

# Executive Summary

In this report, the committee considered the nature and extent of the key economic challenges facing Pacific island countries and Australia's bilateral and regional endeavours to help these countries meet such challenges. The committee covers security matters in a separate companion volume.

The committee identified a range of impediments to economic growth in Pacific island countries. Some of these are inherent structural problems that are beyond the control of these countries—small populations and land mass, limited range of natural resources, remoteness and susceptibility to natural disasters. These physical and geographical limitations often produce conditions that inhibit the ability of Pacific island countries to develop their economies. They include little scope to achieve economies of scale, difficulties developing the human capacity necessary to support and sustain a growing economy, narrow economic base, reliance on a small range of export products and the need to import key strategic products, such as energy. These circumstances, however, are not fixed and can be moderated to minimise their adverse effects on economic development.

Thus, although difficult, it may be possible for Pacific island countries to diversify their production base, build much-needed human capacity, expand their export markets, minimise dependency on imports, and make the environment more resilient to the damaging effects of natural disasters. A number of submitters, however, pointed to the poor or lacklustre economic performance of Pacific island countries and suggested that they are not fulfilling their potential; that, despite their disadvantages, they could do more to help themselves toward increased growth and better development outcomes.

Australia is actively assisting Pacific island countries to meet their many economic challenges with its extensive aid program in the region. Work is being done in agriculture, fisheries, forestry, mining, natural disaster management, climate change, economic infrastructure, education, health, financial management, governance, law and order, land tenure and financial services. Across all these key areas, Australian funding is being used for research and development, building and improving infrastructure, and to provide advice, training, education and technical assistance.

Although the region has been receiving high levels of assistance for many decades from overseas donors, including Australia, many Pacific island countries still struggle to meet their economic and development challenges. In particular, capacity constraints, both in physical and human resources, continue to impede economic development in the region. In this context, the committee expressed a number of concerns about aid delivery to the Pacific which have direct relevance to Australia's official development assistance (ODA) program. The committee found:

- aid does not always reach the intended beneficiaries or those most in need of assistance;

- Australia's response to the effects of climate change in the region does not seem to match the islands' urgent call for action—importantly environmental matters are not yet a mainstream concern guiding the formulation of Australia's ODA policy;
- more effective ways need to be found to help ease the burden on Pacific island countries of monitoring and policing activities in their EEZ, forests and around their border crossings;
- although over 50 per cent of Australia's bilateral ODA to the region goes to governance, one of the main weaknesses remains the inability of bureaucracies in Pacific island countries to deliver essential services on the ground—whether it relates to resource management, education or economic infrastructure;
- the tendency for the benefits from aid programs to fade as projects come to an end and funds and technical assistance are withdrawn;
- ODA could be aligned more closely with the needs and priorities of the recipient country—for example, evidence suggested that there was a serious disconnection between the courses offered by training institutions in the region and the requirements of local businesses and industries;
- better use could be made of the private sector to help alleviate poverty in the region and boost economic activity—sustainable tourism in particular holds much promise;
- aid work could be better coordinated with the activities of other donors, including within Australia (state and local governments and NGOs) and with donors from other countries;
- Australia's ODA policy framework could be strengthened by integrating the many and varied activities into a concerted whole-of-government effort—indeed, even within sectors, there appears to be a lack of policy coherence, such as in governance;
- a need to ensure that there are strong links between Australia's response to conflict and complex emergencies and the need for longer-term assistance in capacity building and disaster management;
- statistics on key development indicators such as school attendance, literacy, numeracy, employment and workforce participation are sketchy, unreliable and out-of-date, which makes policy-making difficult for the governments of Pacific island countries and for aid donors; and
- monitoring and evaluation of Australian aid programs, critical to achieving continuous improvement, could be more robust.

Finally, Australians working in the region have accumulated, and continue to add to, an impressive body of understanding and experience in the complex and difficult task

of building capacity, especially in the transfer of skills. It is important that this knowledge is captured and used to benefit all those engaged in Australia's ODA.

The following recommendations are designed to address the above findings and to assist the Australian Government to achieve continuous improvement in its delivery of aid to the region.

