

**1996 SUBMISSION
TO THE REVIEW OF AUSTRALIA'S
OVERSEAS AID PROGRAM**

**Oxfam Community Aid Abroad
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Preamble

In terms of sheer volume, Australia's aid program is a relatively small one. Consequently, Community Aid Abroad believes that there is a pressing need to ensure that maximum benefit is gained from the funds deployed. There is a need for the Australian aid program to be more strategic in setting its aims and its development priorities.

If a small aid program like Australia's is to be a player in the development debate it needs to be at the forefront of development thinking, policy and practice. This means an innovative, flexible and risk taking program which is also rigorous in measuring impact and effectiveness. Such an approach translates into an emphasis on evaluation, research and institutional learning. It necessitates the creation of an organisational culture which questions orthodoxies and encourages debate and openness. A high quality, forward looking aid program of this type will be very influential and have disproportionate leverage with other donors, bilateral and multilateral. This is the exciting potential for AusAID.

It is vital that AusAID places a greater emphasis on the achievement of sustainable impacts in its development practice. Improving people's lives permanently should be the measure of the aid program's effectiveness. This requires a move away from the often conflicting claims of the Jackson Committee's "Triple Mandate". Adherence to this mandate has far too often seen the aid program overly reactive and ad hoc. This review is a welcome opportunity to make such a fundamental shift in the program and in the culture of AusAID.

Summary of Principles

The submission made by Community Aid Abroad to the Aid Review has been constructed from a number of key principles. These principles are summarised below in order to provide a guide to the overall document.

1. The purpose of overseas aid should be the promotion of equitable development, rather than the direct serving of Australia's interests.
2. Australia is part of a global community, where security, stability and prosperity can only be brought about in the context of justice and equitable access to resources. The overseas aid program needs to be developed and delivered within this context.
3. Overseas aid should be directed to areas of need in order to reduce the growing inequity created in part by globalisation. Countries should be supported to pursue policies and practices within a global environment which promote equitable outcomes.
4. Australia should continue to contribute to the operation of the multilateral development banks and the various UN development agencies, both through

meeting its financial commitments to these bodies and, more importantly, through active participation in the Boards of such organisations.

5. The sectoral focus of the Aid Program should be driven primarily by a focus on basic human needs, including those of primary health care, basic education, access to credit, family planning, nutrition and basic shelter.
6. The delivery of overseas aid should be undertaken in such a way as to ensure that the mechanisms of delivery are coherent with a basic needs focus. NGO effectiveness in this area needs to be recognised.
7. The central principle determining the geographic focus of Australia's aid program should be need and therefore the focus should be on those countries and those regions which are most disadvantaged and with which Australia has developed relationships.

1. Introduction

- 1.1 Community Aid Abroad is an independent community-based Australian organisation which promotes social justice and the alleviation of poverty through the funding of development projects both overseas and in Aboriginal Australia. It is also involved in campaign and advocacy work which aims to challenge and change attitudes and policies that promote injustice and inequity.
- 1.2 Community Aid Abroad welcomes the Review in Australia's aid program. It marks the first major external review since the influential Jackson Committee Review in 1984. Since then there have been other reviews of various aspects of the aid program both internally and by the Parliament, the most significant being the Parliamentary Joint Committee on Foreign Affairs Defence and Trade Review in 1989 which examined the implementation of the recommendations of the Jackson Committee Report.
- 1.3 This Review therefore is timely and represents an opportunity to revisit the basis for Australia's Development Cooperation Program and to see how the changing international environment has affected aid and aid policy and how the Australian aid program should respond to that environment.
- 1.4 The Jackson Report in 1984 saw aid as a tool to serve community, political and commercial interests. These were reflected in the three objectives of the aid program: an overarching humanitarian objective together with commercial, and political objectives. These objectives were often in conflict resulting in the commercial and political objectives sometimes overshadowing the humanitarian objective.¹

¹Eldridge has referred to this as the Triple Mandate in Kilby, P. (ed) 1996, *Australia's Aid Program - Mixed Messages and Conflicting Agendas*, Community Aid Abroad and Monash Asia Institute, Melbourne; and it was the differing objectives of the aid program which gave rise to the title of the book.

- 1.5 Jackson did not see aid as having a more international and global role beyond the notion of Australia's interests. Community Aid Abroad sees this Review as an opportunity to address the broader question as to the purpose of aid in the context of rapid global changes and the challenges they bring. The Coalition Government's articulation of the purpose of aid is an important step towards this view. This purpose is; to assist developing countries to help meet the basic needs of their people; and to assist in achieving a more secure and equitable international order.²
- 1.6 Community Aid Abroad welcomes the new articulation for aid which is based on the notion that security, stability, and prosperity can only be brought about in the context of justice and an equitable access to resources. Put simply the aid program is to promote equitable development.
- 1.7 It moves away from articulating aid as a response to a humanitarian and other interests in Australia to one of clearly articulating a focus for aid and a rationale which goes beyond interests. This submission will elaborate further on the three elements we see in the Government's aid objective:
- i. development being a shared responsibility between developed and developing countries;
 - ii. a clear basic needs focus; and
 - iii. the important rationale of a global focus connecting equity and security.

Recommendation 1: That the Aid Review adopt the Government's articulated purpose of aid: "to assist developing countries to help meet the basic needs of their people, and to assist in achieving a more secure and equitable international order", and set out a clear framework for the implementation of that objective.

2. International Context

- 2.1 Australia is part of a global community that has changed considerably since the 1984 Jackson Review.

At that time development cooperation took place in the context of a bipolar international order with the Cold War being played out and Australia only beginning to open up its economy and look more to its immediate region.

²From the Coalition Aid policy document *A Confident Australia* and reiterated by the Mr. Alexander Downer the Foreign Minister in his statement "The Challenges for Sustainable Human Development; A Response from Australia", delivered to the Crawford Fund 2020 Vision Seminar 28 May 1996 Canberra.

- 2.2 Since then the regional and national environment Australia finds itself in has changed markedly. The uneasy certainty of the cold war has been replaced with uncertainty as the world community grapples with new challenges and new forms of insecurity. Many of these global issues seem intractable and have their greatest impacts in the developing world. These include: the breakdown of states, increased disasters and insecurity, environmental challenges, and the marginalisation of communities.
- 2.3 Two phenomena have played an important role in the increasing insecurity and uncertainty. The first is the withdrawal or decline of patron states from the support of developing countries - a decline in political commitment, and with this a questioning of the role of the State itself. The second is the increased polarisation that globalisation has brought which has effectively left some states and significant populations within states increasingly marginalised.

Decline in Political Commitment

- 2.4 While the world is rapidly moving towards a globalisation of information and capital flows, states themselves are becoming more insular and inward looking with rising nationalism and political isolationism. The UN is in real danger of declining in importance and relevance as trading blocks replace the political blocks of old. This trend is reflected in part in declining aid flows, and scepticism towards global institutions such as the United Nations in favour of trading blocks such as APEC, NAFTA etc. which consciously eschew any political agendas.
- 2.5 Aid has seen a steady decline over the past ten years. The idea that aid is a mechanism for sharing the prosperity of the richer countries with the developing world through making a direct link between aid flows and the growth rate of the developed countries (the 0.7% ODA/GNP ratio) has been effectively abandoned.
- 2.6 In Australia the ratio of ODA to GNP has fallen consistently. In 1983 Australia's ODA/GNP ratio was 0.51 as against a UN target of 0.7. This last year it was 0.33 and with the recent cuts in the aid program will fall to 0.29 in 1996-97. These cuts are double what the average cuts the government is asking in its overall expenditure. Again this is an indication of Australia's declining commitment to its international obligations. This is in contrast to defence expenditure which has been shielded from cuts.

A climate of insularity has replaced the post war internationalism which dominated for four decades.

- 2.7 This trend is not confined to Australia. Many other countries are also cutting their aid programs - Canada has cut its aid budget some thirty per cent over the past three years. Similarly the United States is seeking similar cuts in its international aid commitments. On the other hand, some smaller donors have increased their aid programs. In the past it has been Australia's unwritten policy to stay above the

OECD weighted average even with the recent aid cuts. It is still above the DAC weighted average which is, however, at an alltime low of 0.27.³

- 2.8 The decline in support for multilateral bodies is also evident with both the UN agencies and the Multilateral Development Banks (MDBs) under siege; suffering deep cuts in funding and a questioning of their relevance. In its 1996-97 budget the Australian Government cut its funding to key UN agencies substantially.
- 2.9 The utilisation of aid is also changing, with aid for long term and sustainable development becoming less certain as other considerations overshadow it. Increasing proportions of aid are being used to deal with emergencies, the political realignment of the world post cold war - aid to Eastern Europe, and the bigger globalisation agenda whether that be through funding structural adjustment programs, or direct support for free trade through APEC and similar mechanisms. All of these pressures are moving aid away from its basic human needs focus.
- 2.10 The argument often presented to justify this decline in aid is that investment flows are absorbing the slack. This is simply not true. While there has been a massive increase in private flows over the past decade, three quarters of this to as few as twelve countries; only six per cent goes to Africa where the bulk of the world's poor live; and only two per cent to the 47 least developed countries.⁴ In other words, the investment flows are grossly unequal and will only serve to widen the gap between rich and poor countries further and marginalise whole communities.
- 2.11 As we have indicated earlier, this change in the view of aid not only reflects a new fiscal stringency and a winding back of government but also a new insular and a less global approach to international issues. It seems that while global capital flows are encouraged, global governance and accountability are not.

Inequity and Globalisation

- 2.12 The outcome of these two phenomena, a new nationalism and globalisation, is a widening gap between rich and poor, not only within countries but between states which leads to increasing tension.

³The DAC weighted average refers to the total OECD aid levels divided by total DAC GNP. This gives a much lower average than the DAC unweighted average which is the average aid to GNP of each of the OECD members. Community Aid Abroad would see the unweighted average as a more appropriate measure as it is a measure of performance against the average of other aid donors.

⁴Kanaley, T. 1996, Annual Heindorff Lecture delivered on 25th May 1996.

The seemingly intractable breakdown of states such as Somalia and Liberia; the weakening of states such as Rwanda, Burundi, and Zaire; and the ongoing debilitating conflicts such as that occurring in Sri Lanka, are set to continue. This in turn will lead to greater calls on aid not as resources for development but basically resources for survival through emergency programs. The effect will be to have increasing numbers of states being on what are effectively international drip feeds. In 1991 only 1.5 per cent of total aid flows was spent on disasters relief and support; in 1994 this had climbed to 8.4 per cent.

- 2.13 The globalisation agenda is largely premised on a very simplistic assumption: that economic growth leads to equitable development. There is little evidence to support this contention. While we do not argue against growth per se, there is a strong case that rapid growth leads to greater inequity unless specific mechanisms are in place to compensate these effects. The UNDP Human Development Report (1996) argues this case in some detail.⁵
- 2.14 In China, despite a growth rate of more than ten per cent per annum the country is experiencing the greatest human movement in history as around fifty to one hundred million people are on the move seeking work. Despite some initial benefits from opening up the economy, both internally and externally, reports are that imbalances have taken hold and are proving intractable. The Chinese have reported that rapid growth has compounded the situation and magnified the mis-allocation of resources thus impairing social stability.⁶
- 2.15 The Gini Coefficient is the measure of inequality. A figure of zero indicates maximum equality and a figure of one maximum inequality. In the period 1980 to 1990 China's Gini Coefficient has risen from 0.33 to 0.38 moving from the most equal to one of the more unequal societies in Asia. In Sri Lanka, another example of a liberalised economy, the Gini Coefficient was 0.35 in 1970 but had increased to 0.51 by 1990. A similar phenomena can be found in a number of countries which in the past had high levels of health and education expenditure but later abandoned them in favour of a more liberalised regime.⁷

⁵For a fuller discussion of this phenomena see the 1996 UNDP *Human Development Report*, Oxford University Press, New York.

