

28 January 2014

Mr David Sullivan
Committee Secretary
Senate Foreign Affairs, Defence and Trade References Committee
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CANBERRA ACT 2600

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Business
Council of
Australia



Inquiry into Australia's Overseas Aid and Development Assistance Program

Dear Mr Sullivan

The Business Council of Australia (BCA) is pleased to make a submission to the inquiry by the Senate Standing Committee on Foreign Affairs, Defence and Trade into Australia's overseas aid and development assistance program.

The BCA is an association of the chief executives of 100 of Australia's leading companies, which researches and promotes economic growth policies for the benefit of the nation and all Australians. Our *Action Plan for Enduring Prosperity* (available to download from our website at: www.bca.com.au), is about Australia's future, and actions we need to take as a country to realise shared economic, social and environmental aspirations.

The BCA strongly supports Australia's engagement with other countries in the region and the rest of the world, recognising Australia's prosperity and living standards are typically raised by deeper levels of global engagement. Australia's aid program is an important component of Australia's broader international engagement.

The BCA's submission to the *Independent Review of Aid Effectiveness* in 2011 (copy attached) noted the overarching objective for Australia's aid delivery should be to build and sustain a world-leading aid program with respect to both its efficiency and its effectiveness. The effectiveness of our aid program should be judged by the contribution it makes to reducing poverty in developing nations and ensuring that widespread economic and social benefits can continue to flow through enduring reforms that enable greater productivity and economic growth.

The BCA commends the previous government on agreeing (or agreeing in principle) with 38 of the 39 recommendations made by the *Independent Review of Aid Effectiveness*.

The BCA agrees with the current government's stated aim for the aid program to prioritise the promotion of economic development, with a focus on aid for trade.

Sustained economic growth will have the greatest impact on eliminating poverty and improving living standards in developing countries. An important element of sustainable economic growth is the promotion of open markets that attract investment and enable people to grow their businesses, to increase their employment levels, to innovate and to compete.

The BCA recognises the action of the previous government in adopting the recommendation in the *Independent Review of Aid Effectiveness*, also suggested by the BCA, on the importance of the aid program building more effective linkages with the private sector. Through effective linkages with business, there are opportunities to develop and utilise innovation and creativity, and to leverage knowledge and coordination of activities for the purpose of achieving sustained economic and social outcomes. The integration of AusAID into

the Department of Foreign Affairs and Trade (DFAT) should further assist the aid program's engagement with the private sector.

The integration of AusAID into DFAT should also assist the alignment of Australia's aid program with our national interest, including our trade, investment and security interests.

The BCA supports an aid program that is aligned with the government's commitment to fiscal restraint in the current budget context. The BCA also supports increasing public understanding and confidence in the aid program. As the eighth largest aid donor in the OECD in absolute dollar terms, and the 13th largest as a share of gross national income (GNI), Australia's aid program represents a significant investment of federal revenue.

Yours sincerely

Maria Tarrant

Deputy Chief Executive

Attachment/s: BCA Submission to the Independent Review of Aid Effectiveness (February 2011)

February 2011

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Business
Council of
Australia



SUBMISSION TO THE INDEPENDENT REVIEW OF AID EFFECTIVENESS

The Business Council of Australia (BCA) represents the CEOs of over 100 of the leading corporations in Australia with a combined workforce of more than one million people. The BCA's goal is for Australia to be the best place in the world in which to live, learn, work and do business. Through research, communication and advocacy, BCA members pursue economic, social and environmental policy outcomes for the benefit of all Australians. Our goal is for Australia to consistently rank in the top five OECD economies as measured by GDP per capita.

Executive summary

Australia's foreign aid budget is growing substantially at a time when there is a need for the federal government to have in place a fiscal policy that is based on expenditure restraint. In the current budget context, future increases in foreign aid spending will need to be fully justified.

The overarching objective in considering the future of foreign aid delivery should be that Australia builds and sustains a world-leading aid program with respect to both its efficiency and its effectiveness. Furthermore, the program's effectiveness should be judged by the contribution it makes, both directly and indirectly, to reducing poverty in developing nations, and by making sure that widespread economic and social benefits can continue to flow through enduring improvements that enable greater productivity and economic growth.

