 'Remittance website to help Pacific Islanders', Media release, 27 March 2009, http://www.aisaid.gov.au/media/release.cfm?BC=MediaandID=5409_6262_8387_3545_1745 (accessed 6 May 2009).

70 Ms Amanda Rishworth MP, 'Remittance website to help Pacific Islanders', Media release, 27 March 2009, http://www.aisaid.gov.au/media/release.cfm?BC=MediaandID=5409_6262_8387_3545_1745 (accessed 6 May 2009).

71 Australian Government, Pacific Seasonal Worker Pilot Scheme, Managing money and remittances fact sheet, http://www.workplace.gov.au/NR/rdonlyres/086A9549-CD98-4FFB-BA07-E1F09D3734AA/0/PSWPSFactSheets_money_01.pdf (accessed 11 February 2009).

72 John Connell and Jeremy Hammond, 'Iso Iso: the first ni-Vanuatu guest workers in New Zealand', *Pacific Economic Bulletin*, Volume 24, Number 1, 2009, Crawford School of Economics and Government, Australian National University, p. 88.

73 Foundation for Development Cooperation, *Submission 53*, p. 8.

74 Parliament of Australia, 'A seasonal guest-worker program for Australia?', Parliamentary Library, Research Brief, 5 May 2006, no. 16, 2005–06, ISSN 1832-2883, p. 14. It suggested 'Immigrant sectors' with low wages and inferior conditions emerge and grow, leading to social exclusion and marginalisation and fuelling intolerance and anti-immigrant and anti-immigration sentiments among the broader population.

workers were 'undermining Australian wages and conditions', potentially leading to 'community backlash against migrants'.⁷⁵

13.36 There are indications, however, that guest workers help create employment opportunities.⁷⁶ In addition, while work has been available in the horticulture industry for many years, it has not attracted Australian workers.⁷⁷ The committee has already noted the shortage of workers in this sector. The shortfall in the workforce is expected to worsen, with estimates that 'up to 100,000 additional agricultural workers will be needed over the next five years', many for jobs involving low skills.⁷⁸ More recently, the National Farmers' Federation estimated that the number of jobs available in the horticulture industry would be 22,000.⁷⁹

13.37 Even so, the committee recognises that developments in Australia due to events such as the economic downturn could affect attitudes towards guest workers and that they require close monitoring.

Local community

13.38 MADEC was of the view that the encouragement to send remittances could be 'financially devastating' to the local Australian community business and tourism providers if guest workers did not spend their monies in their employment communities.⁸⁰ In contrast, the Foundation for Development Cooperation (FDC) pointed to the increased benefits for local towns and regions through seasonal workers spending for daily necessities, housing, etc.⁸¹

Complacency

13.39 According to a Parliamentary Library research brief, the potential exists for such a scheme to act as a disincentive for improvement. For example:

- an assumption may arise that migrants will continue to be available and consequently growers resist innovation and change or investment in labour-saving technology; and

75 Federation of Ethnic Communities' Councils of Australia, *The Australian Government's Pacific Seasonal Worker Pilot Scheme: FECCA Policy 2008*, p. 1, http://www.fecca.org.au/Policies/Pacific_Workers_Scheme.pdf (accessed 20 January 2009).

76 The Lowy Institute, *Labour mobility: an Australian seasonal work visa scheme for Pacific Islands labour*, June 2008, p. 8.

77 Mr Anthony Melville, *Committee Hansard*, 24 March 2009, p. 46; Mr James Redden, *Committee Hansard*, 25 March 2009, p. 32.

78 Australian Industry Group, *Submission 33*, p. 1; National Farmers' Federation, *Workforce from abroad employment scheme*, April 2008, p. 9.

79 National Farmers' Federation, *Pacific Island labour solution to roll out nationally*, 3 August 2009, <http://www.nff.org.au/read/2471619190.html> (accessed 10 August 2009).

80 *Submission 5*, p. 3.

81 *Submission 53*, p. 7.

- dependence may grow as migrant workers, their families, communities and home governments come to depend on foreign earnings and remittances and home governments may resist the sorts of policy changes that would reduce this dependence.⁸²

13.40 The committee heard suggestions from some witnesses on how the scheme could be improved. They are noted below.

Suggested improvements

Extending scope

13.41 A number of witnesses suggested extending the scope of the scheme to encompass other sectors such as support for manufacturing and services, particularly aged care, transport and hospitality services.⁸³

Increasing number of participating countries

13.42 Some witnesses would like to see the scheme include other countries. The Australia Pacific Islands Business Council suggested the inclusion of all Melanesian countries; the Sunraysia Mallee Economic Development Board noted the lost opportunity to test Pacific workers against those from other regions; and the Government of Fiji wanted a review of the decision to exclude Fiji.⁸⁴

13.43 The committee notes that Australia is in the process of negotiating a reciprocal Work and Holiday arrangement with PNG. Under the arrangement, a limited number of young (18–30 years) PNG citizens could apply for temporary visas with work rights. The Immigration department advised that a draft MOU has been provided to PNG but that PNG 'may require assistance to draft legislative amendments permitting reciprocal work rights for Australians'.⁸⁵

82 Parliament of Australia, 'A seasonal guest-worker program for Australia?', Parliamentary Library, Research Brief, 5 May 2006, no. 16, 2005–06, p. 14.

83 Pacific Asia Tourism Pty Ltd, *Submission 31*, p. 6. Also see Palms Australia, *Submission 44*, p. 7; and Australia Fiji Business Council, *Submission 58*, p. 6. Institute for International Trade, *Research study on the benefits, challenges and ways forward for Pacer Plus*, Final Report, June 2008, p. 79 (Appendix D).

84 Australia Pacific Islands Business Council, *Submission 60*, p. 5; Sunraysia Mallee, *Submission 19*, p. 3; Government of Fiji, *Submission 28*, p. 3.

85 DIAC, *Submission 36*, p. 13.

Monitoring

13.44 A study of the New Zealand scheme recognised the importance of continuous monitoring and evaluation of the remittance saving, spending and investment activities of seasonal workers in their home countries.⁸⁶

Coordination

13.45 The review of the New Zealand scheme also noted advantages to be gained from Australia and New Zealand coordinating 'development aid and investment programs in areas where seasonal workers are returning and investing in community development projects'.⁸⁷ In this regard, the Lowy Institute suggested that both countries 'cooperate in accessing the available labour pool in Pacific island countries to maximise opportunities for workers and reduce administrative costs for sending countries'. The cooperation could encourage balanced recruitment to avoid drawing 'too many workers from one area and thereby lessening the social impact on Pacific Island communities'.⁸⁸

Evaluation

13.46 Mr Majula Luthria, Senior Regional Economist Pacific Islands, World Bank, noted that no temporary migration program has systematically collected information on what makes a program a success for the sending and the receiving countries. One of the critical questions is whether the employment opportunities target the poorest and the unskilled workers.⁸⁹ The Foundation for Development Cooperation (FDC) recommended that Australia provide funding 'to conduct ongoing studies and reviews of the pilot seasonal worker program to ensure the benchmarking of appropriate standards and monitoring of outcomes'. The FDC maintained that the selection process of migrant workers 'must be equitable' and be provided to those most in need of it.⁹⁰

13.47 It should be noted that, as part of the pilot scheme, information is collected from workers for statistical and research purposes, which is then used to modify the agreement and the policy. The MOUs are to be reviewed annually to 'discuss issues

86 Nic Maclellan, *Workers for All Seasons? Issues from New Zealand's recognised Seasonal Employer (RSE) program*, Swinburne Institute for Social Research, May 2008, p. 6. According to John Connell and Jeremy Hammond, estimates of the first group of ni-Vanuatu seasonal workers to New Zealand returned with about NZ\$3,000. John Connell and Jeremy Hammond, 'Iso Iso: the first ni-Vanuatu guest workers in New Zealand', *Pacific Economic Bulletin*, Volume 24, Number 1, 2009, Crawford School of Economics and Government, The Australian National University, pp. 86–87 and 91.

87 Nic Maclellan, *Workers for All Seasons? Issues form New Zealand's recognised Seasonal Employer (RSE) program*, Swinburne Institute for Social Research, May 2008, p. 19.

88 The Lowy Institute, *Labour mobility: an Australian seasonal work visa scheme for Pacific Islands labour*, June 2008, pages 2 and 5.

89 Majula Luthria, 'Seasonal migration for development? Evaluating New Zealand's RSE program—Overview', *Pacific Economic Bulletin*, Volume 23, Number 3, 2008, p. 168.

90 *Submission 53*, p. 3.

and consider changes', including 'the degree to which the facilitative arrangements are being implemented'.⁹¹ DEEWR stated that the government reviews its labour market programs and migration arrangements to ensure that they provide a balance between economic, social and environmental objectives. Further, that one of the objectives is integration of migrants into the labour market and society.⁹²

13.48 Also, the pilot scheme, which is to operate for three years, is to be reviewed after 18 and 30 months to 'ensure it is meeting the needs of rural communities, rural industries and workers'.⁹³ As part of the evaluation, AusAID is involved in coordinating the development of impact assessments with academics and the World Bank to determine the economic development benefits to workers' home countries and communities:⁹⁴

Part of the work which we will be contributing a whole-of-government approach to on this issue is around the assessment of impact, including development impact, of the scheme. So the evaluation of the scheme from a development impact point of view is something which we will be doing.⁹⁵

13.49 Mr Graham Carters, DEEWR, explained that while DEEWR has responsibility for conducting the evaluation of the scheme, it will most likely use external expertise to assist the department to undertake the evaluation.⁹⁶ He stated that the evaluations would be 'very important in terms of assessing whether or not [the scheme] goes further than the three years'.⁹⁷

Committee view

13.50 The committee believes that while it is too early to pass judgment on the scheme, it can make some general remarks.

13.51 The scheme has potential to generate benefits beyond remittances or filling vacancies in Australia. As noted earlier, it provides opportunities for guest workers to acquire skills and for people-to-people links between communities in Australia and the islands to strengthen. Should this scheme continue beyond the pilot, it is essential that it retain a training component for the seasonal workers and indeed even expand its scope. The scheme should also form part of Australia's overseas development

91 Pacific Seasonal Labour Scheme, Memoranda of Understanding, Vanuatu, p. 5, http://www.workplace.gov.au/NR/rdonlyres/BB0F5513-76E4-4A55-9C67-5C6BC262BBE2/0/PSWPSMOU_Vanuatu_textonly.pdf (accessed 3 July 2009).

92 DEEWR, *Submission 64*, p. 13.

93 Mr Graham Carters, *Committee Hansard*, 20 November 2008, p. 90; Senator the Hon Chris Evans, Minister for Immigration and Citizenship, 'Visa for Pacific Island seasonal worker scheme', Media release, 23 September 2008.

94 AusAID, answer to a question on notice 12, *Supplementary Budget Estimates*, Foreign Affairs, Defence and Trade Portfolio, 23 October 2008.

95 Mr Scott Dawson, *Supplementary Estimates Hansard*, Foreign Affairs and Trade Portfolio, 23 October 2008, p. 94.

96 *Committee Hansard*, 20 November 2008, p. 90.

97 *Committee Hansard*, 20 November 2008, p. 90.

assistance to the region, with AusAID being closely involved in its future development.

13.52 While noting that some Pacific island countries have previous experience of an overseas labour scheme and that the Australian Government is working with Papua New Guinea and assisting other countries in this regard, the committee is concerned that the pre-departure process for the Australian scheme is robust. It urges the government to continue its work with its island counterparts to build their capacity to administer the scheme. The committee also sees benefits in Australia establishing and conducting regular stakeholders' meetings to address any issues as soon as they arise and to build relationships between the stakeholders.

13.53 The committee urges the government to monitor the pilot program and any disputes closely. The committee believes that the dispute resolution mechanism of the scheme should be strong and easily accessible for the workers. Impressed by the Canadian and New Zealand initiatives, the committee sees significant benefits in establishing a database to monitor employer behaviour and compliance and seasonal workers' employment, employment conditions and complaints to assist policy making and evaluation.

13.54 The committee recommends that in its review of the scheme, the government take account of the main concerns expressed in this chapter.

Recommendation 11

13.55 The committee recommends that the review of the Pacific Seasonal Labour Pilot Scheme to be undertaken 18 months and 30 months after its commencement state explicitly in its terms of reference that the review is to consider the following aspects of the scheme:

- **the adequacy of pre-departure and on-arrival briefings;**
- **the cost-sharing arrangements between employers and workers, the costs of sending remittances home, and the effectiveness of the *Reducing the Cost of Remittances Program*;**
- **the success of the training component and the transfer of skills and how these aspects of the scheme could be enhanced—the skills attained in Australia and their relevance to the workforce of the guest workers' home countries;**
- **the economic and social implications for the workers, their families and home countries;**
- **the effect on brain drain from Pacific island countries;**
- **the mechanisms used to monitor employer compliance, guest workers' employment, employment conditions and complaints, their overall effectiveness and their role in policy making and evaluation of the scheme;**

- **the extent to which the scheme is integrated into Australia's official development assistance program for the region and the Pacific Partnerships for Development;**
- **the potential to expand the guest worker scheme to other sectors such as the tourism/hospitality industry; and**
- **the level of cooperation and coordination between Australia and New Zealand in implementing their labour mobility schemes for Pacific islanders and whether they could be improved.**

Conclusion

13.56 Having considered education, training and employment in Pacific island countries, the committee now turns to a range of governance issues and the implications they have for economic development in the region.

Chapter 14

Economic management and state institutions

14.1 Careful and sound management of a country's financial affairs and business environment is central to its economic development. Good policy coupled with its effective implementation can maximise benefits to the economy by ensuring that opportunities for growth are fully exploited and the adverse effects of external shocks, such as natural disasters, are kept to a minimum.

14.2 In this chapter, the committee looks at the ability of both the bureaucracy and the policy makers in Pacific island countries to manage the economic and business affairs of their state. The committee looks at a number of key aspects to good government—its effectiveness in providing necessary services; managing a budget, including the collection and allocation of government revenue; and creating an environment conducive to enterprise and development.

Public administration and economic performance

14.3 Governance and the performance of state institutions is an important factor in economic growth.¹ A 2005 Joint Report to the Pacific Islands Forum Secretariat estimated that poor governance in PNG, Fiji, Solomon Islands, and Nauru 'had resulted in nearly US\$75 billion in forgone income in those countries since independence'.² It stated that human capacity constraint is 'becoming increasingly important as modern requirements of business and government become more complex'. It went further to indicate that faced with policy and capacity constraints, the governments of Pacific Island Forum countries experience difficulties meeting two essential sovereign functions:

- formulating and enforcing effective and appropriate national policies; and
- providing essential services.

14.4 As shown in the following table, recent statistics produced by the World Bank on matters of governance support these observations.

1 AusAID, *Pacific 2020: Challenges and opportunities for growth*, May 2006, p. 3. The World Bank defines governance as 'the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them', <http://info.worldbank.org/governance/wgi/index.asp>.

2 Asian Development Bank–Commonwealth Secretariat Joint Report to the Pacific Islands Forum Secretariat, *Toward a New Pacific Regionalism*, Pacific Studies Series, 2005, p. xiv.

Table 14.1: Aggregate governance indicators for selected Pacific island countries, 2005–2007³

Country	Voice and accountability			Political stability and absence of violence			Government effectiveness			Regulatory quality			Rule of law			Control of corruption		
	per cent rank			per cent rank			per cent rank			per cent rank			per cent rank			per cent rank		
Year	'05	'06	'07	'05	'06	'07	'05	'06	'07	'05	'06	'07	'05	'06	'07	'05	'06	'07
Cook Islands	..	..	..	..	..	..	68	56	44	69	68	55	88	84	67	71	73	83
Fiji	56	32	32	61	45	47	54	52	36	40	36	34	52	53	46	36	46	42
Kiribati	57	70	69	98	98	98	36	36	34	17	16	14	74	78	76	62	61	61
Nauru	78	80	81	87	88	88	38	9	35	..	..	23	71	80	62	..	..	50
PNG	43	50	52	24	23	23	15	22	25	19	24	30	16	20	21	14	13	9
Samoa	66	68	67	88	89	89	64	58	49	53	54	52	84	82	82	61	63	64
Solomon Islands	52	54	54	55	54	58	30	17	20	14	12	13	19	22	24	58	49	33
Tonga	46	47	46	71	64	59	36	29	32	24	22	23	64	66	64	6	5	13
Tuvalu	70	72	72	98	98	98	57	45	41	34	21	20	89	85	84	55	57	54
Vanuatu	60	67	60	98	98	98	45	40	45	55	52	33	64	64	68	64	62	63

14.5 These governance indicators are based on statistical compilation of responses on the quality of governance given by a large number of enterprises, citizen and expert survey respondents in industrial and developing countries. They show that, consistently, a number of Pacific island countries rate poorly on some performance indicators, notably government effectiveness, regulatory quality, rule of law and control of corruption. Again performance varies greatly between Pacific island countries, with Samoa outshining most other countries in the region. The Cook Islands and to a lesser extent Vanuatu also achieved solid rankings in these areas of governance compared with other Pacific island countries. PNG and Solomon Islands

3 Statistics are taken from the World Bank data base, *Aggregate Governance Indicators 1996–2007*, <http://info.worldbank.org/governance/wgi/index.asp> (accessed 2 December 2008) <http://info.worldbank.org/governance/wgi/pdf/wgidataset.xls>; (accessed 2 December 2008).

The authors advised users of the limitations of these measures of governance, 'which are shared by virtually all efforts to measure governance across countries and over time'. They stated, 'aggregate indicators we construct are useful for broad cross-country and over time comparisons of governance, but all such comparisons should take appropriate account of the margins of error associated with the governance estimates'.

lag well behind. The committee looks at these governance categories, starting with government effectiveness.

Capacity to deliver essential services

14.6 According to the researchers involved in compiling these statistics, government effectiveness measures the quality of public services, the quality of the civil service and the degree of its independence from political pressures. It also measures the quality of policy formulation and implementation and the credibility of the government's commitment to such policies.⁴ For 2007, most Pacific island countries registered below the 50th percentile for government effectiveness. In comparison, Australia scored 97, Japan 89 and New Zealand 96.

14.7 In its discussion on resources management, the committee highlighted some of the problems created by under-resourced and under-skilled bureaucracies. While it noted the potential for Pacific island countries to increase economic productivity through sustainable development, it also drew attention to governance and institutional gaps that undermine their ability to do so. This lack of capacity to manage and develop their resources extended to conservation, data gathering, reporting, monitoring and enforcement, administration, consultation, marketing, negotiation and quarantine matters. For example, it noted the prevalence of illegal or unreported activities in areas such as fishing and forestry.⁵

14.8 Such unauthorised activities, which often result in a loss to government revenue, are not confined to these two sectors. The Australia Papua New Guinea Business Council observed that a large number of illegal foreign workers were in PNG, many running small trade stores, and it seemed likely that some companies were operating without appropriate permits and licenses. It urged the Australian and PNG governments to ensure the Papua New Guinea Internal Revenue Commission was fully resourced to protect revenue collection.⁶

14.9 The failure of PNG to monitor the movement of goods and their carriers effectively also creates the potential for loss of revenue. Ms Wimmer, Australian Customs Service, said that Australian Customs had been 'trying to get the relevant agencies in Papua New Guinea to work together to do patrols of the border, with assistance from Australia'. She cited an example where one of those [maritime border]

4 Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi, *Governance Matters VI: Aggregate and Individual Governance Indicators 1996–2006*, World Bank Policy Research Paper 4280, July 2007, pp. 3–4.

5 See paragraphs 4.26–4.36; 5.14–5.27; 5.37. Also see, Andreas Schloenhardt, *The illegal trade in timber and timber products in the Asia-Pacific region*, Research and Public Policy Series, No. 89, Australian Institute of Criminology, 2008, p. 75. An IMF mission to Solomon Islands found anecdotal evidence indicating that only 30–40 per cent of log shipments in Solomon Islands are inspected, resulting in foregone tax revenues of nearly 4 per cent of GDP in 2007. IMF, Solomon Islands: 2008 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussions, IMF Report No. 08/358, November 2008, p. 11.

6 *Submission 70*, p. 7.

patrols identified an oil tanker that 'had not paid the relevant duties or royalties...which in PNG was a significant amount of money'.⁷

14.10 In some cases, the causes of lost revenue to government are difficult to determine. Dr Lake, AusAID, referred to leaks in Kiribati's current budget system. She informed the committee that the policy and regulatory frameworks around its state-owned enterprises are really unfortunate to the extent that the government itself incurs quite considerable losses that are 'both uncontrolled or poorly controlled'.⁸ A weakness in administrative capacity resulting in loss of revenue can also be found in the judicial system in PNG. Ms Lucinda Atkinson, Attorney-General's Department, explained that 'PNG has an entrenched lack of capacity within its judicial system, so there are large numbers of backlogged cases and claims against the state'. She explained:

Often people take advantage of the fact that judges do not have the time or the resources to properly hear cases, and also the Solicitor-General's office is under-resourced in terms of being able to actually attend court hearings. Often people will take advantage of that and make vexatious claims against the PNG government and, when the Solicitor-General's office litigators cannot get to a court because they are booked in five other courtrooms at the same time, the court has no choice but to award in favour of the claimant.⁹

14.11 Weak, inefficient or poorly resourced government agencies also impede economic growth through their inability to deliver essential services effectively. The poor state of infrastructure and education services in the region, discussed earlier, are key indicators of this failing. Indeed, numerous witnesses spoke of the lack of institutional capacity in Pacific island countries and their inability to deliver services as a major constraint to economic development.¹⁰ Palms Australia identified a lack of administrative capability and weak internal linkages without organisational structures as core impediments to development in PNG. As an example, it cited the inordinate delays in PNG for a teacher to be placed on the payroll and stated further:

Such examples are common across sectors, from business owners waiting for hours in bank queues to international governments and agencies waiting for financial reports from local communities or NGOs which would justify ongoing funding.¹¹

14.12 Australia's High Commissioner to PNG suggested that there had been a 'hollowing out of the capacity and a lack of leadership' in PNG. In his view, while

7 *Committee Hansard*, 21 November 2008, p. 58.

8 *Committee Hansard*, 12 March 2009, p. 28.

9 *Committee Hansard*, 21 November 2008, p. 64.

10 See for example, Mr Ian Clarke, Australia Papua New Guinea Business Council, *Committee Hansard*, 25 March 2009, p. 53 and 61; Professor Clive Moore, *Committee Hansard*, 26 March 2009, p. 10; AusAID, *Tracking Development and Governance in the Pacific*, 2008, p. 18.

11 *Submission 44*, p. 3. There are skills shortages that reach across all sectors of the economy for example in border management. See DIAC, *Submission 36*, p. 5.

there are competent officers in the public service who provide leadership, others simply do not have the capacity and are challenged. He informed the committee:

Some who are able and brought in to fix it are just defeated by the chronic incapacity and unwillingness of their senior managers to respond because there are entrenched interests at play.¹²

14.13 This inefficiency and lack of capacity to deliver services permeates administrations throughout the region.¹³ Mr Brian Anderson, Australia Fiji Business Council, noted that the bureaucracy in Fiji needs to be streamlined and strengthened: that in many cases it is a roadblock.¹⁴ More generally, AusAID observed that many Pacific countries have 'difficulties attracting, developing and retaining skilled staff'. It explained further:

Low levels of investment in human resources has led to many public servants lacking basic skills (for example, literacy and numeracy), including at senior levels. Skills at provincial levels of government are, on average, substantially weaker than at the national level. Key public sector skills urgently require development, especially for improved service delivery.¹⁵

14.14 Mr Ian Clarke, Australia Papua New Guinea Business Council, argued strongly for the need to 'reinvigorate and assist the bureaucracy'. In his view, if the bureaucracy is efficient and effective, 'the rest will look after itself'.¹⁶

14.15 A number of witnesses agreed with the view of the Australian High Commissioner that there are intelligent and committed people in the public service but that other factors undermined their work including inadequate resources.¹⁷ Mr Hodgson, Australia Pacific Islands Business Council, added that most Australian public servants would not work under the conditions prevailing in some places in Pacific island countries. He said they would 'not walk in the front door' of those

12 *Committee Hansard*, 19 March 2009, pp. 11–12.

13 World Vision Australia, *Submission 47*, p. 7. World Vision Australia noted that in the government sector, 'Insufficient numbers of well-educated and skilled people are available to run governments at all levels, resulting in failures of service delivery and accountability'. A recent Asian Development Bank evaluation report found that a lack of synergy between central and local agencies and improving management competencies remain a challenge in PNG. ADB, *Performance Evaluation Report, PNG: Public Service Program*, Operations Evaluation Department, December 2008, p. 17. Ms Hayward-Jones suggested that the governments of both PNG and Solomon Islands lack the capacity to deliver the services they promise, *Committee Hansard*, 24 March 2009, p. 10.

14 *Committee Hansard*, 25 March 2009, p. 72.

15 AusAID, *Tracking Development and Governance in the Pacific*, 2008, p. 14.

16 *Committee Hansard*, 25 March 2009, p. 71.

17 See also Mr Hodgson, Australia Pacific Islands Business Council, *Committee Hansard*, 25 March 2009, p. 73.

places, 'let alone sit there all day and try to do a job'.¹⁸ Professor Clive Moore cited the use of today's technology to highlight the difficulties facing public servants in providing service:

The Solomon Islands subdepartment of statistics, for instance, really does not have a clue what is going on or how to collect data. Neither does it have equipment that does not break down. When a bank of computers breaks down or a single computer breaks down, often there is not the money available to replace them.

...

Air-conditioning systems break down in the Pacific constantly.¹⁹

14.16 He noted that the level of technical sophistication required in today's bureaucracy is not only very expensive but also hard to maintain if technicians are not available. He added 'there are a lot of dead computers out in the Pacific'.²⁰ Mr Clarke suggested that public servants may not 'even have a typewriter let alone a computer' and that the services to their buildings are 'in some disarray'.²¹

14.17 These ill-equipped bureaucracies are often called upon to deliver services that require both technical skills and advanced technology. In particular, Pacific islands countries with the potential to earn significant income from large commercial enterprises require the support of a sound and effective government bureaucracy if they are to seize opportunities for growth.

14.18 Mining projects provide a good case study. Although they tend to be large scale and well resourced, these operations still require a business environment that facilitates business activity and investment. Gladstone Pacific Nickel Ltd noted that one of the major impediments to the progress of a major project to mine lateritic nickel ore in Solomon Islands was 'the absence of bureaucratic efficiency'.²² It detailed its unsuccessful efforts to overcome bureaucratic logjams, including delays and missing documents, to obtain prospecting licences through an international tender process. According to the company, such obstacles are experienced by 'other Australian companies and to a lesser extent other overseas companies trying to do business there'.²³

14.19 The Australia Papua New Guinea Business Council indicated that the lack of capacity in the PNG government sector to deal with permits, regulation and

18 *Committee Hansard*, 25 March 2009, p. 72. Mr Chris Gaskell, APRA, also mentioned computer problems. *Committee Hansard*, 25 March 2009, p. 49.

19 *Committee Hansard*, 26 March 2009, p. 11.

20 *Committee Hansard*, 26 March 2009, p. 11.

21 *Committee Hansard*, 25 March 2009, p. 72.

22 Presentation Memorandum to the Australia Pacific Islands Business Council, attachment to *Submission 60*.

23 Presentation Memorandum to the Australia Pacific Islands Business Council, attachment to *Submission 60*.

compliance was 'a major impediment to development'.²⁴ Mr Peter Graham, Esso Highlands Ltd, informed the committee that the proposed PNG LNG project poses 'significant challenges for prudential government'. In his view, the legislative, financial, commercial and practical implementation matters would place substantial burdens 'on the currently limited resources of the various levels of government'.²⁵

14.20 As noted earlier, the proposed PNG LNG project presents a major challenge for the PNG administration, including finding the capacity to analyse and assess critically the 5,000 or so pages of the environment and social impact statement and the accompanying 36 independent studies. It must also deal with licence applications that already number 26. Quarantine and immigration matters pose another major task for the administration such as processing the anticipated 10,000 third country national visa applications from workers all over the world, and having in place arrangements for the importation of 550,000 tonnes of steel pipe. The government also needs the capacity to reach agreement with landowners on the benefit-sharing arrangement; to provide the necessary economic infrastructure; and to develop and implement policy concerned with the training and development of local people to work in the industry. According to Mr Graham, government policies should seek to encourage and facilitate local businesses to meet the requirements of the project and become suppliers over its 30-year life.²⁶

14.21 Although Pacific island countries such as the Cook Islands, Vanuatu and Samoa have achieved relatively high scores on the scale of government effectiveness compared to PNG and Solomon Islands, the evidence suggests that all Pacific island countries would benefit from improved bureaucracies.

Financial management

14.22 The management of the financial affairs of a country is critical to economic development. In this regard, a number of Pacific island countries have greatly improved their performance. For example, ANZ noted that the Government of PNG had done a sound job establishing macroeconomic stability with its economy experiencing consecutive years of positive growth. It attributed this turn around to the implementation of prudent fiscal policy.²⁷ It concluded:

...there is now greater transparency and consultation with the private sector and the wider population around the preparation of the budget. Notwithstanding, more work is needed to ensure greater headway is made.²⁸

14.23 Solomon Islands has also improved its financial management but again weaknesses remain. Mr Motteram, Treasury, observed:

24 *Submission 70*, p. 6.

25 *Committee Hansard*, 26 March 2009, p. 39.

26 *Committee Hansard*, 26 March 2009, pp. 39–42 and 46–48.

27 *Submission 51*, p. 3.

28 *Submission 51*, p. 4.

In the case of the Solomon Islands a shock like the massive civil war that they had must have made a huge impact on their middle management capacity, so there is some work that needs to be done. At the end of the day most of the tasks are quite achievable for them to build their indigenous capacity.²⁹

14.24 A number of witnesses were particularly concerned about the capacity of governments to manage revenue windfalls from large commercial enterprises. They recognised the difficult challenge facing governments in devising and implementing policies that would ensure that these proceeds 'translate into generalised wealth and economic prosperity in the host country'.³⁰ The Commission on Growth and Development pointed out, however, that history generally indicated that the reverse tended to happen:

Sometimes the state sells extraction rights too cheaply or taxes resource revenues too lightly. Sometimes the money it raises is stolen or squandered by rent-seeking elites and vested interests. When the money is invested, it is not always invested wisely or transparently. And by providing a ready source of foreign-exchange, natural resources can also reduce incentives for diversifying exports, a predicament known as 'Dutch disease'. States will improve on this sorry historical record only if they capture an appropriate share of the resource rents; save a judicious amount overseas; and set clear, growth-oriented priorities for absorbing the remainder at home.³¹

14.25 The Pacific Islands Forum Secretariat also referred to experience that suggested that 'resource booms often give rise to difficult economic and governance problems'.³²

Managing income from large commercial operations

14.26 PNG stands out as a country grappling with the task of harnessing revenue earned from the proceeds of commercial undertakings and feeding it back into productive areas of the economy. The Australia Papua New Guinea Business Council commented on the nature of this challenge:

These funds [from current and projected resource projects] need to be directed at economic infrastructure, health and education services and sustainable small business development...it is important that appropriate

29 *Committee Hansard*, 20 November 2008, p. 6.

30 *Committee Hansard*, 26 March 2009, p. 39.

31 Commission on Growth and Development, *The Growth Report, Strategies for Sustained Growth and Inclusive Development*, The International Bank for Reconstruction and Development/the World Bank, 2008, pp. 8–9, <http://cgd.s3.amazonaws.com/GrowthReportComplete.pdf> (accessed 27 October 2008). Dutch disease refers to the adverse consequences that may follow large increases in a country's income. The term was coined after Holland's poor performance in managing wealth generated from its natural gas reserves in the 1960s.

