

Tabled 6 August 2001.

**GOVERNMENT RESPONSE TO THE REPORT
OF THE JOINT STANDING COMMITTEE ON
FOREIGN AFFAIRS, DEFENCE AND TRADE
ON THE 14 DECEMBER 2000 AUSTRALIAN
GOVERNMENT LOAN TO PAPUA NEW
GUINEA**

The US\$30 million Australian Government loan to Papua New Guinea of 14 December 2000 was the second provided under the 1998 amendments to the *International Monetary Agreements Act 1947 (IMAA)*, following the US\$80 million loan, also to Papua New Guinea, of 21 June 2000. The amendments to *IMAA* were made in the wake of the Asian financial crisis to provide a framework for the provision of financial assistance by Australia to countries undertaking economic adjustment programs with the support of the International Monetary Fund. Under the amendments to *IMAA*, the Joint Standing Committee on Foreign Affairs, Defence and Trade is required to report within two months of the tabling of National Interest Statements supporting loans made under *IMAA*.

Committee's Report

2. The Committee has supported the execution of the second loan to Papua New Guinea, noting in particular the positive efforts made by the PNG Government to re-establish relations with the IMF and World Bank.

3. The Government is pleased to note that, in its report on the second loan, the Committee has welcomed the additional material provided in the accompanying National Interest Statement, in response to the suggestions for improvements made in the Committee's report on the first loan to PNG (tabled on 30 October 2000). The changes have rendered the National Interest Statement 'a much more informative document than the first one, both in terms of explaining Australia's national interest in the context of the bilateral relationship and the detail provided on the terms and conditions of the second loan to PNG'. The Government also notes that the Committee acknowledged, 'with appreciation', the regular contact maintained by Treasury with the Committee Secretariat in the lead up to the execution of the second loan.

Committee's Recommendation

4. The Committee has reiterated its concerns, first expressed in the context of the first loan to PNG, about the timing of the tabling of National Interest Statements in support of loans made under *IMAA*. The Committee has re-affirmed its previous recommendation that *IMAA* be further amended to ensure that Parliamentary scrutiny of proposed loans occurs before such loans are executed.

5. This recommendation was rejected by the Government in its response to the Committee's report on the first loan (tabled on 8 March 2001). The Government noted that the Committee's proposal could considerably weaken Australia's capacity to provide rapid and effective assistance to countries facing financial crises. The introduction of a period of Parliamentary scrutiny of the accompanying National Interest Statement before a loan is disbursed, even for the relatively short period of 5-6 weeks suggested in the first Joint Committee report, could critically circumscribe Australia's capacity to contribute to financial rescue packages and could weaken the effectiveness of international support efforts for countries in crisis.

6. In its report on the second loan, the Committee has made one recommendation:

'That, should a further loan to Papua New Guinea be contemplated before the Act has been amended as proposed in the Committee's previous report, a confidential briefing be provided to the Committee on the draft NIS by the relevant Commonwealth agencies at the earliest opportunity. This should be arranged well before the National Interest Statement has been finalised and the loan executed.'

7. The Government has no objections to relevant Commonwealth agencies providing the Committee with confidential briefings prior to the execution of loans under *IMAA*. It accepts that such briefings can be helpful. It notes, however, that the Committee's suggestion does not, of itself,

address the problems arising from time constraints in the preparation of loans under *IMAA*. The Government remains of the view that amendment of *IMAA* would not be appropriate.

8. As noted in the response to the Committee's report on the first loan to PNG, the Government considers that requirements for accountability and transparency are fully met by the current arrangements under *IMAA*.