

# Cash or program aid – a delicate balance

by Sam Koim

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At the 25<sup>th</sup> Papua New Guinea–Australia Ministerial Forum recently held in Madang, the Government of Papua New Guinea (GoPNG) surprised the Australian ministers in attendance by requesting the Australian government return to direct budgetary support as provided during the early days of PNG's statehood. PNG ministers [said](#) that Australian aid programs are running parallel to the GoPNG development agenda and that a lot of aid is chewed up by middlemen.

It is an open secret that the GoPNG is desperate for cash. PNG is facing a raft of economic challenges partly caused by the downturn in commodity prices. Attempts to secure international loans have largely been unsuccessful.

Australia's Foreign Minister Julie Bishop did indicate that any changes to the aid program would need to meet Australia's accountability standards, but [undertook](#) to take the request to the Australian government for consideration. In a recent [interview](#) with Fairfax Media, however, Australia's Minister for International Development, Concetta Fierravanti-Wells, rejected the idea.

This article addresses a number of the options available to Australia if and when it considers this request.

## Reasons for the shift away from budget support

Immediately after independence, it was necessary for Australia to provide budgetary support to its former colony. The direct budgetary support enabled the GoPNG to set its own development priorities. However, Australia did not have much control over how the funds were managed. During the 1990s, budget support was gradually replaced by program aid, in which funding decisions are made by Australia in consultation with GoPNG. The 1997 Simons Review into the Australian aid program noted that 'budget support was not well used' and argued that 'programmed Australian aid can be more effective in the restoration of services and the building of capacity' [\[1\]](#).

Recent figures show that the governance sector takes the biggest slice of the aid

budget to PNG, which indicates that Australia takes governance in PNG seriously. For instance, Australia committed 40 per cent of its aid in 2016-2017 to effective governance programs. This is consistent with some [literature](#) on the effectiveness of aid, which argues, among other principles, that aid will be effective if the quality of the institutions of the aid recipient country are improved. But still, all these programs are run by the Australian government.

## A delicate balance

The request by GoPNG to shift the program/project based aid to direct support poses reputational risks to Australia, as well as an opportunity to help a friend in need.

PNG is experiencing a deepening financial crisis and Australia's intervention in such a critical time would augment the true friendship between the two countries. However, there are concerns that the current economic crises experienced by PNG are partly caused by mismanagement of the economy.

Australia also has to allay the perception that a substantial portion of the GoPNG budget is stolen every year and stashed back on Australian shores and invested in real estate property. If aid funds are given as budget support, will they not be stolen and laundered back into Australia?

It is absurd to expect Australia to suddenly abandon all its current ongoing programs and projects, and transfer all the funds to PNG Treasury to be managed by GoPNG. There are projects and programs that may need to span over a number of years — let alone the accountability issues Australia has.

Some developed countries like the United Kingdom do provide budgetary support to partner countries, but only as a portion of their total overseas development assistance. For the UK, direct budget support represents an estimated 20 per cent of the country's bilateral programming. Australia also continues to provide budget support to a number of other Pacific countries. [In fact](#), 17 per cent of total aid to the Pacific is given as budget support, which accounts for 36 per cent of Tonga's budget, and 30 per cent of Tuvalu's.

For now, the GoPNG cannot expect Australia to transfer more than half of its aid budget to directly to support the national budget.

It would also be unwise and unreasonable to expect Australia to transfer funds into GoPNG procurement and distribution systems without improving the governance frameworks around them. If GoPNG calls for Australia to align aid by channeling aid through these systems, it must commit to strengthening them ([Morris & Pryke](#),

The stakes are high and Australia has to find a delicate balance.

### **An opportunity to make a difference**

While the risks are high, the request by GoPNG presents Australia with an opportunity to make a significant difference in PNG. It presents Australia with an opportunity to move away from a personality- and issue-based bilateral relationship to a more enduring relationship built on common principles and values.

Australia has been committing a substantial portion of its aid budget to build effective good governance, which is fundamental to PNG's long term economic stability and growth.

PNG is in desperate need for cash. Australia could provide budgetary support with conditions to improve governance and accountability, which it could impose government- or sector-wide. Some lessons can be learnt from the European Commission's approach through [Europeaid](#), which has a set of guidelines and determinants for budget support that involves direct financial transfers to the national treasury of the partner country – conditional on policy dialogue, performance assessment and capacity building.

Sometimes, it may serve well to help a friend, by giving them not what they want, but what they need. I believe this is such a time. Ultimately, however, the decision rests with Australia.

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[\[1\]](#) *Review of the PNG-Australian Development Cooperation Treaty (1999), 19 April 2010, p. 15; and see also 2.5 of Senate Committee Report at p. 4*

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