Save the Children

REFORM FOR RESULTS:

JUNE 2018

Save the Children Australia

Save the Children is a leading independent international organisation for children. Our vision is a world in which every child attains the right to survival, protection, development and participation. Our purpose is to inspire breakthroughs in the way the world treats children and to achieve immediate and lasting change in their lives. We work towards this vision in Australia and more than 120 countries across the globe.

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1. Executive Summary

Australia has enjoyed seven decades of peace and prosperity. However, we are now at a critical juncture where the global stability that has underwritten Australia's prosperity is facing serious threats. These include: rising inequality, protracted humanitarian crises, mass displacement, erosion of human rights and climate change.

Australia's overseas aid program is a powerful foreign policy tool to address these threats. And the effectiveness of our aid program has never been more important.

In an increasingly interconnected world, Australia's prosperity, stability and security is tied to that of other nations. Our region has experienced rapid economic growth, but this has been coupled with rising inequality. It is therefore critical that Australia uses its aid program effectively to invest in the building blocks of inclusive and stable societies. This requires investing in human and social capital as a foundation for more equitable and sustainable development. Otherwise, more men, women and children will be left further behind – thereby, threatening Australia's national interests in having a peaceful and stable region.

Not only are there compelling economic and security reasons for Australia to increase its support for the achievement of the SDGs, there are also strong geo-political reasons for doing so. As emerging economies in Asia become more central to the global economy and global decision-making, Australia will face increased competition for access and influence in our region and beyond. It is therefore critical that Australia uses its aid program to effectively shape development outcomes in our region.

This approach will require the Australian Government to maintain a workforce with the right skills and experience. Effective policy implementation is perhaps more important than policy development and requires a different set of capabilities. The decision to merge AusAID and DFAT led to a significant loss of aid and development expertise, and a practice of outsourcing to private contractors and increasing funding for multilateral partners. More than 41% of Australia's ODA was allocated to multilateral organisations in 2015-16, and 20% was allocated to private contractors - almost double that allocated to NGOs – in that same period

In the context of a contracted aid budget, it is all the more important to maximise the efficiency and effectiveness of every aid dollar. When Foreign Minister Julie Bishop announced Australia's new aid policy and performance framework in 2014, she said the government was "agnostic about how aid is delivered", other than to ensure it is "efficient and effective".[1] In theory, this statement makes absolute sense. But in practice, it is difficult to properly assess whether Australian aid is being spent in the most efficient and effective manner given the lack of transparency and project-level reporting by the largest recipients of Australian aid, being multilateral organisations and private contractors. Limited investment in program evaluations also makes it challenging to critically examine how our aid budget is being spent.

Success must be measured in terms real outcomes for the poor and marginalised – not in terms of contract administration.

Accordingly, in this submission, Save the Children presents six key areas to reform Australia's aid program to ensure aid effectiveness and maximise the value of Australia's aid dollar in support of our national interests. These key areas of reform are as follows:

1. **Right-size our overseas aid program** in line with the size of our economy, rising global need, our national values, and our economic, security and geopolitical interests.

2. **Adopt the overarching goal of reducing inequality as well as poverty.** Currently, Australia's Aid Policy[2] and Foreign Policy White Paper are largely silent on the issue of reducing inequality. This must be addressed to ensure Australia's aid program aligns with, and supports the achievement of the SDGs and Agenda 2030.
3. **Improve the targeting of our overseas aid investments geographically** to ensure aid is prioritised nationally and sub-nationally based on need, Australia's economic, security and geopolitical interests, and the potential to maximise aid efficiencies and effectiveness through program consolidation.
4. **Improve the targeting of our overseas aid investments by sector, with a focus on building human capital as a foundation for inclusive and equitable development.** This requires prioritising support for:
    - Nutrition (SDG 2)
    - Health (SDG 3)
    - Quality Education (SDG 4)
    - Gender Equality (SDG 5)
    - Climate Change (SDG 13)
    - Protection (SDG 16)
5. **Choose aid delivery mechanisms that ensure aid effectiveness and efficiency.** This requires holding all aid recipients to the same standards in terms of demonstrating operational and technical capability, relationships with key stakeholders, transparently reporting on all costs and any profit margins in the case of for-profit entities, and ensuring accountability for outcomes. This requires increased investment in evaluating outcomes, not just outputs.
6. **Improve the transparency and reporting of overseas aid investments** to allow for greater accountability to Australian tax-payers, and most crucially, to the world's poor for whom it is intended to benefit.

The drastic cuts to Australia's aid budget since 2013 have come at a cost to our international reputation, geo-political influence and capacity to credibly shape development outcomes in our region and beyond. Most crucially, these cuts have impacted the world's poorest people, leaving the most vulnerable further behind.

While Australia can and should increase its quantum of overseas aid, it is equally important to ensure it uses the most efficient and effective delivery mechanisms to maximise the value of every aid dollar. This is crucial for maintaining public confidence in Australia's aid program. It is crucial to ensuring aid effectiveness and value for money.

2. Right-Size our Overseas Aid Program

Australia's overseas aid program is a powerful foreign policy tool to address serious threats to prosperity, stability and security in the world today.

We appreciate that tough fiscal trade-offs need to be made to strengthen the Australian economy and return the budget to surplus. However, the drastic cuts made to Australia's overseas aid budget are short-sighted savings measures. Since 2013, in cumulative terms, the Australian aid budget has been cut by over 30%, and is projected to decline to a historic low of 0.22% of our Gross National Income (GNI) in 2016/17.[3]

These cuts have come at a cost to our international reputation, geo-political influence and capacity to credibly shape development outcomes in our region and beyond. Most crucially, these cuts have impacted the world's poorest people, leaving the most vulnerable further behind.

We believe there are compelling economic, security, geopolitical and moral reasons for bipartisan commitment to progressively restore Australia's overseas aid budget to 0.7% of GNI by 2030, with a clear timeline and growth rate. These reasons are set out below.

2.1 We have the economic capacity to increase overseas aid

Australia is a wealthy nation. We have the ninth largest economy in the world,[4] and have outperformed other OECD economies by achieving 26 consecutive years of positive economic growth. Australians are also the second wealthiest in the world in terms of assets.[5]

We acknowledge that the changing economic landscape poses challenges for Australia's medium term-growth, particularly given low wage growth and an ageing population. However, Australia nonetheless has the capacity to increase its overseas aid program based on the size of our economy and projected growth rates.

Australia's overseas aid program is significantly lower than the OECD Donor Assistance (DAC) average of 0.32% of GNI in 2016.[6] Furthermore, our decline in aid expenditure to 0.22% of GNI sharply contrasts with the aid budget trajectories of many other OECD countries. Most notably, the United Kingdom, Netherlands, Luxembourg, Denmark, Norway and Sweden spent more than 0.7% of GNI in 2016/17 – more than double what Australia spent in relative terms.

Australia's decline in overseas aid also contrasts with emerging donors who are ramping up their aid programs to extend their geopolitical influence, and leverage regional and global power shifts. For example, Chinese foreign aid expenditure has increased in the past decade, from US$631 million in 2003 to close to US$3 billion in 2015, with an average annual growth rate of 14%.[7] Similarly, India has been scaling up its aid program to a point where it now, on Purchasing Power Parity, rivals Australia's in size at US$8.9 billion in 2016-17, reflecting an annual increase of 15% over the past five years.[8] The United Arab Emirates has also made a staggering six-fold increase to its overseas aid, scaling it up from to $US689 million in 2012 to US$4.3billion in 2015 (constant 2015 USD).

Australia's future economic growth is tied to the prosperity and stability of our region. We therefore cannot afford to lose geopolitical influence in shaping development outcomes in our immediate region. We must right-size our aid program based on this capacity and in line with the expenditure trajectories of new and emerging donors. And Australia has the economic capacity to do so.

2.2 There is an urgent need to increase overseas aid globally

Over the past two decades, the world has experienced dramatic technological, social and economic change. Since 1990, GDP per capita in low- and middle-income countries has more than doubled in real terms.[9] Over this period[10], the number of people living in extreme poverty has more than halved – the largest decline in human history.[11]

The world attained the first Millennium Development Goal target —to cut the 1990 poverty rate in half by 2015—five years ahead of schedule, in 2010.[12] According to the most recent estimates, in 2013, 10.7% of the world's population lived on less than US$1.90 a day, down from 35% in 1990.[13]

While poverty rates have declined in all regions, progress has been uneven:

- The reduction in extreme poverty was mainly driven by East Asia and Pacific (71 million fewer poor) –notably China and Indonesia—and South Asia (37 million fewer poor) –notably India.
- Half of the extreme poor live in Sub-Saharan Africa. The number of poor in the region fell only by 4 million with 389 million people living on less than US$1.90 a day in 2013, more than all the other regions combined.

The work to end extreme poverty is far from over, and a number of challenges remain. It is becoming even more difficult to reach those remaining in extreme poverty, who often live in fragile contexts and remote areas. Access to good schools, healthcare, electricity, safe water and other critical services remains elusive for many people, often determined by socioeconomic status, gender, ethnicity, and geography. Moreover, for those who have been able to move out of poverty, progress is often temporary: economic shocks, food insecurity and climate change threaten to rob them of their hard-won gains and force them back into poverty. It will be critical to find ways to tackle these issues as we make progress toward 2030.

In 2015, the World Bank-IMF Spring Meeting released a joint statement urging the global community to focus on the 'trillions', rather than 'billions' of new investment to achieve the SDGs. By some estimates, $1.5 trillion of investment is needed in emerging and least-developed countries.[14] This is dramatically higher than the approximately US$135 billion currently available in ODA.[15] Preliminary indicators are that 1.5-2.5% of GDP will need to be invested annually to achieve the SDGs globally.[16]

There is a clear and urgent need for Australia to contribute its fair share of financing to accelerate progress towards achieving the SDGs.