32 *Submission 69*, p. 5.

frameworks are put in place promptly to manage these flows for long term sustainable purposes.³³

14.27 The proposed PNG LNG project underscores the urgency for the PNG Government to meet this challenge. In Mr Graham's view, the project would act as a catalyst in putting PNG 'on the pathway towards achieving its full potential'.³⁴ He informed the committee that 'the true potential of PNG goes well beyond the oil and gas reserves that form the basis of our project'. He cited an economic impact assessment by independent economists ACIL Tasman which found that the project has the potential to transform the PNG economy, potentially doubling the GDP.³⁵

14.28 Esso Australia was of the view that the PNG Government would 'need to grow both its size and its governance capacity significantly if it is to properly support the Project [LNG] and truly reap the community rewards possible from a major project like this'.³⁶

14.29 Mr Motteram, Treasury, also expressed concern about the ability of PNG's administration to use the large amount of money that the government has in trust funds for their intended purposes (building roads, education and so forth) and to fully expend them. In his view, 'Capacity constraints within the public services are a critical issue for them'.³⁷ Professor Clive Moore was of the view that 'at the mining royalty level a lot of advice needs to be given to Pacific governments about how to involve the community in that distribution'.³⁸ He noted that money intended for local landowners may go instead to building 'an ever richer and more powerful Papua New Guinea elite—creating a new one, too, because a lot of these projects are in rural areas'.³⁹

33 *Submission 70*, p. 2. See also Mr Clarke, Australia Papua New Guinea Business Council, *Committee Hansard*, 25 March 2009, p. 65.

34 *Committee Hansard*, 26 March 2009, p. 38.

35 The ACIL Tasman report concluded 'Appropriately handled, PNG LNG will provide the government of PNG with an opportunity to maintain a responsible program of expenditure on social programs and productivity-enhancing infrastructure development yielding long-term improvements in quality of life and economic stability for the people of Papua New Guinea'. *Submission 34*, p. 2 and *Committee Hansard*, 26 March 2009, pp. 38–39. See also statements by ANZ, *Committee Hansard*, 24 March 2009, p. 53.

36 *Submission 34*, p. 2. An economic impact study by ACIL Tasman on the proposed PNG LNG Project suggested that: 'One effective approach to ensure that future generations of Papua New Guineans benefit from the LNG project would be to invest a substantial part of government revenues from the project into an offshore fund. The interest on this fund would provide a perpetual source of revenue...[and] help to smooth out the effects on revenue of commodity price cycles', ACIL Tasman, *PNG LNG Economic Impact Study*, 6 February 2008, p. viii.

37 *Committee Hansard*, 20 November 2008, p. 9.

38 *Committee Hansard*, 26 March 2009, p. 10.

39 *Committee Hansard*, 26 March 2009, p. 12.

Smaller Pacific island countries

14.30 In some Pacific island countries the requirement for sound financial management of government revenue is magnified because of their limited ability to absorb the effects of poor decisions. Those without significant natural resources, in particular, have few policy options to help them counter the adverse effects of their small size, remoteness and susceptibility to natural disasters. The tiny scattered atoll nation of Tuvalu is a case in point:

Despite a long-standing record of sound economic management, Tuvalu has failed to achieve sustainable growth due largely to constraints imposed by the paucity of land-based resources, extreme isolation, smallness, and dispersion over vast ocean spaces.⁴⁰

14.31 In June 1987, the Tuvalu Trust Fund was established to help the country achieve financial stability by providing government with an additional and reliable source of funds. It was intended to finance chronic budget deficits, underpin economic development and achieve greater financial autonomy. The fund was initially capitalised with contributions from the UK, New Zealand, Australia, Tuvalu, Japan and the Republic of Korea. Some commentators regard it as the most successful public fund in the Pacific which provides a model for the effective use of such funds for small-state economic development.⁴¹ In the view of the Tuvalu Trust Fund Board, the agreement has provided Tuvalu with:

...a level of financial security not thought possible at Independence. It has provided an additional source of government revenue that underpins the Budget and so the whole economy.⁴²

14.32 Kiribati is another of the small Pacific island countries with a revenue base that is 'highly volatile and narrow'. It has a Revenue Equalization Reserve Fund that was established in 1956 from phosphate mining royalties.⁴³ With sound financial management, the funds have steadily increased.⁴⁴ Even so, a more recent ADB Update registered concerns about the heightened risk that the fund's value 'could be entering a long-term period of decline if management is not improved'.⁴⁵ In chapter 2, the

40 Te'o I. J. Fairbairn, Review Essay: 'Economic Vulnerability and Resilience of Small Island States', *Island Studies Journal*, Vol. 2, No. 1, 2007, pp. 133–140, <http://www.islandstudies.ca/system/files/u2/ISJ-2-1-2007-Fairbairn-pp133-140.pdf> (accessed 24 October 2008).

41 Benjamin Graham, Asian Development Bank, *Trust Funds in the Pacific: Their role and future*, 2005, p. 39; and Tuvalu Trust Fund Board, *Tuvalu Trust Fund, 20th Anniversary Profile, 1987–2007*, p. 3.

42 Tuvalu Trust Fund Board, *Tuvalu Trust Fund, 20th Anniversary Profile, 1987–2007*, p. 3.

43 Catriona Purfield, *Managing Revenue Volatility in a Small Island Economy: The Case of Kiribati*, IMF Working Paper, WP/05/154, p. 3.

44 Catriona Purfield, *Managing Revenue Volatility in a Small Island Economy: The Case of Kiribati*, IMF Working Paper, WP/05/154, p. 3.

45 Asian Development Bank, *Country Strategy and Program Update, Kiribati (2006–2007)*, January 2006, p. 7.

committee noted that the global economic downturn is eroding the value of the assets held in these trust funds.

14.33 Nauru stands as a stark reminder of the need for the prudent and capable management of a country's finances. The Nauru Phosphate Royalties Trust was established to build up funds from phosphate royalties in order to generate income once the mineral reserves were exhausted. The country accumulated substantial offshore assets that peaked at approximately \$1 billion but, according to an ADB report, a decline in phosphate mining, combined with poor management of the country's offshore assets and public expenditure, led to 'a dramatic deterioration in its economic and fiscal position'.⁴⁶ Another ADB study stated that the management of the fund 'broke almost every rule in the book':

...its trust fund governance structure was weak and not transparent, it made poor trust investments, it raided its funds and used them as collateral, and it maintained an unwarranted expansionary fiscal position.⁴⁷

14.34 Nauru is now heavily indebted and relies on income from fishing licences and foreign aid, especially from Australia. An ADB project has been approved to establish a 'well managed Nauru Trust fund on par with the Tuvalu Trust Fund'.⁴⁸ The country, however, has severe capacity constraints in its financial management. Mr Motteram, Treasury, indicated that a generation of people 'have missed out on comprehensive education' and noted further:

There are a number of people within the finance ministry who are possibly going to be going forward, but I was talking to our manager there recently and he sees it as possibly another five years before there will be an indigenous capacity to have a local secretary of finance there.⁴⁹

14.35 The current global financial crisis has elevated the importance of sound and prudent financial management to a new level. Fiji exemplifies the difficult task facing Pacific island countries as the global economic crisis worsens. Mr Peceli Vocea, Governor of the Bank for Fiji, said:

It adds to the already precarious situation we face in managing the risks related to commodity price increases. Policy making as a result, has become more challenging with the trade-off between inflation and growth whilst ensuring financial stability is at the forefront of policy makers' consideration. As such, the current crisis calls for more urgency in strengthening surveillance.⁵⁰

46 ADB, *Country Economic Report, Nauru*, November 2007.

47 Benjamin Graham, Asian Development Bank, *Trust Funds in the Pacific: Their role and future*, 2005, p. 48.

48 ADB, 'Nauru Trust Fund: Republic of Nauru', TA No. 7183, approval 2 December 2008.

49 *Committee Hansard*, 20 November 2008, pp. 6–7.

50 IMF, Statement by the Hon. Peceli Vocea, Governor of the Bank for Fiji, at the Joint Annual Discussion, Boards of Governors Meeting, Press Release No. 49, 13 October 2008, <http://www.imf.org/external/am/2008/speeches/pr49e.pdf> (accessed 14 October 2008).

14.36 The small Pacific island countries in particular have been buffeted by the global economic downturn, especially the economies that rely heavily on tourism and remittances. As mentioned earlier, those with trust funds invested in international financial markets have seen the value of their assets plunge. The ADB noted that to date, these governments 'do not appear to have reduced public spending to compensate'. It urged Kiribati and Tuvalu to 'trim government spending quickly so as to match the decline in the value of their offshore investments'.⁵¹

Conclusion

14.37 To be a constructive and productive sector of a country's economy, the public service needs to have the necessary resources, skills and commitment. A competent, professional public sector is well placed to deliver government services to a high standard. Whether providing advice or managing finances or projects, it is better able to reduce the costs of government through greater efficiencies and the elimination of waste; sound budget processes; and prudent and effective financial management, including the collection of revenue and allocation of resources. Evidence suggested, however, that the performance of state institutions in many Pacific island countries is mixed. Clearly, Pacific island countries would benefit from assistance to help them build capacity in their bureaucracies.

51 Asian Development Bank, *Asian Development Outlook 2009, Rebalancing Asia's growth*, 2009, p. 280.

Chapter 15

Australia's assistance—strengthening governance

Effective administration

15.1 The committee has clearly identified a range of impediments that impinge directly on the potential for economic growth in Pacific island countries. As noted earlier, some of these are inherent structural problems that cannot be changed—small size, land mass, limited range of natural resources, remoteness and susceptibility to natural disasters. The circumstances that flow from these, however, can be managed in a way that makes the economy more resilient. The committee also found the governments of Pacific island countries have much scope to generate greater productivity and enterprise by improving their own performance in service delivery and economic management. In this chapter, the committee identifies some of the major Australian initiatives that are designed to assist Pacific island countries build capacity within their bureaucracy and to improve the overall standard of governance.

15.2 The Australian Government has given a clear preference for assisting Pacific island countries improve the performance of their public institutions. In his 2008 Budget Statement, the Minister for Foreign Affairs indicated that Australia would continue to work at all levels of society in partner countries to contribute to improvements in government capability, responsiveness and accountability. He announced that spending on governance in 2008-09 would be approximately 22 per cent of the development assistance program.¹ The same proportion of Australia's ODA would be allocated to governance-related areas in 2009-2010.² Statistics provided by AusAID on the sector breakdown for ODA to PNG and the Pacific indicated that a far higher proportion of funding is allocated to governance in the region. In 2007–08, it accounted for 46 per cent of total ODA for the region (\$395,287,186 from a total \$850,826,693). For 2008–09, it jumped higher to 52.8 per cent (\$524.8 million from a regional total of \$992.8 million).³

15.3 AusAID explained that the reference to governance 'covers a broad suite of activities, including the many programs around economic and public financial management, law and justice and government'. In its 2009 Budget Statement, the government indicated that it would give priority to improving financial management

1 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2008-09: Australia's International Development Assistance Program*, 13 May 2008, p. 31.

2 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2009-10: Australia's International Development Assistance Program*, 12 May 2009, p. 31.

3 AusAID, answer to written question on notice no. 2, following 19 June 2009 hearing.

and working with sub-national levels of government in partner countries.⁴ It should be noted that the work of the AFP in Solomon Islands is included under the term 'governance' and is considered in detail in Volume II.⁵

Public sector capacity

15.4 In the 2008 Budget Statement, the minister announced a new \$107 million Pacific Public Sector Capacity initiative that would support public sector training and workforce development and assist essential public sector reform.⁶ Six million dollars was allocated for 2008–09. The minister explained that this initiative would 'address a key impediment to poverty reduction, by helping to improve service delivery and enable growth'.⁷ In partnership with the governments of Pacific island countries, the initiative was designed to:

- establish strong and enduring partnerships between Australia and the region, particularly between governments and tertiary institutions in order to strengthen the capacity of local and regional institutions to undertake public sector workforce performance improvement;
- address public workforce development needs across the region by providing workforce development assistance to address priority organisational and individual capacity needs, especially in leadership and core skills such as administrative competencies, planning, budgeting and financial management; and
- support the planning and implementation of public sector reforms crucial to economic growth and delivery of basic services by identifying opportunities to support locally-led reform efforts in areas such as public financial management, human resource management and microeconomic reform.⁸

15.5 There are a number of specific government programs that together form a multi-pronged approach to helping Pacific island countries address problems with the performance of the public sector. For example, AusAID referred to the four-year, \$9 million Pacific Executive (PACE) program designed to enhance the management

4 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2009–10: Australia's International Development Assistance Program*, 12 May 2009, p. 32.

5 *Committee Hansard*, 12 March 2009, pp. 6–7.

6 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2008–09: Australia's International Development Assistance Program*, 13 May 2008, p. 29.

7 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2008–09: Australia's International Development Assistance Program*, 13 May 2008, p. 30.

8 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2008–09: Australia's International Development Assistance Program*, 13 May 2008, p. 30.

and leadership capacity of senior public servants in the Pacific as a way to improve administrative governance. (The 2008 PACE program comprised 40 mid-level and senior public servants from Fiji, Kiribati, Nauru, PNG, Samoa, Solomon Islands, Tonga and Vanuatu.)⁹ The 2009–10 Budget announced that Australia would provide 20,000 training opportunities over four years for Pacific public servants to improve core writing, accounting and administrative skills.¹⁰

15.6 Developing capacity in managing the financial affairs of state is a key area in which Australia is directing its governance aid. Through a number of targeted technical assistance programs, the Australian Government is assisting Pacific island countries build capacity in key institutions such as treasury and finance departments and independent oversight bodies including the office of ombudsman and auditors. The minister explained that this assistance could include 'training, deployment of advisers, and links with agencies in Australia'.¹¹

15.7 AusAID stated that Treasury is one of the government agencies engaged in a range of capacity building programs intended to improve administration.

Department of the Treasury

15.8 Treasury's work in the Pacific began in earnest in 2003. Treasury has established a Pacific and Assistance Division with prime responsibility for helping foreign economic ministries. It supports ministries in Nauru, Solomon Islands and PNG; assists some Treasury ministers in their work; and advises Australia's Treasurer on matters related to the Pacific.¹² The bulk of the division's work involves deploying staff to assist 'the whole-of-government efforts in building functioning treasuries and finance ministries' in these three countries'.¹³ The Division focuses on public financial management; is involved in microeconomic reform; and advises on macroeconomic matters.¹⁴

15.9 Treasury has six staff in Port Moresby, six in Solomon Islands and two in Nauru. Staff are at the senior level (Executive Level 2) and headed by an advisor at the Senior Executive Service level. All are advisers with the exception of one position in the Solomon Islands classified as 'in-line'. Treasury noted that in Solomon Islands, there is a particularly complex whole-of-government arrangement because they work

9 AusAID, *Submission 65*, pp. 13–14.

10 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2009–10: Australia's International Development Assistance Program*, 12 May 2009, p. 26.

11 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2008–09: Australia's International Development Assistance Program*, 13 May 2008, p. 32.

12 *Committee Hansard*, 20 November 2008, p. 2.

13 *Committee Hansard*, 20 November 2008, p. 2.

14 *Committee Hansard*, 20 November 2008, p. 2.

with a range of agencies, including the New Zealand Inland Revenue Department, Customs, and the Australian Office of Financial Management. Australia's team leader in Solomon Islands is an under secretary in the Ministry of Finance and Treasury.

15.10 In PNG, Australia has provided support for core governance programs 'designed to strengthen some of the central platforms of state functioning'. These programs have 'assisted with better budget processes, improved public financial management and increased transparency of intergovernmental financial systems'.¹⁵ Through the Strongim Gavman Program, Australian officials work with local staff in PNG departments of Finance and Treasury to improve accounting and auditing practices, and macroeconomic development.¹⁶ Treasury has a twinning arrangement with PNG whereby PNG officers are located in Australian offices for three months and Australian officers spend time in PNG helping them with special tasks when PNG requires the necessary expertise.¹⁷

15.11 As evidence of success, AusAID reported that the support given to PNG to improve budget preparation and execution was 'reflected in higher scores against these categories in an independent review of the country's public expenditure and financial accountability systems'.¹⁸ The Australia Papua New Guinea Business Council strongly endorsed the Strongim Gavman Program.¹⁹

15.12 ANZ was of the view, that although there had been improvements in financial management, Australian Government assistance would 'be crucial in helping PNG to build an effective, transparent bureaucracy and to assist it to address institutional weaknesses...and other necessary reforms across government'.²⁰ Mr Graham, Esso, also saw a continuing role for Australia's assistance. He suggested that the government could help PNG ensure that 'economic gains translate into lasting economic and social benefits for all of the peoples of PNG'.²¹ With regard to the PNG LNG project, Esso believed that the Australian Government has the opportunity to assist the PNG Government by providing 'early support for the State's macro and micro-economic planning for the Project revenues'.²²

15.13 With regard to Solomon Islands, AusAID reported that the development of new payroll and financial management systems and the introduction of an automated customs system showed the increased capacity of Solomon Islands Ministry of

15 AusAID, *Annual Report 2007–08*, p. 43.

16 AusAID, *Annual Report 2007–08*, p. 43.

17 *Committee Hansard*, 20 November 2008, p. 2.

18 AusAID, *Annual Report 2007–08*, p. 38.

19 *Submission 70*, p. 6.

20 *Submission 51*, p. 4.

21 *Committee Hansard*, 26 March 2009, p. 40.

22 *Submission 34*, p. 3.

Finance and Treasury staff and systems. It also noted that 'local staff are now leading projects such as budget development and corporate planning'.²³

15.14 Australia is also supporting efforts by Kiribati and Tuvalu to improve public financial management. The 2009 Budget Statement indicated that Australia provides annual contributions, linked to reforms, to the Tuvalu Trust Fund and related budget mechanisms 'to support both recurrent government budgets and Tuvalu's long-term financial viability'.²⁴ One of the primary means by which Australia intends to help Tuvalu achieve prudent management of its limited resources is through 'continued annual contributions to the Tuvalu Trust Fund'.²⁵ (The committee discussed Tuvalu's trust fund at paragraph 14.31.)

Immigration and Customs

15.15 The Department of Immigration and Citizenship and the Australian Customs and Border Protection Service devote a significant proportion of their work in the region to the revenue collection elements and to stopping 'revenue leakage'.²⁶ Several of its capacity-building projects in Pacific countries focus predominately on improving border management systems, identity management and document and data analysis. Customs has four officers based permanently in PNG under the Strongim Gavman Program, one of whom is the Deputy Commissioner of PNG Customs.²⁷ The department also has a twinning program, where officers from Australia are placed in PNG to work alongside their local counterparts. Ms Wimmer, Australian Customs Service, explained that they are involved in developing manuals and standard operating procedures and assisting in analysis to identify where help may be required in the future. People from PNG also work in Australian Customs so that they can learn 'how a modern customs organisation does work'.²⁸

Other agencies

15.16 There are a number of other Australian government departments and agencies working in partnership with Pacific island countries to build capacity so that they are better able to perform the functions of state. In its report on Australia's involvement in peacekeeping, the committee cited the work of the Australian Electoral Commission. The Australian Broadcasting Commission is working with national public radio in the

23 AusAID, *Annual Report 2007–08*, p. 38.

24 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2009–10: Australia's International Development Assistance Program*, 12 May 2009, p. 48.

25 Partnership for Development, between the Government of Australia and the Government of Tuvalu, signed 6 August 2009.

26 *Committee Hansard*, 21 November 2008, pp. 56–57.

27 *Committee Hansard*, 21 November 2008, p. 57.

28 *Committee Hansard*, 21 November 2008, p. 57.

region to help strengthen public broadcasting while the Australian Public Service Commission is supporting its regional counterparts with human resource and workplace development. Other agencies working in the region to improve the efficient operation of government administrations through technical assistance have been mentioned previously, for example, ACIAR and DAFF. The ADF, AFP and related agencies also assist Pacific island countries to improve their capability to detect illegal activities such as in the fishing or forestry areas. The 21-year-old Pacific Patrol Boat Program, mentioned in chapter 6, has played a role assisting Pacific island countries to police their exclusive economic zones.²⁹

Key institutions—oversight and accountability

15.17 Achieving good governance is one of the four primary goals of the Pacific Plan. It recognises that Pacific island countries need to improve the performance of key institutions including Audit and Ombudsman Offices.³⁰ The Pacific Plan Good Governance Work Program 2008–2010 stated clearly:

The challenge for countries in the region is to continue to strengthen their performance in areas of accountability, government effectiveness, regulatory quality and the control of corruption. Governance indicators compiled by monitors of good governance, such as the World Bank, suggest that political and financial accountability, including accountability by public officials, requires greater attention among public institutions.³¹

15.18 The Australian Government recognises the important role that oversight and integrity systems have in holding those in public office accountable for the management of state resources and delivery of basic services.³² In this regard, it notes the importance of having 'checks and balances on the way that the powers of the state are exercised'. In its view, 'transparency of government decision-making is important

29 *Committee Hansard*, 21 November 2008, p. 87 and paragraphs 6.25–6.30.

30 Kalibobo Roadmap on the Pacific Plan, Attachment C to Pacific Islands Forum Secretariat, *The Pacific Plan for Strengthening Regional Cooperation and Integration*, November 2007. The Vava'u decision supported the strengthening of accountability and integrity institutions and, in particular, Auditors General and Ombudsman offices, Vava'u Decisions on the Pacific Plan, Attachment E(A) to Pacific Islands Forum Secretariat, *The Pacific Plan for Strengthening Regional Cooperation and Integration*, November 2007.

31 Pacific Islands Forum Secretariat, *Good Governance Work Program 2008–2010*, pp. 3–4, http://www.asiapacificforum.net/services/capacity-building/nhri-development/pacific-island-states/downloads/background-papers/Pacific_Plan_Good_Governance_2008-10.pdf (accessed 4 May 2009).

32 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2008–09: Australia's International Development Assistance Program*, 13 May 2008, p. 31.

in keeping the state responsive and accountable to its citizens, as well as reducing the opportunities for corrupt practices'.³³

The Australian National Audit Office

15.19 Government auditors have a key role in shining a light on the use of government revenue and exposing poorly-managed public expenditure and corruption.³⁴ Although the capacities of supreme audit institutions across the region differ, all experience similar human resource capacity constraints. These include 'small numbers of trained and qualified personnel, the disproportionate effects in small offices of staff turnover or absences, difficulties in attracting and retaining staff...and the absence of structured career and professional development paths'.³⁵ These challenges intensify as financial reporting becomes increasingly complex and the scope of audits extends to performance and environmental auditing.³⁶

15.20 Australia supported the Pacific Association of Supreme Audit Institutions to conduct a major review of auditing competencies and capabilities of audit institutions in the Pacific.³⁷ The Australian National Audit Office (ANAO) is a member of this association and through its membership contributes to the association's objectives to encourage, promote and advance cooperation among members in their public audit functions.

15.21 The ANAO also works closely with the PNG Auditor-General to help him improve performance in core functions. A twinning program, funded by AusAID, operates whereby PNG staff are deployed to ANAO offices and ANAO staff work in PNG. Currently, the ANAO has two senior officers working for the PNG Auditor-General under the Strongim Gavman Program. Generally, they spend two or more years in PNG as advisers and provide both technical and strategic management advice and support to the Auditor-General and his office.³⁸ In partnership, the New South Wales Audit Office and ANAO are also hosting four PNG officers 'who are participating in the respective offices' graduate programs'. In addition, ANAO informed the committee that it had recently initiated short-term twinning activities of

33 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2008–09: Australia's International Development Assistance Program*, 13 May 2008, p. 31.

34 Peter Larmour and Manuhua Barcham, *National Integrity Systems: Pacific Islands, Overview Report 2004*, Transparency International, Australian National University, 2004, p. 10.

35 Pacific Association of Supreme Audit Institutions, *Pacific Regional Audit Initiative: Summary Design*, Information Document for the 2008 Forum Economic Ministers Meeting, Port Vila, Vanuatu, October 2008, pp. 42–43.

36 Pacific Association of Supreme Audit Institutions, *Pacific Regional Audit Initiative: Summary Design*, Information Document for the 2008 Forum Economic Ministers Meeting, Port Vila, Vanuatu, October 2008, p. 26.

37 AusAID, *Annual Report 2007–08*, p. 38.

38 *Submission 32*, p. 1.

PNG officers to Australia and ANAO officers to PNG that relate to 'specific business projects or an identified skill or knowledge gap'. This program is also funded by AusAID.³⁹

15.22 ANAO's primary responsibility is to fulfil its core responsibilities in Australia. Thus, its ability to contribute to activities and programs designed to develop professional practices, to raise the standard of public auditing and the capacities of auditors in the Pacific depends on the resources available for such purposes. It informed the committee that there have been occasions when ANAO has 'declined requests for assistance by our peers in the Pacific due to our inability to devote sufficient resources'.⁴⁰

Commonwealth Ombudsman

15.23 Ombudsmen also occupy an important position in the development of more effective and accountable state institutions. They not only help to resolve individual complaints, but have a central role in 'identifying systemic weaknesses in policies and processes and recommending reforms to public administration'. Their work often leads 'to significant security, welfare and financial benefits for the communities in which they operate' and they can also defuse tensions within a community 'before these escalate to violent conflict'.⁴¹ The Commonwealth Ombudsman recognised that ombudsmen in the Pacific region have 'an integral part to play in improving public administration in their countries' which extend to:

...delivering better quality public services in growth-critical areas such as health, education and the provision of public infrastructure, and to overcoming some of the key hurdles to business investment and economic growth, including political instability and internal conflict.⁴²

15.24 In 2004, Transparency International found, however, that ombudsmen in the Pacific islands 'were rarer than auditors and where these offices did exist, they seemed relatively invisible and ineffective'.⁴³

15.25 The Commonwealth Ombudsman is actively engaged in the region. In January 2006, an agreement for a 'Commonwealth Ombudsmen–PNG Ombudsman Commission Twinning Program' was signed. Under this program, officers undertake work placements of around three months in length and provide short-term expert advice and workshops.⁴⁴ The support given to PNG has assisted the Ombudsman

39 *Submission 32*, p. 1.

40 *Submission 32*, pp. 1–2.

41 *Submission 4*, p. 3.

42 *Submission 4*, p. 1.

43 Peter Larmour and Manuhaia Barcham, *National Integrity Systems: Pacific Islands, Overview Report 2004*, Transparency International, Australian National University, 2004, p. 10.

44 *Submission 4*, p. 1.

Commission of Papua New Guinea to improve its liaison with key law and justice sector agencies for the more efficient resolution of complaints. The Commonwealth Ombudsman explained:

The placement to my office in 2006 of the (late) Senior Investigator John Hevie, commenced a process which culminated in June 2007 in the signing of a Memorandum of Understanding between the Papua New Guinea Ombudsman Commission and the Royal Papua New Guinea Constabulary. The agreement will help to improve the internal administration of complaints within the Police Constabulary, as well as setting out protocols for more cooperative relationships between the two agencies where independent complaint investigation is required.⁴⁵

15.26 The Ombudsman's office has also been involved in helping to forge a similar agreement with the PNG Defence Force.

15.27 ANZ noted that PNG's Office of the Ombudsman has 'been able to maintain a degree of independence and has done a relatively good job as the public's watchdog on the conduct of political leaders'. It was of the view that the Ombudsman's role in policing PNG's Leadership code 'should be strengthened to allow it to assume a more prominent role in driving transparency and accountability across government'. ANZ suggested that continuing assistance by the Australian Government 'to strengthen PNG's law and order and accountability institutions will be important in helping to break serious bureaucratic bottlenecks and to tackling endemic corruption'.⁴⁶

15.28 The work of the Commonwealth Ombudsman extends beyond PNG. He informed the committee that his office is funded under the terms of a Pacific Governance Support Program agreement (PGSP), signed in April 2006, to undertake placements and network-building activities to the benefit of Pacific islands countries. He explained:

Six Pacific Islands Countries with Ombudsmen (Samoa, Solomon Islands, Tonga, Vanuatu, Papua New Guinea and the Cook islands) are currently active in this network. Under the terms of a second PGSP agreement, the office consulted widely in 2007/08 on ways to extend complaint handling services to Small Island States without Ombudsmen.⁴⁷

15.29 He indicated that based on this work, a new Pacific Ombudsman Alliance was expected to be formed which should enhance 'the sustainability of these arrangements by putting in place a formal Board structure to improve Pacific leadership of Ombudsman support initiatives over a ten-year time frame'.⁴⁸ The alliance was

45 *Submission 4*, p. 2.

46 *Submission 51*, p. 4.

47 *Submission 4*, p. 1.

48 *Submission 4*, p. 1.

launched in November 2008 with the Commonwealth Ombudsman elected chair.⁴⁹ It is providing advice and support to Palau, Nauru and Niue as they consider the establishment of an ombudsman's office.⁵⁰ The Ombudsman concluded:

Pacific Ombudsmen have benefited from these programs both through their impact on fostering systemic improvements in work practices, and through the facilitation of greater contacts between them and their offices.⁵¹

15.30 He was of the view that their experiences 'have highlighted the potential benefits of collaborating with other government agencies engaged in the Pacific':

One special feature of our approach is the inclusion of other Australian and New Zealand Ombudsman offices, widening the pool of expertise available to Pacific Ombudsmen through staff exchanges and visits.

...

We have witnessed the usefulness of a genuinely regional approach based on facilitating dialogue between public sector specialists in Pacific Island countries.⁵²

15.31 AusAID reported that improving regional networking, including that of the Ombudsman, through the strengthening of partnerships between Australian Government agencies and their counterparts was a major achievement.⁵³

The Australian Prudential Regulation Authority

15.32 The Australian Prudential Regulation Authority (APRA) is engaged in strengthening institutional capacity among its Pacific regulatory counterparts through 'a series of tailored, principally AusAID funded, technical assistance programs'. These programs are intended to assist regulators in the region 'to improve the standards of prudential supervision as part of broader whole-of-government efforts to strengthen public sector governance in the Region'.⁵⁴

15.33 APRA runs two main programs. Under the first, selected people from Pacific island countries spend from four to 17 weeks in frontline units in APRA. During this time, they learn about APRA's processes of prudential regulation with a view to applying this knowledge to their work in their home country. According to Mr Chris

49 Foundation members include the Ombudsmen from the Cook Islands, Papua New Guinea, Samoa, Solomon Islands, Tonga, Vanuatu, New Zealand, and the Commonwealth and New South Wales Ombudsman from Australia. Pacific Islands Forum Secretariat, 'Pacific Ombudsman Alliance launched', Press Statement 124/08, Friday, 14 November 2008.

50 Pacific Islands Forum Secretariat, 'Pacific Ombudsman Alliance launched', Press Statement 124/08, 14 November 2008.

51 *Submission 4*, p. 1.

52 *Submission 4*, p. 3.

53 AusAID, *Annual Report 2007–08*, p. 58.

54 *Submission 27*, p. 1.

Gaskell, over the last four years, APRA has accommodated 24 interns with most coming from the Bank of Papua New Guinea and others from Fiji, Micronesia, Vanuatu, Cook Islands and Samoa. He explained that with the global financial problems, APRA's core business has had to take priority and the intern program has been suspended.⁵⁵

15.34 Its companion program involves on-site supervision in various countries in the region whereby an APRA expert provides training assistance. Mr Gaskell explained that the programs are designed so that people do at least two or three on-site sessions so they can build on their knowledge. Interns on their return are also encouraged to attend these programs to consolidate their experience and knowledge.