**Recommendation 1** paragraph 6.15

The committee recommends that the Australian Government continue to fund research and development on sustainable development in Pacific island countries. The committee recommends further that the government through AusAID ensure that individual research projects working to improve agriculture and land use practices are part of a wider strategy that enables the results of research to reach a broader range of producers including those in remote areas.

**Recommendation 2** paragraph 6.23

The committee recommends that the Australian Government take an active advocacy role in the Western and Central Pacific Fisheries Commission urging Distant Water Fishing Nations to make a greater contribution, commensurate with their fishing operations in the southwest Pacific, to the costs of managing fish stocks in the region.

**Recommendation 3** paragraph 6.62

The committee recommends that the Australian Government consider whether it may be necessary to review the legal and policy framework required in the event that regional communities may be forced to resettle as a consequence of changes in climate.

paragraph 6.63

The committee also notes that currently AusAID is reviewing its Humanitarian Action Policy. The committee recommends that AusAID take this opportunity to consider whether it is necessary to incorporate in its Humanitarian Action Policy emerging legal and humanitarian matters associated with climate change.

paragraph 6.64

The committee recommends further that the Australian Government review the need for an education and training program designed specifically to assist those communities in the region most at risk from the damaging effects of changes in climate. The intention would be to determine how best to assist people to remain productive members of their community in a changing environment.

paragraph 6.65

Finally, the committee recommends that the Australian Government ensure that environmental matters including climate change be integrated more effectively throughout its aid programs to the region. This means that prevention and adaptation

measures addressing the adverse effects of natural disasters and climate change would be considered when formulating policy and designing ODA projects, for example in the resource development, infrastructure, education, health and governance sectors.

**Recommendation 4** paragraph 8.22

The committee recommends that the government continue to support the work of the Institute for International Trade in conducting training modules for Pacific islanders. It recommends also that the government consider expanding these courses to include more of the technical issues associated with the non-tariff barriers to trade in the region. Further, that the Department of Agriculture, Fisheries and Forestry and the Australian Quarantine and Inspection Service assist as partners in the development and delivery of such training modules.

**Recommendation 5** paragraph 8.39

In light of the growing awareness among major donors (EU, US and New Zealand) of the value of using sustainable tourism to assist developing countries alleviate poverty and promote broad-based economic growth, the committee recommends that the Australian Government incorporate this sector as an identifiable program in its ODA policy framework for the region.

**Recommendation 6** paragraph 8.46

The committee notes the positive results from the two-year trial of an Australian Pacific Investment Commissioner and recommends that the Australian Government give serious consideration to the re-appointment of, and funding for, a Pacific Investment Commissioner.

**Recommendation 7** paragraph 11.27

The committee recommends that the mid-term review of the Australia–Pacific Technical College (APTC) give careful and explicit attention to the criticisms raised by international institutions and by witnesses to this inquiry that regional training institutions are not meeting or anticipating the needs of local business or industries.

**Recommendation 8** paragraph 11.35

The committee notes the important role of the non-formal education sector, particularly in PNG, and recommends that AusAID give attention to the role of informal education in formulating and implementing its education assistance policy.

**Recommendation 9** paragraph 11.45

The committee recommends that the Australian Government ensure that its scholarship scheme for Pacific islanders complements the education and training priorities as determined by Pacific island countries.

**Recommendation 10**

paragraph 11.49

The committee recognises the problem of brain drain in the Pacific region and recommends that the Australian Government fund a study of both its scholarship recipients from the region and graduates from the APTC to obtain a greater understanding of the nature and extent of brain drain and of the incentives required to retain knowledge and experience in the region.

**Recommendation 11**

paragraph 13.55

The committee recommends that the review of the Pacific Seasonal Labour Pilot Scheme to be undertaken 18 months and 30 months after its commencement state explicitly in its terms of reference that the review is to consider the following aspects of the scheme:

- the adequacy of pre-departure and on-arrival briefings;
- the cost-sharing arrangements between employers and workers, the costs of sending remittances home, and the effectiveness of the *Reducing the Cost of Remittances Program*;
- the success of the training component and the transfer of skills and how these aspects of the scheme could be enhanced—the skills attained in Australia and their relevance to the workforce of the guest workers' home countries;
- the economic and social implications for the workers, their families and home countries;
- the effect on brain drain from Pacific island countries;
- the mechanisms used to monitor employer compliance, guest workers' employment, employment conditions and complaints, their overall effectiveness and their role in policy making and evaluation of the scheme;
- the extent to which the scheme is integrated into Australia's official development assistance program for the region and the Pacific Partnerships for Development;
- the potential to expand the guest worker scheme to other sectors such as the tourism/hospitality industry; and
- the level of cooperation and coordination between Australia and New Zealand in implementing their labour mobility schemes for Pacific islanders and whether they could be improved.