⁶Bain, I. and P. Bennoun 1996, "The China Country Program" in P. Kilby (ed) op cit.

⁷UNDP 1996 op cit.

- 2.16 The Asian Tigers, the rapid growth economies of East Asia, are often quoted as being example of models showing the advantage of liberalised economies. An important factor behind their success was the 'principles of shared growth', a series of equitable policies which these countries adopted. The main elements of these principles are universal education, equitable land holdings and land reform, support for small business through incentives, targeted housing, and working with labour in a labour- management cooperative model. In addition, the governments of these countries actively directed investment and set regulations to ensure that labour intensive industries were established.⁸
- 2.17 If the market is left unregulated with return on investment being the primary measure of success, then at the end of the day private capital is not going to invest in the rural poor, subsistence farmers, women, indigenous peoples, or remote areas with no infrastructure. Neither will smaller governments who are fiscally constrained and under great pressure to attract investors through lower taxes and subsidies. The solution which is often posited that people will move to where the growth is happening, is socially, politically, and environmentally untenable.
- 2.18 These global changes in the context of declining aid flows are of serious concern as the outcome as we have argued will be increasing inequity and a consequent instability. Aid has an important role to play in international security and equity. Cutting aid undermines this role therefore Community Aid Abroad opposes the Government's cuts to the aid program and would like to see a time-tabled approach to increasing the aid program to meet the UN target of 0.7% aid:GNP ratio.

Recommendation 2 That the Aid Review recommend a clear process for the Government to achieve its policy of reaching 0.7 per cent of GNP on development assistance and that it set an interim target of reaching the unweighted average of donor countries by the year 2000.

3. Aid and Globalisation

- 3.1 The current AusAID approach to globalisation is that the aid program can be part of creating conditions which will attract the private capital flows; the so called 'engine of progress'. At present, the official aid program has specific programs to support developing country APEC members to participate in, and benefit from, APEC trade and investment liberalisation and facilitation.

⁸World Bank, 1992, *The East Asian Miracle*, Oxford University Press, New York.

- 3.2 APEC declarations have focused on Development Cooperation as one of the pillars of APEC and developing country submissions to APEC have seen this as being directly related to aid flows to address poverty and equity issues in member states. The developed country responses, including that of Australia, has been to reject this analysis and specifically target aid at moving 'forward [APEC's] trade liberalisation and facilitation agendas'. Community Aid Abroad rejects this analysis. While globalisation may be inevitable it has very harsh costs and these are to do with an increasing gap between rich and poor and in some cases increasing absolute poverty.
- 3.3 The challenge for the aid program is to work with governments in addressing of growing inequities which arise in part from globalisation. This includes the role of the State and the regulatory framework to ensure the benefits of growth flow to all sectors including the marginalised. Where there are social costs, aid can provide some measure of mitigation.
- 3.4 The Australian Government policy goes some way to recognising this through its emphasis on:
- community level health development;
 - basic education for women and girls;
 - rural development and agriculture;
 - role of NGOs and the community level links they have.⁹
- 3.5 There is a case however for the program to go beyond this and specifically recognise that Australia's role as a global citizen is to recognise the equity issues which are emerging from globalisation and establish policies and frameworks for all aspects of the program including the UN and Multilateral Development Banks programs.

Recommendation 3: That the aid program address globalisation by providing support for countries to pursue policy and practices, within a global environment, which promote equitable outcomes in national development and which mitigate extreme negative social consequences.

4. The Government Aid Policy

- 4.1 Community Aid Abroad welcomes the direction that the Coalition policy for development cooperation A Confident Australia has taken and supports the thrust of the policy. We hope this Review builds on the directions set by that policy and the principles that underlie it.

⁹A *Confident Australia* The Coalition's Foreign Affairs and Aid Policy

- 4.2 An important principle in aid policy is coherence, that is to ensure programs are in line with stated policy. In order to do this a process for the implementation and review of programs against policy should be put in place. To date the official aid program has been weak in this area. While there are policies on issues such as gender, environment, and human rights, there is little evidence that these policies have been systematically implemented across the program, but rather the approach has been to establish special funding mechanisms to address these issues in a rather ad hoc basis.
- 4.3 While we agree there is an important place for special funds to be made available for innovative programs it is equally important that the aid program actively implement policies in all aspects of its work. This should involve an assessment of the impact of any proposed program in meeting the Aid Program's overall goals of addressing basic human needs and then specific assessments with regard to particular policies including gender, environment, human rights and participation.

Recommendation 4: That the Aid Review make specific recommendations on the establishment of mechanisms within AusAID to ensure that Government Aid policy is incorporated in all aspects of programming and that programs be assessed against that policy.

5. Emergency and Peace - Keeping

- 5.1 The 1980s and 1990s has seen the rise of what are becoming termed complex emergencies including famines related to conflicts in Ethiopia, Eritrea, Somalia, Rwanda, and Liberia. Such conflicts have grown at an enormous rate. The International Committee of the Red Cross reports that in the 1970s there were 50 million people affected by disasters, in the 1980s it had become 125 million and so far mid way through the 1990s there are already 320 million.
- 5.2 The reasons for these conflicts are complex and involve among other things the withdrawal of cold war patronage, the continued impact of past colonial divisions, emerging ethnic conflicts, and to some extent the frustration brought about by more globalised systems and in particular their impact on national economies. One of the examples of this is the Structural Adjustment Programs promoted by the World Bank and IMF and what is seen increasingly as external interference in national economies.
- 5.3 Another related issue is the growing number of persons either internally displaced within the boundaries of their own country or seeking asylum in other countries. UNHCR currently lists 27 million refugees and a further 27 million internally displaced are listed by the International Red Cross. In addition to displacement caused by famine or conflict, there are increasing internal migration movements as a lack of opportunity in deprived regions of their homeland forces people to seek work in more successful regions. The burgeoning cities and slums of the

developing world are testament to this phenomena. The trends are not sustainable and result in large populations of rural and urban poor.

- 5.4 Related to this phenomena is the incapacity of the international community to deal with the root causes of conflict. Can there be external intervention in what are essentially internal issues; and secondly, can the UN take the necessary decisions or mobilise sufficient resources to alleviate catastrophe? If the UN takes on such a role it is crucial that it does so consistently. To date we have seen large scale interventions in former Yugoslavia and Iraq but little action until it was too late in countries like Somalia and Rwanda.

The Role of the Aid Program

- 5.5 The aid program can play an important role in emergencies and disasters however, the central point to be reiterated is that the our aid program should focus on establishing frameworks and conditions so that such disasters are unlikely to occur. This can be achieved by the aid program focusing on the promotion of equitable development. Vulnerability is not the product of disasters per se, but rather poverty weakens social and community infrastructure leaving people vulnerable to external problems. Community development is therefore the best disasters mitigation strategy.
- 5.6 Notwithstanding this, there will be a need for a Government response to humanitarian crises as they occur. At present this is managed as two separate allocations within the humanitarian response section of AusAID. The first is a notional emergency allocation to cover unexpected emergencies and the second is programmed assistance for areas where the need is chronic (such as Afghanistan) and on-going or where there are active rehabilitation programs (such as Ethiopia and Eritrea)).
- 5.7 The main issue in developing this area of assistance is to provide response mechanisms which are relatively prompt, accountable, provide for sustainable programs which foster longer term development outcomes, and are supportive of international efforts for disaster prevention and peace and reconciliation.
- 5.8 Both NGOs and the United Nations system are important mechanisms in addressing humanitarian crises. The United Nations mechanism is important in giving an international perspective on an issue and especially through the UN High Commission for Refugees (UNHCR) and the UN Department of Humanitarian Affairs (UNDHA), to mobilise resources and expertise quickly with a depth of coordination experience. As a Board member of the various UN agencies it is also important that Australia have a say in the operation of these agencies, in particular the need for the various UN agencies to improve coordination in emergencies.
- 5.9 The other issue is a prompt and accountable mechanism which can directly reach the people in need. In many cases NGO mechanisms can provide this link. NGOs

in Australia have built up considerable experience through the 1980s when NGOs were responsible for delivering humanitarian assistance to areas where for a number of reasons, bilateral and multi lateral channels were impossible. These included Cambodia in the early 1980s, Ethiopia, Eritrea, and Vietnam in the mid 1980s. The success of these programs resulted in NGOs being used as channels and delivery mechanisms for humanitarian assistance to the extent that the UN through UNHCR and UNICEF use NGOs on a regular basis. Community Aid Abroad sees that this experience can be built on further with an expanded role of NGOs in the delivery of emergency assistance.

Recommendation 5: That the aid program recognise the specialist skills and expertise that Australian NGOs bring to emergency and rehabilitation programming in terms of a rapid response, on-ground up-to-date intelligence and a capacity to reach situations in many cases more quickly and at a more local level than the UN system. That the aid program actively use NGOs to complement UN efforts in emergency programming and to take the lead in rehabilitation work which is the first step to longer term development programming.

5.10 The other important area of emergency response is conflict resolution. The Government's response has been tentative, with support for global high level mechanisms such as the International Crisis Group and the International Institute for Democracy and Electoral Assistance. But there is also an important role for local initiatives in conflict resolution following crises.

Community Aid Abroad has been involved in supporting these mechanisms in a number of area including Somaliland (Northern Somalia) through the Borama Peace Conference which has resulted in an enduring peace over the past three years in that region (see *Box 1*); in Bougainville where Community Aid Abroad has supported a women's program on peace and reconciliation; and in Central America where Community Aid Abroad has been active in supporting agencies which have been involved in reconciliation programs especially in El Salvador and Nicaragua.

Recommendation 6: That AusAID develop a program for the support of a range of conflict resolution initiatives within its humanitarian response program and that these be given a priority within the allocation of resources for humanitarian programs.

Box 1: Reconciliation in Somalia

In the midst of famine and war, in early 1993 in Borama, Northern Somalia (the former British colony of Somaliland), Community Aid Abroad supported a National Reconciliation Conference or 'Gurti'.

The conference which was an effort to address a regional conflict between rival clans had national and international significance. At the time that the international community claimed that there was no civil society in Somalia to consult with about emergency programs however the Borama conference proved that Somalis do have a democratic tradition and institutions.

The 'Gurti' transcended clan interests. The original aim of the conference was to establish a process of reconciliation based on the principle of consensus. The conference lasted for four months and was successful to the extent that its objectives were extended to establish a political framework for Somaliland.

Elections were held and the new president of Somaliland was elected. With the rest of Somalia in turmoil, a peaceful political transition in a region of a country at war with both with itself and the United Nations, was a remarkable achievement.

