

**Submission to the Senate Standing Committee on Foreign  
Affairs, Defence and Trade**

**Inquiry into the delivery and effectiveness of Australia's  
bilateral aid program in Papua New Guinea**

**International security considerations**

27 March 2015

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**Submission to the Senate Inquiry into the delivery and effectiveness of  
Australia's bilateral aid program in Papua New Guinea**

Dear Mr Sullivan,

Thank you for inviting ASPI to make a submission to the Senate inquiry into Australia's aid to PNG.

As ASPI does not take a corporate position on any issue, this submission reflects the views of its authors, although we have consulted with others at the Institute.

Given ASPI's focus, our submission mainly looks at international security aspects of Australia's official development assistance (ODA) to PNG—particularly as they concern stability in our immediate region, and strategic objectives relating to an important neighbour. Specifically, we address three of the inquiry's terms of reference on aid aims; performance; and benchmarks. (We do not discuss the ADF's defence cooperation program with the PNGDF, which has an assistance dimension but exists independently of the policy and funding regime managed by DFAT, and is more accurately viewed as a military partnership than an aid relationship.)

Overall, we argue that although this substantial aid program makes an important contribution to our strategic interests, improved targeting could benefit Australia-PNG relations and PNG's trajectory.

***The political, economic and social objectives of Australia's aid***

Australia is served by a stable, confident, active and prosperous PNG, given its proximity and location across our direct approaches; historical and personal bonds; consular responsibilities; our trade and investment links; and expectations we'd assist if Port Moresby requested our help.<sup>1</sup>

But the country's enormous potential is undercut by a range of challenges that only seem likely to deepen as socio-economic change continues apace. Pressures such as urbanisation, population-growth, rising inequality, and a gap between continuing GDP growth but slowing street-level economic activity (as LNG revenue kicks in but construction trails off) reflect welcome development but also come with serious downsides.

The idea that PNG stands at a 'crossroads' has been applied repeatedly over the years—most memorably by David Hegarty in 1989 as the Bougainville crisis escalated, economic woes deepened, and the still fairly upbeat 'post-colonial twilight' faded into the past. Although PNG experienced resource booms in 1973-4, 79-82, 87-89, 91-94, 2003-08 and 2012-, it's hard to think of another time when the country simultaneously stood so tantalisingly close to really taking-off but

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<sup>1</sup> The 1987 *Joint Declaration of Principles Guiding Relations between Australia and PNG* (as amended in 1992) specifies that in the event of an external armed attack threatening the national sovereignty of either country the two governments will consult to help each decide what measures should be taken jointly or separately.

also to taking a nasty fall. While there's probably some life yet in another old trope, that 'PNG will always muddle through', the current situation seems more a case of 'crash-through-or-crash' than just bumbling along.

As PNG prepares to celebrate its 40<sup>th</sup> anniversary, there are some bright-spots for its seven million citizens. A decade of strong economic growth has allowed the Government to start implementing free education and health policies and recapitalising dilapidated infrastructure, but these are huge, difficult and expensive initiatives. Inequality is high and growing, as prices rise and rapid population growth exacerbates social pressures in urban and rural areas. In 2011, 40% of Papua New Guineans (some 85% of whom are still based outside cities and towns) were judged to be poor. PNG won't meet any of its millennium development goals and is going backwards against most. High levels of violence continue to impede economic growth and blight lives, especially for women.

In late February, Stephen Howes warned there were worrying signs that a combination of unanticipated economic headwinds—particularly the impact of plunging resource prices on anticipated LNG revenue—and some puzzling political and economic choices meant PNG would have to make tough decisions this year to prevent a descent towards crisis.<sup>2</sup>

Of course PNG has survived periodic political turmoil with its Constitution intact and repeatedly self-healed since the 1979 Rooney Affair. But as Jenny-Hayward Jones warns, the country's history of scraping through crises has probably 'made both Papua New Guineans and Australian policy makers complacent'.<sup>3</sup> As Australia's chief diplomat in PNG during the 2011-12 'Impasse' diplomatically put it, 'for a moment, there appeared to be a real risk that PNG would walk away from its proud democratic record' as rival Prime Ministers and Cabinets each claimed their opponents should be locked-up.<sup>4</sup> We won't know how much further stretch the polity's institutions have before they reach breaking-point until we see it. But Ministers' growing use of 'state of emergency' language to signal resolve in dealing with mundane matters, such as the condition of road and power infrastructure, could lower the bar for extraordinary measures in future crises.<sup>5</sup> Meanwhile, some of the online civil-society voices who seek to hold the executive to account in the absence of a strong parliamentary opposition can be wild and imprudent.<sup>6</sup> And even the juridical and administrative instruments in place to prevent misconduct by leaders, which sometimes also appear to be trying to fill a gap left by the 'parliamentary numbers game and domination of money-politics'<sup>7</sup>, have been accused of bias and overreach (especially by those being investigated).<sup>8</sup>