2.3 It is in our national economic and security interests to increase overseas aid

As noted above, the global stability that has underwritten Australia's prosperity is facing serious threats. These include: rising inequality, protracted humanitarian crises, mass displacement, erosion of human rights and climate change.

Australia's overseas aid program is powerful foreign policy tool to address these threats. This can be done through prioritising investment in the building blocks of equitable, stable and inclusive societies: education, nutrition, health and gender equality as detailed in section 5 of this submission. It can also be done through increasing support for climate change mitigation and adaptation and strengthening respect for human rights, particularly in protecting the rights of the most vulnerable.

This requires a foreign policy approach that harnesses the complimentary and interdependent tools that currently exist across multiple portfolios. These include diplomacy, trade, defence, cultural interaction, and overseas aid and development. For too long, these foreign policy tools have been employed within the siloed constructs of departments or ministerial portfolios. This has resulted in fiscal allocations that are not based on a comprehensive analysis of how each foreign policy tool may be leveraged to advance our national interests. For example, there is bi-partisan recognition that defence and overseas aid both contribute to stability and security in mutually reinforcing ways. However, the defence budget of $34.6 billion in 2017–18 is now nearly nine times the size of the overseas aid budget ($3.9 billion in 2017-18). We acknowledge the importance of Australia having a well-equipped and trained defence force, including assets to respond to natural disasters in the region when required. However, it is questionable whether such a large disparity in defence and aid expenditure can be justified on the basis of relative effectiveness, particularly given that the greatest threats to Australia's security are not posed by other nation states, but by non-state actors and extremist groups often spawned from social marginalisation – a consequence of inequality.

Not only are there compelling economic and security reasons for Australia to increase its investment in overseas aid, there are also strong geo-political reasons for doing so. As emerging economies in Asia become more central to the global economy and global decision-making, Australia will face increased competition for access and influence. The trajectory of aid spending by China and other emerging donors reveals the importance of overseas aid to extend geo-political influence.

2.4 It reflects our values as a nation to increase overseas aid

Australia is regarded internationally as a liberal, stable democracy. Although the foundations of Australia's democracy were shaped by Britain, we did not inherit its class-based social hierarchy. Instead, Australia is largely an egalitarian society where people prefer to be called 'mate', rather than 'sir' or 'madam'. Linked with 'egalitarianism' is the notion of giving others a 'fair go'. We believe Australia's values as a democratic, egalitarian and inclusive society should be reflected in Australia's foreign policy framework, most crucially the overseas aid program. This requires scaling up aid investments that promote more inclusive, equitable and democratic societies where each person is given a 'fair go'.

RECOMMENDATION:

Australia should commit to increasing ODA to 0.7% of GNI, with an increase of 10% per annum for at least the next five years for the following key reasons:

- **Australia is a wealthy nation and has the economic capacity to increase ODA**. It is the ninth largest economy in the world and has experienced 26 years of consistent economic growth.
- **It is in our national economic and security interests to increase ODA.** It is a powerful foreign policy tool to address the greatest threats to security and stability in the world today: rising inequality, protracted humanitarian crises, mass displacement, erosion of human rights and climate change. It is also an important way to extend geopolitical influence at a time of global and regional power shifts.
- **There is an urgent need to increase ODA globally** to accelerate progress towards achieving the SDGs and Australia has a responsibility to contribute its fair share.
- **It is consistent with our national values to increase ODA.** We are an egalitarian, democratic, egalitarian and inclusive society with a proud history of giving others a 'fair go'.

3. Adopt an Overarching Goal of Reducing Inequality (SDG 10)

> *"The recognition of the inherent dignity and equal and inalienable rights of all members of the human family is the foundation of freedom, justice and peace in the world."*
>
> 1948 Universal Declaration of Human Rights

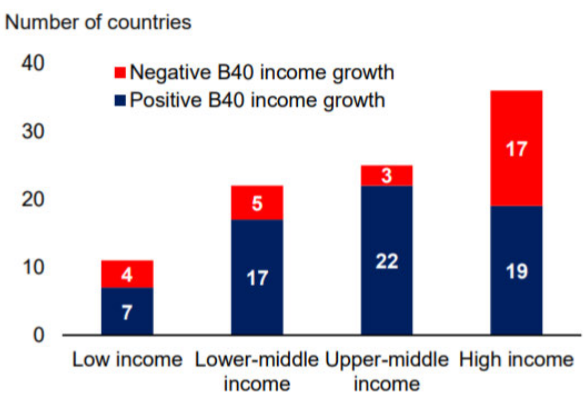
The Millennium Development Goals (MDGs) helped catalyse the largest decline in extreme poverty in human history. Since they were agreed in 1990, the number of people living in extreme poverty more than halved,[17] and GDP per capita growth in low- and middle-income countries more than doubled in real terms.[18] Over that same period, the maternal mortality rate nearly halved, and the child mortality rate was dramatically reduced.[19]

Despite these impressive gains, inequality rose within and between nations. The richest 1% of the world's population now own about 50% of the world's assets,[20] while 70% of the world's working population controls less than 3% of total global wealth.[21] Population-weighted averages of income inequality have increased by 9% in developed countries and by 11% in developing countries between 1990 and 2010.[22] More than 75% of the global population live in countries where inequality has worsened since the 1990s.[23]

The sharpest increases in income inequality have occurred in those developing countries that were especially successful in pursuing vigorous growth and managed, as a result, to graduate into higher income brackets.[24] Economic progress in these countries – such as Brazil, China, India, Russia and South Africa - has not alleviated disparities in income, but rather exacerbated them.[25] The most marginalised children are being left further behind.[26]

The SDGs were designed to tackle inequality and ensure the benefits of poverty reduction are shared by all - within and between nations. As recognised by the World Bank, addressing inequality is crucial to achieving the SDGs by 2030.[27]

Addressing moderate poverty and mitigating the vulnerability of falling back into poverty have become pressing issues in many countries, especially in those where the bottom 40% saw their incomes decline.[28] Limited access to quality education and health services, pose a bottleneck to poverty reduction and shared prosperity.[29] This is exemplified in the below table from the World Bank, which shows that prosperity needs to be better shared with the bottom 40% of the income distribution, especially in high-income countries.



Source: World Bank, *Extreme Poverty and Sharing Prosperity: Progress and Policies*, October 2015

Inequitable resource allocation creates barriers to economic and social inclusion. Those trapped in poverty cannot afford to pay for, and thereby access the basic services required to support human development and productivity, such as education, healthcare and nutrition. Those seeking these services are often pushed further into poverty, with over 1 billion people in low-middle income countries currently in financial difficulty as a result of paying for health services, while others are completely excluded from these services.[30] Discrimination based on ethnicity, religion, race, gender, disability and geographic region at the local and national levels create further barriers preventing individuals from receiving good-quality education, accessing nutritious food and healthcare services.[31] This is how inequality can be perpetuated across generations.

A number of countries over the past ten years have managed to significantly reduce income and non-income inequality through a combination of progressive economic and social policies, often accompanied by the greater participation and empowerment of those who have been left behind by the development process. [32] These countries – many of which are in Latin America – were able to maintain growth and a high level of integration with the global economy despite having social policy interventions aimed at overcoming barriers to social and economic inclusion. [33]

There are three key reasons why the Australian Government should explicitly commit to reducing poverty and inequality as unifying policy priorities for Australia's overseas aid program in line with SDGs 1 and 10.

First, rising inequality can impede sustainable economic development in the region. As recognised by the OECD and IMF, widening inequality leads to declining economic growth.[34] When a nation fails to include a large number of people in its economy – when it restricts the circle of opportunity – the economy is weakened and the whole nation suffers.[35] Global economic growth has been subdued in the last decade as economies around the world struggle to overcome the adverse effects of the 2008 Global Financial Crisis. Though emerging market and developing economies account for the majority of global growth, they have been subdued as well.[36] Generally, the outlook is not glowing, with heightened policy uncertainty and poor rates of investment expected to restrain growth before a return to global average. [37]

Rising and extreme levels of inequality can harm the rate of growth and the duration of growth spells by reducing the propensity of large segments of the population to invest, thereby limiting the ability of the middle class to be a driver of economic progress and encouraging rent-seeking behaviour, among other things.[38] Australia's prosperity is tied to that of other nations, so it is critical to address inequality as a barrier to sustainable economic growth.

Second, persistent inequality can entrench discrimination and disadvantage, thereby undermining social cohesion. Sharp differences in wealth, education, healthcare and other material resources influence the way in which people view themselves and others.[39] This can increase political and social tensions, and, in some circumstances, drive extremism, instability and conflict.[40]

Third, extreme inequality is inconsistent with our nation's egalitarian values and those underpinning the international rules-based order upon which Australia's current prosperity has been secured. As reflected in the opening words of the 1948 Universal Declaration of Human Rights, written in the wake of one of the most brutal times in human history: "the *recognition* of *the inherent dignity and equal and inalienable rights of all members of the human family is the foundation of freedom, justice and peace in the world*."[41]

As noted at the time of committing to the SDGs, it is in Australia's national interests to use its overseas aid program to reduce poverty and address rising inequality – not only because it is the right thing to do, but because there are compelling economic and security reasons for doing so.

RECOMMENDATION:

Australia should explicitly commit to reducing inequality as one of the main goals of its overseas aid program in line with SDG 10, and commit to funding interventions specifically aimed at reaching the most economically and social disadvantaged population groups.