Food Aid

- 5.11 Food aid has been used in emergency and rehabilitation programming ever since the aid program commenced. The origins of food aid arise from the World Food Program of the FAO which in the 1960s was aimed at addressing food security issues. Food aid rose in prominence through the 1960s and 1970s through the massive food aid programs, mainly of the US. These were developed in part as support for domestic producers, in part to meet chronic food shortages in developing countries and in part as an element in the broader cold war strategies. From this emerged the various food aid conventions which pledged donor countries on a five year rolling base to commit fixed amounts of food as aid, expressed as tonnages and therefore independent of price.
- 5.12 In 1994, Australia signed on to a commitment of 300,000MT of grain per year over a five year period which was at the same level as before. At the time Community Aid Abroad objected to the Government signing at this level as it distorted aid priorities by committing food aid ahead of other activities. This was in the context of fewer countries with whom Australia has an aid relationship experiencing chronic food deficits. In 1996 with substantially higher grain prices and a falling aid budget, the distortion the FAC creates in effective aid programming has intensified.

- 5.13 The main area food aid can be used is in the humanitarian programs in which certain amounts of food aid are clearly required, however very large quantities could interfere with the provision of aid for rehabilitation programs such as clean water, health, and education.

Recommendation 7a: That the Australian Government seek to renegotiate its obligations under the FAC to reduce the amount and in time seek to phase out altogether from this international obligation based on shipments of food to one based on fixed levels of aid expenditure on direct food security programs.

Recommendation 7b: That the primary responsibility for negotiating the FAC be removed from the Department of Primary Industries and Energy which has no other aid function and put with AusAID so it is more fully integrated with broader aid programming.

6. Multilateral Institutions

- 6.1 As indicated in the Introduction one of the major issues facing the world is a decline in what we describe as internationalism whereby states, through cooperative arrangements such as the UN system, take a global responsibility for peace and development across the world. The optimism of the immediate post-war period which saw the establishment of the UN and its specialist agencies has given way to a growing cynicism. Internationalism has been replaced by a growing nationalism in the context of a globalised market place. It is important therefore to reaffirm the role of the UN system and seek to reinvigorate it as an important forum for dealing with global issues. The aid program through its support of UN programs is one component of this support.
- 6.2 The role of multilateral institutions is important, however their performance is mixed. This is due both to structural issues: they are slow to adapt to a changing world and in some cases have unwieldy bureaucracies; and as a result of policies they have been pursuing which are often in conflict with broader development objectives and Australia's stated policies. Here we particularly refer to the World Bank Structural Adjustment Programs which have imposed further hardships on the poor of many parts of the world.
- 6.3 Community Aid Abroad supports Australia's active involvement in all multilateral institutions as they are the major mechanism by which a co-ordinated and internationalist approach is taken to world issues. Australia's involvement should however not only involve increased financial support to these institutions but also involve taking a lead in their governance and reform.

United Nations Funds and Programs

- 6.4 There is no doubt that the United Nations is in need of reform. There have been a number of initiatives in recent years for reform, most of which have foundered on

the incapacity of the member states, particularly Security Council members, to reach agreement. To its credit, Australia has played a leading role in this process and we would hope it will continue to show leadership in this area. Its bid for membership of the Security Council through 1996 is one positive sign in this area. This should be followed up with further work on UN reform.

- 6.5 It is not only the United Nations structure and Secretariat which need support for reform but also the specialist agencies of the UN, particularly the development agencies. These, like the broader UN, are under threat and are being weakened through continual funding cuts and neglect by the member states on the governing boards. Agencies such as UNICEF, UNHCR, and WFP all play vital roles in emergency relief and rebuilding states following debilitating wars and conflict. The development agencies such as UNDP, UNIFEM, IFAD, and others play an important role not only in program delivery but also in policy development and analysis to improve development programming and practice while also providing a global perspective for important development issues. It is regrettable that in the 1996/97 budget that AusAID funding for some of these agencies was cut substantially. Reduced contributions also reduce Australia's leverage in the reform process.
- 6.6 Australia can play an important role not only in providing continuing funding support for these agencies but also in their governance as a Board member. The continued financial support for these agencies is important, not only to further the development work they undertake but also to allow Australia, as a respected middle power, a voice on their boards. Like the broader UN, these agencies need their programs and priorities refocused to meet the rapidly changing global agenda.

Recommendation 8: That AusAID increase funding to the specialist UN Development agencies and, as an active Board member of those agencies, promote their reform.

Multilateral Development Banks

- 6.7 Australia is an active member of the World Bank Group agencies, especially IDA and the ADB. Through its membership of the board of these agencies Australia has a role to play in the governance of these institutions while it provides substantial financial support for their work.
- 6.8 The work of the MDBs has been the subject of some criticism. The World Bank has been criticised over the past decade for its policies with regard to promoting economic reform in countries and its complementary support for IMF structural adjustment programs. These reforms which have been primarily aimed at achieving macro-economic balance and the promotion of economic growth, have in many cases resulted in massive cuts to government expenditure which have led to the reduction of services to the poor and disadvantaged sectors within particular countries, in particular women and the rural poor. The soft loan arm of

the Bank, IDA which is aimed at poverty alleviation, has been used to promote these reforms and in more recent times has been used to pay off developing countries' multilateral debt with the IMF and other parts of the Bank Group.

- 6.9 More recently the Bank is making genuine attempts to improve its lending portfolio with more loans targeted to poor sectors. Some of the most recent structural adjustment programs, while still having negative impacts on the poor, have components directed to strengthening basic services in recipient countries. (Specific recommendations with regard to the MDBs are dealt with in Section 8.0 under Aid Delivery)

7. Sectoral Focus of the Aid Program

- 7.1 The sectoral focus of the Aid Program should be driven primarily by the overall objective of meeting basic needs. From this point policies should be developed with respect to gender, environment, participation, indigenous peoples and human rights; and a specific program focus including the provision of basic services, rural development, and HIV and AIDS.
- 7.2 The sectoral focus should also reflect broader international approaches to aid. These would include the DAC focus for aid on basic needs and Australia's commitments to the Social Development Summit's 20:20 principle by which developed countries would devote at least twenty per cent of their development cooperation expenditure to meeting specific social sector needs while developing countries would ensure that at least twenty per cent of their national budgets did the same. These two fundamental principles are in line with the Coalition Government's stated development objectives.
- 7.3 Also within the sectoral focus is the importance of a strong policy dialogue with recipient governments on aid priorities to ensure that the sectoral focus is incorporated in national planning. To date much of the policy dialogue has focussed on trade liberalisation, the winding back of the State, privatisation, and more general policies aimed at promoting rapid growth. Often this dialogue has been at the expense of a basic services approach and the role of Government in service provision and achieving equitable development.
- 7.4 The sectoral balance of the program should emerge from a basic needs analysis and a clear identification of where the greatest concentration of poverty lies. In most cases the sectors for support would be in rural areas and include water supply, agriculture, rural development, access to credit and basic services. While there will always be a need for some urban programs and some large infrastructure, decisions on these should be on the basis of relative need and equity.

Gender

- 7.5 The Gender policy of the aid program must be clearly premised on the fact that women are disadvantaged by development policies and make up the bulk of poor people in both rural and urban environments. The broad policy of globalisation and liberalisation has had a disproportionate negative impact on women.¹⁰
- 7.6 An effective gender policy can be met, in part, by having specific women's programs but, overall, will only be effective if there is a specific gender analysis in all activities to measure the impact on women and to establish clear mechanisms to ensure that women are fully involved in all aspects of the program cycle, most importantly at the design phase.¹¹
- 7.7 Some of these ways this might be achieved include:
- the formal consideration of gender relations in all the programs and projects that AusAID supports;
 - to encourage Australia's bilateral partners at high level consultations to change practices which are considered to be harmful or discriminatory;
 - an analysis of gender issues in all Country Strategy Papers, together with recommended strategies for addressing such issues;
 - the development of a gender impact statement for all projects that would then be included in the cycle of appraisals, monitoring and evaluation;
 - a regular gender audit of all country programs in order to provide benchmark data and to set specific goals and ensure those goals are being met;
 - the establishment of a mechanism to monitor GAD issues within the Agency's programs which would report directly to the AusAID Executive.
- 7.8 Another important area to be considered in the gender policy is that the strengthening of institutions and organisations within developing countries is important to ensure that the women are not marginalised and that they have an active role in the development of their communities.

Recommendation 9: That the existing gender policy be reviewed with a view to strengthening gender analysis across the program leading to measurable improvements in program design and output in relation to women's development.

¹⁰An Asian Development Bank sponsored study, *Rural Poverty in Asia*, which reports that the move towards market based liberalisation of economies has had much greater negative impacts on women relative to men.

¹¹For a further elaboration see Juliet Hunt "Gender Awareness in the Australian Aid Program:" in P. Kilby, (ed) 1996, op cit

Environment

- 7.9 The aid program should be driven fundamentally by the principle of sustainable and equitable development. The principles of inter- generational equity and intra- generational equity cannot be separated. One argument often put is that growth should generate the resources and space for both distribution and environmental protection. This simply will not work and favour certain groups and the current generation over others and also assumes that both social and environmental damage can be redressed.
- 7.10 The aid program should develop environmental standards for its work however it should avoid using the aid program in addressing broader global environment issues beyond its primary focus of addressing basic human needs in development. There has been some discussion of using the aid program to address Australia's obligations under international conventions to reduce global greenhouse emissions. This has been referred to as Joint Implementation which could involve the crediting of greenhouse gas reductions achieved under the aid program to meeting Australia's targets.

Box 2: Natural Resources in Ethiopia

Natural resources in Ethiopia are under extreme stress. Land degradation, including deforestation, soil erosion and biological soil deterioration are rampant throughout the country. Through collaboration with local partners Community Aid Abroad has embarked on an environmental rehabilitation and natural resource management program to combat the environmental crisis in Oromia and Tigray under the auspice of the AusAID NGO Environment Initiative.

Using limited financial inputs, the program focuses on reforestation and environmental awareness through the successful establishment of nurseries, training and education at the village community level. The success of these community based initiatives proven, there are enormous opportunities for Australian assistance to have a wider impact on environmental recovery and land management policies on a national level in Ethiopia through a technical assistance program.

Such a program would draw on Australia's comparative advantage in soil conservation, reforestation, dryland farming, land and water resource management and focuses on local capacity building for long term implementation and solutions to environmental issues.

- 7.11 Community Aid Abroad rejects this concept as it would naturally lead to the aid program being driven by domestic considerations rather than need. Furthermore

the targets being met by any such program would be directed to Australia rather than the developing country concerned.

- 7.12 The aid program, in its implementation, should take into account issues such as greenhouse gas emissions to ensure global standards are met or exceeded. For example in the power sector renewable energy sources and demand management techniques be adopted in activities (such as rural electrification) which would also have a basic needs focus.

Recommendation 10: That the aid program adopt sustainable development principles to ensure environmental protection and an enhanced natural resource for future generations, through the provision of specific funding for innovative activities, and the implementation of ecologically sustainable development principles in country programming, project identification and implementation. The current practice of an annual environment audit reporting to the Parliament should be continued.