As PNG's population climbs toward 15 million in 2030 and up to 30 million by 2050<sup>9</sup>, Rory Medcalf wonders whether the potential for future crises to 'overwhelm our capacity to respond' may force Australia to reassess whether to remain the security provider of last resort 'in a troubled neighbourhood?'<sup>10</sup> For now, Australia retains significant capability and soft-power sway to respond to credible contingencies; advance its strategic access, influence, denial and warning imperatives<sup>11</sup>, and pursue particular objectives, such as Port Moresby's help with asylum-seekers—thanks in part to a substantial aid program. But some scholars worry our ability to shape PNG opinion is declining as our aid sinks below 10% of Port Moresby's own budget; non-traditional

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<sup>2</sup> Stephen Howes, 'Is PNG heading for a crisis?', *East Asia Forum*, 22 February 2015.

<sup>3</sup> Jenny Hayward-Jones, 'Jerry Singirok on PNG Violence', *The Interpreter* 11 December 2014.

<sup>4</sup> Ian Kemish, 'PNG: Australia's closest neighbour in transition', 2012 Fernberg Lecture, Brisbane, 10 December 2012.

<sup>5</sup> Bal Kama, 'PNG in 2015: the year of the State of Emergency?', *DevPolicy*, 23 January 2015.

<sup>6</sup> In a post on alleged Government impropriety, Charlie Makkatayson laments that there won't be a military takeover for example — 'As a serial liar Peter O'Neill publicly lied by denying the budget shortfall', *PNGblogs*, 13 March 2015.

<sup>7</sup> Rowan Callick, 'Port Moresby wired for change', *The Australian*, 26 March 2011.

<sup>8</sup> For example, 'MP questions watchdog's integrity over referrals', *Post Courier* 17 March 2015.

<sup>9</sup> See Glenn Banks et al, *National Human Development Report—PNG*, (Port Moresby, UNDP, 2014); and Isaac Nicholas, 'National Population Policy Launched in PNG Parliament', *Post Courier* 19 February 2015.

<sup>10</sup> Rory Medcalf, 'Towards a new Australian Security', speech to National Security College, Canberra, 17 March 2015.

<sup>11</sup> Graeme Dobell, 'From Arc of Instability to Arc of Responsibility', *Security Challenges*, Vol. 8, No. 4 2012.

partners such as China offer new development models and funding options; and sub-regional bodies that exclude us, such as the *Melanesian Spearhead Group*, proliferate.<sup>12</sup>

As such challenges could present difficulties for PNG's national interests as well as our own, and increase the potential for violence in the lives of ordinary Papua New Guineans given the overlap between under-development, insecurity, and instability, we've welcomed recent efforts to more closely align Australia's aid, trade, and foreign policy settings. For reasons we've set out in previous evidence to Parliament, anti-poverty and security-enhancing measures needn't be incompatible but rather overlap significantly in places like PNG.<sup>13</sup>

### ***Improving PNG's progress towards internationally-recognised development goals***

If PNG's prospects are at once so promising and fragile, and our stake in a successful neighbour so high, how might Australian aid best help the country soar rather than stumble?

We've previously noted that well-designed aid-for-trade initiatives appear to hold out much potential to harness the power of broad-based growth for pulling people out of poverty in general, by creating virtuous cycles of new economic activity, additional jobs, adherence to the rule of law, growing tax-bases, better governance, and sustainable communities.<sup>14</sup> That could contribute to stability in turn, given the role of severe deprivation in sparking violence, and private enterprise's potential to generate the means (and eventually perhaps the equity) to secure order.