4. Improve the Targeting of Overseas Aid Geographically

We recognise it is not realistic for Australia to effectively reduce poverty and address inequality across the *entire* globe. No single country has the economic capacity or political leverage to do so.

This practical reality has led some policy makers to erroneously assume there are only two options available to Australia in determining where, and how to invest our overseas development assistance (as distinct from humanitarian assistance):

- invest smaller amounts of development assistance across all geographic regions to maintain a global footprint, even if this means we dilute our impact and influence, and incur higher transaction costs; or
- concentrate Australia's development assistance in our immediate region to increase its potential for impact and consolidate our geopolitical influence to lead and shape development outcomes, while decreasing transaction costs.

We believe there is a **third option** that would allow us to consolidate our development assistance and geopolitical influence in the immediate Indo Pacific region, but also make strategic investments with potential security dividends in additional fragile states using modalities that would not necessarily result in higher administrative costs or dilute the overall impact of Australian aid. We recommend this third option**,** which involves:

- **Continuing to allocate the majority of development assistance in the Indo-Pacific region** in line with Australia's economic, security and geopolitical interests; the potential to maximise aid efficiency and effectiveness through consolidation; and most crucially, to maintain momentum in poverty reduction in the region while supporting targeted interventions to address rising inequality within and between nations.
- **Improving the targeting of development assistance within the Indo Pacific region** with priority being given to countries in highest need, as determined in accordance with the United Nations Committee for Development Policy (CDP)'s Least Developed Country (LDC) methodology, as detailed in sections 4.2.
- **Improving the targeting of development assistance sub-nationally** to reach geographic areas and disadvantaged population groups with the highest concentration of extreme poor and highest barriers to sustainable development, as detailed in 4.3 below.
- **Increasing our investment in conflict affected states outside the Indo-Pacific** based on extreme poverty levels, potential security and stability dividends, and to address the root causes of conflict in order to decrease dependencies on Australia's humanitarian aid.

4.1 Continue to Focus Development Aid in the Indo Pacific Region

We believe there are **four key reasons** to continue to focus the majority of Australia's development assistance in the immediate Indo Pacific region:

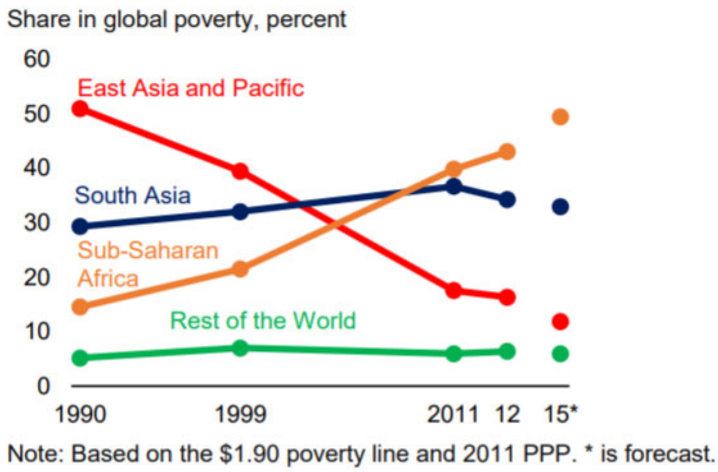
4.1.1 Maintaining Momentum in Poverty Reduction and Addressing Rising Inequality

For several decades, the same three regions accounted for some 95% of global poverty: East Asia and Pacific, South Asia, and Sub-Saharan Africa.[42] The latest estimates confirm the high degree of concentration of extreme poverty in those three regions, as shown in the table below:

	Historical			Headline	Projection
	1990	1999	2011	2012	2015*
Millions of people below $1.9 a day (2011 PPP)					
East Asia and Pacific	999.3	689.7	173.1	147.2	82.6
Europe and Central Asia	9.0	36.6	12.7	12.0	4.4
Latin America and the Caribbean	78.0	72.2	37.7	37.1	29.7
Middle East and North Africa**	-	-	-	-	-
South Asia	574.5	560.1	362.3	309.2	231.3
Sub-Saharan Africa	284.0	375.4	393.5	388.5	347.1
World	1958.5	1746.6	987.4	902.0	702.1

Source: World Bank, *Extreme Poverty and Sharing Prosperity: Progress and Policies*, October 2015

While these three regions still account for the highest concentration of extreme poor, there has been a remarkable shift in the number of poor within each of these regions over the past two decades, as shown in the figure below.



Source: World Bank, *Extreme Poverty and Sharing Prosperity: Progress and Policies*, October 2015

In 1990, half of the world's poor were living in East Asia and the Pacific.[43] Now, half of the world's poor live in Sub-Saharan Africa.[44] The regional shift in poverty is largely attributed to the rapid pace of economic growth and decline in poverty in East Asia and the Pacific. Meanwhile, Sub-Saharan Africa's share of global poverty has risen due to a slower pace of poverty reduction amidst rapid population growth.[45] South Asia achieved more rapid poverty reduction over the past 30 years, even though it is still home to about a third of the world's poor.[46]

If we were to consider targeting Australia's overseas aid based only on poverty data, some might argue that Australia should focus its aid in sub-Saharan Africa given it accounts for almost half of the number of people living on less than $1.90 per day globally. However, Save the Children believes there is merit in Australia maintaining a sharp geographic focus on the Indo Pacific region, and more particularly East Asia and the Pacific, because it still has the third highest concentration of global poverty – markedly higher than other regions in the world. Moreover, there is a need to maintain momentum in driving poverty reduction in East Asia and the Pacific to achieve the SDG goal of poverty elimination. There is also a need to focus on development interventions to address inequality and prevent the poorest being left behind in East Asia and the Pacific as the fast pace of economic growth exacerbates inequality, as detailed in section 3 above. As noted above, the highest levels of inequality are experienced in countries experiencing the most rapid economic growth. Accordingly, there is a need to target interventions aimed at the extreme poor in this region to prevent them from being left further behind.

4.1.2 Economic and Security Interests

As recognised at the time of committing to the SDGs, it is in Australia's national interests to use its overseas aid program to address rising inequality – not only because it is the right thing to do, but because there are compelling economic and security reasons for doing so.

As noted above, East Asia and the Pacific has seen a dramatic reduction in the number of people living in extreme poverty over the past two decades. However, the fast pace of economic growth has exacerbated inequality.

It is in Australia's economic interests to address rising inequality in the Indo Pacific region, particularly in East Asia and the Pacific, because it can impede sustainable economic development and thereby impact on Australia's future prosperity. Global economic growth has been subdued in the last decade as economies around the world struggle to overcome the adverse effects of the 2008 global financial crisis. Though emerging market and developing economies account for the majority of global growth, they have been subdued as well.[47] Generally, the outlook is not glowing, with heightened policy uncertainty and poor rates of investment expected to restrain growth before a return to global average. [48] Rising and extreme levels of inequality can harm the rate of growth and the duration of growth spells by reducing the propensity of large segments of the population to invest, thereby limiting the ability of the middle class to be a driver of economic progress and encouraging rent-seeking behaviour, among other things.[49] Australia's prosperity is tied to that of other nations, so it is critical to address inequality as a barrier to sustainable economic growth in our immediate region.

Furthermore, persistent inequality can entrench discrimination and disadvantage, thereby undermining social cohesion in our region. Sharp differences in wealth, education, healthcare and other material resources influence the way in which people view themselves and others.[50] This can increase political and social tensions, and, in some circumstances, drive extremism and instability.

Accordingly, as stated in Australia's current overseas aid policy, "stronger growth, prosperity and stability in the region is of direct benefit to Australia, Australians and citizens of our neighbouring countries."[51]

4.1.3 Geopolitical Interests:

As noted above, emerging donors are ramping up their aid programs to extend their geopolitical influence in our region and beyond in order to leverage from regional and global power shifts. For example, Chinese foreign aid expenditure has increased in the past decade, from US$631 million in 2003 to close to US$3 billion in 2015, with an average annual growth rate of 14%.[52] It has also been increasing its aid and concessional loans to the Pacific, and is the third largest contributor of ODA in the region.[53]

Australia's future economic growth is tied to the prosperity and stability of our region. Accordingly, it is not in Australia's national interests for our geopolitical influence in our immediate region to decline, while other nations seek to increase their influence in the region through scaling up overseas aid. Through focussing our overseas aid in our immediate region, Australia will be able to consolidate its geopolitical influence and help shape development outcomes in our region. It is vital to maintaining strong relationships with the leaders of neighbouring nations.

4.1.4 Consolidation for Impact and Efficiency

Currently, there is limited availably data on Australia's aid allocations and delivery mechanisms at the project level. It is therefore difficult to say whether allocating the majority of Australia's ODA in the Indo Pacific is delivering cost efficiencies and maximising impact through reducing transaction costs that might otherwise be incurred from administering projects across all geographic regions. As outlined in section 6, Australia's capacity to maximise the value of its aid in a cost-efficient manner is dependent on the choice of delivery mechanisms used. Certain delivery mechanisms may incur high overheads, such as the appointment of private managing contractors as an intermediary between DFAT and implementing organisations. However, if DFAT were to adopt cost-efficient delivery mechanisms, it is reasonable to assume that consolidating its aid program in the Indo Pacific would defray the transaction costs that might otherwise be incurred through overseeing, monitoring and evaluating a smaller-sized aid projects across all geographic regions.

4.2 Improve Targeting of Development Aid within the Indo Pacific based on LDC Criteria

The top ten recipients of Australia's ODA cumulatively from 2012 to 2016 are set out in the table below.

