



## **Senate Standing Committee on Foreign Affairs, Defence and Trade inquiry:**

### **The delivery and effectiveness of Australia's bilateral aid program in Papua New Guinea**

Written submission by  
the **OECD Development Co-operation Directorate**

The OECD Development Co-operation Directorate welcomes this opportunity to submit comments to the inquiry into the delivery and effectiveness of Australia's bilateral aid program in Papua New Guinea.

The OECD Development Co-operation Directorate assists the [Development Assistance Committee](#) in conducting its work. The Development Assistance Committee has the mandate to “promote development co-operation and other policies so as to contribute to sustainable development, including pro-poor economic growth, poverty reduction, improvement of living standards in developing countries, and a future in which no country will depend on aid.”

This written evidence draws on more than 50 years' experience in analysing the delivery and effectiveness of aid, on findings of DAC reviews of member country development cooperation programmes (<http://www.oecd.org/dac/peer-reviews/>), particularly the [DAC peer review of Australia in 2013](#) and a recent (November 2014) mid-term review of Australia, which focused on Australia's implementation of the DAC's recommendations in the 2013 peer review and took stock of major contextual developments affecting development co-operation.

This submission focuses on key features of the delivery and effectiveness of Australia's bilateral aid program which can be relevant for its development co-operation with Papua New Guinea. While the DAC did not conduct its field visit for the 2013 peer review in Papua New Guinea, the peer review team visited the [Philippines](#) in order to verify how headquarter policies and strategies are implemented at the field level and to get feedback from partner government, civil society and other donors on the reviewed member's performance.

#### **This submission looks at the following terms of reference for the submission:**

1. The political, economic and social objectives of Australia's aid.
2. Scope for increasing private sector involvement in sustainable economic growth and reducing poverty.
3. Improving PNG's progress towards internationally-recognised development goals.
4. Establishing realistic performance benchmarks to assess aid outcomes against set targets and to improve accountability.
5. The extent to which development outcomes in PNG can be improved by learning from successful aid programs in other countries.

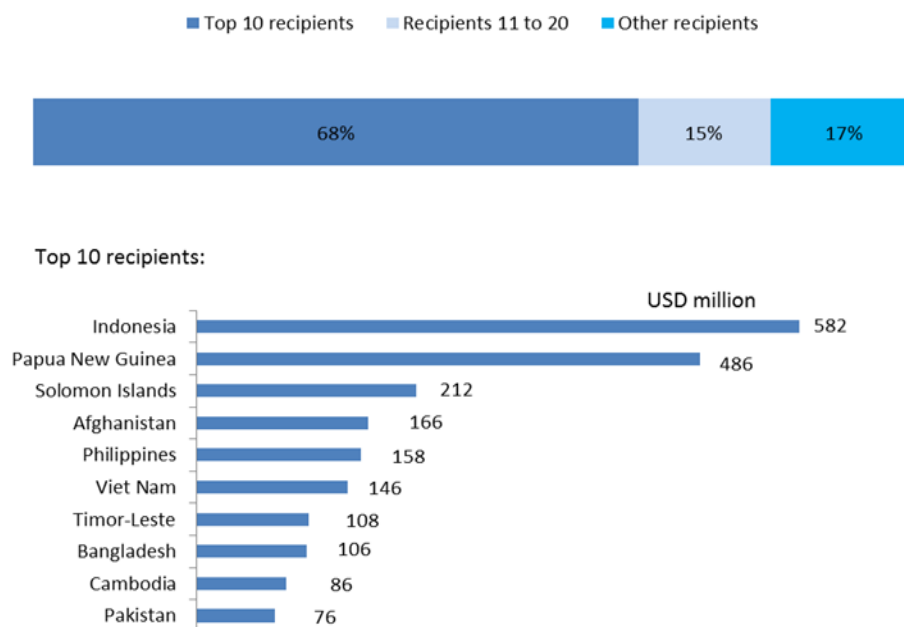
## 1. The political, economic and social objectives of Australia's aid

### 1.1 Investing in poverty reduction and economic development in the Asia and Pacific Region

Like other DAC members Australia's development co-operation is closely linked with foreign policy. At the same time, as stated in the 2013 DAC peer review, Australia is in a unique and powerful position in its own region: 22 of its 24 nearest neighbours are developing countries, including Papua New Guinea, and some of them are particularly fragile and vulnerable. The international community values Australia's special responsibility and interest in supporting development in Asia and the Pacific.