And in PNG's case, it would seem to make sense to try to help Port Moresby get more out of its own spending as our aid falls as a proportion of its budget. Although the aim of 'transforming PNG's public service' is ambitious given the scale of problems faced and resources available, helping establish a School of Public Policy to rebuild an effective and ethical public sector, fits Canberra's strategic intent to focus more on transformative projects, for example. A recent major study suggests that improved performance by PNG Government agencies in delivering development outcomes, though hardly inevitable, is far from impossible.<sup>15</sup>

But for the purpose of this submission, we're largely agnostic about modalities for aid-delivery. We'll leave recommendations on the promise and pitfalls of particular innovative and pro-business approaches for boosting peace and prosperity to those with more ODA expertise than us. We are, however, keen to make four broad points relating to international security.

First, we see further scope, following integration, to prioritise assistance toward matters that directly relate to Australia's and PNG's shared interest in stability. As we noted in an (attached) ASPI special report, our aid investment in preserving peace on Bougainville was, until recently, slightly above the Autonomous Region's share compared to other provinces on a per-capita basis but far below what mutual security interests warranted. In another ASPI report (also attached) we argue for a greater proportion of our aid spending in PNG than even the current nearly 12% to be invested in law and justice, given the impact of crime on all other areas of development. If it's possible for the two countries to work together closely enough to amend PNG's constitution to provide legal protection for a high priority like the offshore processing centre on Manus Island<sup>16</sup>, it might also be possible to secure an amendment to enable the sort of in-line police support that would offer the greatest chance for turning the law and order situation around.

Second, while there's obviously merit in improving the quality of our assistance, the quantum is also important for signalling the importance of the bilateral relationship as well as what can be

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<sup>12</sup> Joanne Wallis, 'PNG: new opportunities and declining Australian influence', *Security Challenges*, Vol. 10, No. 2 2014.

<sup>13</sup> See Peter Jennings, Anthony Bergin and Karl Claxton, Submission to the Senate aid inquiry, 11 February 2014.

<sup>14</sup> Anthony Bergin and Karl Claxton, Submission to the JSCFADT inquiry into the role of the private sector in promoting economic growth and reducing poverty in the Indo-Pacific region, 30 May 2014.

<sup>15</sup> Stephen Howes et al, 'A lost decade? Service delivery and reforms in PNG', Port Moresby, NRI, October 2014.

<sup>16</sup> Liam Fox, 'PNG amends constitution to protect Manus detention centre', Radio Australia Pacific Beat, 3 April 2014.

achieved on the ground. Accordingly, we welcome indications PNG is to be spared as far as possible from major cuts following the unprecedented 20% reduction of the overall aid budget announced last December.

Third, although we agree with the general proposition that preventing poverty is better than alleviating it, helping Port Moresby meet what are, strictly speaking, its sovereign responsibilities to deliver health, education and other vital services to its most disadvantaged could remain important for security reasons for some time yet, given the particular salience of relative inequality as a spur for grievance in some Melanesian cultures. For that reason, we would regard DFAT's relatively modest initial investment in trial projects under the new InnovationXchange as about right when the overall aid budget is under pressure.

Fourth, in view of the importance of fragile states such as PNG as seven out of ten of our top aid recipients, and the potential for major instability to arise quickly and unexpectedly, the aid-program should ensure hard-won expertise coordinating all aspects of our national power in peace-building and interventions is preserved, even as our experience conducting stabilisation missions in places like Bougainville, East Timor, Solomon Islands, and Afghanistan recedes.

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

Finally, we agree good aid outcomes require an evaluative culture, commitment to high standards, and focus on measurable goals. Benchmarked targets can help set direction and align the pursuit of sometimes-contradictory diplomatic, humanitarian, and strategic aid objectives in complex environments such as PNG. But while positive results can be usefully incentivised, we'd caution that where key national interests are at stake, benchmarks should be strategic ones (such as those measured in the latest PNG Aid Program Performance Report) and assessed strategically. It could be strongly *against* our interest to penalise poor performance in important projects on tactical rather than high level criteria. And where really crucial interests are at stake, it could be more appropriate to redouble than withdraw support when we're expectations aren't being met. That truly transformative aid initiatives can be the hardest to measure (as well as the most difficult projects and slowest to show results) is recognised in Government's intent for the New Aid Paradigm and InnovationXchange to engage and manage rather than entirely avoid risk.

We trust this submission contributes to your inquiry and would be pleased to provide any further assistance.

Yours sincerely,

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Attachments:

- A *A Stitch in time—Preserving peace on Bougainville*, ASPI Special Report by Peter Jennings and Karl Claxton, November 2013
- B *Shared interests, enduring cooperation—The future of Australia-PNG police engagement*, ASPI Special Report by David Connery and Karl Claxton, October 2014