Participation

- 7.13 At present AusAID does not have a specific policy dealing with participation. While in programming manuals there is reference to consulting with affected groups, an agency wide approach has not been followed nor have specific tools and practices been developed.
- 7.14 The rationale for a policy on participation is twofold. First, it is fundamental to a genuine process of strengthening civil society. Secondly, without genuine participation, very few projects are successful at a practical level.
- 7.15 Promoting the principle of participation through the aid program has two elements. The first is the support of an environment by which participation can occur. That is, the support of appropriate community structures and organisations to ensure that the input of a community into civic life can occur - the strengthening of civil society thus ensuring that communities and community groups have the opportunity to be involved in democratic processes and decisions which affect their lives and to have an active role in governance at both a local and national level.

Box 3: Community Participation in IndoChina

The core of Community Aid Abroad's successful strategies in the countries of the former Indochina has been the evolution of a three way partnership in development between the local target community, the district or provincial administration, and Community Aid Abroad.

The key element to success in this work is the degree of involvement and commitment by the local levels of government and administration who have a degree of understanding of local needs, and identify with the local communities; which is not expected in a one-party state. Community Aid Abroad has seen its key role as strengthening the capacity of local government and quasi-government instrumentalities to identify and respond to the needs of local communities, at the same time as we work with those communities on identifying needs and organising to address them.

In Laos following Community Aid Abroad's work, Provincial and District government officials have developed strong links with a much wider range of needy communities and are now taking the initiative to both identify and development activities in agriculture, water resource management, income generation, etc. The Lao Women's Union is an example of a socialist "mass organisation" successfully adapting to a changed society.

Clean water programs in Laos have met and exceeded targets largely because of the strong partnership developed between communities and the provincial authorities responsible; this allows technical work to continue, as well as negotiations for ongoing management, with only periodic input from Community Aid Abroad as the original funder.

- 7.16 The second and equally important element is to ensure that government and administrative structures are in place to respond to and interact with civil society.¹² This may involve working with local government or national government to ensure there is a legal or administrative framework in place to ensure that civil society has a voice.

Recommendation 11: That the Aid Review recommend a policy on participation be developed to ensure full community involvement in decision making both at project level and at civil society in broader governance.

¹²For a further elaboration of this see D. Porter and P. Kilby 1996, "Strengthening the Role of Civil Society? A Precariously Balanced Answer" in P. Kilby (ed) op cit.

Indigenous Peoples

- 7.17 The rapid changes in the world including globalisation, rapid economic growth and its consequent seemingly insatiable demand for resources are having an increasing impact on the indigenous peoples of many of the developing countries with whom Australia has a development cooperation program. Sometimes the tensions which arise from developments on the ancestral lands of indigenous peoples captures the international spotlight. The Ok Tedi mine dispute of 1995, the ongoing Freeport mine dispute in Irian Jaya in Indonesia, and problems with proposed mining in the tribal regions of the Philippines are a few examples of this tensions.
- 7.18 The aid program can play both a positive and negative role in this process. Some aid activities have not taken into account indigenous peoples issues in their implementation. One clear example of this is the land titling program undertaken by AusAID in a number of countries. While there is case to establish clear title for land which is being privately used in some cases this has overridden or has been seen to override communal ancestral claims of indigenous peoples. The violent events surrounding the World Bank Land Mobilisation project in PNG are a case in point. Similar concerns have also been raised by community groups over AusAID supported land projects in Indonesia.

Recommendation 12: That all AusAID programs affecting indigenous peoples; recognise the rights of such people to a livelihood and ancestral domain; and ensure there is a full and open consultative process with regard to activities which impact on their lives. A clear policy and principles for work with indigenous peoples should be developed.

Human Rights

- 7.19 Human rights and the aid program are interlinked. It has been argued that the whole of the aid program is about promoting those rights covered under the International Covenant on Economic, Social and Cultural Rights (ICESCR) and specific elements concerned with greater respect for those rights covered under the International Covenant for Civil and Political Rights (ICCPR). The other important conventions that the Aid Program should address are CEDAW (Convention for the Elimination of Discrimination against Women), CERD (Convention for the Elimination of Racial Discrimination) and CRC (Convention for the Rights of the Child).
- 7.20 The rights under the ICESCR are to do with the provision of a minimum in basic needs and services, for example the right to a free basic education and basic health services, all of which are under threat as national expenditures on these areas is in decline. In the area of civil and political rights it is often argued that economic growth and the development of a burgeoning middle class is the best way of achieving these rights. This argument is very weak with ample evidence to

show of instances of poor countries with a high level of respect for these rights and wealthy countries which show little respect for these rights.

7.21 This would entail the development, monitoring and reporting of aid activities against these and subsequent human rights instruments. This is in line with the Government's basic needs approach to development.¹³

Recommendation 13: That the aid program should take a rights approach by which aid activities are measured against key human rights instruments especially the Universal Declaration on Human Rights.

7.22 With regard to the ICCPR we welcome the Government's initiative for a special human rights fund within the aid program. This fund should be expanded and the AusAID regional programs be used to foster broader human rights work within the aid program.

¹³For a further elaboration of this see P. Kilby 1996, "Poverty Alleviation and the Australian Aid Program" in P. Kilby (ed) op cit.

Box 4: Human Rights and Indonesia

In Indonesia there is substantial evidence of systematic human rights violations, including torture, arbitrary detention and extra-judicial killings. These violations are underpinned by a network of institutions, policies, and procedures including a highly centralised regime, a weak judiciary, and the cooptation of social, religious and community organisations by the state. These violations are evidenced by the counter-insurgency operations in contested territories such as East Timor and the continued intervention by the security forces in civil and political affairs, particularly in labour and land disputes.

Obviously, the prevention of human rights violations will require fundamental change in Indonesian policy and administrative frameworks. The pressure for such change will come from civil society in Indonesia and the international community. The aid programme can contribute to this process through support for:

- i. research on the human rights impact of state and corporate policy and programmes;
- ii. human rights education and training and the establishment of human rights monitoring networks;
- iii. the development and adoption of alternative policy and legal frameworks such as the work done by ELSAM on the Convention Against Torture and
- iv. support for independent legal aid organisations such as YLBHI and for governmental and non-governmental human rights organisations and networks such as the National Human Rights Commission and LPHAM.

As well as support for human rights organisations the aid program can contribute to popular pressure for change through support for independent labour, indigenous, women's and peasant organisations and networks operating at the local, national and regional levels and alternative media.

20:20 Compact

7.23 At the UN Social Summit at Copenhagen in 1995 a 20:20 compact was endorsed: at least twenty per cent of development assistance and at least twenty per cent of developing country budgets would be targeted to social priority areas. Community Aid Abroad believes that this should be a fundamental principle of the aid program and one that is line with the Coalition policy for a basic needs focus for

aid. As it is a compact, it also provides the basis for a stronger policy dialogue with recipient countries to ensure their part of the bargain is met and that there is a level of coordination between aid and domestic policies in the basic needs area.

- 7.24 In the implementation of the 20:20 compact there has been some debate as to what components of the aid program should be included in it as addressing basic needs or social priority areas, with international agencies themselves changing definitions.¹⁴ Community Aid Abroad agrees that in the spirit of the compact the definition should be narrow and refer to programs targeted to these areas. We reject the argument put by AusAID at the Senate DIFF Inquiry that all aid could be argued as meeting these needs as it leads to jobs. Aid to social priority areas of basic human needs is about providing the social infrastructure for the very poor and disadvantaged communities so they are in a position to take advantage of job and other opportunities as they arise.
- 7.25 The definition of basic human needs or social priority areas to which the twenty per cent of Australia's aid should be directed are the specific targeted long term development programs aimed at providing basic health, education, water supply, nutrition, family planning, and shelter to poor and disadvantaged communities in developing countries on a sustainable basis. It would not include emergency programs, food aid programs (unless they were targeted to these areas), budget support for recipient government or contributions to multilateral institutions (unless they were used as an implementing agent for a specific program to meeting these needs).

Recommendation 14: That the Aid Review recommend Australia support the 20:20 Compact through its development program and that it provide at least 20 per cent of its long term development aid to specific targeted activities in agreed social priority areas.

Policy Dialogue

- 7.26 Much of Australia's official aid program is bilateral, the components of which are agreed to by Australia and the recipient government through a process of high level consultations. Naturally these discussions are often difficult with the recipient government wanting greatest flexibility while Australia negotiates within a certain defined policy framework. One example of this difficulty is the call from the PNG Government to review and renegotiate the bilateral agreement it has with Australia half way through the life of the current treaty because it claims its sovereignty has been impinged upon.

¹⁴ 20/20 is designed as a fundraising mechanism to meet the following internationally agreed goals for the year 2000: universal access to and completion of primary education, halving 1990 adult illiteracy levels with emphasis on reducing the disparity between male and female illiteracy rates; reduction by half of 1990 levels of severe as well as moderate malnutrition among children under five; halving maternal mortality from 1990 levels; between 1990 and 2000, reduction of mortality of infants and children under five by one-third, or to 50 and 70 per 1000 live births respectively, whichever is less; reproductive health care, including availability of family planning information and services to all individuals and couples by 2000; universal access to safe drinking water and to sanitary means of excreta disposal by 2000.

- 7.27 Community Aid Abroad agrees that bilateral aid negotiations can be difficult especially in those circumstances where Australia is a major (or the major) aid donor to a particular country or where there is a much broader relationship involved. It is however very important that the broader developing country community views are included as part of the policy dialogue. This is something the World Bank is developing through the incorporation of consultations with civil society in the preparation of its Country Assistance Strategies. AusAID should look at similar approaches of consultations as part of the process of High Level Consultations.
- 7.28 It is very important that the Government keep faith with its own policies and the Australian community and that the aid program be directly focused on basic human needs and that this policy be emphasised with bilateral partners at all levels.

Recommendation 15a: That AusAID use the high level policy dialogues with recipient countries to actively promote a basic needs approach to development assistance.

Recommendation 15b: That AusAID establish greater transparency in its dealings with recipient governments and actively promote the involvement of civil society in consultations on the future of specific country programs.

Basic Needs

- 7.29 In line with Government policy, DAC agreements and the 20:20 compact the aid program needs to move more directly to a basic needs focus. In recent years there has been a slow shift from development assistance aimed at promoting growth towards providing basic services such as health services, basic education, access to credit, capacity building and HIV/AIDS programs. The Aid Review provides an opportunity to review these experiences and to propose mechanisms for moving more quickly in expanding the amount of resources being devoted to meeting basic needs and local capacity building.
- 7.30 The aid program should identify those needs for which it can provide support and establish strategies to meet them. Following a review of its experience in these areas it can consider basic education, community health initiatives, and remote area water supply as potential areas for support. To achieve this the aid program can utilise community based initiatives in partnership with both Australian and local NGOs.
- 7.31 The Aid Program should consider meeting specific guidelines for the provision of local capacity building and identified basic human needs namely: primary health care, basic education, family planning, nutrition, and basic shelter.

Recommendation 16: That the Aid Review, in line with the Coalition policy and the 20:20 compact, establish a framework for the aid program to provide a substantial proportion of its resources to the provision of human needs in primary health

care, basic education, access to credit, family planning, nutrition, and basic shelter. Integral to this is support for the capacity building of local community organisations and institutions involved in development.