Ranking	Country	Total Net ODA[54], Sum across 2012-16 (Current USD, $m)	World Bank Classification[55] (GNI-based)	UN Least Developed Country[56] (yes/no)
1	Indonesia	2228.79	LOWER-MIDDLE-INCOME ECONOMIES	No
2	PNG	2146.11	LOWER-MIDDLE-INCOME ECONOMIES	No
3	Solomon Islands	793.7	LOWER-MIDDLE-INCOME ECONOMIES	Yes
4	Afghanistan	620.29	LOW-INCOME ECONOMIES	Yes
5	Philippines	595.29	LOWER-MIDDLE-INCOME ECONOMIES	No
6	Viet Nam	575.53	LOWER-MIDDLE-INCOME ECONOMIES	No
7	Timor-Leste	425.45	LOWER-MIDDLE-INCOME ECONOMIES	Yes
8	Bangladesh	381.56	LOWER-MIDDLE-INCOME ECONOMIES	Yes
9	Cambodia	358.87	LOWER-MIDDLE-INCOME ECONOMIES	Yes
10	Myanmar	318.64	LOWER-MIDDLE-INCOME ECONOMIES	Yes

As outlined in the above table, only one of the top ten recipients of Australia's ODA is classified as a 'Low-Income Country' by the World Bank, namely Afghanistan. However, it is important to note that six out of these ten countries are classified as 'Least Developed Countries' (LDC) according to the United Nations Committee for Development Policy (CDP).

Save the Children is of the view that it is important to use the LDC classification to inform and guide aid allocations within the Indo Pacific because this methodology acknowledges that development is multifaceted.

While income (through GNI per capita) is an important development indicator, the CDP recognises that there are two other major structural impediments to sustainable development:

- the level of human capital represented by the Human Assets Index (HAI); and
- vulnerability to economics and environmental shocks reflected by the Economic Vulnerability Index (EVI).[57]

The CDP, along with specialist development organisations such as the Human Development Report Office, note that income is a necessary, but not sufficient indicator for development.[58] This is because income is solely a proxy for a material standard of living. The CDP recognises that unless all three factors are above a specified threshold value, or in special cases that income is several multiples of the threshold income level, a country will be classified as a 'Least Developed Country'.

Accordingly, Save the Children recommends that Australia use the LDC methodology to reallocate development assistance within the Indo Pacific and prioritise such assistance based on need. **For example**, if Australia were to reprioritise development aid allocations amongst the existing top ten recipients of Australian aid, according to key development indicators which are used in LDC classification[59], we may arrive at the following ordering:

Proposed Ranking	**Country**	**GNI per capita (PPP (current international $) [rank]**	**Human Assets Index (HAI) (2014) [rank]**	**Economic Vulnerability Index (EVI) (2013) [rank]**	**LDC (yes/no)**
Pacific					
1	Solomon Islands	2140 [2]	75.2 [7]	48.9 [2]	Yes
2	Papua New Guinea	4140 [6]	60.9 [2]	31.7 [6]	No
Asia					
1	Afghanistan	1970 [1]	44.7 [1]	34.7 [4]	Yes
2	Timor-Leste	3380 [3]	65.2 [3]	54.9 [1]	Yes
3	Cambodia	3510 [4]	74.2 [6]	37.6 [3]	Yes
4	Myanmar	5530 [7]	74.0 [5]	32.0 [5]	Yes
5	Bangladesh	3790 [5]	67.4 [4]	24.3 [9]	Yes
6	Vietnam	6040 [8]	93.8 [10]	30.8 [7]	No
7	Philippines	9390 [9]	89.4 [8]	25.1 [8]	No
8	Indonesia	11220 [10]	89.7 [9]	23.6 [10]	No

4.3 Improve Targeting of Development Aid at the Sub-National Level

In addition to improving the targeting of Australian aid within the Indo Pacific region to countries based on their LDI classification, Save the Children also believes it is critical to improve targeting of aid allocations at the sub-national level.

Just as poverty reduction occurs at vastly different rates across countries and global regions, poverty reduction within countries is normally a spatially uneven process. Deep pockets of poverty can persist even in countries that, at the aggregate level, are experiencing rapid poverty reduction.

Country-level poverty assessments regularly identify specific areas or groups of people with particular characteristics experiencing higher-than-average probabilities of being poor. They may be locked in poverty traps or other low-level equilibriums in which aggregate economic growth does not translate into employment income or transfers for them. These groups may be defined by education, ethnicity, or region of residence. In particular, there is evidence that pockets of poverty cluster geographically in rural areas that are poorly connected to urban centres of growth, where the poor may become trapped in low-productivity jobs.[60] For example, although China's rate of poverty reduction has been rapid, poverty is higher in rural areas where the productivity of farmers' investments is lower.[61]

Currently, it is not possible to analyse whether Australian aid is being allocated at the sub-national level to address those most in need. This is due to the government failing to report on sub-national allocations, as detailed in section 7 of this submission. However, Save the Children recommends that Australia ensure that sub-national allocations of Australian aid within the Indo Pacific are prioritised for geographic areas and population groups with the highest concentration of poverty and barriers to sustainable development.

4.4 Increase Multi-Year Funding for Conflict-Affected States outside the Indo Pacific

According to the World Bank, by 2030 a larger share of the world's impoverished will reside in natural resource–based economies and fragile and conflict-affected states (FCS), primarily in Sub-Saharan Africa. [62] Poverty is less responsive to growth in such economies because the availability of jobs— the main channel through which growth uplifts the poor—is limited. [63] Capital-intensive, natural-resource sectors may generate growth but are likely to have weak backward and forward links with the rest of the economy, even during commodity boom periods. [64] Conflicts, whether they arise because of contested natural resource wealth or are politically motivated, inevitably disrupt or even reverse growth. The impact of conflict is often felt long after peace is restored.

Save the Children believes that, in a highly interconnected world, Australia needs to join with other nations in addressing the drivers of insecurity and instability in fragile states. A failure to do so means there is an ever-present risk of instability within nations, which in turn impacts on the stability of other nations in a globalised world. We need only look at Syria to see how inequality and a lack of respect for human rights has resulted in an intractable conflict that has spawned the world's largest humanitarian and displacement crisis since World War II - one that is impacting on nations as far as Australia.

Accordingly, a strong case can be made for increasing investment in fragile and conflict affected states where persistent insecurity is posing a threat to regional and global stability. In particular, there is a need to scale up investment in Sub-Saharan Africa to address the high concentration of extreme poverty and associated risks to instability in an already fragile region.

Under the Grand Bargain, Australia committed to providing flexible, multi-year funding for five protracted crises. We welcome the multi-year funding commitment of $220 million over three years to respond to the Syria conflict and support longer-term resilience programming in Jordan and Lebanon, as well as the commitment to multi-year funding for Iraq. We encourage the Australian Government to continue to roll out this approach and adopt a more ambitious target than providing multi-year funding for only five protracted crises in view of the current and future projection of extreme poverty in fragile and conflict-affected states. If we are to achieve the SDGs, priority must be given to investing where there is a higher risk of children and the families slipping further into poverty and insecurity.

In particular, it is critical for Australia to move from being ‘reactive’ in just providing humanitarian assistance for those impacted by conflict, and to be more ‘proactive’ in addressing the root causes of conflict. This requires a shift towards multi-year, flexible funding models for fragile states – models traditionally associated with ‘development assistance’. A failure to make these strategic investments poses a risk to not only the ongoing stability of these fragile states, but to Australia’s own stability and security in a globalised world.

We recognise that implementing programs in fragile states can incur high transaction costs because of the additional measures required to mitigate and manage security risks, and the practical operational challenges involved in working in unstable environments. However, Australia could seek to defray these transaction costs by investing in multi-donor, multi-year funding mechanisms. These mechanisms enable Australia to take advantage of economies of scale and jointly influence development outcomes with other donors in a “pay to play” model, without having to incur the high transaction costs that would otherwise be involved through supporting Australia-only funded programs.

RECOMMENDATION:

Australia should:

- **Continue to allocate the majority of development assistance in the Indo-Pacific region** in line with Australia’s economic, security and geopolitical interests; the potential to maximise aid efficiency and effectiveness through consolidation; and most crucially, to maintain momentum in poverty reduction in the region while supporting targeted interventions to address rising inequality within and between nations.
- **Improve the targeting of development assistance within the Indo Pacific region** with priority being given to countries in highest need, as determined in accordance with the United Nations Committee for Development Policy (CDP)’s Least Developed Country (LDC) methodology, as detailed in section 4.2.
- **Improve the targeting of development assistance sub-nationally** to reach geographic areas and disadvantaged population groups with the highest concentration of extreme poor and highest barriers to sustainable development, as detailed in section 4.3 below.
- **Increase our investment in conflict affected states outside the Indo-Pacific** based on extreme poverty levels, potential security and stability dividends, and to address the root causes of conflict in order to decrease dependencies on Australia’s humanitarian aid.

5. Improve the Targeting of Overseas Aid by Sector

Some have argued that high and rising inequality is inevitable in the early stages of economic growth. However, empirical evidence lends no support for this theory.[65] A number of countries over the past ten years have managed to significantly reduce income and non-income inequality through a combination of progressive economic and social policies, often accompanied by the greater participation and empowerment of those who have been left behind by the development process.[66] These countries were able to maintain growth and a high level of integration with the global economy despite having social policy interventions aimed at overcoming barriers to social and economic inclusion.[67]

Although the drivers of inequality are complex and multi-dimensional, evidence shows that it is necessary to focus on the needs of the most disadvantaged populations to reduce inequality.

Inclusive growth occurs when every woman, man and child has the opportunity to participate in improved income-generating activities and has equal access to public services, including education and health, and availability of decent work.