15.35 In the 2006–07 financial year, APRA conducted three training visits in PNG which were attended by supervisors from Fiji, Samoa, Solomon Islands and Vanuatu. During the past year, five training visits were made to Fiji and PNG. The program extends across banking, savings and loans societies, superannuation entities and general insurance companies. This project continued in the 2008–2009 financial year.⁵⁶

15.36 Mr Gaskell informed the committee that APRA's program in the Pacific is unique and its practical hands-on teaching, as opposed to classroom teaching, is often not something that is commonly done by agencies that are helping to train.⁵⁷ He drew attention, however, to the limits of the amount of technical assistance that Pacific island countries can absorb. He explained that a Pacific island country authority that has a dozen staff in the prudential function can only afford to have one or two away at any one time.⁵⁸ APRA is also constrained in the assistance it can provide as indicated by the suspension of the intern program because of current demands on APRA's core business. Mr Gaskell noted that AusAID's budget for the two programs have totalled about \$300,000 a year, reaching a peak in spending at about \$470,000 in 2007. The amount budgeted for 2008–09 was about \$600,000 but, according to Mr Gaskell, it would be rare for APRA to spend the entire amount because Pacific island countries are unable to make use of the opportunities due to demands on their own staffing requirements.⁵⁹

Parliamentary oversight

15.37 In 2004, Transparency International stated that the oversight role in Pacific island countries was often limited by the weakness of parliamentary accounts

55 *Committee Hansard*, 25 March 2009, p. 48.

56 *Submission 27*, p. 1.

57 *Committee Hansard*, 25 March 2009, pp. 51–52.

58 *Committee Hansard*, 25 March 2009, p. 49.

59 *Committee Hansard*, 25 March 2009, p. 49.

committees, which failed to read, debate or act on their [auditor's] reports'.⁶⁰ When asked about the effectiveness of parliamentary committees in their oversight capacity, Mr Bruce Davis, AusAID, noted:

There are certainly some committees in some countries that work well. There have been periods, for example, in the Solomon Islands in the more recent past, where they have actually had scrutiny of their budget in a way that has never happened before courtesy of parliamentary committees. However, I would certainly not claim that that is a comprehensive approach.⁶¹

15.38 He agreed with the proposition that there was no effective parliamentary oversight of public spending in the region.⁶²

15.39 A number of Australian bodies provide assistance to Pacific Island countries to help them strengthen their parliamentary processes. The Australian Branch of the Commonwealth Parliamentary Association (CPA) has set aside up to \$20,000 a year from its Education Trust Fund to provide training and assistance for Pacific island countries. Funding will only be considered for equipment if training assistance is also to be provided. The types of training and equipment covered by this funding could include: secondments and visits of Australian parliamentary officers, such as librarians, committee research and Hansard officers to parliaments in the region.

15.40 In July 2008, the Australian Region Management Committee of the CPA formally endorsed the following twinning arrangements between Australian states and territories and Pacific island countries:

- Australian Capital Territory with Kiribati
- New South Wales with Bougainville and Solomon Islands
- Northern Territory with Niue
- Queensland with Papua New Guinea
- South Australia with Tonga
- Victoria with Fiji, Nauru and Tuvalu
- Tasmania with Samoa
- Western Australia with Cook Islands.

15.41 Since then, a number of parliaments have taken positive steps to develop their relationship with their twinned island state. For example, the Speaker, Deputy Speaker and Clerk of the ACT Legislative Assembly visited Kiribati in July 2008 to explore

60 Peter Larmour and Manuhua Barcham, *National Integrity Systems: Pacific Islands, Overview Report 2004*, Transparency International, Australian National University, 2004, p. 10.

61 *Committee Hansard*, 12 March 2009, p. 24.

62 *Committee Hansard*, 12 March 2009, pp. 24–25.

opportunities for parliamentary development and assistance between them. The ACT Legislative Assembly is sending two officers to Kiribati—one to assist on IT matters and the other on parliamentary procedures.⁶³

15.42 AusAID indicated that the vast majority of work concerned directly with parliamentarians is through the Centre for Democratic Institutions (CDI) at the Australian National University. It provides core funding to the Centre to assist Pacific island states develop good governance and democratic institutions.

15.43 The centre works closely with the CPA and with other organisations such as the UNDP. Its main activities focus on training new parliamentarians, for example, through induction programs for those newly elected to parliament. Professor Ben Reilly informed the committee that CDI is currently planning a training course specifically for ministers in the Pacific. He noted that a large part of their parliamentary training deals with clerks and other officials, such as committee secretaries.⁶⁴

Leadership programs

15.44 In chapter 11, the committee noted the Pacific Leadership Program, through which AusAID works to improve leadership practices emerging at national, local and regional levels.⁶⁵

Policy coherence

15.45 The committee has documented the work of the many Australian agencies helping Pacific island countries to promote good governance through improved financial management and more transparent and accountable administrations. The activities of agencies such as ANAO, Commonwealth Ombudsman, APRA, CDI and various departments, including Treasury, Attorney-General's and Customs are making a valuable contribution. But it remains unclear how well they complement and support each other's work. For example, through its research and training courses, CDI could be at the hub of the network of Australians engaged in helping Pacific island countries improve the performance of their parliaments and administrations. Yet, it appears to operate in isolation from the activities of the ANAO, the Commonwealth Ombudsman, the Pacific Leadership Program and Australian officers working with their counterparts in Pacific island countries.

15.46 The OECD articulated the committee's concerns about the lack of integration in this area of governance. It could see benefit in Australia developing a policy framework on governance that would reflect Australia's new orientations and guide its

63 Information provided by the Secretariat, Commonwealth Parliamentary Association, Parliament House, Canberra.

64 *Committee Hansard*, 19 June 2009, p. 36.

65 Explanation contained in AusAID's call for research proposals, Pacific Leadership Program.

aid program. In its view, this would facilitate coherence in the approaches of the various Australian departments and agencies involved in governance programs. It encouraged Australia:

...to develop a policy framework on governance synthesising its different components and delivery modalities into a single policy. Such a framework would guide the aid programme and ensure consistency across stakeholders.⁶⁶

15.47 In 2007, Australia's Office of Development Effectiveness suggested that all technical assistance 'would benefit from strategies to link activities that may have impacts on governance'. It explained:

For this approach to work well, it should be integrated with other activities in the aid program, including through sectoral programs and at a subnational level.⁶⁷

15.48 AusAID's November 2008 annual report on governance noted that overall its performance in this area 'may be improved by clear strategic guidance that ties the diverse but interconnected governance portfolio together and supports governance work within other sectors'.⁶⁸

Committee view

15.49 The committee commends the many Australian agencies engaged in helping Pacific island countries improve their financial management and to develop a more transparent and accountable public sector. It believes, however, that the work of all those engaged in promoting good governance in the region would benefit from having a framework that integrates their individual activities into a more coherent, unified effort. It fully endorses the findings of the OECD peer review and AusAID's own findings that Australia's governance program would benefit from having a single strategic policy framework that would guide the activities of its many separate components.

Recommendation 12

15.50 The committee recommends that the Australian Government direct AusAID to formulate a strategic single policy framework to guide its governance program in the Pacific region. The emphasis would be on integrating more effectively the activities of the different departments and agencies engaged in promoting good governance in the region.

66 OECD Development Assistance Committee, *2008 Peer Review of Australia*, p. 20.

67 AusAID, *Approaches to anti-corruption through the Australian aid program: Lessons from PNG, Indonesia and Solomon Island*, 2007, p. 36.

68 AusAID, *Governance annual thematic performance report 2007–08*, November 2008, p. 31.

15.51 In the following chapter, the committee continues to explore the role of governments in the region as enablers of economic growth and development. It looks at the extent to which the regulatory environment, corruption, law and order and political stability influence business and investment decisions.

Chapter 16

Private sector—driver of economic growth

16.1 In large part, governments are responsible for creating an environment that fosters, not frustrates, enterprise. In this chapter, the committee builds on its consideration of economic infrastructure and government effectiveness to explore further the major impediments to economic growth. Its main focus is on the business environment and the extent to which governments in the region create an environment that encourages economic growth and development.

Encouraging private enterprise

16.2 A number of witnesses observed that economic growth depends on the private sector which, in their view, has much scope to grow in Pacific island countries.¹ For example, the Australia Fiji Business Council emphasised how a vibrant and sustainable small/medium enterprise (SME) sector would be the key to employment growth.² In AusAID's assessment, the private sector could be 'the generator of growth'.³

16.3 The Pacific 2020 report noted, however, that 'the private sector requires a competent government, but is discouraged by an overbearing one'. It argued that governments 'need to facilitate private investment, not crowd it out by being directly involved in commercial activities or by imposing burdensome regulations or excessive taxation'.⁴ They need to reduce the climate of risk and provide policy certainty for business. The Australian Chamber of Commerce and Industry argued similarly that excessive red tape and an inefficient bureaucracy strangle growth.⁵

16.4 These observations that link the performance of the bureaucracy, the regulatory environment and private sector activity are particularly apt for many Pacific island countries. A recent UN report noted that governance arrangements in most Pacific island countries make foreign and private sector investors wary of investing.⁶ Another report published by the Pacific Islands Forum Secretariat used the tuna industry to show how the business environment, with its high cost of production and short-sighted macroeconomic policies, hindered development. In its view, Pacific island countries make it 'difficult for foreign and even locally based companies with long-term visions to be successful'. It argued that 'for domestic tuna development to

1 See also Austrade, *Submission 61*, p. 9.

2 *Submission 58*, p. 5; *Submission 60*, p. 4; *Submission 70*, p. 2.

3 *Committee Hansard*, 20 November 2008, p. 26.

4 AusAID, *Pacific 2020, Challenges and Opportunities for Growth*, May 2006, p. 43.

5 *Submission 29*, attachment, p. 8.

6 ESCAP, *Enhancing Pacific Connectivity*, 2008, p. 73.

work, the economic and policy environment has to enable private-sector development'.⁷

Ease of doing business

16.5 Statistics on regulatory quality taken from a World Bank data base and reproduced in Table 14.1 (chapter 14) support these observations about Pacific island countries having 'a difficult business environment'. They indicate that governments in most Pacific island countries have a long way to go to improve their ability 'to formulate and implement sound policies and regulations that permit and promote private sector development'. From a top score of 100, Fiji (34), Vanuatu (33), PNG (30), Nauru (23), Tonga (23), Tuvalu (20), Kiribati (14), and Solomon Islands (13) were unimpressive with ratings below the 35th percentile. Samoa (52) and the Cook Island (55) were just above the 50th percentile.

16.6 The results of another more targeted survey are consistent with the statistics showing that Pacific island countries do not rate highly on a scale measuring the ease of doing business. Although the order of merit differs from that cited above, the rankings still show Pacific island countries performing poorly. From a total of over 180 countries, they received the following rankings on the ease of doing business, with number 1 being the highest:

Table 16.1: Rankings on ease of doing business (number 1 being the best)⁸

Country	2010 rank (rankings from 183 economies)	2009 rank (rankings from 181 economies)	2008 rank (rankings from 178 economies)
Tonga	52	43	47
Fiji	54	39	36
Samoa	57	64	61
Vanuatu	59	60	62
Kiribati	79	79	73
Solomon Islands	104	89	79
Palau	97	91	82
Marshall Islands	98	93	89
Papua New Guinea	102	95	84
Micronesia	128	126	112

Between 2007–2009, Singapore, New Zealand and Australia, which were rated at no. 1, 2 and 9 respectively, were among the countries identified as good-practice economies.⁹

7 Kate Barclay with Ian Cartwright, *Capturing Wealth from Tuna: case studies from the Pacific*, Asia Pacific Press, Australian National University, 2007, pp. 22 and 38.

8 Information taken from Tables 1.3 in World Bank, *Doing Business 2009* and *Doing Business 2010*.

9 The International Bank for Reconstruction and Development/the World Bank, *Doing Business 2009 East Asia and Pacific–Pacific Islands*, Washington, 2008, p. 2.

16.7 This scale is based on a set of regulations affecting ten stages of the life of a business—starting a business, dealing with construction permits, employing workers, registering property, obtaining credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business. Based on analysis, the survey highlighted how these various regulations can impede economic growth. For example, it argued that:

...burdensome entry regulations do not increase the quality of products, make work safer or reduce pollution...they constrain private investment, push more people into the informal economy; increase consumer prices and fuel corruption.¹⁰

16.8 It observed that investors worry about their money and rely on laws to protect their interests. Thus, the legal and regulatory protections offered to investors influence their business decisions.¹¹ It also noted that 'in the absence of efficient courts, firms undertake fewer investments or business transactions'.¹² The late Secretary General of the Pacific Islands Forum Secretariat, Mr Greg Urwin, noted:

...good governance, apart from the savings it generates, can also be a powerful leverage on foreign investment—investment is ultimately an act of faith, and quite evidently, without investors being convinced that the governance procedures of a country are of a quality to ensure a future for their efforts, they will go elsewhere, and we have seen them do so.¹³

16.9 Some witnesses identified areas where substantial work was required in Pacific island countries to remove barriers to enterprise and foreign investment. The Australia Pacific Business Council referred to 'slow bureaucratic processes and excessive regulation'.¹⁴ The Australian Chamber of Commerce and Industry suggested that red tape is a particular problem in some Pacific countries. It informed the committee that AusAID had indicated that 'the average cost of recovering a debt in Pacific countries is equal to 86 per cent of the debt and takes more than 500 days'.¹⁵ The Australia Fiji Business Council noted:

10 The International Bank for Reconstruction and Development/the World Bank, *Doing Business 2009 East Asia and Pacific—Pacific Islands*, Washington, 2008, p. 3.

11 The International Bank for Reconstruction and Development/the World Bank, *Doing Business 2009 East Asia and Pacific—Pacific Islands*, Washington, 2008, p. 17. It cited a study that found, 'the presence of legal and regulatory protections for investors explains up to 73 per cent of the decision to invest'.

12 The International Bank for Reconstruction and Development/the World Bank, *Doing Business 2009 East Asia and Pacific—Pacific Islands*, Washington, 2008, p. 26.

13 Greg Urwin, Secretary General, Pacific Islands Forum Secretariat, 'Regional cooperation and economic growth', Pacific 2020 Conference, Hilton Hotel, Sydney, 10–12 May 2006.

14 *Submission 60*, p. 6.

15 *Submission 29*, attachment, p. 8.

There is an excess of bureaucracy to be traversed at all levels of starting and operating a business, with increased burdens if the business requires access to land and/or if it is a foreign business investment.¹⁶

16.10 The governments of the Pacific island countries have made commitments to reduce the costs of doing business. International organisations, including the World Bank and the OECD, are working with them to foster an investment climate that would enable their private sector 'to flourish and fulfil its role as the main engine of growth'.¹⁷ Although Pacific island countries are taking positive steps to improve their business environment, progress is patchy and even those with better business environments could do more. The most recent ratings on the scale of ease of doing business show clearly that most Pacific Island countries are losing ground. Economies such as Macedonia, United Arab Emirates, Colombia, Kyrgyz Republic, Armenia and Taiwan improved significantly in the last year to secure places ahead of all the Pacific Island countries.¹⁸

Tonga

16.11 Tonga recognises that the time is ripe for it 'to increase the momentum of private sector reform' and is undertaking reforms.¹⁹ For example, it introduced regulations to its building code which effectively decreased the number of procedures for dealing with construction permits from 14 to 11, and with administrative improvements, the process was reduced by 12 days.²⁰ It also implemented new regulations on business licensing, which cut the time to start a business by one week, and has reduced the time required to enforce a contract from an estimated 510 days to 350 days.²¹ Tonga has also achieved major accomplishments in trade liberalisation and revenue reforms, for example, it has reduced its reliance on trade taxes. The ADB was of the view, however, that more could be done to improve the environment for private sector development by reform of state-owned enterprises and by better public service delivery.²²

16 *Submission 58*, p. 6.

17 OECD, *Promoting Private Investment for Development: the role of ODA*, DAC Guidelines and Reference Series, 2006, p. 7.

18 World Bank, *Doing Business 2010*, Table 1.3, p. 4.

19 Media Release, <http://www.pmo.gov.to/releases-mainmenu-29/english-mainmenu-30/286-prime-minister-of-tonga-launch-private-sector-assessment.html>.

20 The International Bank for Reconstruction and Development/the World Bank, *Doing Business 2009, Country Profile for Tonga*, 2008, p. 51.

21 Asian Development Bank, *Asian Development Outlook 2008*, p. 256.

22 Asian Development Bank, *Asian Development Outlook 2008*, p. 256.

Fiji

16.12 The Australia Fiji Business Council believed that Fiji has the potential to become a type of Singapore of the Pacific. Its central position in the region, the size and diversity of its economy, the skills and talents of its people and the presence of pre-eminent educational institutions provide the foundations for it to become the region's business hub. Nonetheless, the Council maintained, that even though Fiji rates relatively well on the ease of doing business scale, substantial work remains to be done to remove barriers to its trade and foreign investment. It explained that despite the rhetoric, Fiji 'is not an especially welcoming environment for foreign investors'. It cited a number of existing impediments to the development of a vibrant economy. They included a restricted industries list (which excludes selected business types from any foreign investment), a reserved industries list (which requires a minimum Fiji domestic equity in the business and/or a minimum foreign investment level), a restrictive fiscal and foreign exchange policy and an opaque taxation system.²³

Samoa

16.13 Since the early 1990s, Samoa has embarked on major reforms including tax reforms, civil service changes to reduce the public debt, structural reforms to promote competition and encourage the private sector and privatization of state-owned enterprises.²⁴ Recently it lowered rates of corporate and capital gains taxes.²⁵ The ADB observed that growth forecasts for Samoa rely on the government refocusing on economic and public sector reforms. It noted in particular measures that would reduce the costs of doing business including 'reform of the commercial legal framework and facilitation of leasehold access to customary land, and ensuring access to reliable utility services at reasonable prices'. Even so, the bank noted that 'revamping state-owned enterprises has generally been slow and the enterprises have often failed to comply fully with new regulatory requirements'.²⁶ The IMF recommended that Samoa continue to deepen its reform program that, in its view, would 'yield a much higher real per capita growth'.²⁷ Samoa was one of only two Pacific island countries to improve its rating on the 2009 scale for the ease of doing business. It jumped 7 places from 64 to 57.

23 *Submission 58*, p. 8.

24 IMF, *IMF Executive Board Concludes 2007 Article IV Consultation with Samoa*, Public Information Notice (PIN) No. 07/62, 1 June 2007, p. 4.

25 The International Bank for Reconstruction and Development/the World Bank, *Doing Business 2009, Country Profile for Fiji*, 2008, pp. 50–51.

26 Asian Development Bank, *Asian Development Outlook 2008*, p. 254.

27 IMF, *IMF Samoa: 2007 Article IV Consultation—Staff Report; and Public Information Notice on the Executive Board Discussion for Samoa*, Country Report no. 07/185, *IMF Executive Board Concludes 2008 Article IV Consultation with Samoa*, Public Information Notice (PIN) No. 07/62, 1 June 2007, p. 8.

Vanuatu

16.14 Vanuatu is also making progress with structural reform. It has upgraded financial sector supervision, and, according to the IMF, is taking measures 'to improve utility pricing and increase competition in the telecommunications'. Even so, the IMF indicated that more needs to be done to create a climate conducive to investment. It cited the need to improve the land registration and titling process; to ensure that public enterprises operate efficiently; and to eliminate infrastructure bottlenecks by encouraging private sector involvement.²⁸ Professor Rod Duncan suggested, however, that the regulatory environment in Vanuatu could have declined in absolute terms in the past few years and, in relative terms, fallen behind other countries that have been reforming.²⁹

PNG

16.15 PNG is one of the countries falling behind in implementing reforms. A recent IMF report described the investment environment in PNG as 'unattractive'. It was blunt in asserting that the structural reform agenda 'to improve the investment climate has seen little progress'—that PNG ranks poorly in areas such as enforcing contracts, dealing with licences, getting credit, trading across borders and the quality of the bureaucracy.³⁰ In its assessment, the recent economic performance was 'an improvement relative to the recent past, however, the growth performance gap relative to peers continues to grow'. It urged the government to 'accelerate progress on structural reform, without which the outlook for more rapid non-mineral sector growth, job creation, and poverty alleviation is dim'.³¹ A World Bank study explained:

To stimulate private sector investment, particularly outside mining, the critical priority is improvement in the business climate, especially by opening more markets to competition, reducing the regulatory and licensing

28 IMF, Statement at the Conclusion of an IMF Staff Mission to Vanuatu, Press release No. 08/29, 22 February 2008.

29 Rod Duncan, Lecturer, School of Marketing and Management, Charles Sturt University, 'Solomon Islands and Vanuatu: an economic survey', *Pacific Economic Bulletin*, vol 23, no. 3, 2008, p. 8, http://peb.anu.edu.au/pdf/PEB23_3_DUNCAN_WEB.pdf (accessed 14 October 2008).

30 IMF, Staff Report for the 2007 Article IV Consultation, prepared by the staff representatives for the 2007 Consultations with Papua New Guinea, 18 January 2008 and IMF Country Report No. 08/93, Papua New Guinea: Selected Issues and Statistical Appendix, <http://www.imf.org/external/pubs/ft/scr/2008/cr0893.pdf> (accessed 9 October 2008).

31 IMF, Staff Report for the 2007 Article IV Consultation, prepared by the staff representatives for the 2007 consultations with Papua New Guinea, 18 January 2008, Executive Summary, p. 4.

burden, clarifying property rights (especially for land), and maintaining law and order.³²

16.16 A recent economic survey of PNG supported this assessment. It found that the country ranks poorly on the ease of doing business because of the lengthy delays and large number of bureaucratic procedures involved in business activities. It used modelling to show the substantial savings to be made from simple reforms that would reduce the number of procedures to obtain construction licences and permits. It also looked at reforms that would reduce the required number of documents, and the time taken, to export and to enforce a contract. It concluded:

Whilst other barriers to growth remain, lifting the performance of Papua New Guinea's regulatory environment in a number of key areas to regional averages—a modest goal—could have a large impact on income growth.³³

16.17 Table 16.1 shows that PNG dropped eleven places on the ease of doing business scale between 2006–07 and 2007–08 and a further 7 places in 2009.

Solomon Islands

16.18 Progress on structural reform also remains slow in Solomon Islands.³⁴ The IMF found that the cost of doing business is relatively high by regional standards. It argued that an acceleration of structural reforms that would reduce the costs of doing business could help Solomon Islands to 'unlock the vast growth potential in the agriculture, fisheries (including canning) and tourism sectors and expedite production in the mining sector'. Mining provides an example of where bottlenecks repeatedly cause delays. These delays apply to both gold and nickel operations.³⁵ Professor Duncan suggested that in the last few years the regulatory environment in Solomon Islands could have declined in absolute terms and certainly was not keeping pace with other countries that have been reforming.³⁶ Table 16.1 shows that Solomon Islands

32 The World Bank, *East Asia: Testing Times Ahead*, East Asia and Pacific Update, April 2008, p. 49,

http://siteresources.worldbank.org/INTEAPHALFYEARLYUPDATE/Resources/550192-1207007015255/EAPUpdate_Apr08_fullreport.pdf (accessed 14 October 2008).

33 Aaron Batten, Jonathan Gouy and Ron Duncan, 'Papua New Guinea economic survey: from boom to gloom?', *Pacific Economic Bulletin*, vol. 24, no. 1, 2009, p. 21.

34 IMF, Solomon Islands: 2008 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussions, IMF Report No. 08/358, November 2008, p. 3.

35 IMF, Solomon Islands: 2008 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussions, IMF Report No. 08/358, November 2008, p. 11.

36 Rod Duncan, Lecturer, School of Marketing and Management, Charles Sturt University, 'Solomon Islands and Vanuatu: an economic survey', *Pacific Economic Bulletin*, vol 23, no. 3, 2008, p. 8. http://peb.anu.edu.au/pdf/PEB23_3_DUNCAN_WEB.pdf (accessed 14 October 2008).

dropped ten places on the ease of doing business scale between 2006–07 and 2007–08 and a further 15 places in 2009.

Capacity to reform regulatory environment

16.19 The Pacific Islands Forum Secretariat noted that even with adequate and appropriate legislation, many Pacific island countries do not have the human resources to implement reforms. In its view, the lack of skilled personnel creates an administrative impediment to foreign investment.³⁷ Indeed, evidence demonstrates clearly that most Pacific island countries are yet to reach a stage where the quality of their bureaucracy and regulatory framework instil confidence in investors. By failing to create an enabling environment for economic growth, poorly performing bureaucracies and a burdensome regulatory regime inhibit, even prevent, the private sector from capitalising on economic opportunities. In effect, bureaucratic inefficiencies and regulatory bottlenecks in Pacific island countries stifle their productivity.

Control of corruption

16.20 All investors, from the smallest enterprise to multinational companies, base their investment decisions on anticipated risk-adjusted returns. As discussed above, these risk factors include unpredictable or burdensome government regulations, delays, excessive start-up and transaction costs, and complexities in establishing and doing business.³⁸

16.21 Corruption is another significant deterrent to business and investors and ultimately to sustainable economic growth. Often a manifestation of poor governance, corruption is 'the misuse of entrusted power for private gain by government officials as well as individuals in the private sector'.³⁹ A UN report explained that corruption may distort the pattern of public expenditure; weaken infrastructure by diverting funds; reduce the quality of investment; corrode the ideals of public service; and encourage a system where those entrusted to protect rights may be the source of harassment, extortion and fear. Corruption may even exacerbate the effects of natural disasters such as landslides associated with illegal logging. With regard to sustainable development, the report noted:

37 *Submission 69*, p. 9.

38 The Development Assistance and Investment Committees and the OECD's Development Co-operation Directorate and the Directorate for Financial and Enterprise Affairs. 'Mobilising Private Investment for Development: Policy Lessons on the Role of ODA', *the DAC Journal* 2005, vol. 6, no. 2, p. 14.

39 Definition based on United Nations Development Programme, *Tackling Corruption, Transforming Lives, Accelerating Human Development in Asia and the Pacific*, 2008, p. 18. http://hdr.undp.org/en/reports/regionalreports/asiathepacific/RHDR_Full_per_cent20Report_Tackling_Corruption_Transforming_Lives.pdf (accessed 22 December 2008).

Many developing countries in the Asia Pacific region are rich in natural resources, but, thanks to corruption, much of this natural wealth is being drained away. Companies may bribe public officials to get permits for cutting timber, for example, or they may pay to get away with logging in protected areas. Public officials themselves can also join in by running their own 'off-the-book' business. Similar problems arise with mineral extraction or unregulated fishing, and with systems of land registration and administration, or the capturing of protected species.⁴⁰

16.22 In chapter 5, the committee discussed corruption in the forestry industries in PNG and Solomon Islands. Table 14.1 (chapter 14) indicates, however, that corruption is a problem in a number of Pacific island countries. It shows that from a top score of 100, PNG (9), Tonga (15), Solomon Islands (33) and Fiji (42) all scored below the 50th percentile on the scale of control of corruption. Nauru and Tuvalu scored on or slightly above 50. Kiribati (61), Vanuatu (63), and Samoa (64) were deemed to be better able to control corruption including both petty and grand forms of corruption, and their administrations less likely to be captured by elites and private interests.⁴¹

16.23 Also, allegations of corruption are not confined to the forestry industry. An AusAID report on governance cited a commission of inquiry into corruption in PNG's Finance Department which is 'now uncovering details of more than K1 billion (A\$400 million) gone missing in the last few years'.⁴² A study by Australia's Office of Development Effectiveness noted that corruption was a 'major development problem in PNG'. It cited the growing influence of Asian crime syndicates in that country. While it could not assess the overall importance of this trend, it was led to conclude that 'corruption is taking a decided turn for the worse, with potentially serious implications for political governance and stability'.⁴³ According to ANZ:

While many of PNG's legal, structural and policy frameworks to prevent and address corruption are adequate, weaknesses lie in implementation, including lack of political will and limited capacity (financial and human) to fight corruption. Further assisting PNG to implement effective, broad-based reforms and improve the management of these resources will contribute significantly to reduced levels of corruption and tolerance for it.⁴⁴

40 United Nations Development Programme, *Tackling Corruption, Transforming Lives, Accelerating Human Development in Asia and the Pacific*, 2008, p. 7.
http://hdr.undp.org/en/reports/regionalreports/asiathepacific/RHDR_Full_per_cent20Report_Tackling_Corruption_Transforming_Lives.pdf (accessed 22 December 2008).

41 See definition of corruption used as a governance indicator in Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi, *Governance Matters VI: Aggregate and Individual Governance Indicators 1996—2006*, the World Bank, Policy Research Paper 4280, July 2007, pp. 3–4.

42 AusAID, *Tracking development and governance in the Pacific*, August 2008, p. 13.

43 AusAID Office of Development Effectiveness, *Approaches to anti-corruption through the Australian aid program: lessons from PNG, Indonesia, and Solomon Islands*, 2007, p. 19.

44 *Submission 51*, p. 7.

16.24 It should be noted that some business representatives informed the committee that they do not necessarily agree with assumptions made about the level and extent of corruption in Pacific island countries. They suggested that a bureaucracy unable to process requests, applications and claims encourages people to seek assistance outside the normal due process giving rise to perceptions of corruption. Mr Clark was of the view that often corruption and bureaucratic inefficiencies get confused. He said:

When you have a strong bureaucracy or a strong public service you get a much better deal done with foreign investors; otherwise investors get very frustrated that they cannot get their approvals through and then they invariably resort to a discussion with the minister of the day. When you have a discussion with the minister of the day you do not follow due process, and corners are cut. It chases its own tail.⁴⁵

16.25 For example, Mr Hodgson explained that he was aware of situations in Pacific island countries where the frustration, generated after months and months of waiting for a decision, drives people involved in the negotiation to resort to the minister. He said 'permission is granted very quickly and, of course, people make assumptions'.⁴⁶ These observations underline the importance of Pacific Island countries improving the performance of their bureaucracies and the regulatory environments in which they operate.

16.26 The Pacific Islands Forum Secretariat also drew attention to the cultural context in which business is conducted. It noted that Pacific societies have a strong tradition of patronage 'which favours those with influence and connections, particularly in the exploitation of natural resources and penalizes those without'.⁴⁷ Mr Sanjesh Naidu from the Forum Secretariat, informed the committee that 'a number of our mandates and documents from various meetings and policy dialogues recognise that corruption is definitely a big constraint to our development in the region and a quite significant drag to our economic prospects'.⁴⁸ He was of the view that the functioning and operation of customs and border agencies could be improved 'to tackle the problem of malpractice and corrupt behaviour'.⁴⁹ Mr Rick Nimmo, Forum Secretariat, concluded that at every level—the audit, policing and broad governance level—'corruption is an issue that the region acknowledges, accepts and tries to address'.⁵⁰ He explained that the nature of corruption in the region would be no

45 *Committee Hansard*, 25 March 2009, p. 65. The ACCI also noted that excessive regulations promote corruption because businesses have an incentive to use any means to bypass the unnecessary red tape. *Submission 29*, attachment, p. 8.

46 *Committee Hansard*, 25 March 2009, p. 71.

47 *Submission 69*, p. 2.

48 *Committee Hansard*, 19 June 2009, p. 11.

49 *Committee Hansard*, 19 June 2009, p. 11.

50 *Committee Hansard*, 19 June 2009, p. 12.

different from that found elsewhere and involves 'misuse of public money, people taking bribes and developers giving people backhanders'.⁵¹

16.27 The Australian Chamber of Commerce and Industry noted that 'potential investors in the region need meaningful assurance that corruption is not endemic'.⁵² But once assumptions regarding corruption are made about a country, they can be difficult to shift. Indeed, regardless of facts, perceptions of corruption are equally effective at deterring foreign investment and undermining confidence in the government. According to Transparency International, perceptions of corruption may persist, even though in some cases unwarranted, 'in spite of attempts to clean up'.⁵³ It has produced a set of statistics that rank countries on the perception of corruption. Again Pacific island countries do not rate highly. From a total of 180 countries, Denmark, Sweden and New Zealand, all at number 1, showed the lowest levels of perceived corruption. Australia was placed 9th. Samoa ranked 62; Kiribati, 96; Solomon Islands and Vanuatu both 109; and Tonga, 138. PNG at 151 was deemed to have the highest levels of perceived corruption among the Pacific island countries. Fiji was not included in the index but the Interim Government in Fiji understands that 'Corruption and the abuse of positions and privileges have long been features of Fiji's economic and political landscape'.⁵⁴

16.28 These statistics suggest that many Pacific island countries have a problem with the perceived level of corruption within their borders.