Rural Development

- 7.32 Community Aid Abroad welcomes the Coalition Government's proposed shift in aid priorities to rural areas. In all countries in the region with whom Australia works it is the rural areas which have missed out on the so-called benefits of growth¹⁵. Even the high growth economies of the region such as Thailand have a very high proportion of poor living in rural areas. In countries such as China the differences between high growth areas and poorer regions are even more stark with increasing neglect of these areas leading to large numbers of poor flocking to already overcrowded cities seeking work.
- 7.33 In the poorer countries of South Asia and Africa the situation is much worse with fewer opportunities available. The focus on industrial support which has occurred in India and China to some extent only exacerbates the problem. This leads to unequal development and ultimately social disintegration and division between affluent areas and neglected rural regions.

¹⁵See Table 1. in McCawley, P. 1996, 'Poverty in Asia: What Can be Done? Is International Aid Effective?' paper prepared for the Joint Standing Committee on Foreign Affairs, Defence and Trade seminar on the Australian Aid Program, 31 July 1996.

Box 5: Philippines Pilot Agricultural Extension Project (PPAEP)

During May 1996, AusAID concluded funding of the PPAEP project which had been implemented over five years in the Bicol and northern Mindanao regions of the Philippines. The PPAEP espoused a philosophy of full participation by the community in the process of development planning and implementation. Participation was seen as the key to sustainable development and included not only farmers and fishers, but also local government and other agencies who also comprise the community.

The long term aim of PPAEP was to increase and sustain agricultural productivity and incomes of rural households through a phased series of community level planning and capacity building activities to strengthen member accountable rural people's organisations while also providing training and other institutional support to the Department of Agriculture.

The PPAEP was a major advance on earlier AusAID assistance to rural Philippines - in fact the main features of the project were a direct response to the shortcomings AusAID had documented in earlier projects like the Zamboanga del Sur Development Project and the Northern Samar Integrated Rural Development Project.

The focus on community participation, the creation of rural organisations and long term commitment to institutional capacity building in the Department of Agriculture was vindicated by evaluations which were tremendously encouraging. Exceptionally good rates of return were recorded on a diverse range of agricultural and fisheries ventures, and environmental conservation activities sponsored early in the implementation were already having significant impacts on the sustainability of the resource base.

- 7.34 A focus on rural development will go some way to redressing these imbalances. In the past there has been a shift away from rural development in favour of urban and industrial programs. While there is a need for urban programs this should not be at the expense of the rural poor. A focus on rural development should be based on a number of specific types of interventions including the provision of basic services particularly health, education, and water supply, and the support of rural infrastructure including extension services, marketing and transport.
- 7.35 The experience of a number of projects which have been piloted over the past few years, including the Pilot Agricultural Extension Project in the Philippines (see *Box 5*) by which community based approaches to development were adopted, provide useful lessons. The community based approach rests on identifying those rural areas which are most disadvantaged and then undertaking a needs analysis

for those areas, so a comprehensive program of development can be developed. However large complex integrated rural development projects, common in the 1970s, are not the appropriate approach. It may be more appropriate to have a series of discrete but coordinated interventions in a particular area to achieve the same outcome.

Recommendation 17: That the Aid Program refocus its priorities to the provision of basic services to rural areas in the context of a strategy based on broad based rural development.

Infrastructure

7.36 The provision of infrastructure has been a substantial element of the aid program over the last decade.

This has largely involved the transfer of Australian technology mainly capital goods, through a number of programs including the Commodity Assistance Support Program (now discontinued), the Development Import Finance Facility (DIFF), and the bilateral program.

7.37 In general these programs have been based on what Australia has to offer and has included steel bridges to Indonesia, telecommunication equipment to India, coal mining and power technology to India and China, and large scale bridges in the Mekong region. Community Aid Abroad is not opposed to infrastructure as such, however we take the view that it should not be based on what Australia can provide but rather on what are the priority needs arising from a direct poverty alleviation strategy.

7.38 The main issue with the most recent large scale infrastructure project, the My Thuan Bridge in Vietnam, is not only related to the scale of the project, but also the fact that it is serving one of the wealthier regions of the country. The opportunity cost of building the bridge versus the cost of smaller rural infrastructure to poorer areas of the country was not considered.

Recommendation 18: That the provision of infrastructure must be in the context of providing the greatest development and equity impact on the country concerned.

7.39 Social infrastructure to the very poor regions within countries and to the poorest countries themselves is important and has a role in the official aid program; however it should be on a needs basis derived from community priorities.

Education

7.40 The education sector in the official aid program has been very important. In the 1970s and the early 1980s it was not formally included in the aid program. In the mid 1980s this figure was included and progressively programmed as direct grants from the aid program for the support of students from developing

countries. A specific program (the equity and merit scholarship scheme) was added to ensure there was a greater gender equity in the program and the best students from developing countries had the opportunity to study. More recently the scholarships were provided for key sectors for training which met the development needs of the recipient country.

- 7.41 Since 1994 there has also been a move to provide more resources for basic education services particularly in the Pacific and PNG but the education sector of the Program is still dominated by the tertiary sector.
- 7.42 In order to meet a basic needs approach more direct emphasis on basic education services is needed. The Aid Review is an important opportunity to move the education sector of the program to meet basic education services. This can take a number of forms including the provision of in-country teacher training services particularly in remote areas.
- 7.43 It is important however that this be in the context of the recipient country's own basic education priorities and to ensure that the interventions are sustainable and that recurrent costs are met. This can be done through the process of policy dialogue. Community Aid Abroad welcomes the development of a specific policy in this area.

Recommendation 19: That the Aid Review recommend increasing the allocation of resources to the provision of basic education services rather than to the tertiary sector.

HIV/AIDS

- 7.44 The rapid spread of HIV is inextricably linked to poverty and powerlessness. HIV/AIDS continues to have a disproportionate impact on vulnerable populations in poorer countries, including the urban and rural poor, women, sex workers, gay men and injecting drug users. However, the distribution of resources for programs targeting HIV/AIDS is heavily skewed towards the developed world. In the south, HIV/AIDS is already placing an overwhelming burden on fragile health systems and having a dramatic impact on labour force participation. The burden of care continues to fall primarily on poor women, the elderly and children. The response by many southern governments continues to be marked by widespread complacency and denial.
- 7.45 Given the paucity of resources in most developing countries, HIV may be best addressed by funding a mix of innovative HIV specific projects and through integrating HIV into existing programs, eg primary health care and family planning programs, particularly if these include the clinical management of STDs or within community development programs through support for information dissemination, exchanges, training and seed funding. Such programs should include a strong emphasis on human rights. In particular, programs should be developed which create environments conducive to behaviour change by tackling the legal, policy

and infrastructure impediments to such change eg the decriminalisation of sex work. Finally, support must continue to be provided for networks which facilitate intra- and inter-regional learning.

Recommendation 20: That the Aid Review set out a program to address the spread of HIV through a series of multi-sectoral and multi-disciplinary interventions incorporating strong community participation, particularly from those infected and affected by HIV/AIDS.

Population

- 7.46 Community Aid Abroad believes it is critical to approach the problem of population provision in the context of the interrelated issues of high levels of consumption in developed countries, and poverty in developing nations, if the outcome is to be a sustainable future for human activity.
- 7.47 Effective approaches to national family planning and the slowing of population growth are voluntary in nature and recognise the rights of women as the ones who carry much of the risks and responsibilities for reproductive and birth control. They also acknowledge and address the correlation between improved opportunities for women's education and employment, and sustained reductions in population growth rates.

Recommendation 21: That the Australian Government should continue to provide support for national population programs in the context of poverty alleviation and meeting the primary needs of women and their families.

8. Aid Delivery

- 8.1 In order to meet the policy objectives of the aid program the delivery mechanisms must be in place to do so. The range of mechanisms for aid delivery must be considered and there should be a clear coherence between all of these mechanisms and the overall basic needs focus of the Program. Not only the mechanisms but also the development of country strategies, the selection and appraisal of activities, the implementation and finally the review and evaluation of country programs and activities, should relate coherently to a basic needs focus and the intended development impact.

Program Accountability (Evaluation, appraisal, policy coherence)

- 8.2 The mechanisms in place for implementing policy in AusAID need an overhaul if the objectives of the aid program are to be met. Here the processes of the Activity Cycle from Country Strategy Papers through to selection, appraisal, implementation and evaluation should be reviewed.
- 8.3 The Country Strategy Paper in the past has been a superficial exercise in part driven by the existing activities and the broader structure of the aid program. The

centre-piece of a Country Strategy should be a poverty analysis which identifies areas and sectors of poverty and inequity. Incorporated into this overall poverty analysis is a gender, environment and human rights analysis from which the key regions and sectors for intervention within a country would emerge.

- 8.4 The Country Strategy Paper would then be the centre-piece for planning within a country and would establish need as the primary focus for programming, rather than Australian interests or resources. From the Country Strategy paper activities would be identified and appropriate delivery mechanisms selected.
- 8.5 A central part of improved programming involves participation. As referred to earlier in this submission (Para 7.13-7.15) this involves two important facets: programs to improve the broader environment for the participation of civil society not only in development programs but broader governance issues which affect their communities; and their direct participation in activity selection, design and implementation. In both the development of Country Strategies and activity design AusAID should develop mechanisms to ensure that mechanisms are in place to allow participation (including a gender analysis) and that the other sectoral policies are followed.
- 8.6 The monitoring and evaluation of activities are related to the success, or otherwise, of activities in meeting policy objectives. The evaluation section of AusAID has carried out activity evaluation and Program Reviews. To date the activity evaluations have not been made public beyond a summary of a number of evaluations in the agriculture sector in 1992. The Program Reviews have been limited, due mainly to a lack of resources in the section and the number of objectives the aid program was addressing. The overarching humanitarian objective was dealt with relatively superficially in these reviews.

Recommendation 22: To strengthen the evaluation work of AusAID and ensure that it measures the basic human needs focus of the aid program. This would involve a review of the methodologies of evaluation¹⁶, a more public reporting on evaluations, and a process so the lessons learned from evaluations can be incorporated into future programming.

Bilateral

- 8.7 It is through bilateral programs that the majority of Australia's aid is delivered and it is the most important mechanism by which aid is delivered. It is also important as it represents partnership between governments in aid delivery with the recipient government having an input into the programs being developed.

¹⁶For a further elaboration of this see Linda Kelly 1996, "The Project Cycle and the Delivery of the Aid Program" in P. Kilby (ed) op cit.

8.8 The main issue with the Bilateral Aid mechanisms is ensuring that bilateral negotiations and program planning are more closely in line with AusAID policy and also are in line with the needs of the poor to whom the program should be directed. The Aid Review should consider mechanisms to ensure that AusAID policy priorities are a central plank in High Level Consultations. Further, that community priorities and expectations are incorporated into broad program development and that a participatory framework be developed for project design and implementation.