According to the World Bank, there is no inevitable trade-off between efficiency and equity.[68] For example, investing in early childhood development (ECD) among underprivileged children can help prevent the emergence of inequalities in cognitive development and health status and, by enabling a more successful accumulation of human capital among individuals who would otherwise lag throughout the rest of the life cycle, improve future earnings and life chances.[69] Reducing inequality among individuals, populations, and regions may also generate additional benefits through political and social stability and social cohesion.

Accordingly, it is important for Australia to make strategic choices about the type of aid it provides in support of poverty reduction and addressing inequality. Priority must be given to investing in human capital as a foundation for inclusive, equitable and sustainable development. Evidence shows that it is crucial to invest in programs aimed at increasing the capability, productivity and participation of the most disadvantaged. More specifically, this requires increased investment in the following key areas shown to have the greatest returns in terms overcoming barriers to economic and social inclusion:

5.1 Nutrition (SDG 2)

There is overwhelming evidence of the health, social and economic benefits of investing in child nutrition, particularly in the first 1000 days (from conception and up to 2 years of age). If a child fails to receive adequate nutrition in the first 1000 days of their life, they can suffer permanent and irreversible cognitive and physical impairments. This impacts on a child's education, employment prospects and physical productivity later in life. This is how undernutrition can trap children into an intergenerational cycle of poverty. The World Bank estimates that undernutrition in childhood results in 10% lower life-time earnings.[70] Reduced individual income-earnings, lower productivity and increased health care costs ultimately translate into reduced economic growth of up to 11% of gross GDP in developing countries every year.[71]

Undernutrition not only robs children of their growth, education and livelihood prospects. It also threatens their very survival. Undernutrition weakens a child's immunity and causes them to suffer more frequent and severe episodes of disease. This often causes a child to become further malnourished, leading to a potentially lethal cycle. That is why malnutrition is the single biggest contributor to child mortality, with an estimated 44% of under-five child deaths caused by malnutrition globally.[72] Evidence also suggests that childhood undernutrition can increase mortality risks later in life, with stunted children more susceptible to obesity, coronary heart disease and type 2 diabetes.

The impact of undernutrition on the health, productivity and survival prospects of individuals should be of concern for Australia given that its neighbours in the Pacific have some of the highest child undernutrition rates in the world. In particular, in Papua New Guinea (PNG) almost one in two children are stunted from undernutrition – the fourth highest child stunting rate in the world.[73]

In a ground-breaking report released in 2017, Save the Children and Frontier Economics estimated that child undernutrition cost the PNG economy a staggering $1.5 billion (8.45% of GDP) in a single year. Yet only 0.1% of Australia's official development assistance to PNG was allocated to nutrition in the years 2010 and 2012 (latest data publicly available).[74]

It is not possible to promote inclusive and sustainable economic development in the long term in PNG if around half of the population of working age continues to suffer reduced productivity from childhood undernutrition. Indeed, child undernutrition will likely impede the potential impact of other aid investments that bilateral and multilateral donors make for the purpose of promoting economic growth.

Our report shows there are proven, cost-effective solutions for reducing child undernutrition with high economic and social returns on investment. Indeed, the Copenhagen Consensus found there is a median return of $USD 16 for every $USD 1 invested in nutrition-specific interventions to reduce stunting, but the returns may be even higher.

There is a strong case for Australia to better target its aid investments in PNG and other nations in the Indo Pacific region to allow for greater investment in nutrition as the foundation for human development. This will yield high social and economic returns on investment for generations to come.

RECOMMENDATION 3:

Australia should commit at least 3% of ODA on nutrition-specific interventions (as defined by OECD-DAC criteria) and nutrition-sensitive interventions (as defined by the Scaling up Nutrition Donor Network), including targeted support for the Pacific which has some of the highest child undernutrition rates in the world.

Save the Children & Frontier Economics' Research Study

Alarmingly, almost one in two children in PNG have stunted growth from undernutrition –the fourth highest child stunting rate in the world. Save the Children partnered with Frontier Economics to examine the human and economic cost of child undernutrition in PNG. We found that child undernutrition cost the PNG economy up to $USD 1.5 billion in a single year (FY 2015-16), representing 8.45% of its GDP because of a reduction in the labour force due to increased childhood mortality; losses in potential income and productivity from the permanent cognitive and physical impairments resulting from child undernutrition; and losses from increased health care expenditure in treating diseases associated with childhood undernutrition. It is s not possible to promote inclusive and sustainable economic development in PNG if around half the population is impaired by child undernutrition. Despite this, latest available data indicates that only

5.2 Health (SDG 3)

Remarkable progress has been achieved in increasing life expectancy and reducing some of the common killers associated with child and maternal mortality. Maternal mortality has fallen by almost 50% since 1990.[75] In Eastern Asia, Northern Africa and Southern Asia, maternal mortality has declined by around two-thirds.[76] But the maternal mortality ratio – the proportion of mothers that do not survive childbirth compared to those who do – in developing regions is still 14 times higher than in the developed regions.[77]

Significant strides have also been made in reducing child mortality with 17,000 fewer children dying each day than in 1990.[78] However, more than six million children still die before their fifth birthday each year.[79]

A 2017 paper in *The Lancet Global Health* estimates that US$371 billion in additional financing would be needed annually to achieve SDG3 (healthy lives and wellbeing) in low and middle-income countries. [80] Australia can and must do more to increase its contributions to delivering the SDGs on health to leave no woman and child behind.

Access to healthcare is a human right, but also essential for sustainable development. Targeted investment in health can substantially contribute to economic growth, with mortality reductions in low and middle-income countries estimated to have contributed between 11-24% of recent global economic growth.[81]

Conversely, inequitable access to healthcare impacts on economic growth through lost productivity and increased healthcare costs associated with preventable illness and disease. Noncommunicable diseases alone will cost low- and middle-income countries more than $7 trillion in the next 15 years.[82] Inequitable access to healthcare can also exacerbate inequality, with over 1 billion people in low-middle income countries currently in financial difficulty as a result of paying for health services.

Not only does inequitable access to health care impact on economic growth, it also poses health security risks through the transboundary transmission of disease. This is of particular concern for Australia given the number of health risks in our immediate region including multi-drug resistant tuberculosis (57% of cases occur in the Asia Pacific region, with a high incidence in PNG), artemisinin-resistant malaria and anti-microbial resistance. As seen clearly with the Ebola outbreak, international air travel also exposes Australia to disease outbreaks from distant regions, such as West Africa.

Despite the impact on inequitable access to healthcare on economic growth in the Indo Pacific region and Australia's own regional health security risks, Australia's overseas investments in health have declined from $644 million in 2011-12 to $516 million in 2015-16.[83]

If we are to accelerate progress in achieving the SDGs on health, particularly maintaining the remarkable momentum in reducing maternal and child mortality, it is critical for the Australian Government to increase its overseas aid commitments to health in line with at least OECD DAC average of 20% of overall ODA.

Priority should be given to financing community based-health interventions as part of a commitment to supporting universal primary health care and the vast gaps in service coverage at the community level, particularly in the Pacific region.

Australia should continue its focus on health system strengthening, but complement this with financing community based-health interventions as part of a commitment to supporting universal primary health care. This is particularly critical in the Pacific where there are vast gaps in service coverage at the community level, and barriers to access.

Resources should be focussed where they are most needed and where they reach the most vulnerable. In particular, it is important to reduce barriers to access, drive uptake and use of services, and to promote healthy behaviours that reduce the disease burden.

This is particularly important in rapidly growing economies as health systems evolve and the most vulnerable face are at greater risk of not accessing health services. For example, the Health Equity and Quality Improvement Program (H-EQIP) in Cambodia provides performance-based funding directly to health centres and hospitals to help them deliver tangible improvements in health services, and supports identification of poor families and their reimbursement of health care costs. These investments are complemented by others in health service quality improvement, health worker training, community-based health interventions and social accountability mechanisms.

RECOMMENDATION:

Australia should commit at least 20% of ODA to deliver the commitments made in the Health for Development Strategy 2015–2020, with a focus on:

- financing health system strengthening to support universal health care coverage, particularly the delivery of timely, equitable and quality primary health care services for disadvantaged population groups; and
- supporting community-based interventions to reduce barriers to health care access, drive uptake and use of services, and to promote healthy behaviours that reduce the disease burden.

Save the Children Maternal and Newborn Child Health Project in Cambodia

In Cambodia, we work to improve reproductive, maternal and neonatal health, through our Partnering to Save Lives project. It has a special focus on marginalised and vulnerable members of the communities including ethnic minorities, garment factory workers and people with disabilities. We work to improve the quality of health service delivery through training to service providers and health facility refurbishment. We also work to challenge myths and misconceptions on safe delivery, post-partum practices and family planning through creative use of multi-media.

Save the Children Maternal and Newborn Child Health Project in Ethiopia

In the Amhara Region, Ethiopia, 1 in 11 children die before their fifth birthday. A big part of improving the survival rate for children is caring for young mothers and delaying marriage until girls are at least 18 years old. Save the Children is implementing an ANCP funded project that seeks to improve healthcare for mothers and children. We've been encouraging mothers to seek care during pregnancy and childbirth, and we've been providing life-saving vaccinations and nutrition for children under five.