**Recommendation 12**

paragraph 15.50

The committee recommends that the Australian Government direct AusAID to formulate a strategic single policy framework to guide its governance program in the Pacific region. The emphasis would be on integrating more effectively the activities of

the different departments and agencies engaged in promoting good governance in the region.

**Recommendation 13** paragraph 17.47

The committee recommends that the Australian Government establish a strategic framework that encourages the private sector to get involved in providing microfinance and other financial services in Pacific island countries.

**Recommendation 14** paragraph 18.39

The committee recommends that the Australian Government provide for longer-term funding for projects that are to span a number of years, as distinct from year-to-year funding approvals, in order to provide greater certainty in the financial flows to them.

**Recommendation 15** paragraph 18.49

The committee recommends that the Australian Government take decisive steps to encourage and support state, territory and local governments to participate in Australia's ODA. Further, that Australia's aid policy framework not only recognise the work of all levels of government its ODA program, but includes their activities as a vital part of Australia's whole-of-nation contribution to the region.

**Recommendation 16** paragraph 18.71

The committee recommends that the Australian Government through AusAID produce a bridging document for its ODA in the Pacific that connects the immediate objectives of specific programs with higher level objectives—as articulated in the White Paper, the MDGs and the Pacific Plan. It should be a strategic plan with an emphasis on 'how' in practical terms the immediate objectives of programs would make a tangible contribution toward achieving these higher level goals.

**Recommendation 17** paragraph 18.72

The committee also expressed concern about assistance not reaching those most in need. In light of the large proportion of Australian funding to the region that goes to governance, the committee recommends that the strategic plan demonstrate how this aid relates directly to improvements for people in need of assistance.

**Recommendation 18** paragraph 18.73

The committee recommends that the Australian Government ensure, largely through AusAID, that the plans for any future development assistance project for the region:

- recognise and explain the project's role as part of a coherent strategic development plan;
- identify companion projects or projects that are complementary and how they are to interact with such projects;

- explain measures taken to ensure that when the project ends, the benefits will not fade, including not only the maintenance and upgrading of equipment or infrastructure but capacity building;
- take account of forward funding needs;
- ensure that the project aligns with the development plans and priorities of the recipient country—that there is no mismatch in objectives; and
- demonstrate that close consideration has been given to the activities of foreign donors with a view to achieving greater complementarity and coordination between them.

**Recommendation 19** paragraph 18.84

The committee fully supports the work of the Office of Development Effectiveness and recommends that it continue.

**Recommendation 20** paragraph 18.86

The committee recommends that the Office of Development Effectiveness evaluate the success of a few projects two to three years after their completion and use them as case studies on the durability of Australia's assistance to the region. The office's analysis and findings on these case studies are to be included in its annual review.

**Recommendation 21** paragraph 20.13

The committee recommends that AusAID review its training programs for all Australian officers deployed overseas as part of Australia's ODA effort. The review should give particular attention to managing conflicts of interest, working in environments where corruption exists and maximising skill and knowledge transfer.

**Recommendation 22** paragraph 20.44

The committee recommends that the Australian Government make a commitment to strengthening the relationship between the Asia-Pacific Civil–Military Centre, the deployable civilian capacity and the other bodies involved in training Australians engaged in ODA. The intention would be to establish a visible and well-integrated network of training institutions concerned with the broad issue of human development and security in the region. It would bridge any potential gaps between the immediate recovery phase and long-term development and conflict prevention phases.

paragraph 20.45

Furthermore, it recommends that the Australian Government appoint a central body to oversee this network and ensure that adequate funding, if needed, is available to establish and maintain this network. The Prime Minister's proposal for a new re-invigorated strategic relationship established between the ANU and the Australian Government provides the opportunity for the establishment of such a body.