Multilateral

- 8.9 As a Board member of the World Bank Australia can play an important role in further promoting these reforms. This can be achieved in a number of ways:
- i. by actively reviewing projects and programs to ensure that the Bank's own policies are implemented with regard to poverty alleviation, environment, and participation.
 - ii. being more active in policy dialogue to strengthen these policies to ensure they have a more direct poverty focus;
 - iii. by actively monitoring the functions of the Inspection Panels (the mechanisms for appeal against the harmful impacts of projects and programs) to ensure they are open, and that affected groups have fair and open access;
 - iv. by supporting the access for NGOs and other interested groups have to Bank policies and program information to ensure they can have an effective voice in the development of Bank policy.
- 8.10 As well as the direct work on the Board of the Bank, Australia should play an active part in IDA negotiations to ensure that resources available for the work of IDA are not further diminished and the broader donor community meet their obligations in IDA funding.
- 8.11 The other major MDB the Australian aid program provides support for is the Asian Development Bank. While the ADB is less active in policy lending it has been criticised in two main areas. The first is its closed nature in which there is little or no access for NGOs and other groups to ADB policies and practices. The second is the predominance of lending for infrastructure projects in its work.
- 8.12 While Australia should maintain its active involvement at Board and staff level and in terms of funding it should also be more active in policy development in the Bank especially in social sectors to ensure increased support for basic needs programs and to support equitable access to services in countries.
- 8.13 An important area of lending for both the World Bank and the ADB is lending for the Pacific. There are indications that both banks will seek to reduce their support for the Pacific lending. A trend which comes on the heels of a more general pull

out of donors for the Pacific. It is important that development programs to the Pacific be coordinated and supported not only by Australia and New Zealand but more broadly by the donor community. Australia should continue to promote an active engagement of the Banks in the Pacific and take a lead in developing appropriate policies to ensure sustainable development.

Recommendation 23: That Australia continue to play an active part as a Board member of the World Bank and the Asian Development Bank seeking improved programming and reforms in each and maintain funding to both Banks.

Non Government Organisations

- 8.14 Non Government Organisation (NGO) programs have increased over the past decade with NGO programs now being developed and promoted in all parts of the official aid program. This occurs through support of NGOs' own programs, and through special NGO activities within the bilateral programs. In the humanitarian aid area NGOs are used in the delivery of both emergency and humanitarian assistance.
- 8.15 In 1995 AusAID conducted an Effectiveness Review of NGO programs and found that NGO programs were effective in meeting their poverty alleviation criteria, and that consideration should be given to increasing funding through NGOs. At the same time it was also found that the administration of NGO programs was cumbersome and that the large number of programs, their size, and the nature of many NGO (being largely voluntary) meant that maintaining high levels of accountability was difficult for both AusAID and the NGOs.
- 8.16 One suggestion at the time was that AusAID move away from the management of NGO programs to support NGOs' own work and that this be on a co-financing basis with NGOs bearing a reasonable proportion of the financial costs, and therefore sharing the risk.
- 8.17 NGOs have rejected this argument and approach as being fundamentally flawed. It fails to take into account the value added that NGOs have provided to bilateral programs and the low costs at which these could be delivered. Furthermore they were sceptical that AusAID Country Programs areas would give up management and would effectively determine the activities to be supported. NGOs felt that if this was the case, they would in effect be supporting what are essentially government programs.
- 8.18 In August 1996 it was agreed, between the NGOs and AusAID, that the system could be streamlined substantially with a greater emphasis being placed on ensuring NGO systems were in place rather than on individual project reports and audits. It was also agreed that this could be achieved without cost sharing. The issue of cost-sharing was referred as a separate matter to the Aid Review.

- 8.19 The issue of cost -sharing can be looked at in a number of different areas. For the NGOs own programs for which they receive a subsidy from AusAID through the ANCP there is validity in the notion of cost-sharing and Community Aid Abroad believed that this should be on the current basis with increased funding to meet the Government's election commitments.
- 8.20 For those programs for which NGOs are directed to meet AusAID's development objectives within a particular country program and for which they are subject to bilateral agreements and therefore scrutiny and some controls from both AusAID and the recipient government; this should be on a different basis. This basis should recognise that NGOs have unique qualities which have been identified in the Effectiveness Review, and that through the voluntary nature of theirs and their partners work there is a significant un- costed but verifiable contribution.
- 8.21 Community Aid Abroad would argue that these programs are important and contribute to meeting bilateral aid objectives especially in the new policy direction of devoting more resources to meeting basic human needs. We believe that these specific NGO programs should remain within the Country Programs area and be supported under the agreed simplified procedures.

Recommendation 24: That cost-sharing of NGO programs continue through an expanded ANCP but that NGO programs which are part of Country Programs continue on the current basis with the understanding of the significant un-costed NGO voluntary contribution.

Mixed Credits

- 8.22 The Government has flagged replacing the DIFF scheme with a new mixed-credit scheme to more closely met its aid objectives. Community Aid Abroad welcomes this objective and in its submission to the Senate Inquiry into the abolition of the DIFF scheme made specific recommendation with regard to the operation of mixed-credit schemes to ensure they meet development objectives (See *Appendix 1*). Our recommendation was to do with tightening up the adherence to the existing "Helsinki Rules" governing mixed credits and expanding their scope. The main recommendation was to expand the "non-financially viability rule" so that commercial projects would not be supported to all countries and all projects regardless of size.
- 8.23 Furthermore we have recommended that the selection of mixed-credit projects be more directly tied to Country Programming and activity selection criteria and meet the basic needs approach of the aid program.

Global Education

- 8.24 Informing and to some extent changing community perceptions of international issues in general and development issues in particular is a part of the responsibility of the aid program. As indicated earlier the growing insularity of

countries, which at the same time receive globalised information and operate in capital markets, can lead to some very distorted world views by their communities.

- 8.25 Global education, that is providing resources so that the Australian public can be informed of development issues, has been a part of the aid agenda for the past twenty years and it is internationally recognised as a legitimate aid activity. It is important that if aid levels are to be maintained and a real development agenda of equitable development is to be achieved, then as well appropriate development programs, the question of community awareness and developing a better information base in the community is going to be crucial to Australia's role in aid in the future.

Recommendation 25: That a modest but significant global education program be maintained by AusAID which is aimed at highlighting development issues to the broader Australian community.

9. Geographic Focus

Principles

- 9.1 The central principle determining the geographic focus of Australia's aid program should be need, and therefore the focus should be on those countries and those regions of countries which are most disadvantaged and with which Australia has developed relationships.

Pacific

- 9.2 The Pacific is the primary area of concern for Australia at a strategic level with a number of small island states which are resource rich but are lacking in capacity. A number of issues are arising in the Pacific which are to do with a limited capacity to deal with rapid change. Some of the Pacific states are among the most newly independent countries in the world and are striving for greater economic and social autonomy from their former colonial masters and neighbouring patron states.
- 9.3 Added to this is the resources boom in the region, driven in part by the rapidly growing economies of South East Asia and a seemingly insatiable appetite for resources. In the Pacific the major resources being exploited are fisheries and timber and minerals (mainly confined to PNG.). In more recent times fisheries has started to be controlled so that more sustainable practices are in place but the most serious concern is logging which will deprive countries not only of an important natural resource and source of bio-diversity but also an important revenue stream as the islands are effectively clear felled.

- 9.4 These countries are also the highest per capita aid recipients in world. The issue for the Pacific is not necessarily increased aid volumes but rather a rethink of the purpose of aid in the region. As indicated earlier many other donors are withdrawing from the region at a time when it is important that there be a stronger international engagement.
- 9.5 This engagement however should not be premised on the fact that Pacific economies can replicate the successes of Asian countries but rather should be based on capacity building within the countries and improved basic services to the communities so that they can make more informed choices as to the development paths they should take.
- 9.6 The fact that PNG, with a reasonably strong growth rate, has rising poverty levels and other problems is a sign of the crisis facing the region. The widening gap between rich and poor in the Pacific and declining opportunities in rural areas are issues that the aid program can assist in addressing.

Recommendation 26: The aid program to the Pacific should be maintained at current levels but be more directed to capacity building and resource management within countries to provide effective and sustainable basic services to remote rural areas.

East Asia

- 9.7 East Asia, including the ASEAN states, Indo-china and China is the region where the bulk of Australia's aid is directed. In the past the program has been directed to promoting economic growth in the region and has involved the provision of infrastructure and tertiary education with only limited resources going to community development, the provision of basic services and rural development.
- 9.8 The focus in Asia should recognise that there are regions and countries which have missed out on growth and that the aid program should focus on these regions and countries. The West of China for example is one area where the aid program should refocus. Much of the aid program is directed to the rapidly growing Mekong Delta region of Vietnam when there are neglected regions in other parts of the country.
- 9.9 The Country Strategies for the countries of Asia should identify the regions which are marginalised and neglected and focus on the delivery of basic services to those regions. One thing which has emerged from the rapid growth in these so-called "Tiger Economies", is that rural poverty has remained virtually unchanged over the past twenty years. The aid program should recognise this and focus on improved rural and community development.
- 9.10 In relation to the closing down of aid programs to certain countries, Cox has suggested that the reduced funding for Thailand should be directed to NGOs and

other community development programs aimed at strengthening civil society and reaching those communities in remote and marginalised areas.¹⁷

South Asia

- 9.11 South Asia is the region of the world where the greatest numbers of people in the world living in absolute poverty live, yet the region receives around five per cent of Australia's aid program. This is the major area to be redressed if the Australian aid program is to have a genuine poverty focus.
- 9.12 The aid program to the region should be reviewed to expand it substantially so that at least ten per cent of the aid program is spent in the region. Not only this but the program should be refocussed from industrial and technical development to one involving a basic needs focus revolving around rural and community development.
- 9.13 South Asia is also the region of ongoing conflict with tensions between India and Pakistan, the Kashmiri conflict, and the most serious, civil conflict in Sri Lanka. Australia can play an active role in the dialogue to resolve these conflicts, particularly Sri Lanka and use its aid program not only for the very important relief and rehabilitation of the victims of conflict but also to look at reconciliation processes with affected communities.

Africa

- 9.14 The other important region of the world neglected by the aid program is Africa. Africa has missed out on investment flows and has very low growth rates and very poor prospects with the most rapid increase in the numbers of the world's poor. Likewise Africa has missed out on Australian aid flows with only \$38.5m being allocated in 1995-96 to long term bilateral programs in Africa.
- 9.15 Community Aid Abroad welcomes the Coalition Government's commitment to Africa which flows on from the policy framework for aid to Africa released in 1995, indicating a move to more bilateral programming to Africa.

Recommendation 27: That the framework for aid to Africa be further developed with increased funding and with an extension of bilateral programming to the Horn of Africa where Australia has had strong historical links.

- 9.16 The focus of the aid program to Africa should be tailored to the individual needs of the country concerned, however should generally be concerned with institution building within the country, strengthening community development and civil society groups and meeting basic human needs in rural areas, particularly the infrastructure for the provision of basic services.

¹⁷Cox, P. and Bamber, S. 1996, "Australia's Aid Program to Thailand" in P. Kilby (ed), op cit.

Box 6: Aid to Ethiopia

Since the Jackson Inquiry in 1983, the Australian development cooperation program to Ethiopia has been dominated by emergency assistance. Dramatic changes in Ethiopia in that time, notably the end of the civil conflict and change of government, heralds enormous opportunities for Australia to constructively engage in Africa's second most populous country.