5.3 Quality Education (SDG 4)

Equitable access to good quality education is critical to driving human and economic development. It is the key to building the skills and knowledge required to provide a pathway out of poverty and reverse intergenerational inequity. The economic benefits can be transformative, with data indicating that one additional year of education yielding a 10% increase in income[84] and each additional year of education is associated with 35% higher GDP per capita.[85]

The positive link between education and health outcomes is also clear, particularly when gender equity in education is addressed. Studies have traced increased women's education to half the reduction of under-five mortality from 1970-2009.[86] Educated women are also more likely to seek professional pre-natal care, vaccinate their children, visit a doctor if they or their children are sick and other beneficial healthcare practices.[87]

Despite the economic and social benefits of education, globally there are still 275 million primary and secondary aged children not in school,[88] one-third have a disability.[89] Furthermore, 200 million children under five do not reap the benefits of early childhood care.[90]

The Pacific region is showing positive improvements in basic education enrolments with primary school net enrolments at 89%.[91] While data is indicating positive gains in enrolment, outcomes regarding quality of education are far bleaker. In the Pacific, 29% of children will complete primary education without achieving minimum proficiency levels in reading and mathematics.[92] A multitude of factors contribute to high dropout rates and low standards in literacy and numeracy including poor teacher and student attendance, poor teacher training, lack of quality educational resources and curriculum frameworks.

Access to education for children with disabilities in the Pacific is extremely limited with, 90% of children with disabilities out of school.[93] These children face significant barriers to school participation including; long distance of travel to schools, negative treatment by peers and teachers, lack of in-school support and negative community attitudes and customs.[94] Pacific countries have acknowledged the need for promoting disability inclusive education through the Pacific Education Development Framework, other disability focused policies and supporting the development of Pacific Indicators for Disability-Inclusive Education. While some progress has been made, more attention is needed to ensure equitable access and positive educational outcomes for all children with disabilities.

Much progress has been made towards reducing gender disparity in education access and participation, with many Pacific countries converging towards gender parity for primary school enrolment. However, the data masks other less positive trends, with fewer girls attending and completing primary and secondary education. Gender norms relating to favouring boy's education in the later years, safety concerns over girls attending schools some distance from the family home, and attitudes that domestic and care responsibilities are more important than education are impacting girls ongoing educational opportunities in many Pacific countries.[95]

There is a clear need for Australia to increase its investments to support equitable access to quality education, particularly in the Pacific, in line with SDG 4. As noted earlier, investments in education can fuel sustainable development in our region, which in turn furthers Australia's national interests in having a secure, stable and prosperous region. Despite this, Australia's overseas investments in education have declined from $834 million in 2011-12 to $698 million in 2015-16.[96]

If we are to accelerate progress in achieving the SDGs on education, it is critical for the Australian Government to increase its overseas aid commitments to education in line with at least OECD DAC average of 20% of overall ODA.

RECOMMENDATION:

Australia should commit at least 20% of ODA to support increased access to quality education with a focus in the Pacific, which should include the following measures:

- expanding the educational investment model adopted by the Australian Government for the PNG Partnership Fund within PNG and to other countries in the Pacific, to enable organisations to support national governments in meeting literacy and numeracy outcomes in the foundation years; and
- delivering the commitments made in the Development for All Strategy 2015-2020, to support inclusive education for children with disabilities. Ensure this supports capacity building and appropriate resource allocation to enable effective implementation of national education policies.

Early Learning and Development in Papua New Guinea

Marie has been a volunteer pre-school teacher for three years and currently teaches 21 children at Numa Early Childhood Centre on the island of Bougainville.

As part of the Good Start in Life project, Marie's pre-school was selected to pilot the new national early childhood curriculum. Marie was paired with an elementary teacher from a neighbouring school to allow her to learn from a more experienced teacher and build a relationship with the school her students are most likely to attend.

Marie and her partner elementary teacher completed intensive training in early childhood education, learning how to implement an effective daily classroom routine and to use holistic play-based teaching strategies. Marie also learned how to create her own low-cost story books and classroom charts.

With the support of Save the Children, Marie also trained her pre-school Board of Management and ran awareness sessions with the parents of her students on the importance of Early Childhood Education and support their children's education.

"I will involve the board and parents and citizens in the next training. Both pre-schools and elementary schools need to work together hand-in-hand to build the bridge for success in early childhood education. For sure I can train others as some were jealous that my school was selected for the pilot and my involvement in the project is to learn and implement to the community as a whole."

5.4 Gender Equality (SDG 5)

Gender inequality continues to be a pervasive problem globally, with many women and girls systematically denied their basic human rights. Gender discrimination is often deeply rooted within societies often due to patriarchal attitudes, unequal power distribution between women and men, rigid gender roles and customary practices that perpetuate and tolerate the low status of women. This is further exacerbated by weak laws, policies and institutional structures that help to normalise this inequality.

This is reflected in recent data from UN Women (2018), which outlines that 122 women aged 25-34 years live in extreme poverty for every 100 men of the same age group, and 50% of women are more likely than men to live below 50% of the median income.[97] This reflects labour undertaken by women in the home or the informal sector, which is often unpaid and undervalued. Girls continue to face discrimination from a young age with 15 million girls of primary school age not getting the chance to read or write and 12 million girls still married before their 18th birthday.[98]

Violence perpetrated against women and girls is unacceptable high with over 35% of women having experienced physical, sexual and/or psychological violence.[99] Tragically close to 40-60% of this violence is perpetrated by an intimate partner.[100] The human and economic cost of such violence is high, from physical injuries, health problems (low birth weight babies, psychological trauma, HIV contraction, the need for abortions) and in some cases death. This violence also impacts women's ability to work, gain an education, care for their family and other long lasting emotional wounds. While difficult to measure, global estimates on the lost productivity from domestic violence is 1-2% of GDP.[101]

While gender inequality is explicitly addressed in SDG 5, gender dimensions need to be considered across all other SDGs including those related to poverty, hunger, heath, education, peace and conflict. As outlined in the UN Women report, "A girl who is born into a poor household and is forced into an early marriage is unlikely to finish her education; faces higher chances of giving birth at an early age and of having complications during childbirth; and is more susceptible to experiencing violence than a girl who marries at a later age".[102] This demonstrates the mutually reinforcing relationship between gender inequality and poverty. It is critical for Australia to support integrated, multi sectoral approaches that empower women and girls and break the intergenerational cycle of poverty.

We welcome the Australian Government's strong commitment towards greater gender equality, as reflected in the goal that 80% of Australia's development program will address gender issues in implementation.[103] We also endorse its comprehensive *Gender Equality and Women's Empowerment Strategy*, addressing the three priority areas of women's participation, women's economic empowerment and ending violence against women. [104]

It is commendable that Australia has funded regional gender empowerment programs like Pacific Women Shaping Pacific Development (Pacific Women), a $320 million10-year initiative that aims to improve the political, economic and social opportunities of Pacific women. The program has supported local civil society to assist survivors of family violence, building the capacity of Pacific women members of Parliament, boosting business technical skills and making informal market structures safer for women. While we welcome this initiative, we urge the Australian Government to continue to fund and support more initiatives in pursuit of SDG 5, with a focus on the Pacific. We also urge the government to support gender mainstreaming across all sectors to address the gender dimensions that impact on the achievement of other key SDGs.

RECOMMENDATION:

Australia should:

- Maintain the goal of ensuring that 80% of all Australian aid addresses gender issues in its implementation.
- Continue to fund stand-alone programs designed to deliver gender equality through addressing the underlying, systematic issues that cause women to experience social and economic exclusion, with a focus on adolescent girls.

5.5 Climate Change (SDG 13)

Conservative estimates indicate that the direct and indirect impacts of climate change will result in more than 100 million additional people being pushed into poverty by 2030.[105] Already more than 175 million children are affected by disasters each year[106] – as climate change impact intensify, more children will be placed in harm's way. Climate change and disasters clearly pose risks to all areas in which the Australian aid program has made an impact; including: economic growth, poverty reduction, education, health, and the empowerment of women and girls. For the multiple threats climate change and disasters present to poor and vulnerable communities to be averted, risk reduction and resilience building need to be a core part of the business of the aid program.

While climate change and disasters pose an increasing threat to the sustainability of the aid program's impact across the region, this threat can be significantly reduced by integrating climate change and disaster risk reduction (DRR) efforts across all sectors and regions. Effective integration requires that all aid investments are cognisant of, and respond to, the risks of climate change and disasters. In some cases, this may require specific climate change and /or DRR investments (i.e. increasing access to renewable energy), in most it will require specific activity-level actions identified through climate and disaster screening (i.e. mainstreaming).

Mainstreaming climate and disaster risk and resilience across the aid program is likely to prove the more effective means of ensuring these impacts do not derail hard won development gains slowly built over decades. Mainstreaming can also increase the reach of climate change adaptation and disaster risk reduction programming from a select number of communities out to most people reached through the aid program.

In many cases, mainstreaming is also likely to be more cost effective than supporting stand-alone climate change and DRR programs, as it avoids potential duplication and overlap of effort. However, there is a strong argument for maintaining specific investments in targeted areas related to bilateral programs in order to ensure the aid program continues to build the resilience of the most vulnerable people and communities to maintain sustainable development trajectories in a changing climate. In the Pacific, the Australia Pacific Climate Change Action Program, appears to be taking this approach – supporting a mix of specific climate change investments and enhancing mainstreaming in sectoral investments. Similarly, The Australian Humanitarian Partnership (AHP), investing $50 million over 5 years to boost the capabilities across the Pacific to manage the impacts of disasters, is helping address the priority DRR needs of vulnerable communities.

The Australian aid program has a strong track record of supporting communities in the Indo-Pacific to manage the unavoidable impacts of climate change and reduce the risk of disasters. The Humanitarian Partnership Agreement mechanism (HPA) addressed not only humanitarian needs in times of crisis but also invested $16.5 million in DRR and disaster risk management capacity building; an invaluable contribution to communities on the frontline of climate change and disasters. Furthermore, from 2011-2016, the aid program supported NGOs to work directly with communities in our region to address priority adaptation needs. Many of the projects supported through the Community-based Climate Change Action Grants program (including those implemented by Save the Children) worked to integrate climate change and disaster risks into key development programs already working at the community level. Successful programs like these[107] should serve as a model for future efforts to ensure the impacts of the aid program at the local level are sustainable in a changing climate. With the economic and social impacts of disasters increasing year on year the need to invest in risk reduction and resilience through the aid program has never been more important than it is today.'