Law and order and political stability

16.29 Law and order, political stability and absence of violence are also key factors that influence business decisions. The economies of countries renowned for political instability and for break-downs in law and order struggle to attract investment.⁵⁵ Numerous witnesses referred to the damage that political instability has done to

51 *Committee Hansard*, 19 June 2009, p. 12.

52 *Submission 29*, Speech by Peter Anderson, Chief Executive, ACCI, attachment pp. 3–5.

53 Peter Larmour and Manuhia Barcham, *National Integrity Systems: Pacific Islands, Overview Report 2004*, Transparency International, Australian National University, 2004, p. 7.

54 Government of Fiji, *Sustainable Economic and Empowerment Development Strategy (SEDS) 2008–2010*, November 2007, p. 40.

55 See for example, Address by Mr Bob Lyon, President of the Australia Fiji Business Council, at the launch of the *AusAID 2020 Report*, Sydney, 11 May 2006, 'Why good political governance is so essential for a dynamic private sector and investment' http://www.afbc.org.au/Speeches_20060511_Bob_per_cent20Lyon_per_cent20to_per_cent20AusAID_per_cent202020.htm (accessed 14 January 2009) and ESCAP, *Economic and Social Survey of Asia and the Pacific 2008: Sustaining Growth and Sharing Prosperity*, p. 73, http://www.unescap.org/survey2008/download/01_Survey_2008.pdf (accessed 1 October 2008).

economic development in the Pacific.⁵⁶ Mr Peter Anderson, Chief Executive, Australian Chamber of Commerce and Industry (ACCI), noted:

It is well known that states in the region have had a diverse experience with political stability. A challenge for commerce in the region...is ongoing stability and ensuring our laws, including laws governing labour and commerce, are made by politically stable elected representatives.⁵⁷

16.30 Recent events in Solomon Islands, Tonga and Fiji show the extent to which political uncertainties damage the prospects for economic growth.

16.31 In November 2006, riots destroyed a large part of the business district of Tonga's capital, Nuku'alofa. A state of emergency, which was declared for the main island of Tongatapu, was still in force in March 2008.⁵⁸ A number of sectors suffered setbacks including commerce, hotels and restaurants, transport and communications, financial and real estate services and manufacturing. According to the ADB, tourism receipts dropped by 10.4 per cent in financial year 2007.⁵⁹ The Government of Tonga acknowledged that the civil disturbance in 2006 'resulted in negative growth in 2006/07'.⁶⁰

16.32 Fiji has had four coups since May 1987, all of which have had a negative effect on the economy. For example, the coup in May 2000 ushered in a period of political instability, economic decline, significant loss of jobs and migration of skilled and professional workers. Following the military coup in December 2006, all major sectors of the economy weakened—'Export income and business confidence fell and macroeconomic policies were tightened, resulting in an estimated 3.9 per cent contraction in the economy'.⁶¹ In particular, the uncertainty led to a decline in tourist arrivals, worker layoffs, 'a fall in wholesale and retail trades and a freeze on private-sector investment projects'.⁶² According to Mr Anderson, Australia Fiji Business

56 See for example, Department of Immigration and Citizenship, *Submission 36*, p. 6.

57 *Submission 29*, attachment, pp. 3–5.

58 Asian Development Bank, *Asian Development Outlook 2008*, p. 255.

59 A number of sectors suffered a setback including commerce, hotels and restaurants, transport and communications, financial and real estate services and manufacturing. According to the Asian Development Bank, tourism receipts dropped by 10.4 per cent in financial year 2007, Asian Development Bank, *Asian Development Outlook 2008*, p. 255. See also ESCAP, *Economic and Social Survey of Asia and the Pacific 2008: Sustaining Growth and Sharing Prosperity*, p. 72.

60 Media Release, 'Economic Update: July 2008', <http://www.pmo.gov.to/releases-mainmenu-29/231-economic-update-july-2008.html> (access 14 February 2009).

61 Asian Development Bank, *Asian Development Outlook 2008*, p. 235.

62 ESCAP, *Economic and Social Survey of Asia and the Pacific 2008: Sustaining Growth and Sharing Prosperity*, p. 70.

Council, there is no confidence in the country and the investment that usually stimulates growth no longer exists.⁶³

16.33 The Australia Fiji Business Council had no doubt that the economy and domestic stability in Fiji were inextricably linked. It stated that the 2006 coup has had 'a deep and prolonged economic effect'.⁶⁴ The Governor of the Reserve Bank of Fiji explained:

...there are so many other countries...that investors can put their money into just as readily, if not easily, than in Fiji. We are already offering all kinds of enticements to lure tourists and investors to our shores: reduced hotel rates and airfares, tax breaks of various kinds for investors and so on. But these types of 'carrots' won't be effective if the environment is unstable.⁶⁵

16.34 Solomon Islands is another Pacific island country whose economy has suffered because of recent upheavals. During the late 1990s, long-standing tensions and land disputes between the peoples of the two main islands, Guadalcanal and Malaita, surfaced. Escalating organised violence and militant activity forced the closure of important export industries and crippled the economy.⁶⁶ In June 2000, the government was overthrown and, despite attempts to restore peace and stability, conflict continued, the economy faltered and government structures were rendered ineffective. Law and order issues remained unresolved, with ethnic violence dissolving into widespread criminality, violence and lawlessness. The national GDP decreased by a full quarter between 1998 and 2002 and formal government debt increased by more than 40 per cent in 2002 alone.⁶⁷

16.35 In June 2003, the Pacific Islands Forum foreign ministers endorsed an assistance mission to Solomon Islands and Solomon Islands formally requested regional help 'to restore law and order, security and economic sustainability'.

63 *Committee Hansard*, 25 March 2009, p. 59. Mr Nimmo, Pacific Islands Forum Secretariat, used tourism, which he suggested was a very good barometer of attitudes toward countries, to indicate the damage being done to Fiji's economy. In his view, the countries surviving the global economic crisis best are those that are stable such as Vanuatu and Samoa. In contrast, he argued that the 'political instability in Fiji has significantly hurt its ability to deal with the global downturn in tourism numbers'. *Committee Hansard*, 19 June 2009, p. 14.

64 *Submission 58*, p. 2.

65 Keynote address at the National Micro, Small, Medium Enterprise (MSME) Forum by Governor of Reserve Bank of Fiji, Mr Savenaca Narube, Lami, Suva, 22 May 2008, p. 8, http://www.reservebank.gov.fj/docs/Keynote_per_cent20Address_per_cent20National_per_cent20MSME_per_cent20Forum.pdf (accessed 27 October 2008).

66 For background see Dr Michael Fullilove, Lowy Institute for International Policy, *The Testament of the Solomons: RAMSI and International State-Building*, 2006, p. 5; Dr Elsina Wainwright, ASPI, *Our Failing Neighbour, Australia and the Future of the Solomon Islands*, 2003, pp. 18–27.

67 Dr Michael Fullilove, Lowy Institute for International Policy, *The Testament of the Solomons: RAMSI and International State-Building*, 2006, p. 6.

According to the IMF, since the restoration of peace in 2003, economic performance has been robust due in large measure to logging and increased aid.⁶⁸

16.36 PNG has also experienced economic setbacks because of political uncertainty but shows the success that can be achieved with domestic stability. ANZ noted:

PNG's economic growth has also coincided with a period of relative political stability that is unprecedented in PNG's history since independence. The Government under Sir Michael Somare (first elected in 2002) was the first to complete its term in office without suffering a vote of no-confidence. Work within that Government on improving PNG's economic policy framework and related governance structures have helped improve the country's economic fortunes.⁶⁹

16.37 A return to political stability has not, however, brought with it certain peace and security for communities. ANZ was of the view that law and order remains a major constraint on the country's economic and social development.⁷⁰ In its view, PNG 'suffers from a level of lawlessness that is disproportionate to its population and economic size'. This situation, according to ANZ, impacts 'significantly on quality of life of its citizens and seriously restricts investment and private sector development'.⁷¹ Mr Steven Noakes, Pacific Asia Tourism, informed the committee that PNG is perceived as a dangerous place, which has a negative effect on the market for tourism.⁷² As noted in chapter 12, one of the key law and order concerns is the growing number of unemployed young men in PNG.

16.38 ANZ monitors law and order developments closely to ensure the safety of its staff and operations. It informed the committee that 'its geographic footprint in the country is guided in large part by security considerations'. As an example, it explained that ANZ's ability to roll out its "'Banking the un-banked" program in regional areas is constrained by law and order considerations'.⁷³ Mr Tunstall, ANZ, noted that the cost

68 IMF, *IMF Executive Board Concludes 2008 Article IV Consultation with the Solomon Islands*, Public Information Notice No. 08/139, 29 October 2008, p. 1.

69 *Submission 51*, p. 3.

70 *Submission 51*, p. 5. See also the IMF which noted that in PNG political risks stemming from corruption and ethnic tensions are still a disincentive to investment. It estimated the direct costs of security at 3 per cent of total business cost on average. It also noted that 'overall labour costs are increased to compensate employees for the added personal insecurity'. Security concerns also 'generally lead to reduced intensity of capital equipment' and they 'occupy management's time, thereby reducing overall productivity'. IMF, *Papua New Guinea: Selected Issues and Statistical Appendix*, Country Report No. 08/93, p. 44, <http://www.imf.org/external/pubs/ft/scr/2008/cr0893.pdf> (accessed 9 October 2008).

71 *Submission 51*, p. 5.

72 *Committee Hansard*, 26 March 2009, p. 59.

73 *Submission 51*, p. 5.

of doing business in PNG is 'quite horrendous in terms of having...armed security guards'.⁷⁴

Summary

16.39 Clearly, the private sector is a catalyst for economic growth and Pacific states need to attract industry and investment in a highly competitive global market if they are to realise their economic potential.⁷⁵ The perception of Pacific island countries as poor economic performers and difficult places to do business is a disincentive for entrepreneurs and potential investors. It is therefore essential for Pacific island countries, where possible, to reduce the risks, real and perceived, that deter investors. They must endeavour to create an enabling domestic environment in order to make better use of their resources, encourage greater productivity, mobilise the private sector and attract and make effective use of foreign investment and assistance. The responsibility for creating an environment that attracts investment to support economic growth and sustainable development falls mainly to governments. They must ensure that business is not deterred by unnecessary barriers to entry or unacceptable risks to their investments caused through the poor delivery of essential services, bureaucratic bottlenecks, a weak regulatory system or corruption or law and order concerns. Their task is to convince business that their country welcomes and supports enterprise.

16.40 As a major donor country to the region, Australia can make a positive contribution to help Pacific island countries improve their governance and business environment.

Australia's assistance

Improving business environment

16.41 Much of the work that Australia does in the region either directly or indirectly contributes to developing a better business environment. The committee has already identified numerous programs that, by helping to promote good governance, ultimately contribute to an environment that instils business confidence. The following examples provide further indications of how Australian agencies working in

74 *Committee Hansard*, 24 March 2009, p. 54.

75 See for example, the Australian Pacific Islands Business Council, *Submission 60*, p. 4; *Submission 29*, p. 5; the Governor of the Reserve Bank of Fiji noted that investment is the 'locomotive of growth' and without it the economy would 'lose steam'. Opening address by Governor of Reserve Bank of Fiji, Mr Savenaca Narube, at the opening of Westpac's MHCC Branch, 20 June 2008, p. 2.

Pacific island countries are assisting Pacific Island countries to improve their regulatory environment.⁷⁶

16.42 AusAID cited the work being done by the Federal Court of Australia with the Supreme Court of Tonga to help identify priority areas for enhancing its court administration. As a result, court records, previously compiled manually, are now computerised allowing the progress of active cases to be monitored closely and easily. The Federal Court also helped 'to develop a regulatory framework for mediation, accreditation training for mediators, and to raise awareness amongst the legal profession and the public'. According to AusAID, these reforms have contributed to a significant reduction in the time taken to settle cases. It noted:

Tonga's Supreme Court had cut the average time to enforce contracts from 510 days to 350, earning it the title of the 2007 top reformer in the category of contract enforcement.⁷⁷

16.43 The regulatory environment for telecommunications is another area where Australia has provided assistance to Pacific island countries. Mr Oliver, Department of Broadband, Communications and the Digital Economy, noted that the work of his department focused mainly on governance matters—dealing with issues that arise as countries move to liberalise their telecommunications regime. He said:

Countries of the Pacific raise particular challenges because they do not necessarily have the sorts of resources that are available in larger countries in terms of regulatory capacity, competition law, even court systems that are able to deal with the issues, so there are particular challenges there.⁷⁸

16.44 AusAID referred to Vanuatu's decision to introduce competition into its telecommunications sector which provided AusAID with the opportunity to assist with financial support and commercial negotiations through its Governance for Growth initiative.⁷⁹

76 It should be noted that numerous international organisations are assisting Pacific island countries to improve their business environment. The Foreign Investment Advisory Service (FIAS) and World Bank, in particular, conduct numerous projects designed to address regulatory constraints and to support reform changes in Pacific island countries. The International Finance Corporation and the World Bank, 'East Asia and the Pacific', http://www.fias.net/ifcextJtias.nsf/ContentJFIAS_Projects_Asia_the_Pacific (accessed 18 December 2008). For a list of projects see http://www.fias.net/ifcextJtias.nsf/ContentJFIAS_Projects_Asia_the_Pacific_Country (accessed 18 December 2008).

77 Australian Government AusAID, Annual Report 2007-2008, p. 59.

78 *Committee Hansard*, 20 November 2008, p. 29.

79 Australian Government, AusAID, Annual Report 2007-2008, p. 59.

Creating a stable environment

16.45 In many ways political stability and law and order stem from communities free from the burden of poverty, food shortages and unemployment and that have good effective government. The committee has already considered the work that Australia is doing in the region to assist Pacific island countries with food security, natural disasters, employment, economic growth and governance. All of these activities go towards creating an environment less tolerant of corruption and more likely to promote political stability and law and order.

16.46 The Pacific Islands Forum Regional Security Committee recognised the connection between corruption and 'increasing crime and transnational criminal activity'. It stated, 'poor governance and corruption contribute to the entrenchment of transnational criminal groups.' It suggested that to be properly effective, 'we need to look at a more coordinated "whole of law enforcement" response'.⁸⁰ This matter will be considered in greater depth in the second volume of this report which covers security.

16.47 In the following chapter, the committee considers land tenure and access to finance as the final challenges facing Pacific island countries in developing their economies.

80 Pacific Islands Forum Secretariat, Opening Address by Mr Tuiloma Neroni Slade, Secretary General, Pacific Islands Forum Secretariat, Forum Regional Security Committee Meeting, 4–5 June 2009.

Chapter 17

Land tenure and access to finance

17.1 More than 80 per cent of the total land area in the Pacific region is under a complex and diverse system of customary land tenure.¹ Access to this land is an important factor in economic development in Pacific island countries and a major consideration for investors. In this chapter, the committee considers land ownership and its implication for economic development and investment. It also considers access to finance.

Land ownership—obstacles to development

17.2 A number of witnesses suggested that the complex and sensitive nature of land tenure arrangements in the region was an obstacle to economic development and argued that to achieve economic reform, changes were needed.² They identified buying and selling customary land and establishing legal title as the main difficulties.³ For example, Mr Garry Tunstall, ANZ, informed the committee that it would be preferable to have a land title system that worked where land could be bought and sold. He explained

...if you want to borrow money and undertake investment by borrowing money then a financial institution is unlikely to lend that money on custom land.⁴

17.3 The Centre for Independent Studies noted that land surveys, registration and enforcement of private property rights need to be established in the Pacific.⁵ Ms Hayward-Jones suggested that some kind of consensus on how land is to be used, who owns the product being sold and what can be built on the land is important.⁶ She agreed with the view that the issue of land tenure is critical for private sector

1 AusAID, *Making Land Work: Reconciling customary land and development in the Pacific*, vol 1, 2008, p. 3.

2 See for example, Ms Hayward-Jones, *Committee Hansard*, 24 March 2009, p. 21; Professor Hughes, *Committee Hansard*, 24 March 2009, pp. 32–33; Dr Patricia Ranald, *Committee Hansard*, 25 March 2008, p. 12; Mr Clarke, Australia Papua New Guinea Business Council, *Committee Hansard*, 25 March 2008, pp. 53–54; Mr Anderson, Australia Fiji Business Council, *Committee Hansard*, 25 March 2009, p. 68; *Submission 11*, p. 3.

3 *Submission 51*, p. 7. ANZ was of the view that the problems arising from current land ownership arrangements not only dampen the incentive to invest in long term agricultural projects but delay infrastructure projects and make financing decisions regarding major projects difficult.

4 *Committee Hansard*, 24 March 2009, p. 63. Mr Ian Clarke told the committee that if someone were going to build a major hotel, no-one would lend them the money to build it on customary land—'You do need a secure title'. *Committee Hansard*, 25 March 2009, p. 67.

5 *Submission 11*, p. 3.

6 *Committee Hansard*, 24 March 2009, p. 21.

development and needs to be resolved. She noted that if agriculture is to be encouraged then land tenure, particularly in Melanesia, 'needs to be sorted out'.⁷

17.4 The issue of land tenure affects many sectors of the economy. Mr Frank Youn, Australia Papua New Guinea Business Council, informed the committee that sometimes land tenure issues produce difficulties with the development of national infrastructure, such as telecommunications, roads and bridges. He noted that a telecommunications company would have to engage in complicated negotiations with landowners to secure a site for a transmission tower.⁸ A number of witnesses referred to land ownership, particularly disputes over land tenure, as possible impediments to mining activity.⁹

17.5 Despite these identified problems, a number of witnesses informed the committee that Pacific island countries have arrangements that attempt to address the issue of land tenure. Larger projects, including agricultural ones, are often in a better position to look after their own interests. For instance, New Britain Palm Oil has a successful palm oil plantation in West New Britain with 7,000 employees and also 7,000 private out growers. The larger plantation is on leasehold land which allows the operator to plant palm oil. On the other hand, the out growers, who work on land they own under custom rights, sell palm nuts to the plantation for which they receive income.¹⁰

17.6 ANZ cited the mining industry as a sector that 'has demonstrated that sensitive land ownership issues can be managed'. Furthermore, it noted that the sector's approach to handling land ownership issues could be replicated across other parts of the economy.¹¹ For example, Mr Graham, Esso, explained that his company in PNG does not necessarily own the land but acquires access to it. This means that for the pipeline route, the company does not purchase a strip of land but has access to that land. The LNG plant itself, however, is different. He maintained that 'if you are going to spend \$6 billion on a plot of land, you want certainty about title and access to it'.¹²

17.7 Mr Clarke also referred to land ownership arrangements under the Oil and Gas Act in PNG which enable a developer to secure a title from the state through a mining or a prospecting lease of some sort. Nonetheless, he pointed out that much preparatory work is required before a title is granted, including holding a forum, producing a detailed social map and determining customary boundaries. While he was of the view that some good models of arrangements with customary landowners were working under the legislation in PNG, he noted failings in the bureaucracy.¹³ He

7 *Committee Hansard*, 24 March 2009, p. 21.

8 *Committee Hansard* 25 March 2009, p. 68.

9 See for example Mr Hodgson, *Committee Hansard*, 25 March 2009, p. 69.

10 *Committee Hansard*, 24 March 2009, pp. 58 and 63.

11 *Submission 51*, p. 7.

12 *Committee Hansard*, 26 March 2009, p. 50.

13 *Committee Hansard*, 25 March 2009, pp. 54, 67 and 70.

explained that because of a lack of funding and of execution, the framework was 'just not working'.¹⁴

17.8 Fiji has also established a legislative framework for managing access by foreign investors to traditional owned land. The Australia Fiji Business Council noted:

Fiji has done better than most countries through the establishment of its Native Land Trust Board which manages the relationship between landowners and tenants, and generally provides an effective mechanism to enable land to be utilised for economic purposes of benefit to both the landowner and the land user.¹⁵

17.9 Under the framework, investors apply to the Native Lands Trust Board which acts like an agency for the landowners and takes a commission. Mr Yourn indicated, however, that:

It is a hefty commission and they are not always as efficient as they might be, but at least there is a framework and a structure there for managing access to land. You still have to have a relationship with the landowners and you need to nurture that relationship and keep it going for the whole life of whatever it is your business is on that land...¹⁶

17.10 Mr Anderson, President of the Council, informed the committee of resorts that have been built and operate in Fiji and where, in many cases, landowners have become the recipients of the goodwill of that hotel. In this regard, both Mr Clarke and Mr Yourn suggested that land ownership in Pacific island countries is generally an issue to be managed and not to prevent business.¹⁷ Mr Clarke said:

The issue is also making sure that you have got, and you can work with, the customary owners. If you cannot get on with the customary owners then a government title is not going to fix it.¹⁸

17.11 Despite the various arrangements in place to deal with land ownership difficulties, some witnesses contended that land tenure in Pacific island countries is still a problem and remains a contentious matter. Some argued that it is not going to change. A recent AusAID publication noted that governments in the region have 'tended to avoid interfering with customary tenure systems, in terms of how they allocate rights, manage the land and keep records'.¹⁹ In stronger terms, Professor Moore told the committee that, at the moment, the problem was 'intractable' and would be so for 'a generation or more'.²⁰

14 *Committee Hansard*, 25 March 2009, p. 70.

15 *Submission 58*, p. 10.

16 *Committee Hansard*, 25 March 2009, p. 68.

17 *Committee Hansard*, 25 March 2009, p. 68.

18 *Committee Hansard*, 25 March 2009, p. 67.

19 AusAID, *Making Land Work: Reconciling customary land and development in the Pacific*, vol 1, 2008, p. 4.

20 *Committee Hansard*, 26 March 2009, p. 9.

17.12 Ms Hayward-Jones was of the view that the issue of land tenure was critical. She indicated that there had been calls in a number of countries in the Pacific for help on land ownership matters. In her opinion, this was an area where external assistance might help because Pacific island countries feel they cannot reform it themselves due to the indigenous politics around it.²¹

17.13 A number of witnesses, including the Australia Pacific Islands Business Council and the Australia Fiji Business Council, suggested it was important for individual Pacific island countries to own the solution and for it not to be imposed externally.²² Dr Patricia Ranald, Australian Fair Trade and Investment Network, made a similar observation. While recognising the importance of land tenure reform, she stated that it should 'take place in each country according to the needs of that country'—it should not be a one-size-fits-all process and should be developed in consultation with the people involved.²³ The Prime Minister of the Kingdom of Tonga underlined this point. He noted that land tenure 'is one of the most delicate, difficult subjects in all Pacific island countries':

Given the vast diversity of land tenure systems throughout the region, it is definitely...one of a national, local, domestic character, and one best dealt with by each country within its own borders and within its own culture and traditions.²⁴

17.14 The capacity of customary landowners to engage in land tenure arrangements is also an important consideration. In its publication, *Making Land Work*, AusAID referred to customary land practices in Vanuatu. It noted that foreign investors 'are making deals with landowners that are very much in the investors' favour'. It found that 'landowners are discovering that the terms and conditions they agreed to are inadequate, or that they were not fully informed about the implications of these terms and conditions'.²⁵ AID/WATCH also referred to the residential and commercial developments in Vanuatu that 'rarely benefit local people, preventing them access to traditional lands and at times result in difficulties securing back their land when lease terms have expired'. In its assessment, while the new land laws implemented by the

21 *Committee Hansard*, 24 March 2009, p. 21. Mr Noakes suggested that traditional society resource ownership issues, which are fundamental to island nations' character and society, can be understood and worked through. He believed that some benefit was to be gained 'in foreign investors from countries such as Australia being given some assistance in developing an understanding of traditional practices and local authority structures and loyalties, land ownership and land use'. *Committee Hansard*, 26 March 2009, p. 55.

22 *Submission 16*, p. 1; *Submission 60*, p. 8; *Submission 58*, p. 10; *Committee Hansard*, 25 March 2009, p. 70.

23 *Committee Hansard*, 25 March 2009, p. 12.

24 Speech by the Outgoing Chair of the Pacific Islands Forum, Honourable Dr Feleti Vaka'uta Sevele, Prime Minister of the Kingdom of Tonga, at the opening of the 39th Pacific Islands Forum, <http://www.forumsec.org.fj/pages.cfm/newsroom/speeches/2008-1/speech-by-outgoing-forum-chair-opening-of-39th-pif-niue.html> (accessed 30 September 2008).

25 AusAID, *Making Land Work: Reconciling customary land and development in the Pacific*, vol 1, 2008, pp. 48 and vii.

government in Vanuatu were able to contribute to the cash economy, they have 'gradually marginalised the local indigenous population'.²⁶ On this matter, the Prime Minister of Vanuatu recently voiced his concern about his people being taken advantage of in making such arrangements.²⁷

17.15 The committee has mentioned in a number of different contexts the lack of capacity in Pacific island countries to negotiate agreements with better-resourced countries. In some cases, this same weakness appears relevant to customary landowners when it comes to negotiating leasing arrangements.

Australia's assistance

17.16 While referring to the importance of land reform to economic development in Pacific island countries, some witnesses recognised the difficulties and sensitivities surrounding the issue. With regard to Australian assistance in this area, AID/WATCH noted that 'Any Australian government involvement with changes to land ownership systems in the Pacific needs to be carefully considered'.²⁸

17.17 The Australian Government acknowledges that land policy in the Pacific is a complex and sensitive issue which must be driven and shaped by Pacific governments and communities and not by donor countries.²⁹ It has allocated \$54 million over four years to a Pacific Land Program. The program aims to strengthen land systems to enable greater levels of social and economic development and reduce the potential for instability due to land-related conflict'.³⁰ The Parliamentary Secretary for International Development Assistance, the Hon Mr Bob McMullan MP, told a Pacific Land Conference that Australia would:

...support partner government initiatives that seek to strengthen land departments, and that seek to find new ways of making customary land work for customary owners and the national welfare, while maintaining the integrity of traditional tenure.³¹

26 *Submission 16*, p. 1.

27 ABC, 'Foreign investors exploit cheap Vanuatu land', *The 7:30 Report*, transcript <http://www.abc.net.au/7.30/content/2009/s2547853.htm> (accessed 1 July 2009).

28 *Submission 16*, p. 1; *Submission 60*, p. 8.

29 AusAID, *Making Land Work: Reconciling customary land and development in the Pacific*, vol 1, 2008, p. vii.

30 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2008-09: Australia's International Development Assistance Program*, 13 May 2008, p. 27; and AusAID, *Submission 65*, p. 14.

31 The Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, 'Launching of Making Land Work—Pacific Land Conference', Media release, 12 June 2008, http://www.ausaid.gov.au/media/release.cfm?BC=Speech&ID=2528_8235_2115_7707_4349 (accessed 21 April 2009).

17.18 He stressed that host countries would take the lead and Australia's role would be 'confined to that of supporting these initiatives'.³² In this context, he explained that Australia would provide:

- assistance for the framing of stronger legislation on tenure security and mechanisms for informed consent for customary owners involved in land negotiations;
- support to improve systems to resolve disputes;
- training for land professionals and semi-professionals in areas such as surveying, land use planning, valuing, real estate and the law; and
- on a regional level, help to countries wanting to respond to the challenges and opportunities associated with rapid urbanisation.³³

17.19 With this in mind, AusAID produced a comprehensive publication, *Making Land Work*, as 'an information source for countries wanting to undertake, or who are already undertaking, land policy reform'.³⁴

17.20 In the previous section, the committee mentioned concerns about the capacity of customary landowners to negotiate land tenure arrangements and cited experiences in Vanuatu. In this regard, the committee notes Mr McMullan's assurances that Australia would provide assistance for developing mechanisms around 'informed consent of customary landowners in negotiations with investors and developers'.³⁵

17.21 A number of witnesses commended the government's approach to land reform in Pacific island countries. AID/WATCH and the Australian Agency for International Development (ACFID) referred to the statements by Mr McMullan as a positive indication of Australia's intention to 'listen to Pacific community voices' and adhere to two fundamental principles:

32 The Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, 'Launching of Making Land Work—Pacific Land Conference', Media release, 12 June 2008, http://www.ausaid.gov.au/media/release.cfm?BC=Speech&ID=2528_8235_2115_7707_4349 (accessed 21 April 2009).

33 The Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, 'Launching of Making Land Work—Pacific Land Conference', Media release, 12 June 2008, http://www.ausaid.gov.au/media/release.cfm?BC=Speech&ID=2528_8235_2115_7707_4349 (accessed 21 April 2009).

34 The Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, 'Launching of Making Land Work—Pacific Land Conference', Media release, 12 June 2008, http://www.ausaid.gov.au/media/release.cfm?BC=Speech&ID=2528_8235_2115_7707_4349 (accessed 21 April 2009).

35 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2008-09: Australia's International Development Assistance Program*, 13 May 2008, p. 27.

- Australia will only support reforms that recognise the continuing importance of customary tenure; and
- land policy reform must be driven by Pacific island governments and communities, not by donors.³⁶

17.22 Ms Hayward-Jones acknowledged the work undertaken recently by AusAID on land tenure as 'fairly well received'.³⁷ She indicated that exploring options and ideas on ways to manage land ownership issues through education, debate and workshops would be one way of offering assistance.³⁸ The Australia Fiji Business Council noted that generally AusAID's contribution on possible reforms to enable better economic usage of land was 'very worthwhile'. According to the Council, this work in time may lead 'to a more stable and predictable environment for all parties', but it needs 'to continue in partnership with Pacific stakeholders'.³⁹

17.23 Some witnesses were either critical of Australian assistance or more definite in identifying areas where Australia could contribute to land reform. Professor Hughes argued:

We have not put in the intellectual resources to try to persuade people that land tenure is important. We have not put in the aid sources for cadastral surveys so that villages would know what land is theirs to divide. We have not supplied the aid for that. In Fiji, it exists. But in most other islands it does not, and it certainly does not exist in Papua New Guinea. We have failed to do our part in the land problem.⁴⁰

17.24 Professor Moore suggested that Australia should be putting more effort into advising Pacific island countries on 'how to deal with customary land tenure'.⁴¹ The Centre for Independent Studies noted that land surveys would be 'an ideal task for Australian aid since they are financially and technically demanding'.⁴² According to ANZ:

Australia could consider providing assistance to help PNG (and other Pacific Island states) develop arbitration and mediation procedures for land disputes which would make the administration of land law more efficient.⁴³

17.25 Mr Hodgson, Australia Pacific Islands Business Council, liked the idea of an arbitration structure because, 'it brings a degree of formality to the quite casual way in which Solomon Islands matters are dealt with'. He was unsure about whether the

36 *Submission 16*, p. 1.

37 *Committee Hansard*, 24 March 2009, p. 21.

38 *Committee Hansard*, 24 March 2009, p. 21.

39 *Submission 58*, p. 10.

40 *Committee Hansard*, 24 March 2009, p. 27.

41 *Committee Hansard*, 26 March 2009, p. 10.

42 *Submission 11*, p. 3.

43 *Submission 51*, p. 7.

government would think that Australia was interfering. He said that if it were 'handled well and diplomatically they may well see it as something that is helpful'. He concluded:

I do not think anywhere near enough time has been devoted towards trying to work out a way in which customary land can be used as an asset to borrow against, lease or do what you like with it. I do not think enough time has been spent in that thinking process'.⁴⁴

17.26 Mr Noakes believed that there could be some value in providing assistance to foreign investors from countries such as Australia to develop 'an understanding of traditional practices and local authority structures and loyalties, land ownership and land use'.⁴⁵

Summary

17.27 The committee recognises the work that Australia is doing in the area of land tenure. Clearly, while some witnesses acknowledged Australia's assistance with land tenure reform in the region as 'well received or worthwhile', some saw room for an improved role for Australia in this area.