Community Aid Abroad's recommendations on Australia's future aid policy to Ethiopia are:

- moving the Australian development cooperation program away from the provision of programmed emergency assistance towards a more innovative Technical Cooperation Program focussing on building up the capacity of the Ethiopian Government in food security, land use planning and management, agriculture and livestock, infrastructure and natural resource development.
- focus assistance on long term bilateral programs which build on local capacity and contribute to preventative approaches to emergencies.
- review the opportunities for trade and investment and provide support for Australian firms wishing to invest in Ethiopia.
- strengthen the important political role that Ethiopia plays in the Horn of Africa region through opening of an embassy in Addis Ababa.

Community Aid Abroad believes that Australian assistance to Ethiopia should build on established historical links with the country and substantial investments in humanitarian assistance through continued support to nation building and recovery initiatives which have a long term development

Other regions

9.17 There is at best limited opportunity for the aid program to expand to other regions given the pressure of the aid budget. Any expansion should be on the basis of need and managed carefully to ensure that resources to identified priority regions such as South Asia and Africa are not compromised. We reject the Coalition's policy that the aid program should expand to the Central Asian Republics on the basis of commercial opportunities they may hold.

9.18 We would see the existence of established links with Australia as one factor to consider as well as need. There is little evidence of established links to the Central Asian Republics. A much stronger argument could be mounted on the basis of existing linkages for the aid program to extend to Chile where there are

strong Australian commercial links which have been built up over the period of the Pinochet regime and its associated and ongoing human rights abuses.

10. AusAID

- 10.1 Community Aid Abroad has no specific recommendations on AusAID's structure beyond emphasising the importance that it retain its status as an autonomous agency with its own direct reporting status to the Minister and that mechanisms be developed within the agency to ensure a greater accountability of program to policy
- 10.2 This accountability must include the poverty and equity impacts of all programs and ensure that there is policy coherence in sectoral issues such as human rights, gender, and environment.
- 10.3 It is also important that the agency be adequately resourced so that the aid program can be refocused to meet basic needs. It is important that a high level of development expertise (particularly in the area of evaluation) be fostered in the agency so that programming can be effective in delivering basic needs.

11. Conclusion

- 11.1 The Australian aid program has served both the people of recipient countries and of Australia well. But it is in need of rejuvenation and redirection.
- 11.2 In this submission Community Aid Abroad has argued for a strong basic needs focus for the aid program. Such a focus should permeate the entire aid program, including program appraisal, selection and evaluation, high level policy dialogue and relations with the multilateral system.
- 11.3 The basic needs focus needs to be underpinned by a more far reaching attempts to enhance popular participation in the aid program. The development of civil society through such participation is a key to social development.
- 11.4 The notion of an Australian aid program enjoys a great deal of support and goodwill from the Australian community. Such support and goodwill will be increased if the program unequivocally has a strong poverty alleviation focus. Our recommendations to this review would help ensure such a focus.

Appendix I

List of Recommendations

Recommendation 1: That the aid review adopt the Government's articulated purpose of aid: "to assist developing countries to help meet the basic needs of their people, and to assist in achieving a more secure and equitable international order", and set out a clear framework for the implementation of that objective.

Recommendation 2: That the Aid Review recommend a clear process for the Government to achieve its policy of reaching 0.7 per cent of GNP on development assistance and that it set an interim target of reaching the unweighted average of donor countries by the year 2000.

Recommendation 3: That the aid program address globalisation by providing support for countries to pursue policy and practices, within a global environment, which promote equitable outcomes in national development, and which mitigate extreme negative social consequences.

Recommendation 4: That the Aid Review make specific recommendations on the establishment of mechanisms within AusAID to ensure that Government Aid policy is incorporated in all aspects of programming and that programs be assessed against that policy.

Recommendation 5: That the aid program recognise the specialist skills and expertise that Australian NGOs bring to emergency and rehabilitation programming in terms of a rapid response, on-ground up-to-date intelligence and a capacity to reach situations in many cases more quickly and at a more local level than the UN system. That the aid program actively use NGOs to complement UN efforts in emergency programming and to take the lead in rehabilitation work which is the first step to longer term development programming.

Recommendation 6: That AusAID develop a program for the support of a range of conflict resolution initiatives within its humanitarian support program and that these be given a priority within the allocation of resources for humanitarian programs.

Recommendation 7a: That the Australian Government seek to renegotiate its obligations under the FAC to reduce the amount and in time seek to phase out altogether from this international obligation based on shipments of food to one based on fixed levels of aid expenditure on direct food security programs.

Recommendation 7b: That the primary responsibility for negotiating the FAC be removed from the Department of Primary Industries and Energy which has no other aid function and put with AusAID so it is more fully integrated with broader aid programming.

Recommendation 8: That AusAID increase funding to the specialist UN Development agencies and, as an active Board Member of those agencies, promote their reform.

Recommendation 9: That the existing gender policy be reviewed with a view to strengthening gender analysis across the program leading to measurable improvements in program design and output in relation to women's development

Recommendation 10: That the aid program adopt sustainable development principles to ensure environmental protection and an enhanced natural resource for future generations, through the provision of specific funding for innovative activities, and the implementation of ecologically sustainable development principles in country programming, project identification and implementation. The current practice of an annual environment audit reporting to the Parliament should be continued.

Recommendation 11: That the Aid Review recommend a policy on participation be developed to ensure full community involvement in decision making both at project level and at civil society in broader governance.

Recommendation 12: That all AusAID programs affecting indigenous peoples, recognise the rights of such people to a livelihood and ancestral domain, and ensure there is a full and open consultative process with regard to activities which impact on their lives. A clear policy and principles for work with indigenous peoples should be developed.

Recommendation 13: That the aid program should take a rights approach by which aid activities are measured against key human rights instruments especially the Universal Declaration on Human Rights.

Recommendation 14: That the Aid Review recommend Australia support the 20:20 Compact through its development program and that it provide at least 20 per cent of its long term development aid to specific targeted activities in agreed social priority areas.

Recommendation 15a: That AusAID use the high level policy dialogues with recipient countries to actively promote a basic needs approach to development assistance.

Recommendation 15b: That AusAID establish greater transparency in its dealings with recipient governments and actively promote the involvement of civil society in consultations on the future of specific country programs.

Recommendation 16: That the Aid Review, in line with the Coalition policy and the 20:20 compact, establish a framework for the aid program to provide a substantial proportion of its resources to the provision of human needs in primary health care, basic education, access to credit, family planning, nutrition, and basic shelter. Integral to this is support for the capacity building of local community organisations and institutions involved in development.

Recommendation 17: That the aid program refocus its priorities to the provision of basic services to rural areas in the context of a strategy based on broad based rural development.

Recommendation 18: That the provision of infrastructure must be in the context of providing the greatest development and equity impact on the country concerned.

Recommendation 19: That the Aid Review recommend increasing the allocation of resources to the provision of basic education services rather than to the tertiary sector.

Recommendation 20: That the Aid Review set out a program to address the spread of HIV through a series of multi-sectoral and multi-disciplinary interventions incorporating strong community participation, particularly from those infected and affected by HIV/AIDS.

Recommendation 21: That the Australian Government should continue to provide support for national population programs in the context of poverty alleviation and meeting the primary needs of women and their families.

Recommendation 22: To strengthen the evaluation work of AusAID and ensure that it measures the basic human needs focus of the aid program. This would involve a review of the methodologies of evaluation, a more public reporting on evaluations, and a process so the lessons learned from evaluations can be incorporated into future programming.

Recommendation 23: That Australia continue to play an active part as a Board member of the World Bank and the Asian Development Bank seeking improved programming and reforms in each and maintain funding to both Banks.

Recommendation 24: That cost-sharing of NGO programs continue through an expanded ANCP fund but that NGO programs which are part of Country Programs continue on the current basis with the understanding of the significant un-costed NGO voluntary contribution.

Recommendation 25: That a modest but significant global education program be maintained by AusAID which is aimed at highlighting development issues to the broader Australian community.

Recommendation 26: That the aid program to the Pacific be maintained at current levels but be more directed to capacity building and resource management within countries to provide effective and sustainable basic services to rural areas.

Recommendation 27: That the framework for aid to Africa be further developed with increased funding and with an extension of bilateral programming to the Horn of Africa where Australia has had strong historical links.

Appendix II

The Senate Foreign Affairs, Defence and Trade References Committee Inquiry into the Proposed Abolition of the Development Import Finance Facility (DIFF) Scheme July 22, 1996

1. Introduction

1.1 Community Aid Abroad is an independent community-based Australian organisation which promotes social justice and the alleviation of poverty through the funding of development projects both overseas and in Aboriginal Australia. It is also involved in campaign and advocacy work which aims to challenge and change attitudes and policies that promote injustice and inequity. Community Aid Abroad has taken an active role in the DIFF debate over the past decade reviewing particular DIFF activities and advocating ways to improve the development impact of the scheme. We welcome the Senate Inquiry into DIFF and make a submission which deals mainly with the first part of reference (e) of the Inquiry terms-of-reference; that is, how DIFF advances Australia's development objectives.

The development objective of the aid program as articulated by the Government is:

- to assist developing countries to help meet the basic needs of their people, and to assist in achieving a more secure and equitable international order.¹

1.2 In particular our submission will first of all, focus on how a cut to DIFF affects aid levels; secondly, how the DIFF has operated over the past few years with particular attention to the changes to the OECD Development Assistance Committee (DAC) rules and how they have improved DIFF activities, and finally, recommend ways of enhancing its development impact further including recommendations regarding the selection of DIFF projects, the types of areas DIFF could be applied, and a country focus. Our comments not only apply to DIFF but also any replacement mixed-credit scheme which the Government may introduce.

1.3 We would however like to register our concern at the very narrow terms-of-reference for the inquiry.

It is a sad reflection on the Senate's view of the aid program that the terms-of-reference for an inquiry into aid do not once mention poverty alleviation or the impact that an aid cut would have on Australia's capacity to address global poverty issues, and the Governments goal of aid levels reaching 0.7 per cent of GNP.

1.4 Community Aid Abroad urges the inquiry to broaden its mandate and report on the aid cut that the abolition of DIFF represents rather than on the DIFF specifically. A cut to any part of the aid program including DIFF will reduce Australia's ability to meet aid objectives. In addition Australian business will be

similarly affected regardless of which part of the program is cut. Around ninety percent of the aid program is tied to the provision of Australian goods and services. If the cuts are to other parts of the aid program (other than, or as well as, DIFF), the impacts on business will be much the same.

- 1.5 Community Aid Abroad believes that mixed-credit schemes such as DIFF are a useful part of a mix of development activities. We have stated in the past and restate that DIFF should not be scrapped but reformed. The recommendations we have made in this submission go some way to meeting what we believe to be necessary reforms. We are concerned that the Government has closed DIFF and will replace it with another soft loan scheme at a later date. Our concerns are that another soft loan scheme may be at the expense of other parts of the aid program, and that it may represent a shift away from the more developmentally focussed direction that DIFF had been taking especially if its administration is moved from AusAID.
- 1.6 Community Aid Abroad believes that mixed credit programs can assist in meeting Australia's development objective of assisting 'developing countries to help meet the basic needs of their people, and to assist in achieving a more secure and equitable international order' in the same way as any other part of the program. In some ways it can have a greater impact by leveraging commercial loan funds to high priority development areas. We are proposing a strengthening of the current guidelines to ensure this happens.
- 1.7 Finally our submission makes some comment on a proposal which has received some media coverage as a replacement scheme for DIFF to extend tax benefits for certain types of financing mechanisms.