This objective should be supported by the following priorities:

- an aid program that is focused on achieving outcomes that provide the greatest possible benefits for both developing nations and Australia;
- that wherever reasonably possible, aid programs should support and promote the development of open markets within developing economies, and be delivered in countries where there are responsible and responsive governments; and

- improving the level of public knowledge and understanding about where Australia's aid is going and for what purposes, with the aim of building public confidence in the aid program.

If the objectives of Australia's aid program are to be achieved, the policies undertaken by governments in developing countries must be conducive to improving prospects for economic growth – as it is sustained economic growth that will have the greatest impact on eliminating poverty and improving living standards. A fundamental feature of such development is the promotion of open markets that can attract investment and enable people to grow their businesses, to innovate and to compete. In turn, this will provide for sustained improvements in health, education and employment outcomes.

We are also of the view that the aid program must serve Australia's national interests, including the creation of mutually beneficial economic relationships.

When it comes to aid delivery, it is the position of the BCA that Australia should give a higher priority to using collaboration to leverage our aid program, and that we should be selective in funding aid projects.

Greater leveraging can be achieved in a number of ways. There is an opportunity to increase the level of international collaboration, to create new linkages with business, and to further extend the alignment with Australia's trade and investment priorities.

In support of these priorities, the BCA has identified the following seven recommendations for consideration by the independent review panel:

- That by 2011–12, the federal government should establish a more rigorous process to assess aid program spending on an annual basis. Such a process would involve the preparation of a report by an independently chaired panel ahead of the annual budget process. The report of the panel would be prepared for the purpose of informing the deliberations of the federal government's Expenditure Review Committee (ERC). This will help ensure that the ERC is in a position to determine whether future incremental increases in the aid budget are justified, before the additional component is allocated. The arrangements should involve the examination of new project proposals by a panel that includes members who are independent experts, and must include an analysis of where the incremental increase in foreign aid would be spent and for what purpose. It should be informed by whether outcomes from current programs are being achieved.
- That aid delivery agencies should continue to improve the identification of outcome targets for all aid projects. This should be combined with efforts to improve the measurement, reporting and assessment of outcomes for current and future aid projects. An independent audit should be undertaken to verify the effectiveness and efficiency of projects and the findings should be included in evaluation reports.
- That the Australian Government's policy framework in relation to aid should explicitly recognise and encourage:
 - the need for effective international collaboration;

- the important role of the private sector in achieving innovation, growth and improved living standards for communities and the benefits that can be achieved from greater linkages; and
 - increased collaboration and the sharing of information between AusAID, the Department of Foreign Affairs and Trade, Austrade, not for profit organisations and the business community.
- That aid projects should, whenever it is feasible to do so, enable and encourage developing countries to pursue policies that support open markets governed by effective and impartial institutions. This requires that aid projects should be directed to nations with responsible and responsive governments.
 - That the Australian Government should continue to utilise the nation's expertise in health, education and training and infrastructure as an important component of the aid program.
 - That the Australian Government take steps to further improve the level of public knowledge and understanding about where foreign aid is delivered and for what purpose.
 - That the Australian Government continues to administer a selective and targeted aid program, focusing in particular on Indonesia, Papua New Guinea and the Asia Pacific. The potential to augment Australia's aid program through wider policy initiatives that benefit developing nations should also be explored, recognising that there is a case for continuing to consider projects in Africa.

Introduction

The Business Council of Australia (BCA) welcomes the opportunity to make a submission to the independent review of foreign aid efficiency and effectiveness.

Australia has a number of vital interests in making sure that we have and sustain an effective and efficient aid program.

The aid program represents a significant proportion of federal budget revenue, and is an area of very substantial growth. On current estimates the foreign aid budget could double in size within the next five years as a result of the government's commitment to increase foreign aid to 0.5 per cent of gross national income. This means that the budget for foreign aid could go from more than \$4 billion in annual expenditure at present, to in excess of \$8 billion in annual expenditure over the medium term. At a time when Australia must manage its fiscal policy carefully, expenditure on aid must represent good value for money. This means the outcomes of the aid program should support a conclusion that expenditure of funds through aid delivery is a higher priority than other areas of federal budget expenditure.

