

SUBMISSION: NEW INTERNATIONAL DEVELOPMENT POLICY

Dr Cameron Hill, Senior Researcher
Dr Terence Wood, Research Fellow
Development Policy Centre, ANU Crawford School of Public Policy

27 November 2022

We thank the Department of Foreign Affairs and Trade (DFAT) for the opportunity to provide a submission to support the preparation of a new international development policy.

Recommendations:

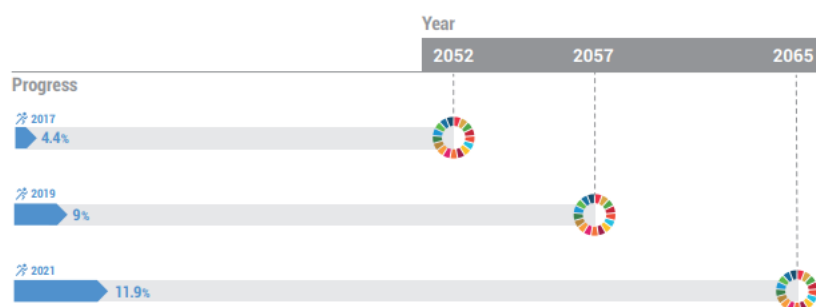
1. That in articulating the purpose of development assistance, any formulation should emphasise that development impact must be at the heart of Australia's aid program, and that an effective aid program serves our national interest first and foremost by creating a safer, more prosperous and more inclusive world.
2. That the development policy reflects the fact that Australia's main developing-country partners are all very different countries, both in terms of the development challenges they face and the opportunities they provide for aid partnerships. As a result, Australia should not have a particular overarching preference for any particular type of sector or partner. The most appropriate approach to aid delivery will be determined by recipient country and local context.
3. That the policy specifies how our engagement in the Pacific, particularly with small Pacific Island countries, will incorporate a broader suite of development tools like expanding labour mobility and permanent migration opportunities, shared service delivery, and regional economic integration.
4. That, in addition to its regional focus, the policy includes greater funding for global public goods to end the current free-riding and sets out the priorities and result areas for Australia's multilateral, global and humanitarian programs.
5. That the policy sets out a medium-term, multi-year budget framework that increases aid in real terms over time, is endorsed by Cabinet and is, if possible, legislated.
6. That the policy includes specific and properly resourced measures to enhance long-term development partnerships and aid effectiveness, strengthen development capability, and improve transparency. The former will be particularly important in fragile states in the Pacific where predictable, long-term and flexible funding will be critical to achieving impact.

I. Regional and global development context

- ***COVID-19 has undermined decades of development progress and widened inequalities in the Asia-Pacific***

Just eight years out from the completion point for the 2030 Sustainable Development Goals (SDGs), the economic growth, poverty reduction and human development prospects for low and middle countries in Australia's region remains well below their potential. According to the UN's latest regional assessment, "progress towards the SDGs in the Asia-Pacific region has slowed as the COVID-19 pandemic and climate change have exacerbated development challenges. The region is not on track to achieve any of the 17 SDGs" (see Figure 1). Women, rural populations and poorer households are being impacted the hardest and, within these vulnerable populations, food security, education and livelihoods have deteriorated considerably.

Figure 1: Estimated year to achieve the SDGs at the current pace in Asia and the Pacific, 2017–2021



Source: [UNESCAP](#)

The pandemic has shown that the region’s development trajectory will not be linear. Extreme poverty reduction has slowed in Southeast Asia for the first time in decades. And while growth is resuming, it could take up to a decade for some countries to make up for lost development gains.¹ Indeed, whereas much of Australia’s foreign policy over the last four decades has been predicated on a strong, growing Asia, we face the prospect of a region that it is weaker than it was prior to the pandemic.

Many Pacific states have suffered their biggest economic shock in their post-independence history. The tourism-dependent Pacific countries – Fiji, Palau, and Samoa – suffered staggering double-digit growth losses because of COVID-19. While other Pacific countries did not experience such extreme contractions, most of them still recorded negative or no growth. And there are strong downside risks when it comes to future growth.²

In addition to COVID-19, the impacts of climate change are now increasingly being manifest as the largest threat to development, and, in several cases, state viability for many countries in the region.

- ***The interaction between states, societies and markets in Indo-Pacific countries — and the development trajectories that result — will be a key determinant of regional stability, prosperity and resilience over the course of the next decade.***

Looking ahead, the contours of regional states’ “development bargains”³ and the interplay of these bargains with external factors like increased strategic competition and climate change will play a key role in shaping the political and development outcomes of both the large ASEAN developing economies (Indonesia, Vietnam, The Philippines), as well as that of smaller states (Laos, Timor-Leste and Fiji).

Where countries are unable to reach (or maintain) inclusive development bargains, this is more likely to result in authoritarian states with closed civic spaces whose growth models are likely to be extractive and unsustainable, or weak states that cannot deliver broad-based growth, security or basic services for their citizens and whose elites are more readily open to capture, whether from inside and/or outside. These states often “export” their domestic governance problems onto neighbouring states, whether in the form of increased nationalism, economic protectionism, refugee flows and/or an inability to effectively deal with cross-border challenges like transnational crime and pandemics.