Access to credit and financial services

17.28 Many businesses, especially the local small to medium enterprises, need access to credit to start up or expand their business. The willingness to lend money for commercial undertakings in Pacific island countries depends on a risk assessment that takes account of many factors such as likely economic prospects, the quality of economic infrastructure, service delivery, the regulatory environment, political stability, law and order and land ownership.

17.29 Unfortunately, because of deficiencies in these areas, many Pacific island countries are deemed to be difficult places to do business, which makes lenders reluctant to finance enterprises. For example, Qantas noted that given the weakness of aviation and related infrastructure in many parts of the region, investors are unwilling to commit funds for construction of hotels and other tourist plant.⁴⁶ The Pacific Islands Forum Secretariat drew a similar conclusion about the uncertain financial environment in Pacific island countries that requires commercial banks to protect their interests by imposing loan conditions that severely limit opportunities for investors to access finance.⁴⁷

17.30 The small populations in Pacific island countries with a high proportion of people working in the subsistence economy also limits access to finance. But even those in the SME sector of the largest Pacific island countries have problems obtaining credit. Mr Clarke noted that PNG does not have a 'significant middle

44 *Committee Hansard*, 25 March 2009, p. 70.

45 *Committee Hansard*, 26 March 2009, p. 55.

46 *Submission 41*, p. 5.

47 *Submission 69*, p. 10.

class'—it 'tends to be at a subsistence level or at a very small scale' and without access to credit.⁴⁸ He said, 'Some of those companies will not quite fall within the minimum criteria to attract commercial bank loans, and so there is a dearth of equity capital—SME start-up capital'.⁴⁹

17.31 Microfinance, which offers a full range of financial services to the poor including savings, loans, insurance and money transfer services, is one way of overcoming the disadvantages now experienced by many people living in the region. The Foundation for Development Cooperation noted that the number of microfinance programs had increased in Pacific island countries in recent years. It informed the committee, however, that most of the schemes had not been successful due to their limited outreach and poor access to financial services, particularly for the most disadvantaged living in rural areas. In its view, microfinance programs in the region 'should provide business and technical training for their clients, or coordinate their activities with other programs that provide such training'.⁵⁰ A UNDP study found that only around 20 per cent of the population of Kiribati, Tuvalu, Samoa, Solomon Islands and Vanuatu had access to financial services.⁵¹

17.32 AusAID acknowledged that access to finance was a problem for parts of economies of Pacific island countries but agreed with the observation that the difficulty was more with access to financial services. Dr Lake explained:

In many parts of the Pacific, when people are moving from subsistence agriculture into the marginal cash economy, they save for school fees, health costs and things like that. What they want is financial services, in which case they can put the money in to save and then take it out when they need it. Microfinance can be an important part of a broader package of financial services, and people usually want the financial services.⁵²

17.33 In her view, the financial services sector in the region was 'pretty thin and narrow'. Importantly, she identified transport and communication networks as a means of enhancing and expanding this service. For example, she cited improved road services in Malaita where vans are now travelling out to rural areas offering banking services, and the use of mobile phones to transfer money around the country.⁵³

48 *Committee Hansard*, 25 March 2009, p. 65.

49 *Committee Hansard*, 25 March 2009, p. 64.

50 *Submission 53*, p. 15.

51 Mark W. Flaming and Stuart Mathison, *Financial Services Sector Assessment: Kiribati, Tuvalu, Samoa, Solomon Islands, Vanuatu*, Prepared for the United National Development Programme and the United Nations Capital Development Fund, May 2007, p. ii.

52 *Committee Hansard*, 19 June 2009, p. 61.

53 *Committee Hansard*, 19 June 2009, p. 62.

Telecommunications technology, in particular, is opening up new opportunities to extend financial services to the 'unbanked'.⁵⁴

Committee view

17.34 Many Pacific Islanders suffer economically from poor access to financial services. The committee recognises that microfinance offers great potential to extend the reach of these services to the many currently excluded from them. It also notes that success in extending the frontiers of financial services also depends on improvements in roads and ICT services.

Australia's assistance

17.35 In previous chapters, the committee has noted the contribution that Australia is making to assist Pacific island countries create a secure and friendly business environment. All these measures designed to improve economic infrastructure, the delivery of essential services and overall governance will also make the business environment in Pacific island countries more attractive to lending institutions. Nonetheless, access to credit and to financial services remains a major impediment to business.

17.36 Information contained on AusAID's website states that Australia will provide \$20.5 million over six years to pilot an Enterprise Challenge Fund (ECF) for the Pacific and South-East Asia to stimulate economic growth. The fund provides an opportunity for private-sector businesses to participate in open competition for matching grants to finance commercially viable business projects. It also intends to ensure that the poor are included in the benefits and opportunities provided by growth. Through open competition, the fund would award grants of \$100,000 to \$1.5 million to 'business projects with pro-poor outcomes and that cannot obtain financing from commercial source'. According to AusAID:

At least 50 per cent of the project costs must be met by the partner business, and all projects must be commercially self-sustaining within three years.⁵⁵

17.37 AusAID recently announced details of its first two successful grantees. One of them, Nature's Way Cooperative (Fiji) Ltd, an expansion of a fruit quarantine facility, was awarded \$263,000. This contribution will enable the cooperative to expand its fruit exports to improve the livelihoods of approximately 1,200 rural people in Western Viti Levu.⁵⁶

54 Mark W. Flaming and Stuart Mathison, *Financial Services Sector Assessment: Kiribati, Tuvalu, Samoa, Solomon Islands, Vanuatu*, Prepared for the United National Development Programme and the United Nations Capital Development Fund, May 2007, p. v.

55 AusAID, http://www.ausaid.gov.au/business/other_opps/ecf.cfm (accessed 2 May 2009).

56 AusAID, http://www.ausaid.gov.au/business/other_opps/ecf.cfm (accessed 2 May 2009).



Nature's Way Cooperative in Fiji, funded by AusAID's Enterprise Challenge Fund, aims to improve marketing services for the Fiji fruit and vegetable export industry and expand quarantine treatment facilities (image courtesy of Coffey International Development).

17.38 The three Business Councils recognised the fund as a step in the right direction. They noted, however, that the major drawback with the fund was that a successful applicant was required 'to be in position to put up \$100,000 in equity or kind towards the project being funded. In its assessment, there would be cases where good business proposals will fail to qualify for the ECF grant due to this requirement'.⁵⁷

17.39 Mr Noakes also referred to the ECF but noted that 'only two of the first 30-odd applications got across the line'. In his opinion, something must be wrong with the mechanism 'when some very good applications which could have had a lot of benefit in communities just did not get up'. He believed that AusAID was still coming to terms 'with mechanisms to help stimulate and assist the private sector' and had 'not quite got there yet'.⁵⁸

17.40 The committee notes this criticism of the Enterprise Challenge Fund. It also notes the evidence that the availability of financial services is a major constraint for Pacific islanders.

57 *Submission 58*, p. 6; *Submission 60*, p. 4; *Submission 70*, p. 4.

58 *Committee Hansard*, 26 March 2009, p. 58.

17.41 In his 2009–10 Budget Statement, the Minister for Foreign Affairs announced that Australia would facilitate economic growth through expanded support for microfinance activities in both urban and rural areas. According to the minister, new assistance would include increasing support activities in the Pacific and PNG drawing on partnerships with NGOs, regional network organisations and the private sector. No mention was made of specific programs or activities or of the partnerships with NGOs and the private sector. The Pacific Partnerships for Development are also intended to be a mechanism whereby private sector development would be enhanced through better access to microfinance.⁵⁹ Currently, however, they shed no light on activities that are intended to achieve this objective.

17.42 Concerned about the lack of detail on the type of assistance Australia is providing in the area of microfinance, the committee wrote to AusAID seeking more information. AusAID informed the committee that activities currently and previously funded by Australia included the provision of enterprise development and financial literacy training across a number of Pacific island countries and expanding banking services to remote areas in the Pacific through mobile banking.⁶⁰

17.43 ANZ informed the committee of its work to raise the level of financial literacy and to provide financial services to those currently out of reach of the traditional banking system. It runs a program called 'Banking the un-banked' in the region which:

...delivers basic, affordable and reliable banking services to remote and disadvantaged communities in the region, in partnership with the United Nations Development Programme (UNDP), to provide financial literacy education.⁶¹

17.44 It reported that since launching the program in October 2004, 75,000 previously unbanked rural people in a number of Pacific countries have opened savings accounts. ANZ also offers micro-loans to regular savers and explained that a micro-loan of \$100 'can start a small business which in turn can lead to increased income and better living conditions'.⁶² It noted further:

Developing infrastructure in Pacific economies so communities have access to a range of financial products and services is important to the communities in which they are offered as well as the economy more broadly. However, efforts in this area will have a better chance of succeeding if individuals and communities are provided with the financial education needed to understand both the benefits and downsides of easier access to financial services.⁶³

59 AusAID, *Port Moresby Declaration*, <http://www.ausaid.gov.au/country/PortMorDec.cfm> (accessed 2 May 2009).

60 AusAID, answer to written question on notice no. 7, following public hearing 19 June 2009.

61 *Submission 51*, p. 2.

62 *Submission 51*, p. 2.

63 *Submission 51*, p. 6.



The ANZ Bank has established mobile banking services in Fiji. The services are popular in remote and rural Pacific island communities (image courtesy of Islands Business, published with ANZ's approval).

17.45 ANZ cited its work to improve financial literacy in the region as an area in which it could work with the Australian Government to deliver improved social and economic outcomes in the Pacific.⁶⁴

Committee view

17.46 The committee notes the establishment of the Enterprise Challenge Fund and the criticism about its limited application. It also recognises that access to financial services is a major constraint to economic development in Pacific island countries. Apart from general references to Australia's support for microfinance, the committee has little evidence that this aspect of Australia's assistance forms part of a coherent assistance framework. The committee believes that there is much scope for the Australian Government to improve its contribution to microfinance in Pacific island countries. The committee, however, acknowledges and commends the work that ANZ is doing in the region to provide financial services and improve financial literacy.

64 *Submission 51*, p. 6.

Recommendation 13

17.47 The committee recommends that the Australian Government establish a strategic framework that encourages the private sector to get involved in providing microfinance and other financial services in the Pacific island countries.

17.48 In the following part of this report, the committee brings together the evidence presented so far to consider the effectiveness of Australia's assistance and how Australia could do better to help Pacific island countries achieve economic growth and sustainable development.

Part III

Effectiveness of Australia's assistance to the region

Despite the large amount of development assistance flowing into the region, Pacific island countries remain economically underdeveloped with many of their people in poverty. Indeed, a number of reviews, studies and conferences have contrasted the amount of assistance that Pacific island countries receive with their lack of progress in lifting economic performance and improving overall living standards.⁶⁵ For example, the United Nations Development Assistance Framework for the Pacific Subregion stated that although aid per capita exceeds that of any other region, it has 'not translated into uniform human development gains'.⁶⁶ Indeed, Forum Leaders at their August 2009 meeting stated clearly their 'deep concern that despite continued high levels of development assistance over many years, the Pacific region remains off track to achieve the Millennium Development Goals'.⁶⁷ Such observations raise questions about the effectiveness of aid to the region. In this context, the committee considers how well Australia's engagement in the region assists Pacific island countries to meet their economic challenges.

65 A 2008 study published by the Asian Development Bank found that after 50 years of aid in the Pacific region, 'overall results in terms of sustainable improvements in capacity have been mixed, at best', Paulina Siop, 'Pacific Choice: from Dependency to Sustainability: A Case Study on the Economic Capacity Development of the Ok Tedi Mine-area Community', *Capacity Development Series*, Asian Development Bank, 2008, p. v.

66 United Nations Development System, *United Nations Development Assistance Framework for the Pacific Subregion, 2008–2012*, May 2007, p. 9.

67 *Forum Communiqué*, Fortieth Pacific Islands Forum, Cairns, Australia, 5–6 August 2009, PIFS(09)12, Annex B, p. 14.

Chapter 18

Effectiveness of Australian aid—policy framework

18.1 Australia's aid program in the region is extensive. Work is being done, for example, in agriculture, fisheries, forestry, mining, managing natural disasters, climate change, economic infrastructure, education, health, financial management, governance, law and order, land tenure and financial services. Across the range of these sectors, Australian funding is being used for research and development, for building and improving infrastructure, and to provide advice, training, education and technical assistance. The committee acknowledges the individual efforts of agencies and departments that are making a valuable contribution to assisting Pacific island countries develop their economies and improve the wellbeing of their people. In this chapter, the committee's main focus is on the policy framework within which they provide such assistance and the extent to which their activities contribute to a whole-of-government effort.

Australian official development assistance to the Pacific

18.2 Australia is the main source of aid to the Pacific and the top donor of gross official development assistance (ODA) to Fiji, Nauru, PNG, Solomon Islands, Tonga and Vanuatu.¹ Currently, just under one third of Australia's total ODA goes to PNG and the Pacific.² In 2008–09, \$999.5 million was allocated specifically to PNG and the Pacific region, which rose to \$1,090.9 million for 2009–10. Based on 2007–08 figures, governance (46 per cent) received the largest proportion, followed by health (13.9 per cent), infrastructure (13.4 per cent) and education (12 per cent). Interestingly, these proportions changed for 2008–09 with governance still commanding a large share of total ODA for the region with 52.9 per cent, followed by health (14 per cent), education (13.3 per cent) and infrastructure which had fallen to 6.4 per cent.³

18.3 Australia's ODA has been increasing recently and funding for the region is likely to grow in line with this trend.⁴ The committee notes, however, that while increased aid flows to the region are welcomed, the quality and effectiveness of that aid is a major consideration.

1 Statistics taken from OECD website, <http://www.oecd.org/dataoecd/42/31/40040098.gif> (accessed 13 October 2008).

2 The Australian Government allocated an estimated \$3,818 million in ODA for 2009–10.

3 Based on figures taken from Table 18.1.

4 Australia's total ODA rose from 0.33 per cent to 0.34 per cent for 2009–10 and is anticipated to increase further to 0.4 of GNI by 2012–13 to 0.5 per cent by 2015–16. See also the Hon Alexander Downer MP, Minister for Foreign Affairs, *Australia's Overseas Aid Program 2007–08*, 8 May 2007, p. 6.

Table 18.1: Australian ODA to PNG and the Pacific by key sector in A\$m⁵

Key sector	ODA 2007–08	ODA 2008–09
Education	102.6	131.9
Environment and Natural Resource Management	13.5	21.4
Governance	395.3	524.8
Health	118.1	138.8
Humanitarian, Emergency and Refugee Aid	9.5	10.5
Infrastructure	114.3	63.8
Rural Development	22.8	53.1
Other	74.7	48.5
Total	850.8	992.8

Table 18.2: Australian ODA by partner countries in the Pacific⁶

Country/Region	Actual (\$m) 2007–08	Budget Estimate (\$m) 2008–09	Estimated Outcome (\$m) 2008–09	Budget Estimate (\$m) 2009–10
PNG	374.0	389.4	400.3	414.3
Solomon Islands	237.5	236.4	245.0	246.2
Vanuatu	41.0	51.8	53.6	56.3
Fiji	34.8	26.9	37.9	35.4
Tonga	18.2	19.3	19.4	21.3
Samoa	18.4	28.3	31.8	32.4
Kiribati	8.7	18.4	16.0	17.7
Tuvalu	6.5	6.3	7.4	7.5
Nauru	28.4	26.6	26.1	23.4
Micronesia	4.7	6.5	7.1	7.7
Cook Islands	4.1	5.1	4.1	3.1
Niue and Tokelau	2.7	2.7	3.0	3.1
Regional and other Pacific	84.0	181.9	140.9	222.5
PNG and Pacific	862.9	999.5	992.8	1,090.9

5 Answers to question on notice no. 1 following public hearing 12 March 2009 and no. 2 following public hearing 19 June 2009.

6 The Hon Stephen Smith MP, Minister for Foreign Affairs, and the Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *Budget Statement 2009-10: Australia's International Development Assistance Program*, 12 May 2009, p. 17.

Priorities

18.4 Some witnesses to this inquiry questioned how effectively Australian aid is directed and delivered.⁷ For example, Professor Clive Moore told the committee that he has often regarded some areas of Australia's development assistance to the Pacific as 'not very well spent'.⁸ Both he and Mr Keith Jackson, President, PNG Association of Australia, were of the view that much of what Australia does 'is admirable but piecemeal'. They suggested that often Australia's assistance to Pacific island countries is 'a reaction to specific political, social and economic circumstances' and there 'is a need for an embracing strategy and long-term re-conceptualisation'. According to them:

The Regional Assistance Mission to the Solomon Islands [RAMSI] is a good example where Australian involvement was necessary but, after five years, with initial stabilisation accomplished, there seems to be no clear direction, signs of policy drift and feelings of disengagement by Solomon Islands leaders.⁹

18.5 In their view, this situation is 'symptomatic of the lack of a more comprehensive strategy that would represent a shared future vision of how Australia and the Solomon Islands might better work together on shaping and implementing effective policy responses to development issues'.¹⁰ They referred to the importance of a 'strategic integration of effort'.¹¹

18.6 The committee has identified the many areas where Pacific island countries could, and do, benefit from Australian assistance. But setting priorities from among the numerous competing needs is a significant task for the Australian Government. Indeed, the OECD peer review of Australia's development assistance praised AusAID as a 'highly dynamic organisation working in an increasing number of sectors and trying to be responsive to the needs of partner governments'.¹² It noted, however:

The downside of this positive attitude may be an attempt to do too much, leading to a loss of focus and/or dissipation of energy, thereby ultimately weakening impact.¹³

7 Mr Satish Chand argued that to date the focus had been on increasing inputs—funding teachers, school buildings, road, etc—with the assumption that this would lead to increased outputs and improved developmental outcomes, see *Submission 2*. Professor Helen Hughes and Mr Gaurav Sodhi formed the view that while the Pacific Islands had received high aid flows, the principal effect of aid had been to avoid the adoption of policies necessary for growth. *Submission 11*, attachment, p. 3.

8 *Committee Hansard*, 26 March 2009, p. 3.

9 *Submission 3*, p. 3.

10 *Submission 3*, p. 3.

11 *Submission 3*, p. 3.

12 OECD Development Assistance Committee, *2008 Peer Review of Australia*, p. 14.

13 OECD Development Assistance Committee, *2008 Peer Review of Australia*, p. 14.

18.7 Thus, one of the major challenges for the Australian Government is to set a policy framework that provides clear focus: that enables it to target its aid into areas that are likely to provide the best means for Pacific island countries to achieve positive long-term economic and human development.

Formal versus informal sector

18.8 An indication that the current policy framework is not providing that sure direction comes from the numerous concerns raised about Australian aid not reaching those most in need. Moreover, that one of the key building blocks for economic growth and human development—basic education—was missing out. In this regard, it should be noted that the Australian Prime Minister recently referred to problems in the historical delivery of aid into PNG. He noted that too much money had been consumed by consultants with not enough going to the delivery of essential services, such as teaching, infrastructure and health, on the ground in villages across the country.¹⁴

18.9 Professor Hughes was of the view that the privileged had absorbed most of the aid; while those in the rural areas had 'seen none of that aid'.¹⁵ She said:

...we have encouraged resource development that has all gone to a small group of elites. Nauru is the worst example—there are 10,000 Nauruans, and a small group blew \$2 billion. We have not encouraged literacy. We have not encouraged education. All our inputs into schooling have been counterproductive, because there is no basic literacy and numeracy in the Pacific.¹⁶

18.10 She and Mr Sodhi suggested that Australian aid devoted to promoting good governance had 'not resulted in better government outputs despite higher inputs'. They noted the importance of education to improving both economic and political outcomes, and further that democratic government is likely to be more successful in countries where citizens can read, write and understand policy.¹⁷

18.11 Ms Hayward-Jones was concerned that continuing emphasis on good governance, which essentially is public sector spending, would mean that, in 10 years time, the same number of people would be living in poverty and with no improvement in health and education statistics. She explained further that education, 'the engine of the country', is an area Australia has ignored while focusing on the top end—the elite.¹⁸ She said:

14 Prime Minister of Australia, Interview, Joint Conference with the Right Honourable Grand Chief Sir Michael Somare, Prime Minister of Papua New Guinea, Parliament House, 28 April 2009.

15 *Committee Hansard*, 24 March 2009, p. 24.

16 *Committee Hansard*, 24 March 2009, p. 27.

17 *Submission 11*, pp. 2–3.

18 *Committee Hansard*, 24 March 2009, p. 15.

In Papua New Guinea, the Solomon Islands and Vanuatu, 80 per cent of the population has almost no contact with the capital and sometimes no contact with the services the capital supposedly delivers yet we spend the vast majority of our aid program on building public sector capacity. My concern with that balance is that we are leaving a lot of people behind and we are not helping the development of a private sector or the development of a community sector and we are expecting public sector capacity to trickle down over time, which technically should happen. There is no evidence to date, particularly in Melanesia, that that has happened...Where are they going to come from if we are not seeing even a majority of Papua New Guineans finishing primary school?¹⁹

18.12 Mr John Millet referred to PNG's low ranking on the human development scale and asked:

...would universal primary education be a distant dream still for too many of the two million children under 15 years of age, if the tertiary sector didn't absorb more than half the education budget?²⁰

18.13 Dr Max Quanchi used Fiji to illustrate what he believed was the failure of the government's aid program to achieve better results. He observed:

All our money is in Suva for infrastructure development, going into government departments and governance building. Out in the villages, people are getting water tanks from Japan and Canadian medical clinics. We are not doing that, although we are doing it in some places.²¹

18.14 On the other hand, a number of witnesses indicated that private enterprise was neglected in Australia's aid programs, yet was an area likely to contribute to economic growth and development. For example, the Australia Pacific Islands Business Council submitted that AusAID staff had only recently recognised the importance of the private sector's role in delivering economic growth but that the recognition had been patchy. Together with the Australia Fiji Business Council, it argued that there appears to be uncertainty within AusAID about 'how to effectively engage with the private sector'.²² Both councils argued that the aid program should focus more on business development:

This goes beyond supporting capacity building and improvement of the business enabling environment, but includes supporting the building of business and entrepreneurial skills through the aid program and, very

19 *Committee Hansard*, 24 March 2009, p. 9.

20 *Submission 21*, p. 6.

21 *Committee Hansard*, 26 March 2009, p. 26. Dr Quanchi informed the committee that his 'opinions and general observations...are based on teaching, research and being involved in Pacific Islands fieldwork, organisations and associations since 1973 in both Australia and the Pacific Islands'. See *Submission 24*, p. 9.

22 *Submission 58*, p. 6; and *Submission 60*, p. 4.

importantly, assisting small business with access to capital which at present is a significant impediment to small business growth.²³

18.15 The Lowy Institute also raised concerns about Australia's engagement with the private sector. It compared the six-year \$20.5 million allocated to the Enterprise Challenge Fund to the \$107 million being invested in the Pacific Public Sector Capacity project over four years.²⁴ It suggested that the private sector suffers from the similar constraints of a low skills base but receives little donor support for capacity building. In its view, if Australia wants to achieve tangible development outcomes for Pacific island countries, 'it needs to move beyond government-to-government assistance'. The Institute added:

Australia could assist...in a more direct fashion...leveraging increased corporate and philanthropic interest in assisting communities lift themselves out of poverty. Public private alliances and tax incentives to encourage more philanthropy and investment should be considered. Greater participation by Australian companies in Pacific Island economies will help to create employment opportunities and generate more professional linkages beyond the aid and government sectors.²⁵

18.16 It noted a US government's aid agency initiative, Global Development Alliance, which recognises the emergence of the private-for-profit sector and the nongovernmental sector as significant participants in development.²⁶ Witnesses from both the tourism and mining industries have proposed the involvement of Australian aid in assisting private ventures as a way of creating jobs for the community, boosting local businesses and ultimately alleviating poverty. ANZ suggested that the Australian Government could work with it to improve financial literacy in the region.

18.17 The committee has shown, however, that different sectors are closely linked and cannot be considered in isolation. For example, farmers may benefit from research to boost productivity but they need a good transport, storage and handling system to get their produce from the farm gate to the market. To provide the necessary impetus to start up a small business, budding entrepreneurs require finance. First, however, they need to have access to financial services which in turn depends on roads, improved communications and a safe and secure environment. Financial literacy is also critical so they can make use of the services. Lending institutions have to be satisfied that all the necessary support structures—economic infrastructure, regulatory and political environment, land ownership—do not pose a risk to their investment. Finally, underpinning economic activity across all sectors is basic education but the

23 *Submission 58*, p. 6; and *Submission 60*, p. 4. The Councils were of the view that there was merit in the recommendation proposed in 2007 that Australian companies investing in Pacific island countries might qualify for Australian tax concessions provided certain specified criteria about the investment were met. *Submission 58*, p. 6; and *Submission 60*, p. 5.

24 *Submission 14*, p. 5.

25 *Submission 14*, pp. 5–6.

26 *Submission 14*, p. 6.

delivery of this essential service relies not only on funding but good policy makers and administrators and the necessary infrastructure to support programs. ELearning, for example, requires the installation of technology such as computers but also technicians to service them, qualified teachers to instruct, basic infrastructure including electricity to the schools, and a bureaucracy that can effectively manage the interrelationship between all these components.

18.18 The Pacific Islands Forum Secretariat highlighted the importance of donor countries having a broad understanding and appreciation of the interrelatedness of the various sectors when planning for and providing assistance to Pacific island countries. It used infrastructure development to demonstrate the need to take account of the 'complex array of solutions, including technical and marketing expertise, local entrepreneur development, availability of finance etc'.²⁷ Also using infrastructure to demonstrate the degree of reliance between sectors, Dr Lake, AusAID, noted that consideration should not be confined to the actual infrastructure but should also take account of governance issues around how policy, budget and financial management work. She said:

If you are talking about private sector development, health and education services or banking services, it is not so much upgrading a road and then leaving a country to maintain it, it is the reliability of those linkages that is really important.²⁸

18.19 The committee cited a number of instances in the report where Australian assistance programs do not appear to be part of a coherent development framework. They included training courses not aligned with, or anticipating, local workforce and business needs; scholarships 'not closely connected with the aid programme'; and environmental matters not part of the mainstream of Australia's assistance package. The Pacific seasonal worker scheme is another that does not appear to be well integrated in Australia's development framework, while tourism is an omission. Moreover, as noted earlier, many witnesses were of the view that the funding allocated to improving governance had failed to deliver in key areas, particularly education, and, importantly, that the flow-on benefits from assistance packages did not always reach those most in need.

18.20 Even within sectors, Australia's contribution appears to lack a clear overarching policy framework. The committee detailed the many government departments, agencies and statutory bodies that, in their own field of expertise, are engaged in helping to improve governance in Pacific island countries. There is no question that their individual contribution is valuable but, as noted in chapter 15, the committee doubted whether they came together effectively as a joint effort.

18.21 A final consideration relates to possible tension between policy on Australia's development assistance with other areas of government policy. The Pacific seasonal

27 *Submission 69*, p. 10.

28 *Committee Hansard*, 12 March 2009, p. 14.

worker scheme demonstrates the potential for loss of focus or confusion about the scheme's priorities. DEEWR is the designated lead agency with DIAC, AusAID and DFAT as participants. From AusAID's perspective the scheme should be an identifiable and integral part of Australia's regional assistance program, with the upskilling of Pacific Island seasonal workers and building people-to-people links with the region prominent features of the scheme. Thus, while AusAID's interest is in the development opportunities for Pacific Island countries, DEEWR is properly more concerned with the benefits for Australian farmers and the administration of the scheme. In such cases, where there is a possible misalignment of objectives, the importance of clear policy is heightened. Australia's skilled migration policy and the problem of brain drain in the region is another example of the potential for policy objectives to run counter to one another (see paragraph 12.45).

Committee view

18.22 Without doubt, government departments and agencies are making a valuable contribution to economic and human development in the Pacific. The committee, however, is of the view that Australia's aid program could benefit from a policy framework that would bring together the many, varied and separate projects together as a cohesive whole to ensure that the benefits of Australian assistance reach those most in need.

Capacity building and institutional strengthening

18.23 To be effective, the policy framework should also anticipate future developments and likely risks that would undermine the value of Australia's assistance to the region. For example, too often there are reports about equipment or facilities from donor countries falling into disuse because funds are not available for maintenance, up-dating technology or developing or retaining the required pool of skills.²⁹ In this regard, the committee notes the observation by Professor Moore that 'there are a lot of dead computers out in the Pacific'.³⁰ Mr Paddy Crumlin, Maritime Union of Australia, drew attention to a perception that:

We go in and we dump a whole truckload of money in there, feel good, they build the infrastructure, hospitals and roads, and there is no more money for the maintenance, skills, training or the development of the business. It has been a haphazard business.³¹

29 See for example, an evaluation by the ADB on one of its projects in Tonga that noted that although computers were used: they no longer operate due to out-of-date technology and exposure to salt in non-air-conditioned environments—'The trucks are still operating, but the motorbikes have disappeared and the outboard motor for the boat no longer works'. Asian Development Bank, *Tonga: Outer Islands Agriculture Development Project Performance Evaluation Report*, July 2006, p. 8.

30 *Committee Hansard*, 26 March 2009, p. 11.

31 *Committee Hansard*, 25 March 2009, p. 41.

18.24 Dr Quanchi similarly noted:

We have given roads that are now potholed and unusable, we have built bridges that have been washed away in floods, we have given ships that cannot travel between islands because the docks are not big enough to take the ships; we have given a lot of money but it has not had much effect.³²

18.25 AusAID acknowledged that while it is easy to provide large capital investment, it is much harder to provide the necessary support and engagement that results in long-term improvement of services. Dr Lake, AusAID, informed the committee that the returns on the recurrent side tend to be much higher than on the capital investment side and that sometimes the size of the capital investment can actually overwhelm a country's capacity to support the recurrent side. For example, she noted the limited capacity of countries to maintain roads. She explained that the 'fiscal capacity of these countries to support the recurrent side of services—whether it is infrastructure, health, education—is a real issue' and has required a shift in the thinking of donors away from being responsible just on the capital side. According to AusAID, it has shifted its 'expenditure on roads from upgrading a small number of roads to actually working with government to maintain the key national roads of the country'.³³

Committee view

18.26 The committee also believes that one of the major risks to the effectiveness of aid is failing to take account of the resources available into the future and the capacity of the recipient country to sustain the long-term benefits of assistance particularly when it takes the form of capital equipment or major works such as roads, bridges etc. Where Australia has accepted responsibility for much of the on-going maintenance and running costs of equipment or major works, it must be wary of creating a situation where the recipient country becomes dependent on that assistance or the aid undermines the incentive for that country to assume responsibility. These risks should be reflected and articulated clearly in planning and review processes.

18.27 The Pacific Patrol Boat Program highlights the dilemma for Australia in providing necessary assistance but then having to ensure that the boats are used to best advantage. In the committee's view, such a situation does not mean that Australia should stop providing long-term assistance but should be cautious of, and monitor, the likely risk to the effectiveness of such aid.

Transfer of skills

18.28 This observation about the capacity of a recipient country to sustain the benefits of donor aid once it is withdrawn also applies to capacity building. An important part of the capacity building component of Australia's assistance programs

32 *Committee Hansard*, 26 March 2009, p. 25.

33 *Committee Hansard*, 12 March 2009, p. 14.

is directly concerned with the effective transfer of skills through a range of practices, including scholarships, workshops, exchange programs, and in-country training. A number of programs involve people from the Pacific islands working in their equivalent department or agency in Australia and Australian personnel working in-country with their regional counterparts. These programs provide opportunities for people from the Pacific island countries to learn through hands-on practical experience.