Although we understand that the independent panel will not be considering the amount of funding to be allocated from the federal budget to foreign aid, it is the position of the BCA that this should be kept under review by the government. At the same time, the work of the independent panel is very timely, and can make a major contribution to ensuring that the aid program does achieve good value for the expenditure of budget funds.

In giving consideration to the interests Australia has in the aid program, it is imperative that current and future projects deliver significant and ongoing benefits to those communities in developing nations targeted by our program, as well as to Australia. The BCA also recognises that Australia's aid program is a very important component of Australia's broader international engagement.

The purpose of Australia's aid program

The BCA supports the objectives of Australia's aid program for developing nations, which include reducing poverty and contributing to economic development in ways that are sustainable.

If these objectives are to be achieved, then aid, as part of a wider policy framework, must contribute to enabling developing nations to establish and maintain properly functioning markets. Open and competitive markets are needed to attract investment, enable businesses to grow and innovate, and to provide the basis for sustained economic development and growth. This approach must include encouraging developing nations to pursue free trade policies that enable them to derive the greatest possible benefits from international commercial engagement.

Developing nations with responsible and responsive governments that have opened up their economies to international trade and investment have been the most successful in sustaining economic growth and reducing poverty. Therefore, enduring political, economic and social improvements must form a central part of Australia's approach to current and future aid priorities.

Furthermore, an effective policy framework will provide the economic basis for improvements in health, education and employment outcomes centred on participation.

It is essential that foreign aid does not displace or deter the opportunity for local enterprise and industry development. Local capabilities should be developed and utilised whenever it is practical to do so.

We are also of the view that the aid program should serve Australia's national interests. These interests include the creation of opportunities to build mutually beneficial economic relationships, and the opportunity to contribute to the stability not only of nations, but of regions where we have strategic interests.

In developing policy priorities and presenting a justification for current and new programs, both the benefits and the costs to Australia must be clearly established.

Policy priorities for improving the efficiency and effectiveness of the aid program

Delivering a highly effective aid program represents a major challenge for the Australian Government, and for all organisations and individuals with an interest in the current and future aid program. In part, this is due to the need to prepare and implement programs for communities within developing nations that face difficult and entrenched problems.

However, the importance of properly managing the substantial increase in financial resources that have been committed by the government and which are expected to continue to flow over the medium term, requires a strong focus on outcomes that have a significant and beneficial impact.

The overarching objective in considering the future of aid delivery should be to build and sustain a world-leading aid program with respect to both its efficiency and effectiveness in providing benefits to the people of developing nations as well as to Australia.

This overall objective should be supported by the following priorities:

- an aid program that is focused on achieving outcomes that provide the greatest possible benefits for both developing nations and Australia;
- that wherever reasonably possible, aid programs should support and promote the development of open markets within developing economies, and be delivered in countries where there are responsible and responsive governments; and
- improving the level of public knowledge and understanding about where Australian aid is going and for what purposes, in order to ensure public confidence in the aid program.

It is the position of the BCA that all future incremental funding increases for Australia's aid program should not be allocated until a rigorous process has been undertaken to determine whether the additional increment is justified. It is the role of the Expenditure Review Committee (ERC) of Cabinet to determine each year how government expenditures are to be allocated. However, in relation to decisions

associated with Australia's foreign aid program (and commitments to increase funding over time) the ERC would be assisted if it could consider additional independent advice prepared by an independently chaired panel. The panel would include members who are experts from outside AusAID and aid delivery agencies, and would be required to examine exactly where the additional increment of funding would be spent and for what purpose. This is the most important recommendation contained in this submission. Such a policy measure would, in our view, strengthen the focus on the attainment of outcomes by bringing an increased level of discipline to planning and the determination of which projects should be funded.

In addition, as this submission makes clear, there needs to be an equal focus on the impact of the outcomes achieved. There are significant opportunities to further utilise leveraging in the delivery of Australia's aid program for the purpose of increasing the beneficial impact of aid delivery.