2. Background to DIFF

- 2.1 We would like to provide some background for DIFF which will put into context the changes which have occurred in recent years to strengthen the developmental impact and how these can be further developed.
- 2.2 The debate about mixed credit programs has been around for some time. In 1984 the Jackson Review of the aid program looked at the issue and focused on the strong trade pressures for mixed credit programs to ensure a level playing field in what had effectively become 'spoilt-markets'. At the time the Jackson Report argued that voluntary procedures then in place to ensure that mixed credits went to priority development projects had become distorted and manipulated by some donors. In 1990 the Australian Government conceded in its annual report to Parliament that DIFF was a 'special aid/trade mechanism which offset the disadvantages facing Australian industry in developing countries'. It was in this context that NGO criticisms of mixed credit programs in general and DIFF in particular were most vocal. It seems that the current Government's concern is also based on past history rather than recent developments to the program.

- 2.3 Through the 1990s there have been substantial changes to the rules governing mixed-credit programs such as DIFF. In 1992 the OECD rules for mixed credit programs were significantly tightened to become what is known as the 'Helsinki Rules'.² These tightened the existing arrangements significantly by changing what were formerly voluntary procedures to an agreement by members, monitored by peers, with any alleged breaches subject to peer review. This went some way to addressing NGO concerns about aid being diverted to what were essentially trade related activities. Later in this submission we will make further recommendations on how these rules can be tightened further and DIFF more effectively integrated into Country Programs.
- 2.4 As a result of the new rules governing mixed credits the types of activities supported under the DIFF scheme went through some changes in the early 1990s albeit slowly. The first was the introduction of Green DIFF in 1994 which was a first step to moving the focus of DIFF to more developmentally based projects. This was followed in late 1995 by the announcement of a range of DIFF projects which were aimed at providing more poverty focussed aid in specific sectors including water and sanitation. Regrettably it is these very projects which are most likely to be cut under the Governments proposal.
- 2.5 It should be pointed out that the earlier criticisms of DIFF by groups including NGOs, and the Development Assistance Committee of the OECD, were apart of a much broader critique of the commercialisation of the aid program and the seeming imperative for commercial returns having the effect of distorting the direction of the aid program rather than being merely an ancillary benefit. In 1992 before the new DAC rules were implemented the Australian Council for Overseas Aid called for the DIFF program to be gradually replaced with a Green Technology Transfer Fund.³ The introduction of Green DIFF in 1994 was a step in this direction.
- 2.6 However it must be emphasised that the commercial imperative of the aid program is much broader than DIFF and in recent years it has moved across the whole aid program to include sectors such as telecommunications and education.⁴
- 2.7 The 1996 report of the OECD Development Assistance Committee on Australia's aid program makes the particular point that the DIFF program has changed dramatically over time and became almost unrecognisable compared to its original form. It came effectively to preclude funding for manufacturing or mining projects for which funds can be raised on the market, and to limit aid for telecommunications and power generating projects to remote areas only.⁵
- 2.8 It goes on to say that recipient governments' aid coordinating agencies are now directly involved in the selection process and that the range of projects to select from are much wider with only ten per cent being selected. According to the

OECD this means that 'only projects with substantial developmental merit are funded'.

- 2.9 The more recent moves on the DIFF scheme have in fact seen it come under closer scrutiny for development impact than other sections of the aid program. In this context it is a little disingenuous to single out DIFF as the current debate has sought to do, particularly as the Coalition policy is explicit in its preference for the use of Australian goods and services in aid delivery, and would like to see the tying of aid tightened even further.⁶

3. Aid Levels

- 3.1 The abolition of DIFF represents a cut of around eight per cent of Australia's overall aid budget. In terms of meeting the Government's policy of reaching 0.7 per cent of GNP to be spent on aid it is a substantial step away from that goal and moves Australia to the bottom half of the donor league with 0.29 per cent while the unweighted average of the donor countries is 0.45 per cent.
- 3.2 Community Aid Abroad rejects the argument that cutting DIFF is cutting a business subsidy but rather would suggest that cutting DIFF is a direct assault on the aid program. In terms of where the cuts will fall it is more serious. Some key country programs will have their aid budget slashed substantially. This includes Indonesia, China and the Philippines each of which will have their aid cut by between one-third and one-half. The distortion of the distribution of aid the cuts represent has a disproportionate impact on some developing countries and in some cases, such as Indonesia, the poorer areas of these countries. The DIFF program to Indonesia was increasingly being directed to the poorer eastern provinces aimed at providing important rural infrastructure.
- 3.4 The Government has made no commitment on aid levels. In cutting DIFF it has argued that the aid program should be more directly poverty focussed. While we agree on the need for a more direct poverty focus Community Aid Abroad believes that a poverty focus can be achieved by the full range of mechanisms open to the Government, DIFF included.

4. Role of Concessional Finance Arrangement in Pursuing Australia's Development Aid Objectives

- 4.1 In order to clearly meet Australia's development objective of a 'basic needs' approach in development, specific guidelines are required. The DAC Guidelines go some way to meeting the concern of a lack of basic needs focus in DIFF. However Community Aid Abroad believes the Government can take them further in using DIFF to meet those objectives through some changes to eligibility criteria to ensure they meet the spirit as well as the letter of the Helsinki Rules.

'Helsinki Rules' for Mixed credits

Commercial Viability -

- 4.2 The Helsinki Rule on Commercial viability of mixed credit schemes states:⁷
The project should be financially non-viable ie. does it lack capacity with appropriate pricing determined on market principles, to generate cash flow sufficient to cover operating costs and service capital; or ... it is unlikely that the project can be financed on market or Arrangement terms.
- 4.3 This rule has been open to some interpretation and has not been clarified by the current AusAID guideline which effectively muddies the waters by stating a project must be 'economically viable'. In the past AusAID have supported projects such as urban transport systems and air navigation aids which may be financially or commercially viable, that is, a fee can reasonably be charged which would directly recoup their cost. However infrastructure to remote communities and water and sanitation projects to poor urban areas whilst being economically viable, that is provide a broader economic benefit to the community, would not be financially or commercially viable as it would be unrealistic to charge users a fee sufficient to recoup the cost.
- 4.4 As the difference between economic and financial viability may not be well understood and some ambiguity could be caused with the Helsinki rule, AusAID should replace its requirement for economic viability with a provision dealing with sustainable activities and the efficient and effective delivery of services.

Recommendation 1: Community Aid Abroad recommends that AusAID remove its requirement that a project be 'economically viable' and replace it with a rule dealing with the sustainability, and the efficient and effective provision of services with a priority to those that meet basic human needs.

Exceptions

- 4.5 The 'Commercial viability' rule does not apply to programs in Least Developed Countries (LLDC) or for activities which are less than \$4m in value. Both of these exceptions serve to water down the development impact of the rule. For example the list of DIFF projects for 1995-96 include a number which are less than \$US4m and appear to be related to commercially viable activities.

Recommendation 2: Community Aid Abroad recommends that AusAID apply the OECD-DAC commercial viability rule to all mixed-credit activities regardless of size in all of the countries in which it operates including the Least Developed Countries, to ensure the program is directed to basic human needs.

Country Focus

4.6 Under the Helsinki rules countries DIFF type loans can be granted only to those countries who are eligible for either the 17 or 20 year loans from the World Bank. The per capita income cut-off point for the 17 year (IBRD) loans is \$2,895 and for the 20 year (IDA) loans is \$865. Community Aid Abroad would recommend the DIFF program to take a more restrictive approach and restrict its program to the Low Income Countries (those eligible for 20 year IDA loans), and thus directing DIFF to the most needy countries. The countries which would meet this criteria include Cambodia, China, Laos, and Vietnam; all of the countries of South Asia; and all of the countries of Africa with the exception of South Africa. CAA believes however that those countries which are classified as severely indebted should not receive loans as it would add further to their debt burden but receive assistance as grant aid only.

Recommendation 3: Community Aid Abroad recommends the Country Focus of DIFF be restricted to Low Income countries which are not Severely Indebted as classified by the World Bank.

5. AusAID Guidelines for DIFF

As noted in the previous section there is some scope for AusAID to review its own guidelines to be more in line with the Helsinki Rules and to more directly meet the overall objective of the aid program to 'meet basic needs'. We cannot see the necessity for the guideline that a DIFF project be 'proven to be necessary and justifiable to match officially aid-supported competition in non-spoilt markets'⁸. This effectively moves the criteria away from basic needs to an Australian industry focus.

Recommendation 4: Community Aid Abroad recommends that the criteria that a DIFF project be 'proven to be necessary and justifiable to match officially aid-supported competition in non-spoilt markets'⁸ should be removed.

5.1 Another important principle is that DIFF be regarded as an integral part of a coherent aid strategy to an particular country rather than as a separate program. To this end DIFF activities should be 'mainstreamed' into the particular country strategy for that country and have a demonstrable basic needs focus. In order to do this in a meaningful way potential DIFF activities should be appraised against those criteria as well as AusAID's broader development policies.

Recommendation 5: Community Aid Abroad recommends that proposed DIFF projects would go through the same appraisal processes as other AusAID project activities and be required to meet specific country criteria and broader AusAID policies.

6. Alternatives to DIFF

- 6.1 There has been newspaper speculation of a scheme to replace DIFF which would sit outside the aid portfolio and be based on an effective subsidy to Australian companies investing in developing countries through tax exemptions for certain investment schemes. This was extensively reported in the Australian Financial Review on July 3. Community Aid Abroad is not in a position to comment on the relative merits of providing subsidies in the manner proposed for either domestic or developing country infrastructure development over alternative funding mechanisms. The reported proposal was for tax free zero coupon bonds which pay a lump sum on maturity to cover the capital cost of the investment with the borrowers effectively paying an interest only loan. The tax forgone would be the source of subsidy for the scheme.
- 6.2 Our concern for such a scheme is that it does not make use of aid funds as a subsidy for those investments in developing countries which would have occurred anyway, or are for commercially viable activities in countries, or regions of countries, where the aid needs are minimal. We are also concerned that any such scheme be monitored to ensure it is not rorted, for example investments intended for a particular country being then reinvested elsewhere. To this end effective monitoring is required to ensure that the aid requirements are met and that the tax advantage is not abused. We would see AusAID as having a role in this.

Recommendation 6: Community Aid Abroad recommends the Helsinki Rules outlined above apply to any alternative to DIFF proposed, and that the further recommendations that we have made for DIFF would also apply; that is, the scheme only apply to Low Income Countries as defined by the World Bank, they be for non commercial activities, and they have a demonstrable basic needs focus. Furthermore we would recommend AusAID monitor and administer the scheme to ensure AusAID and OECD-DAC rules are followed.

7. Conclusion

- 7.1 The DIFF scheme has become useful and important aid delivery mechanism which has improved significantly in the last few years. Community Aid Abroad has stated in the past and re-state in this submission that it should not be scrapped but reformed building on the changes made to date. The recommendations we have made in this submission go some way to build on the existing work to meet the basic needs objective of the Government. We are concerned with the proposal to reintroduce a DIFF like scheme at a later date for two reasons, the first is that it emergence may be at the expense of other parts of the aid program, and secondly it may represent a shift away from the more developmentally focussed direction that DIFF had been heading especially if its administration is taken from AusAID.