18.29 In this regard, there are two major risks that technical assistance will not lead to lasting institutional strengthening—failure to transfer skills and brain drain. The Pacific Islands Forum Secretariat explained that institutional strengthening is long term and continuous and aims 'to provide the government agency with the ongoing ability to implement those skills by themselves without the need for additional assistance'.³⁴ Professor Moore and Keith Jackson observed:

Though a large amount of money is being spent annually by Australia, there seems to be a large degree of waste and no clear evidence of a permanent transfer of skills to Pacific peoples, such as would create economic sustainability and national self-reliance.³⁵

18.30 Even where skills have been transferred successfully, complications may emerge. The committee has raised the problem of brain drain on a number of occasions, highlighting the need for Australian policy makers to allow for this likelihood when providing technical assistance and in framing its education and training programs.

Sustaining long term benefits

18.31 Thus, in some cases, technical assistance serves more as a stop gap measure. As soon as funds are withdrawn and advisers leave, the capacity shortfall and old deficiencies resurface. An example drawn from governance in education cited in chapter 11 demonstrates this possibility. AusAID noted that:

...work on policy advice and budget management has generally not improved service delivery, but attempts to supply services directly often achieve good results that fall away once projects are complete. Assistance therefore needs to be informed by a more complete understanding of the entire service delivery system—setting policy, managing at central and decentralised levels, delivering at point of service, and achieving of outcomes.³⁶

18.32 Another example comes from the forestry sector where a comprehensive SPC study noted the positive results from funding mainly from the Australian Government and UNDP. It observed, however, that as the projects wound up, there was no money

34 *Submission 69*, p. 9.

35 *Submission 3*, p. 3.

36 AusAID, *Tracking Development and Governance in the Pacific*, 2008, p. 18.

'to maintain vehicle fleets and demonstration forests, and to visit the forest independently for monitoring and auditing purposes'. It reported:

Funds for training have dried up and the effectiveness of past training programs is questioned. With 'foreign experts' gone, forestry agencies understaffed and underfunded and political commitment turned into lip service, the old ways of doing things have returned.³⁷

18.33 These assessments send a strong message to Australia as a major donor about ensuring that assistance is long-lasting: that the benefits from any contribution to develop capacity endure into the future. It also highlights the importance of avoiding situations where the recipient country becomes dependent on aid.

Committee view

18.34 Clearly for aid to have an enduring positive influence on economic and human development, policy making and planning has to go beyond the actual period of implementation to how particular programs build on past achievements and are a stepping stone to future progress. Consideration should be given to aspects such the capacity of the recipient country to assume responsibility for maintaining the program, including the required level of skills, and/or the need for recurrent funding or support from donors to ensure that the benefits from aid programs are not lost. The committee also notes the importance of monitoring the progress of projects and assessing the extent to which achievements endure.

Continuity of funding

18.35 The importance of taking a long-term approach to the delivery of aid also applies to the funding schedules for various projects. Australian government departments and agencies run some very worthwhile programs that rely upon non-recurrent funding from AusAID. The Department of Infrastructure, Transport, Regional Development and Local Government stated:

Currently, the restrictive conditions of annual funding programs and the lengthy application process prohibit meeting resource needs. A more flexible aid program, reinforced by proactive initiatives (as opposed to reactive responses) would address needs effectively with a relatively small amount of funding.³⁸

18.36 Mr Tranter, AusAID, responded to comments about the limitations imposed on aid programs by year-to-year funding approvals. He explained that many of the partnerships in the aid program had been 'running for nearly four years and many of

37 Thomas Enters Tan and Associates Thailand, *Independent assessment of the implementation of codes of logging practice in Fiji, Papua New Guinea, Solomon Islands and Vanuatu*, Secretariat of the Pacific Community, April 2007, p. 12.

38 *Submission 43*, paragraph 27. AUSTRAC, for example, rely on the Pacific Governance Support Program (PGSP) to deliver their 'FIU-in-a-box' training.

the agencies have received follow-on funding from previous grants'. In his view, 'they have become multiyear partnerships, but the agencies have had to reapply for funding each year'. AusAID recognised that the uncertainty created by the current arrangement of having to reapply for funding places was a 'bit of a limitation on agencies' and undermines the partnership objectives of the scheme. Mr Tranter informed the committee that AusAID shared the assessment that funding should be available on a multiyear basis which would alleviate some of the limitations on the scheme.³⁹ According to Mr Tranter, AusAID is currently reviewing that scheme:

...with a view to moving to multiyear agreements so that agencies have greater certainty in the financial flows to them, but also so that they can indicate to their partners overseas that they will be there working with them this year, next year and the year after.⁴⁰

18.37 Mr Davis, AusAID, explained that the APSC was a good example of where AusAID had 'already moved to a longer-term funding base'.⁴¹ The committee is of the view, that a move to longer-term funding would certainly assist in continuity of planning and providing certainty to forward plans for departments and agencies engaged in Australia's aid program.

18.38 The committee wrote to AusAID to obtain an up-date on the commencement of multi-year agreements with agencies but the response was in the context of funding to regional organisations and not Australian agencies. In light of the committee's uncertainty about progress toward multi-year funding for Australian agencies, the committee makes the following recommendation.⁴²

Recommendation 14

18.39 The committee recommends that the Australian Government provide for longer-term funding for projects that are to span a number of years, as distinct from year-to-year funding approvals, in order to provide greater certainty in the financial flows to them.

Ownership and complementarity

18.40 In its report on Australia's involvement in peacekeeping, the committee considered at length the difficulties, complexities and sensitivities involved in assisting developing countries to build capacity in their state institutions. It highlighted the importance of the country or local community having ownership of the project and the project being compatible with local culture and traditions. During this inquiry, a number of witnesses again emphasised this important matter of local ownership, sensitivity to cultural norms and practices, and alignment of projects with

39 *Committee Hansard*, 12 March 2009, p. 12.

40 *Committee Hansard*, 12 March 2009, pp. 11–12.

41 *Committee Hansard*, 12 March 2009, p. 11.

42 AusAID, answer to written question on notice no. 3 following public hearing 19 June 2009.

the country's priorities.⁴³ Moreover, the Office of Development Effectiveness raised similar concerns in its annual review of development effectiveness published in 2008. It found:

Australian and international research suggests that high levels of technical assistance can sometimes be problematic in fragile states, particularly if it undermines local ownership and initiative, and bypasses local systems. Research also suggests that technical assistance can have limited impact on building local capacities. Further work is needed to ensure that Australia's investment in technical assistance avoids such pitfalls.⁴⁴

18.41 This view was reinforced in the recent OECD peer review of Australia's development aid:

A challenge for Australia's engagement in fragile contexts is to maintain the focus on ownership and alignment, even when short-term considerations favour more hands-on approaches, especially in conflict situations.⁴⁵

18.42 In light of these more recent observations about the importance of local ownership and cultural sensitivity, the recommendations that the committee made in its peacekeeping report apply with equal force today. It found, among other things, the need for Australian policy makers to:

- understand and respect the importance that the host country attaches to its sovereignty;
- have a sound appreciation of culture and local customs when introducing or strengthening state institutions to ensure that capacity building aligns with the priorities, capacity and capability of the host country and does not replicate systems that gave rise to the initial conflict;
- use all available means to promote local ownership of the...process by involving local people in decision making, planning and re-building state institutions, and by encouraging, training and equipping local people to take over all aspects of the administration of their country; and

43 For example, both Professor Clive Moore and Mr Keith Jackson referred to anecdotal evidence suggesting that 'many Pacific Island public servants, although equipped with university degrees, find difficulty in operating efficiently because an 'idealised' or culturally inappropriate education in developed countries has not equipped them appropriately for the realities they face back home', *Submission*. The Pacific Islands Forum Secretariat noted a problem with funding for infrastructure development from overseas donors in the sense that, in most cases, it 'is not tagged or aligned with national planning and town council development.' *Submission 69*, p. 15. See also Mr Hodgson, *Committee Hansard*, 25 March 2009, p. 73; Combined Unions, *Submission 10*, pp. 5–6. The trade unions noted that they are experienced in structures which engage across the tiers of decision and policy making and are well placed as communication channels.

44 AusAID Office of Development Effectiveness, *Annual Review of Development Effectiveness 2007*, p. ix.

45 OECD Development Assistance Committee, *2008 Peer Review of Australia*, p. 12.

- engage with community groups and local leaders and NGOs to help the mission achieve its objectives.⁴⁶

18.43 While necessary in the planning stage, those engaged in the implementation of an aid project should be equally aware of the importance of local ownership and the cultural and local customs. The committee considers this in chapter 20 looking at the training of Australian personnel working in the region.

Relevance and compatibility

18.44 As noted on many occasions, the resources available to, and the size of, Australia's bureaucracies dwarf those in Pacific island countries. Therefore aid, particularly technical assistance, should take account of this mismatch in capacity. Professor Moore was of the view that a state bureaucracy was probably the best model to use because, apart from defence and foreign policy, it compared more favourably with such institutions in the region.⁴⁷ Mr Anderson also recognised the problem created by the disparity in the size of public institutions and urged caution about:

...trying to transpose, say, an Australian idea of bureaucracy to a smaller economy, because sometimes the model that gets put into some of these countries, which we have seen in Fiji, is that they try to model themselves on Australia or New Zealand and it is just too cumbersome.⁴⁸

18.45 Along similar lines, Treasury noted that the level of expertise and experience required in some Pacific island countries may equate more with a smaller government body such as a local council.⁴⁹

18.46 Mr Tranter, AusAID, informed the committee that there had been a review looking at issues around 'opening up the scheme [the Pacific Governance Support Program] to greater participation by state and local governments'. He recognised that many of the governance functions in the region are 'of a nature that might lend themselves more to local government administration or state territory functions' and that AusAID would like to see 'more participation by agencies at that level'.⁵⁰

46 Senate Standing Committee on Foreign Affairs, Defence and Trade, *Australia's involvement in peacekeeping*, August 2008, pp. 239–240.

47 *Committee Hansard*, 26 March 2009, p. 3.

48 *Committee Hansard*, 25 March 2009, p. 72.

49 See for example, Mr Motteram who explained, 'There is a reason why we are focusing mainly on Papua New Guinea, because it is a comparable treasury. We do worry about the three decimal places in our institution. It is not necessarily comparable with what the island states might have. It may be that the state or municipal bodies might be a better way of learning about the issues that people deal with rather than coming to the Australian Treasury', *Committee Hansard*, 20 November 2008, p. 17.

50 *Committee Hansard*, 12 March 2009, pp. 12–13.

18.47 In previous inquiries, the committee has heard from, and was very impressed with, the professionalism and commitment of some local councils, including the City of Melbourne Council, to developing links with overseas countries.⁵¹ In its report on Australia's public diplomacy, the committee was of the view that the Australian Government could work closely with local councils to further Australia's foreign interests. It recommended that the government explore opportunities for greater and more effective collaboration and coordination with Australian capital city councils in promoting Australia's public diplomacy. In response to the committee's recommendation, the government indicated that it currently collaborated with capital city councils in promoting Australia overseas on a case-by-case basis.

18.48 The few references by departments to the contribution by states and local governments to development in the Pacific, apart from their work through state audit offices and the CPA, points to a glaring omission in Australia's assistance to the region. Clearly, the work that the states, territories and local governments do in the region should be part of Australia's overall effort. Furthermore, they should be receiving strong encouragement from DFAT and AusAID to join forces under the one policy framework to assist Pacific island countries. The committee believes that at the moment the potential to include Australian state, territories and local government in Australia's ODA program is untapped.

Recommendation 15

18.49 The committee recommends that the Australian Government take decisive steps to encourage and support state, territory and local governments to participate in Australia's ODA. Further, that Australia's aid policy framework not only recognise the work of all levels of Australian government in its ODA program, but includes their activities as a vital part of Australia's whole-of-nation contribution to the region.

Other donor countries

18.50 The capacity of Pacific island countries to absorb overseas aid is another major factor influencing the effective delivery of Australia's ODA. In the region there are both bilateral and multilateral donors.⁵² According to Ms Hayward-Jones, the sheer number of donors in the Pacific is quite astonishing and includes 'US, China, Taiwan, the EU, New Zealand, the World Bank, the Asian Development Bank and UN agencies'. For example, in a speech to the Lowy Institute, The Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance,

51 Senate Foreign Affairs, Defence and Trade References Committee, *Opportunities and challenges: Australia's relationship with China*, November 2005, p. 155 and *Australia's public diplomacy: building our image*, August 2007, pp. 86 and 110–113.

52 See for example, Edward Vrkic, *Committee Hansard*, 19 June 2009, p. 9.

stated that Papua New Guinea 'had over one thousand aid activities in 2007, financed by 23 aid partners, and Vanuatu had 371 activities and 11 donors'.⁵³

18.51 The Lowy Institute drew attention to the increasing engagement of donors in the region and Australia's own intention to increase official development assistance to 0.5 per cent of GNI by 2015–16. Noting that the capacity of Pacific island governments to absorb aid was already in question, it argued that Australia should pay even more attention to aid coordination.⁵⁴ Ms Hayward-Jones believed that, while the donors were not competing for objectives, they were demanding on time, space and ability to implement.⁵⁵

...we find that officials in the Pacific are often spending most of their time—up to 80 per cent of their time—just talking to visiting aid officials about programs into the future. So their ability to do their own jobs is pretty limited. When they are not talking to aid officials, they are being asked to attend conferences in other countries. So this is pretty hard, which is why we have argued that more coordination is necessary and that, rather than six different aid visits happening within a period of two months from each different country or international agency, more coordination would help.⁵⁶

18.52 Dr Quanchi agreed with the view that the number of aid donors in the Pacific placed a huge demand on the capacity of Pacific island countries to manage overseas assistance effectively.⁵⁷ The OECD and the Office of Development Effectiveness also referred to the difficulties Pacific island countries have in coping with the demands of donor countries and their limited capacity to absorb aid from international and bilateral agencies.⁵⁸ Indeed, the most recent AusAID report on the region found:

...aid fragmentation in much of the Pacific is high by international standards, judging from the number of aid-funded activities underway in individual countries. Aid flows are often volatile and unpredictable. Many Pacific island countries have difficulty keeping track of aid flows and coordinating requests for assistance.⁵⁹

53 The Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, *The Role of Foreign Aid in Responding to the Economic Crisis in the Pacific Islands Region*, Speech to the Lowy Institute at the launch of *Tracking Development and Governance in the Pacific*, 3 August 2009, http://www.ausaid.gov.au/media/release.cfm?BC=Speech&ID=1290_2635_928_9215_1890 (accessed 6 August 2009).

54 *Submission 14*, p. 2.

55 *Committee Hansard*, 24 March 2009, p. 6.

56 *Committee Hansard*, 24 March 2009, p. 5.

57 *Committee Hansard*, 26 March 2009, p. 31.

58 AusAID Office of Development Effectiveness, *Annual Review of Development Effectiveness 2007*, p. 32.

59 AusAID, *Tracking Development and Governance in the Pacific*, August 2009, p. 3.

18.53 The OECD peer review suggested that where Australia 'is the main donor and often has a leadership role, as in the Solomon Islands, it is crucial that it continues to work closely with other donors to engage them in the dialogue with partner country governments'.⁶⁰ Dr Quanchi supported the notion that Australia should have a relationship with other donors but suggested that currently there was no evidence that Australia was moving in the direction of having those negotiations.⁶¹ The Office of Development Effectiveness was of the view that the aid program could 'build better ways of assessing consistency with partner government policies and harmonisation with other donors and further strengthen the capacity of partner governments to manage their own spending in ways that deliver better outcomes for their citizens'.⁶²

18.54 Ms Hayward-Jones acknowledged the efforts of, and progress made by, Australia to coordinate its aid efforts with other donors indicating that currently coordination between Australia and New Zealand was quite close. She noted that they hold many joint meetings on their Pacific aid programs and joint meetings on the ground in the region. In her view, however, there was scope for greater integration 'even along the lines of having an Australia-New Zealand aid agency which combined both our forces'.⁶³ The Lowy Institute argued that 'a united front' by AusAID and NZAID would enhance coordination. It stated that the two agencies:

...currently pursue near-identical objectives in the Pacific, using independent bureaucracies. Given the high levels of existing cooperation in the Pacific, it would make sense to combine both agencies to the maximum extent possible.⁶⁴

18.55 Turning to other major donors, such as Japan, the institute contended that steps should also be taken to begin to integrate Australia's aid program with their work in the region.⁶⁵ It should be noted that at a meeting of the Leaders of Japan and the Pacific Islands Forum countries in May 2009, Australia, Japan and New Zealand expressed their commitment 'to enhance dialogue on development coordination'.⁶⁶

18.56 Ms Hayward-Jones described Australia's endeavours to coordinate aid work with the EU and US as developing but 'not as far-reaching as they should be'.⁶⁷ In her

60 OECD Development Assistance Committee, *2008 Peer Review of Australia*, p. 12.

61 *Committee Hansard*, 25 March 2009, p. 31.

62 AusAID Office of Development Effectiveness, *Annual Review of Development Effectiveness 2007*, p. ix.

63 *Committee Hansard*, 24 March 2009, p. 20.

64 *Submission 14*, p. 6.

65 *Submission 14*, p. 6.

66 Ministry of Foreign Affairs of Japan, *PALM 5: Islanders' Hokkaido Declaration*, Hokkaido, Japan, 22–23 May 2009, <http://www.mofa.go.jp/region/asia-paci/palm/palm5/declaration.html> (accessed 3 October 2009). See also Ambassador of Japan, Canberra, *Submission 7*.

67 *Committee Hansard*, 24 March 2009, p. 5.

view, while there was coordination between Australia and the EU and US at the officials' level, greater coordination at a higher level would certainly drive change.⁶⁸

China and Taiwan

18.57 In its 2006 report on Australia's relations with China, the committee expressed its concern at the effect that China and Taiwan's aid programs were having on the countries in the southwest Pacific. It recognised the potential benefits that aid could bring to the financially struggling Pacific states but noted that without appropriate safeguards aid 'may not be directed to where it is most needed'. The committee recommended that both China and Taiwan be encouraged to adhere to the OECD aid effectiveness principles.

18.58 The same concerns about the nature and direction of aid from China in particular were raised during the committee's current inquiry. In its submission, the Lowy Institute noted that Chinese aid is primarily targeted at infrastructure. It stated, 'While the Pacific is in need of critical infrastructure, Chinese-funded projects do not always appear to target priority needs'. In its assessment, this aid can have 'high maintenance costs and be poorly designed for local conditions and could be more usefully delivered in coordination with other donors'.⁶⁹ Mr Fergus Hanson, Lowy Institute, wrote:

The areas Chinese aid is funding are not what you would automatically assume were the most worthwhile aid projects. There are numerous examples of China funding houses for politicians, building residences for the Chief Justice or the Prime Minister, and building numerous sporting facilities. Some of those were quite extravagant. There was a very large aquatic centre built in Samoa, which, quite ironically, had a sculpture of a white elephant out the front. These sorts of projects are not necessarily the most critical infrastructure projects for the countries.⁷⁰

18.59 In his view, it was a way to 'curry favour with local governments'.⁷¹ He also explained:

...generally the trend has been that the funds are disbursed by the China Exim bank for projects over US\$2.4 million. It has to be awarded to a Chinese contractor, who then has to use 50 per cent Chinese products and generally labour...Sometimes that is subject to negotiation with the host government, but in almost all cases where technical expertise is required they bring in Chinese labourers who can complete the building. Quite often they use Chinese specifications rather than local specifications.⁷²

68 *Committee Hansard*, 24 March 2009, p. 6.

69 *Submission 14*, p. 6.

70 *Committee Hansard*, 24 March 2009, pp. 16–17.

71 *Committee Hansard*, 24 March 2009, p. 17.

72 *Committee Hansard*, 24 March 2009, p. 17.

18.60 Mr Hanson asserted that the challenge was to coordinate with China and engage it in a way that was going to make aid, and the difficulties with it, more constructive rather than unhelpful to Pacific governance and security. He suggested that one way to achieve this objective is:

...to have a high-level agreement with China, preferably at a ministerial level, so that Australia and China can cooperate on coordination in the Pacific region. We are the main donor in the region, we are the security underwriters, so it is logical for us to be the initiator of that discussion and to be trying to coordinate aid on the ground.⁷³

18.61 The committee was pleased to learn from AusAID about Taiwan's recent announcement that it would use the OECD guidelines on aid effectiveness and that it was keen to improve transparency and accountability.⁷⁴ Dr Lake, AusAID, observed that there is 'some incentive on both the Chinas to change the way they do business because of their understanding about the quality of engagement with the region'.⁷⁵ AusAID also informed the committee that China is talking increasingly about their understanding of the need to improve the quality of their aid in order to support long-term engagement with recipient countries.⁷⁶

18.62 Dr Lake explained further that AusAID was working with the World Bank to develop a partnership with China that would encourage China to improve its aid practices in the Pacific in order to obtain maximum benefits for the region. In her view, the anticipated outcomes of the partnership include improved understanding by China about the engagement in the Pacific and of the internationally recognised best practices around aid delivery. She observed further that the partnership should increase understanding about the full range of Chinese agencies involved in aid work and improve the coordination between the major donors in the region.⁷⁷ A recent Lowy Institute publication noted:

Beyond on-the-ground engagement, AusAID has made significant efforts to engage China. AusAID engages in working-level discussions with the Department of Aid to Foreign Countries within the Ministry of Commerce on donor issues, including its approach to aid effectiveness and staff training. In February 2009, AusAID hosted a training workshop for 17 mid-level officials from the Ministry of Commerce to expose Chinese aid officers to Australian best practice systems and approaches, and it was subsequently agreed to make this an annual event.⁷⁸

73 *Committee Hansard*, 24 March 2009, p. 18.

74 *Committee Hansard*, 19 June 2009, p. 45.

75 *Committee Hansard*, 19 June 2009, p. 46.

76 *Committee Hansard*, 19 June 2009, p. 46.

77 *Committee Hansard*, 19 June 2009, p. 46.

78 Fergus Hanson, *China: Stumbling through the Pacific*, Lowy Institute for International Policy, Policy Brief, July 2009, p. 8.

18.63 The committee supports AusAID's endeavours to encourage China to adopt recognised international best practice in the delivery of aid and to better coordinate the provision of aid to the region. In chapter 9, the committee mentioned the Pacific Region Infrastructure Facility. Noting that China is particularly interested in infrastructure developments, Australia could actively encourage China to become a partner in this facility.

NGOs

18.64 A number of Australian NGOs are actively engaged in the region. Dr Quanchi noted:

Church groups from all over Australia are constantly going to the Pacific and putting a roof on a school, building a medical clinic, helping a women's group organise a local market.⁷⁹

18.65 In his view, NGOs, other church groups and individuals engaged in this work have had a 'big impact' in the region.⁸⁰ Palms Australia indicated, however, that NGOs 'committed to social justice have been cut out and organisations with long-term commitments in the areas have been marginalised'. According to Palms, Australia's aid program 'is not open and transparent but characterised by strong networks and connections that bypass democratic and durable connections with communities in the region'.⁸¹

18.66 In its peacekeeping report, the committee identified a clear need for DFAT and AusAID to improve cooperation and coordination between NGOs and the public sector. It recommended that ample opportunities be made available for NGOs and government agencies to share knowledge, ideas and concepts and to develop mutual understanding and appreciation of each other's work.⁸² The recent OECD peer review also suggested that:

Australia should consider developing a strategic framework for engaging with civil society partners and in particular with NGOs, covering both policy consultations and partnership mechanisms, so as to expand further their contribution to programme delivery, policy dialogue and in building community support for aid.⁸³

18.67 The committee fully endorses the findings of the OECD peer review.

79 *Committee Hansard*, 26 March 2009, p. 25.

80 *Committee Hansard*, 26 March 2009, p. 25.

81 *Submission 44*, p. 9.

82 Standing Committee on Foreign Affairs, Defence and Trade, *Australia's involvement in peacekeeping operations*, August 2008, paragraphs 14.42 and 14.43.

83 OECD Development Assistance Committee, *2008 Peer Review of Australia*, p. 18.

Strategic planning

18.68 Numerous considerations come into play when formulating and designing an assistance program. There are many different and diverse Australian departments or agencies engaged across a range of activities, some in highly specialised fields such as auditing and prudential regulation. Furthermore, planning needs to take account of the immediate and long-term priorities, needs and capacities of the recipient countries, as well as the work of other donor countries and organisations engaged in the region. Clearly, if Australian aid is to be more effective, strategic planning shaped by a coherent policy framework that allows for these different factors is required.

18.69 At the moment, Australia has a White Paper on the Australian Government's overseas aid program. This key policy document is intended to provide a strategic framework to guide the program. The main objective shaping this framework is 'to assist developing countries to reduce poverty and achieve sustainable development, in line with Australia's national interest'. The Paper identified four ways in which Australia would achieve its main aim: accelerate economic growth; foster functioning and effective states; invest in people; and promote regional stability and cooperation. Under these broad objectives, the paper provided some detail on how the government would work toward them. For example, Australia would support the drivers of growth by investing in infrastructure and building skilled workforces in PNG and the Pacific.

18.70 While an important overarching policy document, the committee believes that the White Paper is too detached from the practicalities of delivering assistance to the region to provide a coherent implementation plan. The committee believes that a bridging document is needed—a strategic plan, free of rhetoric, that concentrates on how, in a practical way, the immediate objectives of programs combine with others to form stepping stones leading to the higher level goals.

Recommendation 16

18.71 The committee recommends that the Australian Government through AusAID produce a bridging document for its ODA in the Pacific that connects the immediate objectives of specific programs with higher level objectives—as articulated in the White Paper, the MDGs and the Pacific Plan. It should be a strategic plan with an emphasis on 'how', in practical terms, the immediate objectives of programs would make a tangible contribution toward achieving these higher level goals.

Recommendation 17

18.72 The committee also expressed concern about assistance not reaching those most in need. In light of the large proportion of Australian funding to the region that goes to governance, the committee recommends that the strategic plan demonstrate how this aid relates directly to improvements for people in need of assistance.

Recommendation 18

18.73 The committee recommends that the Australian Government ensure, largely through AusAID, that the plans for any future development assistance project for the region:

- **recognise and explain the project's role as part of a coherent strategic development plan;**
- **identify companion projects or projects that are complementary and how they are to interact with such projects;**
- **explain measures taken to ensure that when the project ends, the benefits will not fade including not only the maintenance and upgrading of equipment or infrastructure but capacity building;**
- **take account of forward funding needs;**
- **ensure that the project aligns with the development plans and priorities of the recipient country—that there is no mismatch in objectives; and**
- **demonstrate that close consideration has been given to the activities of foreign donors with a view to achieving greater complementarity and coordination between them.**

18.74 A final matter relevant to preparing a strategic plan for Australia's ODA to the region is the quality of statistics.

Statistics

18.75 In its 2003 report on Australia's relations with Papua New Guinea and the island states of the southwest Pacific, the committee drew attention to the lack of detailed information on key development indicators. It concluded that it was in Australia's interest to be 'fully aware of the economic and social picture of the region and that the gathering of this information was vital to the future development'. The committee recommended that the Australian Government investigate ways in which it could assist the governments of the region, possibly through the Pacific Islands Forum, to facilitate the collection of a standard set of relevant economic and social statistics.

18.76 Six years later, the committee again found the same deficiencies in available data. It made a brief reference to the shortcomings in statistics in its introduction and referred specifically to the poor quality of statistics on education and the workforce in Pacific island countries.

18.77 Insufficient or unreliable data affects the planning and delivery of services. For example, one commentator noted that 'more often than not, politicians develop

policies in ignorance of available labour market data'.⁸⁴ The paucity of data also makes evaluating progress toward development goals difficult, including the UN's Millennium Development Goals and the milestones Australia sets for its ODA. The Secretariat of the Pacific Community was given the role of lead agency for 'upgrading and extending national and regional information systems and databases across all sectors'. It noted, however, that:

Despite efforts to secure additional resources since 2006 to implement action on this priority, which underpins most other development sectors (e.g. a framework for regular collection and updating of MDG indicators), development partners did not engage. This year [2008], there is a rush to establish MDG indicators for assessing the status of MDG achievement in the Pacific—we are still talking about them, whereas investment two years ago could have put the region in a good position by now.⁸⁵

18.78 At their August meeting, Forum Leaders placed a high priority on 'committing to sustainable and appropriate collection and compilation of statistics, information management and records keeping to enable better-informed policy making'.⁸⁶

18.79 The committee has for some time recognised the urgent need for Pacific island countries to improve their data gathering and to use standardised methods of collecting and collating statistics. Despite the recognised need, it is clear that progress toward achieving reliable and comprehensive statistics on development indicators in the Pacific is slow.

18.80 Together with regional counterparts and international or regional organisations, Australia should consider more effective ways to assist Pacific island countries in this urgent task.

Measuring effectiveness—Office of Development Effectiveness

18.81 The strategic plan proposed by the committee needs to be supported by a rigorous evaluation process to ensure the effectiveness of Australia's ODA and its continuous improvement.

18.82 The Office of Development Effectiveness was established in April 2006 to monitor the quality and evaluate the effectiveness of Australia's aid program. It is intended 'to enhance AusAID's analytical capacity, and the quality and performance of its programs'. Its budget is about \$3 million, with a significant amount of the money

84 Benedict Y. Imbun, 'Is the potential of labour's contribution to development acknowledged in the Pacific island countries?', *Pacific Economic Bulletin*, Volume 24, Number 1, 2009, pp. 96–102.

85 Secretariat of the Pacific Community, Paper presented by the Secretariat, 'Agenda item 4.1: Pacific Plan Implementation—three years on', Thirty-eighth meeting of the committee of representatives of governments and administrations, Noumea, New Caledonia, 13–16 October 2008, Regional Policy Agenda.

86 Annex C, *Forum Communiqué*, Fortieth Pacific Islands Forum, 5–6 August 2009, p. 18.

used to contract international expertise. The office is described as a 'freestanding AusAID-based unit that is independent from program management'.⁸⁷ The office answers directly to the Director General of AusAID and is physically placed inside AusAID which, according to Mr John Davidson from the Office of Development Effectiveness, allows it 'to have the shortest feedback loop possible'.⁸⁸

18.83 The OECD peer review was of the view that Australia had been innovative in setting up the office which 'helps to address critical issues and improve transparency'. Its reports are publicly available which, according to the review, 'provide frank assessments, including progress made and remaining challenges' for Australia's aid program. In the OECD's assessment, 'the impact of this initiative should be shared widely with other donors'.⁸⁹ The Pacific Islands Forum Secretariat also commented on the work of the office and suggested that 'it has certainly been held up as a good model among bilateral donors'.⁹⁰

Recommendation 19

18.84 The committee fully supports the work of the Office of Development Effectiveness and recommends that it continue.

18.85 The committee, however, would like to see the Office of Development Effectiveness give greater attention to assessing the long-term effectiveness of Australia's aid program. The committee was concerned that far too often the achievements from an assistance program are short-lived and leave no tangible lasting benefit. For example, the committee noted the problem of infrastructure or equipment falling into disuse when funds and technical assistance are withdrawn. With this in mind, the committee makes the following recommendation.

Recommendation 20

18.86 The committee recommends that the Office of Development Effectiveness evaluate the success of a few projects two to three years after their completion and use them as case studies on the durability of Australia's assistance to the region. The office's analysis and findings on these case studies are to be included in its annual review.

87 AusAID Office of Development Effectiveness, *Annual Review of Development Effectiveness 2007*, p. vii.

88 *Committee Hansard*, 19 June 2009, p. 56.

89 OECD Development Assistance Committee, *2008 Peer Review of Australia*, p. 17.

90 *Committee Hansard*, 19 June 2009, p. 13.