RECOMMENDATION:

Australia should:

- Continue to integrate or mainstream climate change into all ODA allocations, with the aim of increasing the share of climate finance to 18% of total ODA by 2020 to meet Australia's share of the UNFCCC commitment to mobilising $100 billion in climate finance annually by 2020.
- Ensure its climate finance is meeting the needs of the most vulnerable by allocating at least 60% of Australia's climate finance towards adaptation, with priority being given to the most vulnerable countries (i.e. least developed countries and small island developing states) and to build the resilience of the most vulnerable population groups.
- Consider building on the successful Community-based Climate Change Action Grants program to systematically support local responses to climate change across the region.

A Save the Children Project supporting Climate Change (SDG 13)

In the Philippines, our Enhancing Resilience of Filipino Urban Communities to Disasters and Climate Change (ENCORE) project continued to build community resilience to the impacts of disasters and climate change. More than 70% of the population lives in poorly-planned urban areas, which are repeatedly hit by typhoons and severe floods. We have been working with local governments to engage children and their communities in participatory planning sessions. We've also been supporting teachers to build the resilience of children when it comes to climate change adaptation and preparing for natural disasters.

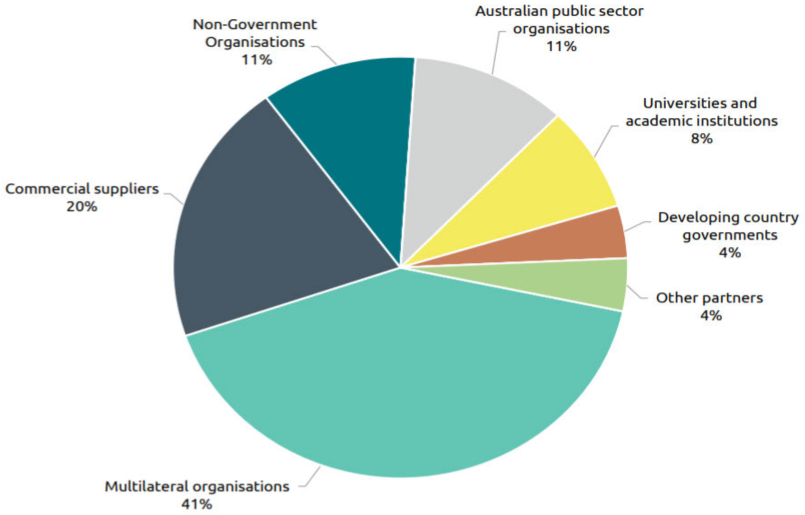
6. Choose Aid Delivery Mechanisms based on Demonstrated Efficiency and Effectiveness

While Australia can and should increase its quantum of overseas aid towards achieving the SDGs, it is equally important to ensure it uses the most efficient and effective delivery mechanisms to maximise the value of every aid dollar. This is crucial for maintaining public confidence in Australia's aid program.

When Foreign Minister Julie Bishop announced Australia's new aid policy and performance framework in 2014, she said the government was "agnostic about how aid is delivered", other than to ensure it is "efficient and effective".[108]

In theory, this statement makes absolute sense. But in practice, it is difficult to properly assess whether Australia's aid is being spent in the most efficient and effective manner given the lack of transparency and project-level reporting by the largest recipients of Australian aid, being private contractors and multilateral organisations. As set out in the figure below, more than 41% of Australia's ODA was allocated to multilateral organisations in 2015-16, and 20% was allocated to private contractors - almost double that allocated to NGOs – in that same period.

Allocation of Australian ODA by Recipient Type in 2015-16



Source: DFAT, Performance of Australian Aid 2015-16

If Australia is to fulfil its international commitments on aid effectiveness, it must hold all aid recipients to the same standards. In particular, private contractors and multilateral organisations must be held to the same standards as ACFID-accredited non-government organisations. This requires:

- demonstrating they have established operations, technical capability and relationships with key government and program in the relevant country(ies) prior to being awarded grants;
- transparently reporting on costs, overheads and any profit margins in the case of for-profit entities;
- demonstrating compliance with DFAT policies and applicable international guidelines and standards; and

- ensuring accountability for results by publicly reporting against agreed performance metrics.

6.1 Increase Accountability for UN and other Multilateral Organisations

In 2015/16, more than more than 41% of Australian ODA was channelled through UN and multilateral organisations.[109] At a time when multilateralism is under threat, we acknowledge the importance of Australia maintaining significant support for the UN and multilateral organisations. It aligns with the Good Humanitarian Donorship Principle of 'supporting and promoting the central and unique role of the UN in providing leadership and coordination of international humanitarian action'.

However, considerable evidence suggests that channelling funding through UN agencies can also lead to increased costs, delays, and less flexibility in the delivery of aid. This is because UN agencies do not typically implement humanitarian programs directly, but sub-contract NGOs to deliver programs on their behalf.

In light of a contracted aid budget and rising global need, it has become even more important to ensure for Australia's ODA is spent in the most efficient, effective and transparent manner. It is also important to ensure complementarity with aid generously donated by the Australian public. Accordingly, Save the Children believes there must be greater accountability for UN and other multilateral organisations in the way that they spend Australian ODA in the following key areas:

- **Cost efficiency**: The retention of overheads by UN intermediaries at different stages of the sub-contracting process leads to higher transaction costs and reduces the amount of funds available for implementing activities at field level. For example, where funds are channelled through the UN CERF, the UN Secretariat retains 3% in overheads, and then passes the funds on to a UN agency that may retain up to an additional 7% in overheads before passing the funds on to an implementing partner with their own overheads – usually an NGO. These transaction costs ultimately reduce the amount of funding available to implementing partners, thereby diminishing the impact and value of Australian aid.

- **Transparency and Accountability**: It is often difficult to track the flow of funds from UN agencies to implementing partners due to a lack of transparency in project-level reporting. The UN's single audit principle precludes project-specific monitoring and audits other than by the UN Board of Auditors, making it difficult to reliably track how their funds have been spent. This is in stark contrast with the accountability required of NGO partners who are required to share all financial data and commission independent audits if requested by the donor. Australian NGOs are also subject to rigorous ACFID accreditation procedures. The comparative transparency and accountability of NGOs can foster greater trust and public confidence in Australia's aid program.

- **Timeliness**: The rapid disbursement of funds is critical to meeting acute humanitarian needs and saving lives in an emergency. UN agencies typically do not implement programs directly, but sub-contract NGOs to do so. The sub-contracting processes used by the UN can slow down the delivery of humanitarian aid. An evaluation of the UN CERF found that the process for disbursing funds to implementing partners took up to 13 weeks for 'rapid response' emergencies and 19 weeks for underfunded emergencies. In contrast, NGOs contracted directly by the Australian Government under the Humanitarian Partnership Agreement (now called the Australian Humanitarian Partnership) received funds and were able to start implementing activities less than two weeks after the funds were announced.

- **Engagement of the Australian public:** Unlike Australian NGOs, UN agencies are not dependent on private funding from the Australian public to sustain their operations. Accordingly, UN agencies do not need to maintain a strong level of engagement with the Australian public and communicate the value of Australian aid. In contrast, Australian NGOs are often dependent on private fundraising and therefore have a strong interest in actively promoting their work overseas and the value of Australian aid through the mainstream media, social media and direct correspondence. By contributing more funding directly to Australian NGOs, DFAT can leverage from their communication networks to promote the value and impact of Australian aid. This can foster greater public confidence and trust in Australia's aid program.

In light of the above, we would urge Australia to reconsider the large amount of funding it channels through UN intermediaries and allocate more directly to NGO implementing partners to reduce some of the transaction costs, delays and transparency challenges associated with UN sub-contracting processes. We believe that striking a better balance in the allocation of Australian aid is important to ensure aid effectiveness and efficiency, and improve accountability to Australian taxpayers and the communities for whom the funding is intended to benefit.

6.2 Increase Accountability for Private Contractors

The integration of AusAID and DFAT in 2014 led to the loss of experienced aid management staff. As acknowledged in the OECD DAC Peer Review of Australia 2018, 'DFAT has a limited number of specialists working on the aid program, preferring to invest in the skills of generalists and outsource implementation to contractors.'[110] There has been a sharp rise in the amount of ODA allocated to private companies. Ten private companies receive close to 20% of the aid budget each year — up from 14 % in 2012.[111] They have earned $712 million in 2016-17 alone. [112] DFAT's top four choices — Cardno Emerging Markets, Palladium International, Coffey International Development and ABT Associates — received $461.8 million last financial year. [113]

The rationale for the sharp rise in allocations to private contractors is unclear. There may be an assumption that the private sector is more efficient, but it not possible to test this assumption, and for the public to trust this is in fact the case when there is a lack of transparency on the terms on which private contractors are engaged by DFAT, including a lack of disclosure of project costs, overheads and the profit margins of for-profit entities.

Furthermore, there is a lack of transparency on what operational and technical advantages private contractors offer in ensuring aid effectiveness for each award, particularly given they often do not have an established operational presence, long term development programs and existing relationships with local stakeholders in the geographic locations for which they are awarded grants. Accordingly, there are presumably start-up costs front-loaded by these contractors that are borne by the Australian government, which reduce the total amount of funding available for project implementation than might otherwise be the case if an implementer with established operations is chosen. It is therefore questionable whether they are able to deliver aid programs in a more efficient and effective manner. In particular, as noted by the OECD DAC Peer Review of Australia in 2018, this approach poses risks to Australia's oversight of aid programs, ability to deliver on its commitments to aid effectiveness and also its reputation.