The BCA shares the view that the most effective way to reduce poverty and achieve sustained economic growth is for the governments of developing nations to pursue policies and initiatives that support a formal economy based on open and well-regulated markets. In other words, there need to be markets that function in an effective and predictable manner, and in which people can have confidence. These policies provide the foundation for investment, increased productivity and economic growth. As part of such an approach, there is an important role for education in building the governance capacity required for effective policymaking and regulation.

At the same time, there are a many valuable aid projects that do not have such a direct link to building governance and regulatory capacity. These include many important initiatives that address grave health problems such as the treatment of AIDS and the prevention of malaria.

Both categories of aid projects can be very effective forms of assistance to communities in developing nations and therefore will have highly-beneficial outcomes.

These priorities call for effective collaboration between governments, business, not-for-profit organisations and other organisations with an interest in aid delivery. The need to improve and extend collaboration is a common element in a number of the policy recommendations included in this submission.

In support of these priorities, the BCA has identified the following seven recommendations for the independent review panel to consider.

1. Establish, by 2011–12, a strengthened process for assessing aid program spending, and reporting to the Expenditure Review Committee (ERC) of Cabinet.

Given the magnitude of the current and future funding increases expected to go to Australia's aid program, the most important recommendation in this submission is to strengthen the process of assessing foreign aid spending, and in particular the justification for future incremental increases in the aid budget.

It will be important that AusAID and other agencies involved in delivering Australia's aid program can fully justify all proposals for spending any incremental increase in

funding. The process must include an analysis of the cost of proposals versus their anticipated effectiveness.

All decisions on the aid program should be agreed by the government having regard to recommendations from the Expenditure Review Committee of Cabinet consistent with established practices. However for the aid program, the budget process should involve an additional step requiring the provision of advice on proposals for new and continuing aid projects by a panel with independent members.

The BCA acknowledges that the establishment by the government of the Development Effectiveness Steering Committee has been an important step in improving the rigour surrounding the development of aid program priorities. The current steering committee arrangements have increased the involvement of central agencies in considering aid program priorities and new spending proposals at an early stage.

Nevertheless, we see merit in taking these arrangements further by introducing more independence into the panel, and asking it to make a rigorous assessment of proposed priorities.

A more independent panel could be formed by restructuring the Development Effectiveness Steering Committee to include a small number of outside experts along with members from central agencies. Consideration should be given to requiring that a restructured panel be chaired by someone from outside AusAID (though an AusAID representative might be involved in the work of the panel.)

We note that one of the roles of the Development Effectiveness Steering Committee is to provide advice on spending proposals in the budget context. A key part of the work of a more independent panel would be to provide a report of its findings to ERC on an annual basis.

In order to inform the process of considering future spending proposals, information should be provided to ERC about current programs, whether they are achieving effective outcomes, and whether the outcomes achieved reflect the objectives of those programs. Current programs can provide a basis for comparison as part of an assessment of the likely outcomes from new proposals.

The report of the panel would be used to assist ERC to determine whether or not all of the incremental increase in funding should be allocated either to AusAID, or to other agencies involved in the delivery of aid programs.

The panel would be expected to consider any mitigating circumstances such as, for example, projects involving multi-year commitments, and recognising that improvement and development in difficult circumstances can take time.

It would be desirable for the report of the panel to be publicly released as part of the annual budget papers.

We regard these arrangements as building on the structures that the government has established. They would provide a stronger incentive for organisations involved in aid delivery to demonstrate how future increases in the aid budget will deliver good value for the proposed investment. It would also contribute to ensuring that the achievement of beneficial outcomes is the central focus of the Australian aid

program. This should include benefits that flow to both developing nations and to Australia.

It is important that the culture of AusAID and other organisations involved in aid delivery reflects a commitment to achieving beneficial outcomes. The proposed policy measure would require discipline on the part of AusAID because of the need for rigorous analysis and planning to support a well justified case for the allocation of incremental funding increases. Aid delivery agencies will need to carefully examine and choose the projects that will be the most effective in terms of impact and cost.