Chapter 19

Pacific Partnerships for Development

19.1 One of the characteristics of Australia's ODA to the region is the high level of bilateral aid which accounts for almost 80 per cent of that total. On 6 March 2008, the Government of Australia announced the beginning of a new era of cooperation with the island nations of the Pacific. It proposed 'to pursue Pacific Partnerships for Development (PPDs) with its island neighbours'. The partnerships were to provide a new framework for Australia and the Pacific island countries to commit jointly to achieving shared goals.¹ The Prime Minister of Australia, Mr Rudd, described the partnerships as 'the centre piece of Australia's new approach to the Pacific region'.² In light of the findings outlined in the previous chapter, the committee considers whether the partnerships form part of a coherent ODA plan for the region. It also seeks to establish the extent to which the PPDs make clear the connections between the objectives of the different aid projects with longer term goals and the interrelatedness of the aid programs under the partnership. It is also interested in the extent to which the partnerships align with development assistance from other donors.

Priorities and commitments

19.2 In April 2009, the Prime Minister registered his dissatisfaction with the framework of ODA relationships. He stated that Australia needs to anchor its development assistance relationships in the Millennium Development Goals. The PPDs clearly state their resolve to move toward achieving these goals.³

19.3 To this stage, eight partnerships have been adopted—with PNG, Solomon Islands, Samoa, Kiribati, Vanuatu, Nauru, Tonga and Tuvalu. The first section of each partnership states the broad objectives and principles underpinning the agreement. They include working together in close cooperation and with a shared vision to achieve improved development outcomes and sustainable improvements in the quality of life. Under each agreement, the relevant partnership countries make commitments consistent with the principles of mutual understanding, mutual respect and mutual responsibility for improved outcomes.

1 Prime Minister of Australia, 'Port Moresby Declaration', Media release, 6 March 2008, http://www.pm.gov.au/media/release/2008/media_release_0118.cfm or <http://www.pm.gov.au/node/5911> (accessed 13 February 2009).

2 Prime Minister of Australia, 'Pacific Partnerships for Development with Solomon Islands and Kiribati', Media release, 27 January 2009, http://www.pm.gov.au/media/release/2009/media_release_0770.cfm (accessed 13 February 2009) or <http://www.pm.gov.au/node/5344>.

3 Prime Minister of Australia, 'Joint Press Conference with the Right Honourable Grand Chief Sir Michael Somare, Prime Minister of Papua New Guinea, Parliament House', 28 April 2009, http://www.pm.gov.au/media/Interview/2009/interview_0936.cfm (accessed 30 April 2009).

19.4 Each partnership also identifies 'priority outcomes'. Again, these are identified as broad headings and, although they have subheadings, provide little indication of the practical actions that are to be taken. For example, partnership priority outcome 1 in the partnership with Vanuatu is 'improved education'. The targets under this heading are, *inter alia*, to increase primary enrolment rate to 100 per cent by 2015, reaching 85 per cent by 2011, and improved literacy and numeracy skills of school age children, tracked through national assessments.

19.5 An implementation schedule is to be incorporated into these partnerships, which will provide more information and offer greater guidance on funding and on projects. When asked why the implementation strategies were not concluded at the same time as the preliminary negotiations, Mr Davis, AusAID, explained:

We thought it was important to get the political level engaged in agreeing around the broad areas of priority and the broad sort of commitments and responsibilities that both sides signed up to initially, and following that, for that to be translated into the much more detailed implementation schedule. We were keen for there to be a political endorsement at an early stage, and certainly our Prime Minister was keen to be engaged at that early stage.⁴

Implementation

19.6 In the previous chapter, the committee clearly identified the need for Australia to have a strategic and coherent policy framework that, by providing a sharp focus, would better integrate the individual efforts of departments and agencies. Apart from broad statements on shared visions, objectives, principles and commitments, the partnerships provide little indication that the PPDs have been shaped by a coherent strategic plan. As noted earlier, the implementation schedules are to contain greater detail but were not developed as part of initial partnerships. At present, only PNG has such a schedule and in the case of Solomon Islands, one implementation strategy was identified at the time of signing by leaders. For the purposes of this report, the committee confines its comments to PNG's schedule.

19.7 Priority outcome 1 is concerned with improving key national roads, airports and ports. It sets out targets, for example, 100 per cent of the 16 NTDP Priority National Roads in 'good' condition by 2015; 22 national airports complying with safety certification standards by 2015; and two major seaports with ship turnaround times reduced to 2 days by 2015. The partnership assumes that these infrastructure developments will lead ultimately to poverty reduction and improvements in health and social indicators.

19.8 Intuitively, this assumption appears correct. Indeed, in general terms, the committee has noted the potential benefits from improved transport routes: farmers are better able to get their produce to market; children have access to schools; and communities to essential services. The partnership does not, apart from this broad

4 *Committee Hansard*, 12 March 2009, p. 30.

assumption, make a concrete link between achieving 16 key national roads in good condition with the MDGs. It does not provide the local context or identify the specific contribution that Australia would make to this infrastructure nor ultimately how the roads would in tangible ways help achieve the MDGs. The missing links between the specific object of having the main roads in good condition and achieving the MDGs means that the route to reaching the MDGs is fuzzy. The lack of specificity also makes evaluating or measuring Australia's contribution difficult. This is discussed later in the chapter.

19.9 The partnership and its accompanying implementation schedule also convey no real sense of the interrelatedness between the different priorities. For example, the connection between efforts to improve transport routes with the objectives of achieving universal basic education, improved health outcomes and an efficient and effective public service are not strong.

19.10 The committee believes that PPDs have the potential to bring a greater coherence to Australia's ODA and to make clear connections between specific projects and the contribution they would make in moving toward the MDGs. They could also be a vehicle to achieve greater integration between individual projects within and across sectors which, in the committee's view, would improve the effectiveness of Australia's bilateral aid program.

Collaboration

19.11 The approach taken in developing the partnership should encourage a much closer alignment of Australia's assistance with the partner's priorities. In each agreement, Australia makes clear commitments to deliver 'jointly-determined programs' and increasingly to align its aid with the relevant country's decision-making, finance and procurement systems. Furthermore, the actual process of developing the partnership has required Australia and partner countries to work through and identify objectives, timeframes, respective responsibilities and funding arrangements. For example, in February, AusAID informed the committee that it was about to commence budget discussions with PNG. Mrs Margaret Callan, AusAID, explained:

We have talked about what the priorities are and we have some information on costings for delivering on those MDG priorities. We are now at the stage where we need to talk about the Papua New Guinea government's capacity to contribute funds to those priorities going forward five years, the Australian government's capacity, and the capacity of other donors to contribute. We need to see whether the resources needed to achieve those goals are actually available or whether we might need to lower the bar a little bit in terms of what we are aiming to do. We are actually at the stage where we are discussing that at the moment.⁵

5 *Committee Hansard*, 12 March 2009, p. 27.

19.12 Mr Tranter stated further:

As part of the joint commitments that underpin the partnerships, we are in the process of making commitments about our financing contributions and engaging with governments about their capacity to meet those joint commitments as well. That is categorised as a key part of our engagement with governments.⁶

19.13 The committee fully supports Australia's stated intention to align its assistance with the objectives and priorities of its partner country. It recognises that the process itself in arriving at an agreement and in future discussions as the agreement is further refined encourages local ownership, and better cooperation and coordination between Australia and its partners. At this very early stage, however, one witness raised concerns about the process so far. Ms Hayward-Jones thought that the PPDs had been developed too quickly. She informed the committee that she had heard comments from officials in the region criticising the process for being 'a bit too quick and they felt that it was pushed on them'. She said that, although they liked the approach and welcomed it, 'they felt that they could have done with a little bit more time to coordinate'. Ms Hayward-Jones concluded:

Because there has been political pressure to do that they have ended up reflecting the current aid policy and the current aid programs rather than being the result of a substantive discussion with the recipient government on what they want to achieve.⁷

19.14 Based on past experience of the difficulties Pacific island countries have in funding their good intentions and the short timeframe in which the PPDs were developed, Ms Hayward-Jones was concerned about the implications should the recipient country not meet its promised undertakings. She said:

While it may promise AusAID it will spend X amount on education in the next five years, its lack of capacity may mean that it cannot spend that money because it cannot get out to the provinces and be on the ground to deliver it. So the intention would certainly be there but the capacity may fail to deliver. My concern with the development partnerships is that, if it is a failure of capacity to deliver, in five years time what does Australia do about the lack of delivery?⁸

19.15 In light of Australia's commitment to increase aid to the region, the Lowy Institute was also concerned about ensuring that Australia's accountability demands placed on Pacific island governments were not onerous. It noted that the imposition of further conditionalities on development assistance in the PPDs needs to be managed sensitively.⁹

6 *Committee Hansard*, 12 March 2009, p. 28.

7 *Committee Hansard*, 24 March 2009, pp. 8–9.

8 *Committee Hansard*, 24 March 2009, p. 10.

9 *Submission 14*, p. 2.

Committee view

19.16 On a number of occasions in this report, the committee has noted the limited capacity of Pacific island countries to negotiate agreements. It has drawn attention to the often stark imbalance in their negotiating positions compared to those of larger and more influential countries. Ms Hayward-Jones's observations provide an early and cautionary note for Australia to take extra care in developing its partnerships to ensure that it does not exert, however unintentionally, undue influence or pressure on its partners.

Coordination with other donors

19.17 In the previous chapter, the committee drew attention to the heavy demands placed on the limited resources of Pacific island countries by having to engage with numerous aid donors. It also noted the importance of coordination between all donors to the region. The OECD peer review argued that Australia would need to take care that the new PPDs were 'clearly defined in the context of collaboration with other donors'.¹⁰

19.18 In its PPD with PNG, Australia undertakes to 'increase the engagement of other development partners through the negotiation of a Memorandum of Understanding to refine the structures and procedures of external support to the education sector.'¹¹ It also states that Australia will 'work with donors to develop more harmonised funding modalities that strengthen the use of the Government of Papua New Guinea's systems whilst targeting UBE [universal basic education].' The committee will have to wait to see the extent to which these, and other, stated intentions about working effectively with other donors succeed.

Committee view

19.19 The committee believes that PPDs could be instrumental in forging much closer cooperation and coordination with other donors to the region. Although it understands that the PPDs are in their formative stage, nonetheless it believes that, apart from stated intentions about negotiating MOUs, etc., they should start to demonstrate a much closer and stronger relationship with related bilateral or regional donors.

Potential

19.20 In the previous chapter, the committee noted the significant risk of achievements obtained from development assistance dissipating as that assistance comes to an end. It argued that this risk and that of creating aid dependency is one that

10 OECD Development Assistance Committee, *2008 Peer Review of Australia*, p. 14.

11 Schedule to the Papua New Guinea—Australia Partnership for Development, Priority Outcome 2 Basic Education, pp. 6 and 7.

policy makers need to address. In this regard, the committee believes that PPDs should reflect the consideration given to these likely problems.

19.21 The committee also highlighted the potential for state, territory and local governments to advance Australia's development assistance to the region. The PPDs appear to provide an ideal opportunity for Australia to incorporate and record the contribution of state, territory and local governments to development assistance to Pacific island countries.

Evaluation

19.22 The partnerships not only provide an action plan for Australia to help Pacific island countries achieve the MDGs, but they are also an important evaluation tool. In April 2009, Prime Minister Rudd stated unequivocally that he was 'into the business of measurement'. He stated:

Measurement can be a very uncomfortable thing for us all over time, but it is the best way to hold us all accountable as to whether the measures that we are embracing have effect. And it is within that framework that we are not just simply renegotiating our development cooperation relationship with PNG, but are doing so progressively across each of the Pacific Island countries.¹²

19.23 Mr Tranter noted that partnerships by their nature, 'are incremental frameworks that are designed to adapt and respond to developments'.¹³ He said that the partnerships will be reviewed on an annual basis, which provides 'an opportunity to reflect new commitments that might respond to emerging policy priorities for Australia and also for the Pacific countries'.¹⁴

19.24 The committee has long been concerned about the ways in which DFAT and AusAID measure the effectiveness of their programs. They were raised in its reports on public diplomacy and peacekeeping. Familiar concerns once again surfaced during this inquiry. The Australia Pacific Islands Business Council saw a need to improve aid program review mechanisms. It was concerned that some reviews seek to 'justify that the resources input has been effective' and that 'some aid program providers have greater attention to maintaining their contract status rather than being rigorous about program quality assessment'.¹⁵

12 Prime Minister of Australia, 'Joint Press Conference with the Right Honourable Grand Chief Sir Michael Somare, Prime Minister of Papua New Guinea, Parliament House', 28 April 2009, http://www.pm.gov.au/media/Interview/2009/interview_0936.cfm (accessed 30 April 2009).

13 *Committee Hansard*, 12 March 2009, p. 26.

14 *Committee Hansard*, 12 March 2009, p. 27.

15 Australia Pacific Islands Business Council, *Submission 60*, attachment 'Comments on the report of the Senate Committee on Foreign Affairs, Defence and Trade', p. 5.

19.25 In its previous reports, the committee noted that agencies were 'stuck at the activity measure' stage and 'struggling with how to determine effectiveness'.¹⁶ The committee stressed the importance of having performance indicators that were credible and useful and more than process orientated. It maintained that they should measure not only technical achievements but seek to ascertain changes in attitudes and behaviour. Thus, the committee argued that performance indicators needed to go beyond identifying key attainments such as the construction of schools or roads, number of teachers or size of classroom. For example, having the 16 priority roads in good condition is a technical achievement, however, the committee would be interested in other measurements—the extent to which they have reduced transport costs, increased local business activity, contributed to school attendance etc, or even inadvertently resulted in negative outcomes such as increased rates of HIV infection due to increased mobility. The Office of Development Effectiveness also used roads to illustrate this point:

...there is far greater interest in whether the intended outcomes occurred; for example, whether improved roads led to higher rural incomes.¹⁷

19.26 A measure used in Priority 2 in the PPD with PNG—'improved performance by students completing grade eight'—is the type of measurement that clearly benchmarks progress toward an identifiable goal. Though how such an achievement could be directly attributable to Australia's contribution would be difficult to make. Again, the Office of Development Effectiveness provided valuable insight. It noted that the advantage of defining objectives at this high level is that they reflect what aid is in the end trying to support and so provide key measures of ultimate success. It stated further:

The disadvantage, however, is that they represent long-term goals that are influenced by many factors other than Australian aid, including domestic policies, the work of other donors, trade, conflict, migration, private finance, and exogenous shocks.¹⁸

19.27 It concluded that while of great interest, national development outcomes are in most cases inappropriate for assessing the effectiveness of Australian aid. It suggested:

...to arrive at a definition of effectiveness that is meaningful to both the wider public and to managers, objectives must address outcomes rather than

16 Senate Standing Committee on Foreign Affairs, Defence and Trade, *Australia's public diplomacy: building our image*, August 2007, p. 179.

17 AusAID Office of Development Effectiveness, *Annual Review of Development Effectiveness 2007*, p. 39.

18 AusAID Office of Development Effectiveness, *Annual Review of Development Effectiveness 2007*, p. 39.

outputs or process, but these outcomes must be at an intermediate level, reflecting more realistically the influence of aid.¹⁹

19.28 Currently, the PPDs are lacking those important middle tiers that would link an Australian project to identifiable and measurable achievements that then ultimately contribute toward the attainment of broader objectives. The Office of Development Effectiveness identified the following principles or guidelines that would help in assessing the effectiveness of Australian aid:

- set consistently realistic objectives addressing intermediate outcomes that Australian aid is expected to influence;
- understand performance at multiple levels, including outputs, objectives and development outcomes (sectoral and national);
- make a greater effort to identify the causal linkages between performance at the different levels;
- increase the consistency of measurement approaches used within sectors across countries supported by the aid program;
- develop improved methods of assessing the performance of the aid program not only in its relatively new areas of focus, such as institutional development and policy reform, but also in its broader engagement with non-aid issues such as trade, migration, technology and research.²⁰

19.29 The committee is of the view that the PPDs do not fully satisfy these principles and as yet are not as an effective evaluation tool as they could be.

Conclusion

19.30 The committee recognises that PPDs are a major step forward in improving the effective delivery of Australia's development assistance to the region. It believes, however, that they have the potential to do more. The committee has identified a number of areas where it believes that the PPDs, as they relate to Australia's contribution, could be strengthened both as a guiding policy document and as an evaluation tool. The committee believes that to be effective, the PPDs should:

- have projects with clear, specific and measurable objectives that contain detailed information on project scope, schedule and risks, and that make clear Australia's role in, and its anticipated contribution to, achieving those stated objectives;

19 AusAID Office of Development Effectiveness, *Annual Review of Development Effectiveness 2007*, p. 39.

20 AusAID Office of Development Effectiveness, *Annual Review of Development Effectiveness 2007*, p. 42.

- connect the specific objective of projects with the relevant MDG (or other identified high level goal) ensuring that intermediate objectives are identified so that there are obvious links between the specific and the broader goals;
- acknowledge and reflect the interrelatedness of the separate projects to be undertaken both within and across sectors;
- demonstrate the ways in which projects in the PPD complement those of the partner country and of other bilateral and multilateral programs;
- contain performance indicators that go beyond measuring processes or technical achievements, such as building a road or a school, to measure outcomes; and
- adhere to the guideline outlined by the Office of Development Effectiveness (Appendix 1 to *Annual Review of Development Effectiveness 2007*).

Chapter 20

Australia's development assistance—on the ground

20.1 While the committee acknowledges the need for strategic and coherent planning in formulating its development assistance programs for the region, it is also aware of the importance of the practical implementation of that plan. In this chapter, the committee considers how effectively Australia delivers its assistance on the ground to the people of the Pacific island countries.

20.2 As noted in chapter 18, an important part of the capacity-building component of Australia's assistance programs is concerned directly with the effective transfer of skills. A number of programs involve people from the Pacific islands working in their equivalent department or agency in Australia, and Australian personnel working in-country with their counterparts in the Pacific. The committee has referred to the many government departments and agencies engaged in this type of activity, especially those working closely with people from the region. These include scientists in ACIAR, officials from Australian Customs, Treasury, DAFF, Defence, the Auditor General, Ombudsman and APRA. The second volume looks in particular at the work that the AFP is doing in building capacity. From the outset, the committee acknowledges the fine work that these Australians are doing in Pacific island countries.

20.3 In its report on peacekeeping, the committee considered at length Australia's efforts in Timor Leste and Solomon Islands to build local capacity in areas such as administration, governance, and law and order. It underlined the importance of Australians working in these areas having a sound understanding of, and respect for, cultural differences and an appreciation of the different norms and customs.¹ Identical concerns about the importance of cultural awareness training, selection of appropriate personnel and their ability to transfer skills to local people were raised during the current inquiry. For example, a number of witnesses recognised that although Australian workers may be highly qualified in their area of expertise, it did not necessarily follow that they were well equipped to impart their skills and knowledge to local people. One witness suggested that 'Australians do not understand the Pacific'.²

20.4 Evidence before this committee also reinforced the message from the committee's peacekeeping report that Australians delivering assistance to the region

1 Senate Standing Committee on Foreign Affairs, Defence and Trade, *Australia's involvement in peacekeeping operations*, August 2008, p. 163.

2 Dr Max Quanchi, *Submission 24*, p. 3. See also Australia Pacific Islands Business Council, *Submission 60*, attachment, 'Comments on the report of the Senate Committee on Foreign Affairs, Defence and Trade', p. 5; Professor Moore, *Committee Hansard*, 26 March 2009, p. 6; and *Submission 10*, pp. 5–6.

must be aware of the potential pitfalls and difficulties when endeavouring to build capacity, such as avoiding the long-term problems of dependency. The committee believes that there is no need to restate the material covered in the peacekeeping report. It does, however, elaborate on one particular aspect of technical assistance that it believes warrants closer attention—the difficulties achieving the permanent transfer of skills.

Technical assistance

20.5 The Office of Development Effectiveness noted that Australia's aid program directs a high proportion of its funds to technical assistance, 'perhaps as much as 50 per cent of program spending'.³ Furthermore, AusAID's report on economic governance noted that technical assistance in this area is 'increasingly being delivered by Australian public servants (deployees) rather than contracted consultants'. It indicated that this was a trend across the aid program, but was 'particularly evident in the governance sector'. According to the report, this use of donor-country civil servants is an innovation in the international development context and has attracted interest from several other countries.⁴

20.6 In its report on peacekeeping, the committee noted that Australians engaged as technical assistants often faced the difficult decision of when to complete a task and when to stand aside and allow their local counterpart to take over. For example, advisers in 'line' positions are there not only to get the bureaucracy functioning but to train their counterparts to take over these functions. In 2007, Mr Potts, DFAT, identified the problem of turning Australian advisers into administrative staff almost by default, particularly in a fragile environment like Solomon Islands or even in larger countries such as PNG. He said it was not something 'we would want to do without at least knowing it is happening and then assessing the implications'.⁵

20.7 AusAID's report on economic governance also noted that in some cases capacity may be so lacking that Australian personnel are required to fill key positions. It observed, 'The question of whether personnel providing technical assistance should *do* or *build* is a complex one, and much has been written on the most effective modes of capacity building'. It stated that most personnel 'occupy a grey area where they do some of both'.⁶

20.8 Mr Motteram, Treasury, similarly noted that Australian officials working closely with their counterparts in Pacific island countries face difficulties ensuring that

3 AusAID Office of Development Effectiveness, *Annual Review of Development Effectiveness 2007*, pp. ix and 32.

4 AusAID, *Economic governance, Annual thematic performance report 2006–07*, 2008, p. 19.

5 See Senate Foreign Affairs, Defence and Trade Committee, *Australia's involvement in peacekeeping operations*, August 2008, p. 236; and *Committee Hansard*, 13 September 2007, p. 7.

6 AusAID, *Economic governance, Annual thematic performance report 2006–07*, 2008, p. 20.

their skills and knowledge are transferred.⁷ He informed the committee that one of the first challenges was 'to recognise when we are going to step away from doing to actually assisting others to advise ministers'. In his view, Australians may have to make hard choices:

Effectively someone has to decide, quite frequently at this stage, 'Should I provide my best advice through the minister...[or] should I spend some time building capacity?'...The real challenge for our people involved in the Pacific is to work out when to accept a second-best argument and when to put more time into the capacity building of their counterparts...but when the crunch comes when a budget needs to be put in, my feeling is that at the moment there is too much reliance on our contributions. That is putting it very broadly, but that is an issue that we need to manage in partnership with the management of the treasuries with whom we deal.⁸

20.9 Treasury noted that its officers do not direct their work in host countries, 'so for all intents and purposes they are working as employees of these ministries'.⁹ In some cases, they may find themselves in circumstances where there is uncertainty about whether to serve the interests of the host country or meet what they believe are obligations to Australia. In this regard, Mr Motteram explained that 'there may be conflicts of interest from time to time'.¹⁰ He informed the committee that:

...when we put our people into that kind of assistance it is very important for them to gain the trust and working respect of their colleagues. One thing we do not do is talk to them very much on anything other than personnel issues. We have an annual recall, but effectively we put very senior people in these roles who are able to make those sorts of decisions on the spot and deal with those nuances. It is important for us and for the effectiveness of our staff that we are not seen to be tracking each of the decisions that are made or the economy per se.¹¹

20.10 Mr Burch added:

...we are always very conscious about understanding the limits of our influence in these countries. The Australian government seeks to be influential through a number of channels, but we have a very clear understanding about what it is that we are trying to do here in terms of helping these countries. We are getting a better understanding of the basic value of helping to improve outcomes here by helping them to help themselves. You should be clear on our objectives.¹²

7 *Committee Hansard*, 20 November 2008, pp. 5–6 and 17.

8 *Committee Hansard*, 20 November 2008, p. 6.

9 *Committee Hansard*, 20 November 2008, p. 8.

10 *Committee Hansard*, 20 November 2008, p. 15.

11 *Committee Hansard*, 20 November 2008, p. 13.

12 *Committee Hansard*, 20 November 2008, p. 15.

20.11 A similar dilemma arises for Australian advisers in situations where corruption may be present. The committee has already noted the matter of corruption in the region. In considering this problem, the Office of Development Effectiveness observed that technical advisers working in environments where corruption exists may be confronted with instances of corruption, maladministration, or both. It came to the view that such situations 'can place them in a difficult and sometimes dangerous position' concluding that there should be clear guidance on this issue.¹³ It stated:

All Australian Government deployees, including those working as technical advisers, need to understand Australian and partner government financial and administrative procedures. They also need explicit guidelines on what they are expected to do when they confront corruption. These should be shared with the partner government. The guidelines need to be clear about the consequences for advisers should they be seen to be condoning or participating in corruption.¹⁴

20.12 In the committee's view, this observation applies also, but more generally, to any situation where an Australian working in an overseas country finds him or herself in a situation of real or potential conflict of interest.

Recommendation 21

20.13 The committee recommends that AusAID review its training programs for all Australian officers deployed overseas as part of Australia's ODA effort. The review should give particular attention to managing conflicts of interest, working in environments where corruption exists and maximising skill and knowledge transfer.

Institutional strengthening

20.14 The comments made by the Office of Development Effectiveness about the need for guidelines also reinforce the importance of appropriate training. Without doubt Australian officers have to make difficult decisions in often very different cultural and workplace settings. In doing so, they are building up a valuable body of experience and understanding of how to deal with complex situations and also, more broadly, how to be more effective in building local capacity in the region.

20.15 Another important lesson that Australia's technical advisers are learning concerns the patience required in institutional strengthening. Indeed, Treasury has come to appreciate that building and strengthening state institutions is a long-term and complex task. According to Mr Motteram:

...the issues of building another finance ministry are a lot more complex than we thought in 2003. We are a little humble at this stage in Treasury.

13 AusAID Office of Development Effectiveness, *Approaches to anti-corruption through the Australian aid program: Lessons from PNG, Indonesia, and Solomon Islands*, 2007, p. 36.

14 AusAID Office of Development Effectiveness, *Approaches to anti-corruption through the Australian aid program: Lessons from PNG, Indonesia, and Solomon Islands*, 2007, p. 37.

We are prepared to say that it is quite a complex process in trying to build capacity within another sovereign ministry, and the issues are more than technical. We see our role now as assisting others, building capacity with individuals in the Treasury, thinking about the institutions themselves and the systems that go to make up a well-functioning public finance system, and Treasury as well.¹⁵

20.16 He explained further that while they are in-country, advisers will want to achieve change, but reform in areas such as microeconomics is quite a complex area involving reforms that do not occur overnight. Mr Motteram noted that an underlying challenge in motivating staff was to regard the job 'as building the capacity of local public servants to provide good advice to ministers to make whatever decisions...that they wish to make'.¹⁶ He cited experiences in Solomon Islands to highlight the difficulty in capacity building, suggesting that it 'probably took a little too long to recognise that we had moved past stabilisation of the Treasury':

...in the Solomon Islands there were criminals wandering around the Treasury demanding money and so on. We moved fairly quickly from that phase. One of the first allocations was to build a fence around the place. The physical security aspect was quite important there. Now we are working with the Solomon Islands's government and our partners in the ministry to emphasise building capacity within that ministry in terms of the people there but also the institution itself. That is a far subtler and more difficult exercise than getting the budget into order initially. We are recognising that there are generational issues associated with this.¹⁷

20.17 The Office of Development Effectiveness also referred to the importance of managers being 'more realistic about what can be achieved and more specific about the changes the aid program intends to bring about'.¹⁸

20.18 Clearly, Australian personnel engaged in providing technical assistance have over recent times built up an impressive body of knowledge and understanding of the difficulties and complexities in institutional strengthening. Mr Motteram informed the committee that they now have a growing number of staff with experience in Pacific island countries and when issues arise, there is a pool of people able to contribute with 'more insights and sympathy'. In his view, this development is an unidentified benefit and its engagement in capacity building in developing countries is yet to be matched.¹⁹ Treasury has compared its work with other countries such as the United States, France and the Netherlands and found:

15 *Committee Hansard*, 20 November 2008, p. 3.

16 *Committee Hansard*, 20 November 2008, p. 6

17 *Committee Hansard*, 20 November 2008, pp. 3–4.

18 AusAID Office of Development Effectiveness, *Annual Review of Development Effectiveness 2007*, p. ix.

19 *Committee Hansard*, 20 November 2008, pp. 3–4.

...we do not see much evidence of complete immersion, in a sense, that goes on of placing people in these treasuries for two or three years at most. We put people in the treasuries for a long time to do the roles there, whereas the other treasuries provide assistance on a project-by-project basis. If you need assistance in debt issuance then someone will come from the United States Treasury to help you out on that project, whereas the dimensions of our engagement are about building up the long-term capacity of that Treasury to operate.²⁰

20.19 Mr Motteram explained that there is 'a much greater whole-of-government focus in Australia's interventions than there are in the other countries. We have a deeper concept of that compared to other jurisdictions'.²¹ Thus, through their efforts as support staff in countries such as PNG, Treasury officials have seen 'an improved strategy towards financial planning'. They have also learnt some important lessons.

Committee view

20.20 The committee believes that if Australia is to improve its effectiveness in delivering assistance to the region, it must make a concerted effort to ensure that lessons learned are captured and used to benefit all engaged in Australia's ODA. Training that draws on the body of knowledge and experience that Australian officials are building is critical to achieving continuous improvement in the delivery of Australia's aid program.

Training and preparedness

20.21 In its report on peacekeeping, the committee recognised that a high priority should be placed on training for overseas service. It acknowledged that there were limits to the resources and time that could be devoted to training but even so, it drew attention to the patchwork of institutions and organisations providing training on behalf of the various agencies. It found:

...if Australia is to achieve an effective whole-of-government training framework, it must begin by finding a way to integrate the separate training programs and *ad hoc* courses into a coherent whole. While allowing agencies to continue to train their personnel for their specific functions, this whole-of-government approach would avoid duplication, identify and rectify gaps in training and promote better cooperation and coordination among all participants in the field. A central agency is required to provide overarching strategic guidance and planning that would give coherence to the agencies' individual and joint education and training programs.²²

20 *Committee Hansard*, 20 November 2008, p. 4.

21 *Committee Hansard*, 20 November 2008, p. 4.

22 Senate Standing Committee on Foreign Affairs, Defence and Trade, *Australia's involvement in peacekeeping operations*, August 2008, p. 179.

20.22 The committee's findings in 2008 about training still have currency. In light of additional evidence, the committee also believes that an added emphasis in training should be placed on making better use of people returning from service in the region. Treasury provides a clear example of the way in which Australian government agencies are building a wealth of expertise. It is important that the lessons to be learnt from their experiences are captured and used in educating and training Australian personnel preparing for future deployment.

20.23 Professor Moore and Mr Jackson proposed the establishment of a Pacific Regional Training Institute that would address some of the committee's concerns regarding the training needs of Australians preparing for service in the region. Their thesis rests on the premise that Australia needs a strategic integration of effort in the Pacific. They suggested that to achieve this objective, a new approach is needed to reformulate education and training into a structure that would 'better meet regional needs and overcome observed deficiencies in the delivery of development aid'. In their view, a Pacific regional training institute would, *inter alia*, 'orientate Australians and New Zealanders intending to work in the Pacific to cultural nuances and to techniques of navigating through the complex situations in which they will operate'.²³ Professor Moore suggested that the institute would cater in particular for those seconded from a department such as Treasury who go into a line position and not so much to AusAID people, many of whom are consultants who have been working in these areas for a long time.²⁴

20.24 The proposed institute, however, would also include training courses or programs for people from Pacific island countries in matters such as governance, public service management, conflict resolution and issues related to social and economic development. Professor Moore was of the view that the Australia Pacific Technical College, based in Fiji with a couple of different campuses, was 'a very good initiative' but there was merit in training from an Australian base rather than in the Pacific. He explained that the institute would not replace training in the Pacific but people—middle to higher-level public servants in the Pacific—would have the opportunity to see an operating bureaucracy that is not their own.²⁵ According to Professor Moore, 'Middle-level public servants from Australia and...the Pacific, would establish relationships which may go on for 20 years while both become more senior in the public service'.²⁶

20.25 Professor Moore was of the view that there was advantage to be gained from preparing public servants through one institution that provides substantial training. In his view, by putting people through a more rigorous regular training system, 'you will

23 *Submission 3*, p. 6.