Australia's commitment to investing in development in its neighbourhood is also evident in OECD aid statistics. In 2012-2013 (2 year average) Australia disbursed 53% of its bilateral aid to Far East Asia and Oceania and a further 12% to South and Central Asia. As shown in Figure 1, the top ten recipients of Australia's bilateral aid are neighbouring countries. In addition, Australia's support to fragile states reached USD 1.1 billion in 2013 (25% of total bilateral ODA).

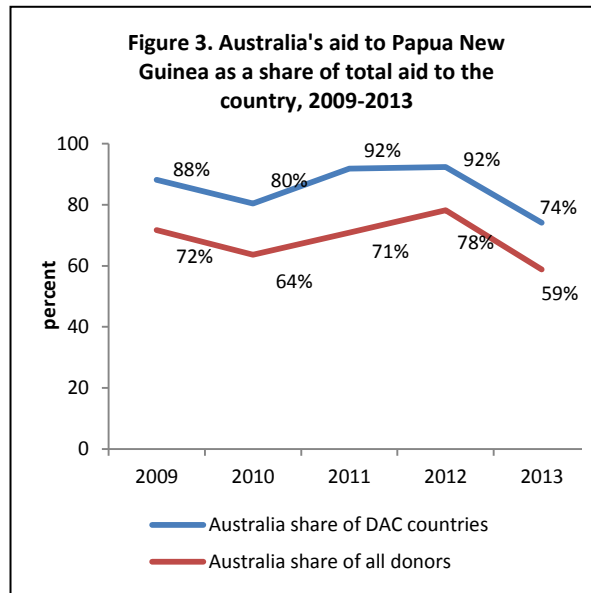
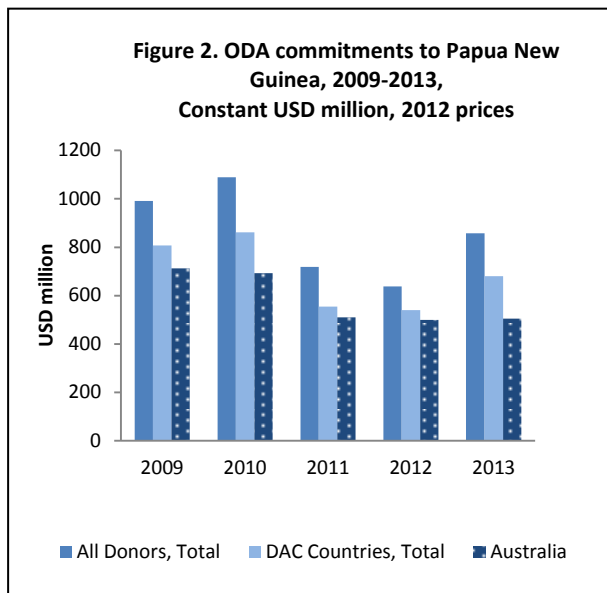
**Figure 1. Bilateral country-allocable ODA to top recipients, 2012-13 average, gross disbursements, Australia**



Source: OECD DAC statistics

In Papua New Guinea, OECD data show that Australia committed 59% of total aid to the country in 2013 and 74% of the aid committed by DAC countries (see Figures 2 and 3). Australia's share of total aid declined between 2012 and 2013. The volume of aid commitments that Australia made to Papua New Guinea did not decline, however. They stood at USD 504 million in 2013 compared to USD 499 million in 2012. Overall, there has been a decline in Australian ODA to Papua New Guinea which reached its peak in 2009 at USD 711 million. (Figures are in constant 2012 USD million).

Australia's development co-operation with Papua New Guinea aims to support improvements in health, education, law and justice, transport infrastructure, gender equality, and governance. There is information on DFAT's [website](#) about Australia's programmes in these sectors but it is difficult to see where the budget - of about AUD 500 million per year - is actually spent. Ensuring full transparency of where aid goes is important for all Australia's aid programmes, but perhaps particularly so in the case of Papua New Guinea where questions may be raised about ODA expenditures associated with the off-shore refugee processing centre in Manus Island.