For these reasons, the BCA recommends:

- That by 2011–12, the federal government should establish a more rigorous process to assess aid program spending on an annual basis. Such a process would involve the preparation of a report by an independently chaired panel ahead of the annual budget process. The report of the panel would be prepared for the purpose of informing the deliberations of the federal government's Expenditure Review Committee (ERC). This will help ensure that the ERC is in a position to determine whether future incremental increases in the aid budget are justified, before the additional component is allocated. The arrangements should involve the examination of new project proposals by a panel that includes members who are independent experts, and must include an analysis of where the incremental increase in foreign aid would be spent and for what purpose. It should be informed by whether outcomes from current programs are being achieved.

2. Improve the measurement, reporting and assessment of outcomes linked to project targets

Meeting the objective of becoming an international leader in the efficiency and effectiveness of our aid program will require a rigorous approach to the identification, measurement and reporting of outcomes from current and future projects. High-quality measurement and reporting are required to inform future policies and to provide the basis for determining the efficiency of aid delivery, as well as key aspects of its effectiveness.

Furthermore, work undertaken to improve the measurement of outcomes needs to be considered in conjunction with the targets established for aid programs. It will be important that there is alignment between what projects are aiming to achieve and the results. The targets that are established for aid projects are pivotal to the prospects for the effectiveness of aid delivery. Therefore, this area of work should be amongst the highest priorities for policymakers and organisations with an interest in Australia's aid program.

Reporting arrangements should also include information about the cost of delivering the project, including all overheads.

In addition, if the program is to be as effective as possible, then the impact of the outcomes is an equally important consideration. Therefore, in addition to measurement and reporting, there should be arrangements for an assessment of the impact of the outcomes that are to be attained.

The key to determining the value of programs should be an analysis that considers cost versus effectiveness.

The BCA supports continuing work on improving the measurement and reporting of outcomes. The World Bank has undertaken work on transparency and accountability, including the preparation of common standards for sharing data so that it can be obtained and easily interpreted by many different partners.

The aims of the approach outlined by the World Bank are worthy of support. These include the desire to make international aid funding arrangements more predictable, and to move the focus of reporting to be primarily concerned with outcomes. The detailed arrangements proposed as a way to improve reporting should be carefully considered.

It is also desirable that reports provide information on what has worked and what has not worked, to enable comparisons to be made with similar projects.

Furthermore, arrangements to improve the reporting of outcomes should involve an independent audit by a professional organisation or individual. The assessment of the effectiveness and efficiency of programs and projects should be subject to external scrutiny to verify the analysis and the results. The results of independent audits should be included in evaluation reports of aid programs.

The BCA recommends:

- That aid delivery agencies continue to improve the identification of outcome targets for all aid projects. This should be combined with efforts to improve the measurement, reporting and assessment of outcomes for current and future aid projects, linked to clearly described outcome targets. An independent audit should be undertaken to verify the effectiveness and efficiency of projects and the findings should be included in evaluation reports.

3. Improve both international collaboration and links with business in order to increase the leverage from aid programs

This recommendation involves two aspects. The first relates to broad-based international collaboration and the second relates to extending linkages with business.

a) extend the level of international collaboration in the design and delivery of Australian aid

Many developing nations are achieving rapid economic development. As a consequence, they are amongst the fastest growing nations in the world. At the same time, there are a significant number of nations that are making little, if any, economic progress.

Therefore, there is a need to adapt the aid program to the different circumstances of developing nations. In light of this, information and expertise about the circumstances of each country is very important. One way that this expertise has been shared is to leverage aid delivery through coordinated and collaborative approaches to aid and broader international policies.

AusAID and other organisations involved in the delivery of aid projects, will often collaborate with international organisations. At the same time, there continue to be many aid projects which are conducted as stand-alone Australian projects.

The effectiveness of Australia's aid program could be improved by increasing the level of collaboration with aid agencies from other nations. There is also an opportunity to extend this form of collaboration with international organisations that have expertise in project development and delivery, such as the World Bank. This approach would be consistent with the 2008 Accra Agenda for the future of international aid delivery.