24 *Committee Hansard*, 26 March 2009, p. 6.

25 *Committee Hansard*, 26 March 2009, p. 3.

26 *Committee Hansard*, 26 March 2009, p. 6

get more bang for your bucks'.²⁷ He noted that because Brisbane is the gateway for so many international flights from the Pacific, there would be an advantage situating it in Brisbane.²⁸

20.26 Since the committee made its recommendation in 2008 about reviewing the training provided to Australian officers to be deployed overseas, the government has proceeded with a number of initiatives including the establishment of the Asia Pacific Civil–Military Centre of Excellence and the proposed deployable civilian capacity.

Asia Pacific Civil–Military Centre of Excellence

20.27 The Asia Pacific Civil–Military Centre of Excellence was opened on 27 November 2008 and is located in Queanbeyan, New South Wales. Its key objectives are to:

- develop best practice in civil–military training, education, doctrine, research and implementation;
- support cohesive civil–military effectiveness in disaster and conflict management overseas; and
- strengthen national, regional and international engagement in civil–military affairs.²⁹

20.28 The centre is managed by the Department of Defence and the organisational structure anticipates a staff of 20 personnel, including five Defence civilian personnel, a military affairs adviser and four reservists from a larger pool on a rotational basis. DFAT, AusAID, the AFP and Attorney-General's each provide two secondees. The Centre is headed by an Executive Director, and New Zealand has been approached to fill the deputy director position.

20.29 Part of its strategic plan commits the centre to 'value-add to the work of Australian Government departments and agencies, and non-government sector agencies with a role in conflict and disaster management overseas'. It states:

We promote enhanced whole-of-government and whole-of-nation approaches to disaster management, humanitarian assistance, stabilisation and reconstruction, governance and rule of law assistance, and conflict prevention, with a primary focus on the Asia Pacific region.³⁰

27 *Committee Hansard*, 26 March 2009, p. 7.

28 *Committee Hansard*, 26 March 2009, p. 7.

29 Asia Pacific Civil–Military Centre of Excellence, *Strategic Plan, 2009–2011*, April 2009, p. 3, http://www.civmilcoe.gov.au/uploads/files/Strategic_Plan_2009_V2.pdf (accessed 2 July 2009).

30 Asia Pacific Civil–Military Centre of Excellence, *Strategic Plan, 2009–2011*, April 2009, pp. 3–4, http://www.civmilcoe.gov.au/uploads/files/Strategic_Plan_2009_V2.pdf (accessed 2 July 2009).

20.30 Despite this last statement, which includes matters such as governance, rule of law and conflict prevention, the focus of the centre's plan is on the post-conflict or post-crisis phase and does not appear to entertain the much longer-term capacity building that is the main concern of the committee's inquiry. Before commenting further on the work of the centre and its relevance to the committee's inquiry, the committee considers the proposed deployable civilian capacity.

Deployable civilian capacity

20.31 Increasingly over recent years, many countries and international organisations have acknowledged the need to have deployable civilian expertise standing ready to assist in the immediate aftermath of conflict.³¹ A number of countries have already taken steps within their respective administrations to improve their civilian capacity for stabilisation, nation building and crisis management operations. They include the United States, the United Kingdom, Canada, Germany and the European Union.

20.32 Currently, a taskforce, led by AusAID and comprising members from Defence, AFP, PM&C, the Australian Government Solicitor and Attorney-General's, is at the policy formulation stage of developing the proposal for an Australian deployable civilian capacity. It is to report back to government later in 2009. Mr Robert Jackson, who is leading the team, informed the committee that no new agency would be created. Australia's deployable civilian capacity is not intended to be a humanitarian initiative, it is to provide 'technical experts for post-conflict and post-disaster environments to start the stabilisation and reconstruction phase'. He explained that the term 'reconstruction' should be interpreted in a broader context—'the economy, the machinery of government and essential services as well'. The intention is to have people pre-identified 'so that it speeds up the time in getting people onto the ground to assist'.³²

20.33 At this early stage in developing Australia's deployable civilian capacity, the committee is limited in its ability to comment. Even so, it appears that with its focus on post crisis intervention, it also does not address the committee's concerns about achieving an effective whole-of-government training framework for those engaged in longer-term overseas development assistance.

20.34 The committee can see, however, significant areas of overlap in the transition from an immediate recovery phase to the institutional strengthening phase so important in Australia's ODA program. Indeed, *Defence White Paper 2009* recognised that Australia's second most important strategic interest is 'the security, stability and

31 UN Security Council, 'Security Council hears 60 speakers, asks Secretary-General to advise organisation within one year on best ways to support national peace building efforts', 20 May 2008. SC/933, <http://www.un.org/News/Press/documents/2008/sc9333.doc.htm> (accessed 2 July 2009) and UN Security Council, Annex to letter dated 2 May 2008 from the Permanent Representative of the UK to the UN addressed to the President of the Security Council, S/2008/291.

32 *Committee Hansard*, 19 June 2009, pp. 40–41.

cohesion of our immediate neighbourhood'. It recognised that Australia should 'continue to play a leading role in supporting internal stability and effective governance with the countries of our immediate neighbourhood'.³³

20.35 The committee is concerned that two institutions have recently been established with a strong focus on peacekeeping and disaster relief but with little attention given to nation building, preventative diplomacy or risk reduction. Indeed, the committee sees a missing link or a disconnection between Australia preparing people to respond to a post-conflict or crisis situation and preparing people to engage in capacity or nation building.

20.36 In this regard, the committee notes the proposal for a Pacific Institute that would focus on this important phase of helping states to strengthen their capacity for economic and human development in a stable environment. By being better able to help countries in the region achieve political stability and good governance, become self sufficient and resilient to the effects of natural disasters, Australia would hopefully avoid or minimise the need for assistance in conflict or emergency situations.

20.37 In the committee's view, the proposal for such a training institute has great merit. Even so, because of the two recent initiatives, and the establishment of the AFP's training centre at Majura in the ACT, the committee is not inclined to suggest yet another body to deal with the training and preparation of Australian officials to be deployed to the region. It is suggesting, however, that measures be taken to draw together the experiences and knowledge that is accumulating over time by those engaged in the region, especially by those working to build capacity. The committee would like to see a commitment by government to a regime of continuous improvement in the delivery of Australia's ODA where lessons learnt from previous engagements are converted into policies, procedures and doctrine and passed on to those about to serve in the region.

20.38 The committee has drawn attention to the enormous range of Commonwealth officers involved in providing assistance to the region. Clearly, if Australia is to have an effective whole-of-government training framework, it must begin by finding a way to integrate the current separate training programs and *ad hoc* courses into a coherent whole.

20.39 The committee suggests that the Australian Government consider steps that could be taken to strengthen the relationship between the Asia Pacific Civil–Military Centre, the deployable civilian capacity and the various bodies involved in preparing Australians engaged in ODA. The intention would be to establish a visible and well-connected network of training institutions concerned with the broad issue of human security in the region. It would include those engaged in immediate post-conflict or

33 Department of Defence, *Defending Australia in the Asia Pacific Century: Force 2030*, Defence White Paper 2009, 2009, p. 42.

emergency or humanitarian relief operations, through to those involved in longer-term capacity building programs as well as institutions providing language and cultural awareness training for deployees. It would be an effective means of disseminating information on best practice and be especially valuable in developing expertise on Melanesia and the region more generally.

Strategic relationship between ANU and the public service

20.40 An effective central body, however, is needed to ensure that the network functions effectively and that public officials preparing for overseas deployment benefit from the range of available expertise.

20.41 The Prime Minister's recent proposal to see a new re-invigorated strategic relationship established between the ANU and the Australian Government may well provide the solution. He observed that because 37 per cent of the 160,000 members of the Australian Public Service live in Canberra, it would be sensible 'to harness the resources of our national university to enhance the administration of the Commonwealth'. According to Mr Rudd:

What we need in Canberra is a much more robust and integrated exchange of ideas between our academics, our politicians and our public service, and more intensive professional preparation for senior roles in government. Imagine if this country engaged its academics in thinking about the way ahead for the public service with initiatives which, in their totality, would be like the Kennedy School of Government at Harvard.³⁴

20.42 Mr Rudd envisaged a relationship between the ANU and the public service that would put 'education and research at the centre of building robust public policy—'A relationship that grows excellence in policy analysis, policy advice and public sector strategic leadership'. He referred to the good work being done through the collaborative Australia New Zealand School of Government, which is dedicated to promoting public sector leadership and policy. In his view:

The next challenge is how do we take that to the next level? How do we meet the future professional needs of our official community?³⁵

20.43 Part of the response to this challenge could be to set up a special unit, under the proposed partnership between ANU and the public service, that would serve as the hub of a network of all organisations engaged in preparing officials for overseas service. It would include institutions such as CDI, relevant research schools and NGOs working in the Pacific region. The Asia Pacific Civil–Military Centre, the deployable civilian capacity and the AFP's training centre at Majura would form an

34 Prime Minister of Australia, Speech, '2009 Annual Burgmann College Lecture', Australian National University, 27 August 2009.

35 Prime Minister of Australia, Speech, '2009 Annual Burgmann College Lecture', Australian National University, 27 August 2009.

integral part of this network concerned with human security and building capacity in Pacific island countries.

Recommendation 22

20.44 The committee recommends that the Australian Government make a commitment to strengthening the relationship between the Asia–Pacific Civil–Military Centre, the deployable civilian capacity and the other bodies involved in training Australians engaged in ODA. The intention would be to establish a visible and well-integrated network of training institutions concerned with the broad issue of human development and security in the region. It would bridge any potential gaps between the immediate recovery phase and long-term development and conflict prevention phases.

20.45 Furthermore, it recommends that the Australian Government appoint a central body to oversee this network and ensure that adequate funding, if needed, is available to establish and maintain this network. The Prime Minister's proposal for a new re-invigorated strategic relationship established between the ANU and the Australian Government provides the opportunity for the establishment of such a body.

Conclusion

20.46 Although Pacific island countries cannot change the physical circumstances of their size, natural resources, remoteness and susceptibility to natural disasters, they can make themselves more resilient to the adverse effects that often flow from these inherent impediments. In order to achieve and sustain economic growth, they need to find ways to make better use of their natural resources, develop their skill base, keep the costs of production to a minimum, expand their overseas markets and moderate the devastating effects of cyclones, floods, droughts and other weather extremes. They also need to create an environment that encourages entrepreneurs and attracts investors by improving economic infrastructure, governance, including financial management, the capacity of their bureaucracies to deliver essential services and their regulatory environment.

20.47 Australia is the main source of aid to the Pacific and has an extensive aid program. Work is being done, for example, in agriculture, fisheries, forestry, mining, managing natural disasters, climate change, economic infrastructure, education, health, financial management, governance, law and order, land tenure and financial services. Across the range of these sectors, Australian funding is being used for research and development, for building and improving infrastructure, and to provide advice, training, education and technical assistance.

20.48 Although the committee recognises the fine work that Australia is doing through its ODA programs to help Pacific island countries develop their economies and improve the living standards of their people, it identified areas where Australia could increase the effectiveness of its assistance. The committee was of the view that Australia could do more to:

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- ensure that aid reaches those most in need;
 - respond to the urgent call from Pacific Island countries to help them meet the challenges of climate change;
 - find more effective ways to ease the burden on Pacific island countries of monitoring and policing activities in their EEZs and representing their interests in regional and international organisations;
 - ensure that the benefits deriving from Australian assistance do not fade as projects come to an end and funds and technical assistance are withdrawn;
 - better align Australian assistance with the priorities of recipient countries and of other donor countries;
 - strengthen Australia's whole-of-government effort by having a more coherent plan and implementation strategy;
 - incorporate the work of state, territories and local governments and NGOs in Australia's ODA;
 - help improve the quality of statistics available on key economic and human development indicators; and
 - foster a culture of continuous improvement by making the monitoring and evaluation of projects more rigorous.

20.49 The committee made a number of recommendations addressing these areas. Some called on the government to give greater attention to specific areas including climate change, tourism, the non formal education sector, the problem of brain drain, and working with the private sector. Others required specific action such as the re-appointment of a Pacific Investment Commissioner. The overarching recommendations, however, were concerned with improving the overall effectiveness of Australia's ODA through better planning and integration of projects and a more robust system of monitoring and evaluating programs.

SENATOR RUSSELL TROOD
CHAIR

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Appendix 1

Public submissions

- 1 Sydney Centre for International Law—The University of Sydney
- 2 Mr Satish Chand
- 3 Professor Clive Moore CSI and Mr Keith Jackson AM
- 4 Commonwealth Ombudsman
- 5 National Harvest Labour Information Service
- 6 University of Queensland's Consortium on Community Building and Responsible Resource Development
- 7 Government of Japan—Ambassador of Japan
- 8 Department of Broadband, Communications & the Digital Economy
- 9 Sunraysia Citrus Growers Inc.
- 10 Australian Services Union (ASU); Community and Public Sector Union (CPSU); Communications, Electrical and Plumbing Union (CEPU)
- 11 The Centre for Independent Studies (CIS)
- 12 Australian Fair Trade and Investment Network (AFTINET)
- 13 Recruitment and Consulting Services Association (RCSA) Australia & New Zealand
- 14 Lowy Institute for International Policy
- 15 Australian Manufacturing Workers' Union (AMWU)
- 16 AID/WATCH
- 17 Liquor, Hospitality and Miscellaneous Union (LHMU)
- 18 Department of Defence
- 19 Sunraysia Mallee Economic Development Board
- 20 Institute of International Trade, The University of Adelaide
- 21 Mr John Millett
- 22 Mr Nigel Phair
- 23 Dr Robert Ayson
- 24 Dr Max Quanchi
- 25 Mr Bob Breen
- 26 Oxfam Australia
- 27 Australian Prudential Regulation Authority (APRA)
- 28 Government of Fiji—High Commissioner for the Republic of the Fiji Islands
- 29 Australian Chamber of Commerce and Industry
- 30 Australian Nursing Federation
- 31 Pacific Asia Tourism Pty Ltd
- 32 Australian National Audit Office (ANAO)
- 33 Australian Industry Group (Ai Group)

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- 34 Esso Australia Pty Ltd
 - 35 Northern Territory Government
 - 36 Department of Immigration and Citizenship
 - 37 ACT Government
 - 38 Confidential
 - 39 Dr R A Herr OAM
 - 39A Dr R A Herr OAM
 - 40 Attorney-General's Department and Australian Customs Service
 - 41 Qantas Airways Limited
 - 42 Department of Agriculture, Fisheries and Forestry
 - 42A Department of Agriculture, Fisheries and Forestry
 - 43 Department of Infrastructure, Transport, Regional Development and Local Government
 - 44 Palms Australia
 - 45 Australian Transaction Reports and Analysis Centre (AUSTRAC)
 - 46 Australian Nuclear Science and Technology Organisation (ANSTO)
 - 47 World Vision Australia
 - 48 Professor Helen Ware
 - 49 Australian Council for International Development (ACFID)
 - 50 CSIRO
 - 51 Australia and New Zealand Banking Group (ANZ)
 - 52 Maritime Union of Australia
 - 53 The Foundation for Development Cooperation
 - 53A The Foundation for Development Cooperation
 - 54 Mr Geoffrey Beecroft
 - 55 Construction, Forestry, Mining & Energy Union of Australia (CFMEU)
 - 56 State Society and Governance in Melanesia Program—The Australian National University
 - 57 TAFE Directors Australia
 - 58 Australia Fiji Business Council
 - 59 Department of the Treasury
 - 60 Australia Pacific Islands Business Council
 - 61 Austrade
 - 62 Australian Federal Police (AFP)
 - 63 ITS Global
 - 64 Department of Education, Employment and Workplace Relations
 - 65 Australian Agency for International Development (AusAID)
 - 66 Credit Union Foundation Australia
 - 67 Australian Centre for International Agricultural Research (ACIAR)

- 68 Department of Foreign Affairs and Trade
- 69 Pacific Islands Forum Secretariat
- 70 Australia Papua New Guinea Business Council
- 71 Department of Climate Change

Appendix 2

Public hearings and witnesses

Thursday, 25 September 2008—Canberra

Australian High Commissioner to Tonga

His Excellency Mr Bruce Hunt

Thursday, 20 November 2008—Canberra

Austrade

Mr Pat Stortz, Manager, South-East Asia, South Asia and Pacific Unit

Australian Centre for International Agricultural Research

Dr Simon Hearn, Senior Adviser

Dr Gamini Keerthisinghe, Regional Coordinator for Papua New Guinea, and Research Program Manager, Soil Management and Crop Nutrition

Mr Barney Smith, Regional Coordinator for Pacific Islands, and Research Program Manager, Fisheries

Department of Agriculture, Fisheries and Forestry

Dr John Kalish, General Manager, International Fisheries, Trade and Market Access Division

Mr Paul Ross, General Manager, Bilateral Trade (Americas, South-East Asia, Subcontinent, New Zealand and the Pacific), Trade and Market Access Division

Mr John Talbot, General Manager, Forestry, Climate Change Division

Ms Anna Willock, Manager, Regional Fisheries Management Organisations, Trade and Market Access Division

Department of Broadband, Communications and the Digital Economy

Mr Colin Lawrence Oliver, Assistant Secretary, International Branch

Mr Brenton Thomas, Assistant Secretary, Network Operations and Spectrum Branch

Department of Education, Employment and Workplace Relations

Mr Graham Carters, Deputy Secretary, Employment and Strategic Policy

Ms Louise McSorley, Manager, Migration Branch

Ms Jane Press, Director, Migration Policy and Analysis Section

Department of Infrastructure, Transport, Regional Development and Local Government

Mr Mike Ford, General Manager, Aviation Safety, Aviation and Airports

Mr Andrew Tongue, Deputy Secretary

Department of the Treasury

Mr Michael Anderson, Manager, Pacific Unit, Pacific and Assistance Division

Mr John Burch, Manager, Papua New Guinea Unit, Pacific and Assistance Division

Mr Dan Devlin, Assistant Pacific Manager, Pacific and Assistance Division
Mr Thomas Mahony, Member, Pacific Unit Team, Pacific and Assistance Division
Mr Neil Motteram, General Manager, Pacific and Assistance Division

Friday, 21 November 2008—Canberra

Attorney-General's Department

Ms Lucinda Atkinson, Director, Pacific Section, International Assistance and Treaties Branch

Mr Steven Marshall, Assistant Secretary, International Assistance and Treaties Branch

Mr Nick Morgan, Director, Anti-Money Laundering Assistance Team

Ms Gemma Smyth, Acting Director, Illicit Drugs Section, National Law Enforcement Policy Branch

Australian Customs Service

Mr Lee Gordon, Director, International Programs

Ms Sachi Wimmer, National Manager, International

Australian Federal Police

Dr Tony Murney, Manager, International Deployment Group

Commander Paul Osborne, Manager, International Network, Australian Federal Police

Assistant Commissioner Frank Prendergast, National Manager, International Deployment Group, Australian Federal Police

Australian Transaction Reports and Analysis Centre

Mr Peter Clark, General Manager, Gambling, Money Services and International

Mr Neil Jensen, Chief Executive Officer

Department of Defence

Brigadier Andrew Nikolić, Acting First Assistant Secretary, Regional Engagement

Department of Foreign Affairs and Trade

Mr Patrick Cole, Assistant Secretary, Pacific Partnerships Taskforce, Pacific Division

Dr Claus Dirnberger, Executive Officer, Pacific Regional Section, Pacific Regional and New Zealand Branch

Ms Sarah Hooper, Director, Solomon Islands Section, Pacific Division

Mr Martin Anthony (Tony) Huber, Acting Assistant Secretary, Pacific Islands Branch, Pacific Division, Department of Foreign Affairs and Trade

Mr Rick Nimmo, Director, Pacific Partnerships Taskforce

Mr Richard Rowe, First Assistant Secretary, Pacific Division

Ms Corinne Tomkinson, Director, Pacific Projects

Mr Geoffrey Tooth, Assistant Secretary, Papua New Guinea and Fiji Branch

Department of Immigration and Citizenship

Ms Malissa Dryden, Acting Assistant Secretary, International Cooperation Branch, Refugee, Humanitarian and International Division

Mr Todd Frew, First Assistant Secretary, Border Security Division

Ms Elizabeth Beate Hoffman, Acting Assistant Secretary, Special Labour Market Initiatives Branch, Migration and Visa Policy Division

Mr Kruno Kukoc, Principal Adviser, Migration Strategies, Migration and Visa Policy Division

Thursday, 12 March 2009—Canberra

AusAID

Mrs Margaret Callan, Assistant Director General, Papua New Guinea Branch

Mr Bruce Davis, Director General

Dr Jane Lake, Adviser, Assistant Director General, Pacific

Mr Robert William Tranter, Assistant Director General, Pacific

Thursday, 19 March 2009—Canberra

Australian High Commissioner to Papua New Guinea

His Excellency Mr Chris Moraitis

Tuesday, 24 March 2009—Sydney

ANZ Banking Group Ltd

Mr Garry Tunstall, Chief Executive Officer, Pacific North West Region

Australian Industry Group

Mr Anthony Melville, Director, Public Affairs and Government Relations

Centre for Independent Studies

Emeritus Professor Helen Hughes, Senior Fellow

Lowy Institute for International Policy

Mr Fergus Edward Hanson, Research Associate

Ms Jennifer Hayward-Jones, Program Director, Myer Foundation Melanesia Program

Qantas Airways

Mr David Neill Callaghan, Manager, Government and International Relations

Mr Grant Raymond Lilly, Regional General Manager, New Zealand and Pacific Islands

University of New South Wales, International Law Programs

Associate Professor Jane McAdam, Director

University of Sydney, Faculty of Law

Dr Ben Saul, Director

Wednesday, 25 March 2009—Sydney

Australian Fair Trade and Investment Network

Dr Patricia Ranald, Co-convenor

Australia Fiji Business Council

Mr Brian Francis Anderson, President

Mr Francis Alric Yourn, Executive Director

Australia Pacific Islands Business Council

Mr Francis Alric Yourn, Executive Director

Mr Reginald Gordon Hodgson, Executive Member and Treasurer

Australia Papua New Guinea Business Council

Mr Ian Chatfield Clarke, President

Mr Francis Alric Yourn, Executive Director

Australian Prudential Regulation Authority

Mr Chris Gaskell, Head International Relations

Maritime Union of Australia

Mr Paddy Crumlin, National Secretary

Mr Rod Pickette, Policy Executive Officer, Maritime Union of Australia

Ms Zoe Reynolds, Media and Communications Officer

Palms Australia

Mr Brendan Joyce, Assistant Director

Institute for International Trade, University of Adelaide

Mr Jim Redden, Senior Lecturer and Director of Programs (Pacific)

Thursday, 26 March 2009—Brisbane

Esso Highlands Ltd

Mr Peter M Graham, Managing Director

ExxonMobil Australia Pty Ltd

Mrs Trisha M Perkins, Public Affairs Manager

Foundation for Development Cooperation

Dr Vladimir Pacheco, Senior Training Coordination and Research Fellow

Pacific Asia Tourism Pty Ltd

Mr Steven Arthur Noakes, Director

Professor Clive Robert Moore (private capacity)

Dr Alan Maxwell Quanchi (private capacity)

Thursday, 18 June 2009—Canberra—private meeting

Australian High Commissioner to Fiji

His Excellency Mr James Francis Batley

Friday, 19 June 2009—Canberra

AusAID

Ms Juliette Brassington, Director, Melanesia Section, Pacific Branch

Ms Margaret Callan, Assistant Director General, Papua New Guinea Branch

Mr John Davidson, Assistant Director General, Office of Development Effectiveness

Mr Robert Jackson, Assistant Director General, Deployable Civilian Capacity Group

Dr Jane Lake, Assistant Director General, Pacific Branch

Mr Tony Liston, Director, Partnerships and Incentives, Pacific Branch

Mr Robert Tranter, Assistant Director General, Pacific Branch

Department of Defence

Mr Ben Coleman, Acting First Assistant Secretary, Strategic Policy Division

Air Commodore Anthony Jones, Director-General, Pacific and East Timor,
International Policy Division

Pacific Islands Forum Secretariat

Mr Sanjesh Naidu, Economic Advisor

Mr Rick Nimmo, Director, Political Governance and Security Program

Mr Feleti Penitala Teo, Deputy Secretary General (Acting Secretary General)

Mr Edward Vrkic, Executive Officer, Pacific Plan Office

Centre for Democratic Institutions, Australian National University

Professor Benjamin Reilly, Director

Appendix 3

Additional information, tabled documents and answers to questions on notice

Additional information

Dr Max Quanchi - A National Strategy for the Study of the Pacific

His Excellency Mr James Batley, Summary of points of private meeting, 18 June 2009

Tabled documents

21 November 2008

Department of Infrastructure, Transport, Regional Development and Local Government—*Air Services Arrangements between Australia and Papua New Guinea and the island states of the southwest Pacific.*

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19 June 2009

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Answers to questions on notice and additional information

20 November 2008

- Department of Agriculture, Fisheries and Forestry
- Department of Broadband, Communication and the Digital Economy
- Department of Education, Employment and Workplace Relations
- Department of Infrastructure, Transport, Regional Development and Local Government
- Department of Infrastructure, Transport, Regional Development and Local Government—answer provided by AusAID
- Department of the Treasury

21 November 2008

- Attorney General's Department and Australian Customs Service
- Australian Federal Police
- Department of Australian Transaction Reports and Analysis Centre
- Department of Defence

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- Department of Foreign Affairs, Defence and Trade

12 March 2009

- AusAID

19 June 2009

- AusAID
- Department of Defence

Answers to written questions on notice

8 September 2009

- Australian Federal Police

Appendix 4

Port Moresby Declaration

1. The Government of Australia is committed to beginning a new era of cooperation with the island nations of the Pacific.
2. Australia respects the independence of the island nations, and the diversity and complexity of development challenges across our shared region.
3. Economic growth across the Pacific island nations, while improving in some, generally lags behind other developing regions. Progress towards the United Nations' Millennium Development Goals has been mixed.
4. The Pacific has significant natural resources – minerals, timber and marine resources. Managing them wisely and sustainably is a challenge for the region.
5. Australia and the Pacific island nations face a common challenge in climate change. Many of our Pacific neighbours, especially low lying atolls, are particularly vulnerable to the effects of climate change, including devastation from more frequent and severe extreme weather events.
6. The Government of Australia is committed to working in close cooperation with the Pacific island nations to meet our common challenges and to raise the standard of living for people throughout the region.
7. The Government of Australia proposes to pursue Pacific Partnerships for Development with our Pacific island neighbours. These Pacific Partnerships for Development will provide a new framework for Australia and the Pacific island nations to commit jointly to achieving shared goals.
8. Under the Pacific Partnerships for Development, the Government of Australia will be prepared to provide increased development assistance over time in a spirit of mutual responsibility embracing commitments by the Pacific island nations to improve governance, to increase investment in economic infrastructure, and to achieve better outcomes in health and education.
9. The Pacific Partnerships for Development will be a mechanism to provide better development outcomes for the Pacific Island nations. These Partnerships will embrace:
 - improving economic infrastructure and enhancing local employment possibilities through infrastructure and broad-based growth;
 - enhancing private sector development, including better access to microfinance;
 - achieving quality, universal basic education;

- improving health outcomes through better access to basic health services; and
 - enhancing governance, including the role of civil society, and the role of non-government organisations in basic service delivery.
10. Working jointly to help the Pacific island nations meet their Millennium Development Goals will also be a focus of the Partnerships.
 11. Australia will increase its practical cooperation with the Pacific island nations to meet the challenge of climate change and sustainable management of resources.
 12. Australia will make a direct contribution to education and training opportunities for citizens from the Pacific island nations – including through the enhancement of regional education institutions and a significant program of scholarships to study at Australian education institutions.
 13. Australia is also committed to linking the economies of the Pacific island nations to Australia and New Zealand and to the world, including through pursuing a region-wide free trade agreement and enhancing other private sector development opportunities. This will help to secure a sustainable and more prosperous future for the region.
 14. As we announced in Canberra on 27 February, the Governments of Australia and New Zealand will work more closely together and with our partners to coordinate our development assistance to the Pacific. Together, Australia and New Zealand provide around \$1 billion of development assistance to the region. By working together we can improve the impact of our development assistance and provide better results for the people of the Pacific islands.
 15. Australia will also work to increase its cooperation with other donor countries and organisations, and international financial institutions such as the World Bank, including through more coordinated delivery of development assistance programs across the region and joint programs where feasible.
 16. Australia is committed to close and strong relationships with our Pacific neighbours and with regional organisations, particularly the Pacific Islands Forum. We are also committed to fostering stronger linkages between Australian, national and regional institutions.
 17. Australia's relationships in the region already have considerable depth – across people-to-people links, economics and trade, and government cooperation. But Australia wants a new era of cooperation to begin. The Government of Australia is committed to working with the Pacific island nations on the basis of partnership, mutual respect and mutual responsibility.
 18. Australia proposes that, progressively over the course of the coming years, we negotiate Pacific Partnerships for Development with those of our Pacific neighbours that share this vision.

19. Australia believes that, with long-term commitment and by working towards agreed goals, we will be able to build strong, stable nations in a more prosperous region.
20. Australia believes that the Millennium Development Goals agreed by the international community at the United Nations Millennium Conference in 2000, provide an appropriate framework for developing nations world-wide, including in our region. At the mid-point, progress towards the Millennium Development Goals has been mixed. Australia wants to reach a common resolve with the island nations of the Pacific to strive towards greater success against the Millennium Development Goals by 2015.

Prime Minister of Australia, Media release, 6 March 2008,

http://www.pm.gov.au/media/release/2008/media_release_0118.cfm

Appendix 5

Australian ODA to Pacific/PNG by sector

AusAID, Answer to question on notice 1, 12 March 2009

Q: “Can you take on notice giving us a sectoral breakdown on the same basis as in the 2008-09 budget papers of Australia’s ODA for the past 10 years so we can see what has happened there in a trend sense?”

Australian ODA by Key Sector to the Pacific/PNG, 1998-99 to 2007-08, in Current Dollars

	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Education	103,691,568	109,162,710	109,021,821	94,898,928	90,881,178	73,211,265	85,512,552	82,304,488	79,231,923	102,575,291
Environment & Natural Resource Management	22,410,838	25,464,356	23,321,864	20,768,385	15,081,811	21,179,902	20,250,512	11,744,340	17,775,769	13,528,498
Governance	102,134,419	106,271,494	157,603,502	140,443,977	141,066,277	252,112,239	388,586,365	364,992,358	385,947,354	395,287,186
Health	36,307,487	59,139,112	69,499,731	90,848,618	102,510,887	95,259,850	96,829,078	97,394,834	112,552,324	118,063,726
Humanitarian, Emergency and Refugee Aid	18,434,030	11,005,281	3,469,921	13,194,309	13,955,353	14,556,908	8,840,334	3,444,601	3,676,535	9,524,228
Infrastructure	74,632,381	81,573,519	75,682,108	75,702,761	80,203,366	105,658,096	63,252,431	52,893,796	81,181,145	114,342,299
Rural Development	10,789,302	14,772,000	19,186,863	16,692,833	15,990,840	16,821,013	16,036,851	11,419,619	11,462,533	22,799,414
Other	80,948,236	51,226,712	30,858,007	51,634,590	64,902,716	44,426,665	29,132,848	99,390,324	71,455,014	74,706,050
Grand Total	449,348,261	458,615,184	488,643,816	504,184,401	524,592,428	623,225,940	708,440,973	723,584,361*	763,282,596*	850,826,693*

* In some case total sectoral ODA in this table may differ from Pacific and PNG ODA reported in yearly Ministerial Statements on Australia's International Development Assistance Program. Differences may be due to a number of factors, including the apportioning of some global program expenditure to PNG and the Pacific, which is not reflected in the data included above.