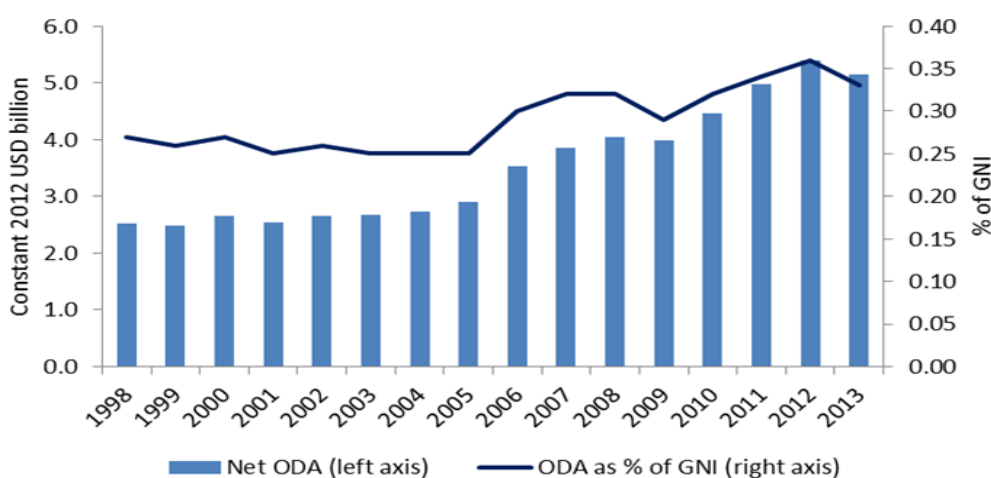
Source: OECD DAC Creditor Reporting System

### 1.2 Challenges with delivering an effective bilateral program when the aid budget is being cut

Australia provided USD 4.8 billion ODA in 2013, which represented 0.33% of gross national income (GNI) and a fall of 4.6% in real terms from 2012. Australia has slipped from being the eighth largest DAC donor by volume in 2012 to the 10th largest in 2013. In the 2013 DAC peer review, the DAC found that Australia was in a very strong position to deliver a growing aid budget effectively and efficiently. It recommended that Australia should achieve its stated aid goal of 0.5% ODA/GNI by 2016/17. However, this is no longer a goal for the Government of Australia. The planned cuts to the aid budget in 2015/16 (by about 20%) will pull Australia's ODA as a percentage of GNI well below the DAC average (0.30% in 2013).

The reductions in the budget present two challenges that are pertinent for Australia's partners, including Papua New Guinea. They are (i) predictability; and (ii) identifying where to apply the cuts. The implications for the aid programme are likely to be severe as an additional 20% reduction will require cutting into on-going rather than only planned programmes. In deciding how to apply these cuts Australia should, in the spirit of mutual accountability that it has signed up to internationally, consult carefully with partners in its priority countries and ensure maximum transparency of decisions.

Net ODA trends in volume and as a share of GNI, 1998-2013, Australia



## 2. Scope for increasing private sector involvement in sustainable economic growth and reducing poverty.

Australia's development policy, like those of most other DAC members, places greater focus on economic growth and the role of the private sector in making growth happen. Placing more emphasis on the private sector is also in line with the principles, commitments and actions of the [Busan Partnership for Effective Development Co-operation](#).

Many DAC members have developed private sector strategies and are creating new funding instruments or delivery mechanisms to support this focus. Several DAC peer reviews caution members against merging development objectives with their own commercial interests, and against establishing instruments that would lead to an increase in tied aid.

At the 2014 (November) mid-term review of Australia we found that new guidelines are being developed to support DFAT staff in involving the private sector in the design of new programmes. This is a step forward as the peer review noted that Australia could have clearer objectives for engaging with Australian businesses in development. It is too soon to say what results the new approach can achieve. According to officials there will be no direct funding to the private sector and there will be no change from the current untied aid policy.

Australia also promotes aid for trade to improve developing countries' trade performance and integration into the world economy. Australia allocated 14% of its bilateral sector allocable ODA to aid for trade in 2013, so resources will need to be re-directed or programmes re-oriented to reach its target of 20%. In 2013, 14% of Australia's bilateral sector commitments to Papua New Guinea focused on economic infrastructure and services and it committed USD 604 000 to trade related activities.

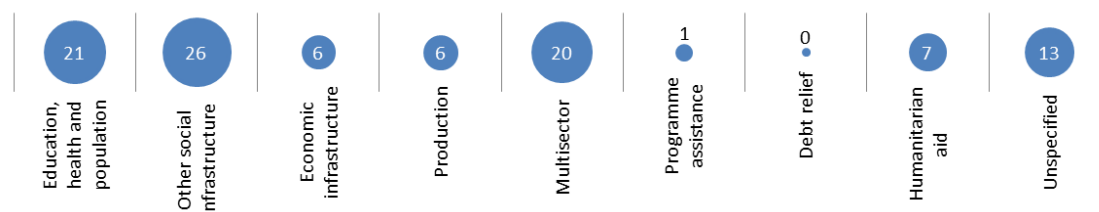
## 3. Improving Papua New Guinea's progress towards internationally-recognised development goals.