The advantages of international collaboration include the ability to increase the scale and reach of projects, offering the potential to achieve a greater impact from initiatives that are identified as a high priority. Furthermore, there is the opportunity to utilise and gain access to international expertise, including the results achieved and lessons learned from similar projects.

Greater levels of international collaboration also offer the potential to reduce administrative costs and duplication. Two World Bank economists, Francois Bourguignon and Mark Sundberg stated in their paper, *Aid Effectiveness – Opening the Black Box*, that the 'fragmentation of aid across donors has also contributed to higher compliance costs, less predictability and greater aid volatility'¹.

A further potential advantage from international collaboration is the increase in alignment between aid donor nations in relation to the purpose of aid programs and the outcomes sought.

In addition, international collaboration provides the opportunity to work more effectively with recipient countries to improve their policy settings. The World Bank has pointed out that engaging with fragile governments and institutions will often be more successful if there is cooperation with donor governments and organisations. A larger project will often be more likely to gain the cooperation of recipient governments and to enable greater linkages to improvements in local governance.

It will be important that jointly-funded and administered aid projects are subject to the same independent audit arrangements outlined above under recommendation 2.

For these reasons the BCA recommends:

- That the Australian Government's policy framework in relation to aid should explicitly recognise and encourage:
 - the need for effective international collaboration; and
 - the important role of the private sector in achieving innovation, growth and improved living standards for communities and initiatives that result in greater collaboration.

b) build more effective linkages with business

Improving linkages with business has the potential to contribute to both the effectiveness and efficiency of Australia's foreign aid delivery. Through effective linkages with business, there are opportunities to develop and utilise innovation and

¹ Francois Bourguignon and Mark Sundberg, *Aid Effectiveness – Opening the Black Box*, p. 7

creativity, and to leverage knowledge and coordination of activities for the purpose of achieving sustained economic and social outcomes.

The opportunity to work with and build ongoing relationships with business should be regarded as an asset to the aid program. Improved linkages can make a contribution at a number of levels and for different objectives, which might include:

- coordination between aid program delivery and business investment with the aim of improving the effectiveness of aid outcomes;
- sharing of expertise and information about experiences and requirements in different countries and regions;
- sharing of resources and infrastructure; and
- collaboration in the delivery of projects.

Building greater linkages with business has the potential to make a contribution to continuing to build a culture within aid delivery agencies that supports effective and efficient management of aid projects.

One important way to provide a basis for strengthening links with the private sector is for the Australian Government to identify this objective as a priority within its policy framework, and to encourage the development of new mechanisms to foster business links.

Australian business recognises the knowledge and capabilities of non-government organisations involved in the design and delivery of aid programs. There are opportunities for non-government organisations and business to learn from each other and, in doing so, to contribute to improving the outcomes achieved from the delivery of aid.

There is also an opportunity to improve the level of engagement and the sharing of information between AusAID, the Department of Foreign Affairs and Trade, Austrade and Australian business and industry. Business organisations have an important role to play in extending the number of linkages and improving their effectiveness.

If there is to be increased collaboration in the delivery of aid projects, these projects should be subject to the same independent auditing arrangements proposed above under recommendation 2.

In order to support increased links with business, the BCA recommends:

- That AusAID, the Department of Foreign Affairs and Trade, Austrade, not-for-profit organisations and the business community should attach a high priority to sharing information about current and future engagement in developing nations, and to enabling more linkages to be established.

4. Continue to give a high priority to strengthening policy capabilities, effective governance and supporting responsible governments within developing nations

The BCA supports the longstanding commitment by the Australian Government to contribute to strengthening governance within developing nations. There continue to be opportunities for Australia's aid program to directly and indirectly contribute to improved policymaking and governance arrangements.

In their publication *'Delivering Aid Differently'*, Wolfgang Fengler and Homi Kharas reinforce the view that it is important to look beyond immediate aid programs and to consider fundamental issues that are important to development. Furthermore, Fengler and Kharas emphasise that the main challenge in many developing countries is institutional reform, including governance systems.

One example of this form of aid is through projects that assist in the development of a legal framework that underpins the working of free markets by protecting private property rights, including adequate institutional arrangements for the enforcement of contracts.