The risks associated with allocating a large amount of ODA to private contractors have been highlighted in the UK. In 2017, the UK Parliament's International Development Committee conducted an inquiry into DFID's allocation of ODA to private contractors.[114] The Committee's urged DFID to take a more robust approach to the procurement, oversight and evaluation of the delivery of aid programmes by private contractors. It concluded that while there may be good reasons for DFID to employ contractors, there are also longstanding concerns in three key areas:

- **Contractor Fees**: The Committee found that there was a lack of transparency around the fees charged by private contractors, including direct project costs, overheads and profit margins. There was also insufficient oversight by DFID of such fees, which it is now taking steps to address (as detailed in the next section). Stephen Twigg MP, Chair of the Committee, said that DFID's contractors and partners should be held to the highest standards and there should be 'no room for excessive profiteering or unethical practices' in this work to deliver aid to the poorest people across the globe. [115]

- **Value for Money**: The Committee concluded that the rewards for contractors should lie in delivering contracts, not winning them. It found that DFID assumes that levels of competition in the supplier market will assure value for money, but evidence suggests otherwise. Greater understanding of the supply chain, including the impact of procurement processes on smaller organisations, is necessary to achieve the Department's aims of more effective use of contractors.

- **Conduct of Contractors**: DFID sets rules for private contractors, but relies on self-regulation and fails to enforce them. It is not evident that DFID has an effective process for assessing effectiveness of individual contractors at program level, nor whether it undertakes a sufficiently robust appraisal of all available options. It needs to do more to ensure that contractors are adhering to the principles that drive the Department's mission. While competitive pressures in the market can drive value for money, they can also drive poor behaviours in contractors trying to seek a commercial advantage. DFID should strengthen its approach to following up on implementation, particularly through greater use of independent evaluations. Serious examples of sub-contractors being mistreated by lead contractors point towards an insufficient level of oversight that DFID should take concrete steps to improve.

In response to this Inquiry, DFID has taken steps to improve transparency in reporting on its agreements with private contractors (including fees), a detailed in the next section of this submission. However, media reports of excessive profiteering by private contractors engaged by DFID has undermined public confidence that the UK aid program. We would therefore urge the Australian Government to learn from the UK experience and ensure that robust systems are put in place to ensure private contractors are held to the same standards as ACFID accredited NGOs and there is increased transparency about their capability, costs, implementation approaches and results to maintain public confidence in Australian aid.

At the time the SDGs were agreed, it was acknowledged that government funding alone would not be sufficient to help transformative change to meet the ambitious goal of leaving no man, woman or child behind. It was agreed that it is critical to leverage private capital flows to drive progress towards achieving the SDGs.

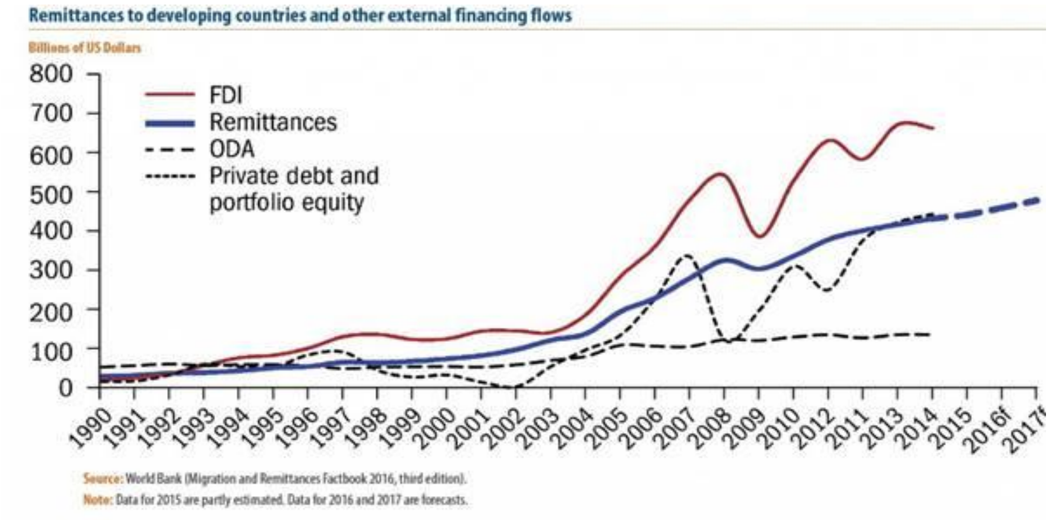
As shown in the table below, other sources of investment into developing countries has grown enormously, including foreign direct investment, remittances and private debt and equity. However, at present, there are not established mechanisms to leverage these alternative forms of investment to achieve development (as well as commercial) returns.

Save the Children believes that donors have an opportunity to leverage aid investments to help establish an 'impact economy', where problems of poverty, inequality, climate change and natural resource degradation are addressed through models involving co-design and co-implementation by new commercial donors and NGO partnerships.

6.3 Leverage Private Capital Flows into Developing Countries

At the time the SDGs were agreed, it was acknowledged that government funding alone would not be sufficient to meet the ambitious aim of leaving no man, woman or child behind. It was agreed that it is critical to leverage private capital flows to drive progress towards achieving the SDGs.

As shown in the graph below, other sources of investment into developing countries has grown enormously since 1990, including foreign direct investment, remittances and private debt and equity.



Despite this growth in private capital flows, there is a lack of established mechanisms to leverage alternative forms of investment to achieve both development and commercial returns.

Save the Children believes it is important for the Australian Government to incentivize and accelerate the establishment of new models to leverage private capital flows together with ODA to enable both commercial and development dividends.

RECOMMENDATION:

Australia should:

- Strike a better balance in the allocation of ODA by recipient type and allocate at least 20% of its aid directly to NGOs, rather than through UN intermediaries, in line with the OECD DAC average in order to reduce the transaction costs, delays, transparency and accountability challenges associated with using UN intermediaries.

- Ensure private contractors are held to the same standards as ACFID accredited NGOs, and require that they:
    - demonstrate they have established operations, technical capability and relationships with key local stakeholders prior to being awarded grants;
    - transparently report on costs, overheads and any profit margins in the case of for-profit entities, as outlined in section 7 of this submission;
    - demonstrate compliance with DFAT policies and applicable international guidelines and standards; and
    - ensure accountability for results by publicly reporting against agreed performance metrics.
- Incentivise and support the establishment of mechanisms to leverage private capital flows using ODA to support the SDGs.

7. Improve Reporting for Transparency and Accountability

Aid transparency and predictability are important ingredients for aid effectiveness.[116] The SDGs require all donor countries to ensure a high level of transparency in the delivery of aid. Over the past year few years, Save the Children has observed a decline in aid transparency as have others including the ANU Development Policy Centre.[117] In particular, an aid budget 'blue book' has not been produced since 2013.

Australia was a foundation signatory to the International Aid Transparency Initiative and has developed a Transparency Charter. While the commitment exists, execution can be improved. This is reflected in the fact that Australia's rank in the 2016 Aid Transparency Index remained at 25 out of 46 donor organisations.[118]

Save the Children welcomes the recent steps taken by DFAT to improve the transparency of the aid program. In particular, we note that considerably more information on the aid program has been made available on the DFAT website, including sector breakdowns. However, there remain some key gaps in the available content. Crucially, there is a lack of detailed, publicly available information on:

- individual programs;
- aid allocations nationally and sub-nationally; and
- forward estimates for the total aid program or regional projections.

To date, stakeholders have had to rely on obtaining aid budget projections through the Senate Estimates process.

By contrast, the Department for International Development (DFID) in the UK publishes the following information on a monthly basis:

- Details on international development projects including budgets and financial transactions.
- Information on sectors, geographical location (including sub-national geolocations).
- All core project documentation, including formal agreements with partners, business cases, annual reviews, completion reports, and evaluations.
- Project summaries, which are translated into major local languages of the relevant countries.[119]

All such information is published in an open, accessible format, using the International Aid Transparency Initiative (IATI) open standard.[120]

Save the Children urges the Australian Treasury to follow the UK Government's lead in transparently reporting on aid allocations in an open, accessible format using the International Aid Transparency Initiative (IATI) open standard.

In addition, we recommend that Australian Government publishes an aid 'blue book' as it has provided in previous years. While we acknowledge that some of the information contained in previous blue books is now available on the website, it remains very difficult to navigate effectively. The aid blue books were an invaluable resource as they provided a more comprehensive picture of the breadth and reach of Australia's aid program.

Another major area for improvement is in publishing detailed financial data and effectiveness of aid spending by Government departments other than DFAT. In 2016-17, other Government departments (e.g. the Australian Federal Police, Department of Immigration and Border Protection, Attorney-General's Department, and Federal Treasury) have been allocated an estimated $300 million (8%) of Australia's aid budget. Yet there is limited accountability around actual expenditure and performance. This is not acceptable given the Government's focus on enhancing the accountability and effectiveness of Australian aid.

RECOMMENDATION:

Australia should:

- Follow DFID's lead in transparently reporting on aid allocations in an open, accessible format using the International Aid Transparency Initiative (IATI) open standard. [1] This includes reporting on international development aid allocated by sector, geographical location (including sub-national geolocations) and by projects (including formal agreements with partners, budgets, transactions and results).
- Reinstate the aid 'blue book' and publish it alongside other budget documents as a means to improve the transparency and accountability of Australia's aid program.
- Publishing detailed data on aid spending (falling within OECD DAC classifications) by Government departments other than DFAT, including the Department of Home Affairs, Attorney-General's Department, and Federal Treasury.

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