### 3.1 The Millennium Development Goals

In the 2013 peer review, the DAC found that Australia's development co-operation was strategic with a clear statement of purpose focusing on poverty reduction and meeting internationally-recognised development goals, notably the Millennium Development Goals. OECD data show that Australia invests in key sectors related to the Millennium Development Goals such as education, health, population and other social infrastructure (see Figure 4.).

In Papua New Guinea, Australia invested 66% of its bilateral aid in the social sectors in 2013 with a strong focus on education (11%), population and reproductive health (12%) and government and civil society (31%). These allocations reflect the priority given to governance, law and justice, education and health in the PNG-Australia Partnership for Development.

**Figure 4. Share of total bilateral ODA by sector, all recipients, 2012-13 average, commitments, Australia**



Source: OECD DAC statistics

### **3.2 Gender equality and women's empowerment**

The peer review also found that Australia has a solid approach to integrating gender equality in projects and programmes. The Australian aid programme was well-positioned to promote gender equality in difficult and varying contexts where it operates - from the Pacific islands to Afghanistan.

In Papua New Guinea, where the Gender Inequality Index in the 2013 UNDP Human Development Report ranked PNG 134th out of 148 countries, Australia places a strong emphasis on gender as a cross-cutting theme. DAC statistics show that 57% of its bilateral sectoral allocable aid to Papua New Guinea (commitments) targeted gender equality and women's empowerment in 2013. Australia's commitment to gender equality is also evident in its 2013/2014 annual aid performance report for Papua New Guinea: it provides a detailed analysis of the opportunities and challenges for making progress with gender issues.

### **3.3 Increasing the effectiveness of development co-operation**

The 2013 peer review found that Australia had made good progress with delivering aid according to international principles for making it effective, especially in terms of enabling partner country ownership and having a strong results focus (OECD/UNDP, 2014). In addition, Australia's share of untied ODA (excluding administrative costs and in-donor refugee costs) was 99.2% in 2013, while the DAC average was 83.2%.

The DAC recommended in 2013 that Australia increase the medium-term predictability of its aid for all its partner countries, that it increase the share of aid delivered through programme-based approaches, and make use of partner country systems for programme design, management, expenditure, monitoring and reporting. These recommendations are relevant to how Australia delivers its bilateral aid in Papua New Guinea. Australia needs to make further progress in enabling developing country ownership through the way it delivers its aid. For example, the progress report - Making Development Co-operation More Effective (OECD/UNDP, 2014) found that in 2013, 55% of Australia's aid scheduled for the government sector in partner countries was recorded on partners' national budgets, while the agreed international minimum target for 2015 is at least 85%. In 2013, 34% of Australia's aid to the government sector was channelled through partners' public financial management and procurement systems, still below the 2015 international target of 57%.

## **4. Establishing realistic performance benchmarks to assess aid outcomes against set targets and to improve accountability**

Our mid-term review of Australia's development co-operation in November 2014, found that DFAT's new performance framework sets out a rigorous approach to assessing performance at three levels of the aid program: the whole-of-programme, country programme, and investment levels.

We consider that the Comprehensive Aid Programming Guide is clear about planning new investments, in particular, setting out requirements for new three-year Aid Investment Plans which will describe where, why and how Australian aid will be delivered and the expected results to be achieved in a country or region. The plans will be driven by the geographic desks working with country offices. Working closely with country offices is important to ensure that performance targets and indicators are grounded in the reality on the ground and are informed by analysis of the risks to achieving results. We learnt that partner countries will be consulted for the Aid Investment Plans but the results will not be negotiated with them. It remains to be seen how this approach will enable mutual accountability between Australia and partner governments.

Accountability for results needs to be addressed at two levels: accountability to the partner country and accountability at home to show that public funds achieve results. Australia, like other DAC members, needs to get the right balance in its performance system so that results information is (i) useful for improving the quality and impact of development co-operation and (ii) it enables the donor to communicate credibly about the long-term development results Australian aid is achieving.

**Reference material**

*OECD/UNDP (2014), Making Development Co-operation More Effective: 2014 Progress Report*, OECD Publishing, Paris.

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