A vital component of legal frameworks is the role and quality of judicial and other formal institutions in providing an impartial and timely means of dispute resolution.

Of equal importance is the need to make certain that local institutions establish and maintain high standards of governance. A high standard of governance requires adherence to the following principles and practices:

- transparency and accountability with respect to the priorities, processes and decisions of regulatory institutions;
- a high level of certainty and consistency from regulators, especially with respect to the interpretation and implementation of regulations;
- impartial treatment for all business entities subject to regulation;
- a commitment to timely actions and decision making; and
- a commitment to ethical conduct, including the development of appropriate protocols and procedures for handling potential conflicts of interest; and

The effective and impartial governance of regulatory institutions not only contributes to increased investment and growth, but can also encourage improved standards of corporate governance by businesses.

Previous studies by the World Bank have demonstrated the link between the protection of property rights and economic growth. Institutional weaknesses, such as delays and inconsistent recognition of property and contractual rights, have a negative effect on business confidence and, as a result, are likely to reduce the capacity of an economy to attract investment and to sustain growth.

There is an opportunity to utilise the delivery of aid as a means to either contribute directly to strengthening governance and the fostering of productive markets, or alternatively, to indirectly utilise projects by, for example, advocating the importance of enabling effective markets and the importance of good governance.

Australia must make sure that its aid programs do not undermine fledgling markets and deter local investment. This means that, wherever possible, the potential for local suppliers to build up their businesses should be considered. Unintended consequences, such as continuing an aid program that deters small businesses in developing countries from trying to grow their markets and develop their enterprises, must be avoided. Wherever possible, we should be taking a strategic approach to aid programs and consider projects that complement and build the capabilities of industries and enterprises in developing nations.

In addition, there should be a strong preference for aid programs to be delivered in nations that have a responsible government in place or where a responsible government is in the process of being established. Corrupt or unresponsive governments are likely to mean that economic development will be compromised, with the potential to undermine confidence in Australia's aid program.

It is therefore important that, as a guiding principle, Australia's aid program be directed to nations where there are governments that have a reputation for adhering to standards of good governance, and which are known for integrity in the regulation of commerce and trade.

The BCA recommends:

- That as many aid projects as possible involving Australian organisations should enable and encourage developing countries to develop and implement policies that support open and competitive markets governed by effective and impartial institutions. This requires that aid projects should be directed to nations with responsible and responsive governments.

5. Extend the utilisation of Australia's strengths, including capabilities in health, education and training and infrastructure

As a general principle, the aid program should take careful account of Australia's strengths, including areas of comparative advantage. If projects can draw on strengths within Australia, and through Australian interests overseas, this can provide a strong basis for effective outcomes.

Business views both health, and education and training as vital components of an effective aid policy framework. The BCA recognises that utilising education is one of the key principles underpinning Australia's current aid program.

Businesses are more reliant than ever before on the skills and broader capabilities of people. A commitment to improving education and training outcomes will be essential to the future economic success of all nations.

The health and education of a nation's population are fundamental to enabling people to participate in, contribute to, and benefit from economic development and growth.

Australia has important capabilities available to the aid program as a leading provider of international health and education services. These are already being utilised through some very effective partnerships. One example of these initiatives is the many scholarship programs, which often result in employment opportunities being offered to students who, having been awarded a scholarship, are successful with their studies.

Australia also has key strengths in the area of infrastructure that can be pivotal in the development of industries and opening up opportunities for businesses to grow their markets and contribute to wider economic development. A high priority should be given to opportunities to enable industrial and enterprise development.

We should continue to give a high priority to utilising these capabilities in the most effective way possible, whether through specific aid projects, or through wider

provision of information and through the advocacy opportunities offered by our international engagement.

The BCA recommends:

- That the Australian Government should continue to utilise the nation's expertise in health, education and training and infrastructure as an important component of the aid program.

6. Improve the level of public knowledge and understanding about where foreign aid is being delivered and for what purpose

AusAID makes available a considerable amount of information about Australia's foreign aid program.

However, there is a need to continue to raise public awareness of the major countries where Australian aid is delivered, the purpose of the programs, and the benefits that are delivered to developing nations. Public support for aid delivery priorities will be important to Australia's ongoing commitment to foreign aid.

This is a difficult challenge because raising public awareness can involve considerable costs. In light of the competing need for an efficient aid program, incurring additional costs on raising public awareness would be inconsistent with the goal of improving the efficiency and the effectiveness of aid programs.

Therefore other low-cost means of improving knowledge and understanding are required.

Linkages and networks with the wider private sector and community organisations can offer a low-cost way of raising awareness of foreign aid programs.

The BCA acknowledges the important work of the business organisation Business for Millennium Development in not only raising awareness about the work being undertaken to reduce poverty, but in encouraging the private sector to be involved.

Partnerships with business and community organisations offer opportunities to increase the level of understanding about Australia's aid program.

Taking steps like this will be important in order to secure public support for the aid program. It is reasonable to expect that there should be public confidence in both the aims and the outcomes of Australia's aid delivery, as well as support for prioritising near neighbours and the Asia Pacific.

Public support is likely to become even more important if substantial increases in the aid budget are to be maintained. The need for ongoing public confidence is a further reason for rigour and discipline on the part of aid delivery agencies in making sure that the programs funded deliver the outcomes expected.

Finding new and effective ways to provide information about the aid program will be necessary to assist in building and maintaining public confidence and support.

The BCA recommends that the federal government, in partnership with stakeholders, take steps to:

- Further improve the level of public knowledge and understanding about where foreign aid is delivered and for what purpose.

7. Continue to set key geographic priorities for the delivery of aid programs

The BCA supports the targeted delivery of foreign aid because this can enable a greater impact to be gained by directing more significant resources to a smaller number of countries and projects.

Allocating the largest share of aid resources to programs that aim to benefit our near neighbours, such as Indonesia and Papua New Guinea, is consistent with Australia's interests.

Furthermore, the focus on the Asia Pacific reflects a number of our most important economic and strategic relationships. Our ability to leverage these relationships for the purpose of linking aid to effective and sustained economic development should continue to be amongst Australia's highest priorities.

Part of Australia's approach to improving outcomes should involve augmenting the delivery of aid programs by considering the potential for broader engagement with developing nations and how this can complement the objective of foreign aid.

The BCA recognises that careful consideration must continue to be given to issues of extreme poverty and disadvantage.

At the same time, this can coincide with Australia's wider economic interests. A significant number of Australian businesses have very important emerging interests in Africa. It will be important that these projects are leveraged, whenever it is practical to do so, through one or more of the collaborative approaches involving multilateral institutions already described. However, it is our view that Australia should be careful to avoid duplicating bilateral projects, especially in Africa and in parts of the world where our commitments are relatively small.

The BCA recommends:

- That the Australian Government continues to administer a selective and targeted aid program, focusing in particular on Indonesia, Papua New Guinea and the Asia Pacific. The potential to augment Australia's aid program through wider policy initiatives that benefit developing nations should also be explored, recognising that there is a case for continuing to consider projects in Africa.

Conclusion

The substantial growth in the size of the aid budget requires that careful consideration be given to how well the budget and the programs it supports are utilised.

It is the position of the BCA that all future funding increases for Australia's aid program should be made contingent on the performance of Australia's aid delivery agencies in achieving clearly described outcomes.

This policy measure would help to build a culture that is focused on identifying and achieving beneficial outcomes.

At the same time, the BCA shares the view that the most effective way to reduce poverty and achieve sustained economic growth is for the governments of developing nations to pursue policies and initiatives that support a formal economy based on open and well-regulated markets, and a commitment to opening up economies to international trade and investment.

In other words, there must be markets that function in an effective and predictable manner, regulated by responsible and responsive governments in which the people of developing nations can have confidence.

In conjunction with this, continuing to find ways to increase the level of knowledge and understanding of our aid program within Australia will help ensure public support.

These priorities have been identified with a view to encouraging investment, increased productivity and economic growth in developing nations. These outcomes should be supported and promoted to the greatest extent possible by Australia's aid program.

BCA contact details

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