¹ <https://www.adb.org/news/covid-19-pushed-4-7-million-more-people-southeast-asia-extreme-poverty-2021-countries-are-well>

² <https://devpolicy.org/the-pacific-emerging-from-covid-slowly-20221019/>

³ According to Stefan Dercon, a “development bargain” can be conceived of as “an implicit contract among those [elites] that can make development happen. This contract can take many different forms” and “any stable elite bargain is not just a political deal but also an economic deal about access to and distribution of the resources of the state and the economy”. See: *Gambling on development: why some countries win and others lose*, Hurst, 2022.

By contrast, stable and inclusive development bargains that facilitate broad-based economic growth and open access to its benefits (employment, social protection, health and education services, personal safety) are more likely to produce countries that are willing and able to support a rules-based international order and are more resilient to the challenges to it.

- ***Australia’s development assistance programs provide us with a unique capability to engage with the long-term drivers of open, inclusive and sustainable change in the region.***

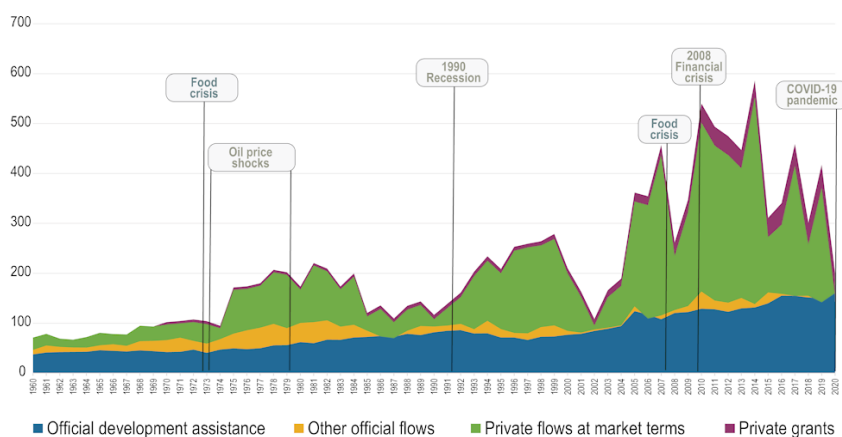
Except for highly aid dependent countries, external assistance will not be decisive in shaping countries’ development bargains.⁴ However, aid is one of the few practical tools through which Australia can support and influence these long-term forces in a positive way.

This is not necessarily just about promoting “good governance” per se but using our development program to engage with the long-term drivers of growth and change (both within and outside the state) that can support more open, inclusive and sustainable development bargains. No other arm of our statecraft engages in such a direct and practical way with these dynamics.

- ***Aid plays a key role in cushioning against global shocks and providing international public goods in areas such as climate change, health and humanitarian preparedness and response.***

As the array and complexity of global development challenges increase, the need for aid and other forms of development assistance will also rise. While private finance can play an important role, it is no substitute for aid, particularly in times of crisis. This is shown in the critical and consistent role that Official Development Assistance (ODA) has played in cushioning against global shocks since the 1970s. Compared to other international financial flows, ODA has been much less volatile (see Figure 2).

Figure 2: ODA and responses to previous crises (constant 2020 USD billions)



Source: [OECD Development Assistance Directorate](https://data.oecd.org/development/development-assistance-directorate)

However, many of the pressures on the global “rules-based order” we see today are partially the result of decades of chronic under-resourcing and a lack of a long-term burden-share among both traditional and emerging donors when it comes to international public goods. The demand for these public goods is likely to heighten in the face of the ongoing impacts of Covid-19, conflict and climate change.⁵ As well as shortfalls in funding, there has also been a failure to reach consensus on global governance issues like

⁴ The development prospects of the smallest Pacific Island “micro-states” are likely to rest with their ability to withstand increased shocks – climate change, natural disasters — and their level of integration with larger, developed states through regional integration in areas such as labour mobility and migration.

⁵

debt restructuring and relief, the use of financial reserves for development purposes, reform of the international financial institutions, and common approaches to the use of blended finance.

II. Why? The purpose of aid

- ***There is a difference between tactical and purposive national interests and aid should primarily serve the latter.***

It is important to distinguish between two types of “national interest” – tactical or transactional interests and purposive, “shaping” or “order building” interests. While the former is usually directed at influencing the choices of other states on particular issues, the latter is usually longer-term and speaks to the vision of the world that we and our partners want to see – e.g., “stable, prosperous, resilient.” It is the latter where an effective development assistance program can play the most useful role.

It is important therefore that, in framing the relationships between aid and the national interest, we do not make the aid program accountable for Australia’s transactional, short-term interests. This not something that aid is very good at, and these interests are better pursued through other tools of statecraft that should be adequately and separately resourced. Making tactical interests the driver of aid decisions will come at cost of quality and effectiveness, risks opening us up to the kind of criticisms we direct at China and could have the effect of undermining Australians’ support for the aid program.⁶

Ultimately, the reason that the aid program is in our national interest stems from the fact the fact that it *delivers for people* in the form of reduced poverty, improved economic growth, better service delivery, and/or more inclusive governance.

III. Where? Geographic allocations

- ***Is Australia an “Asia-Pacific” or an “Indo-Pacific” development partner?***

As highlighted in the government’s pre-election announcements, Australia’s aid will continue to focus its development engagement on its nearest neighbours in the Pacific and Southeast Asia. This reflects Australia’s geography and comparative advantage.

However, in adopting an “Indo-Pacific” frame the government does need to clarify whether this also includes the resumption of long-term, bilateral development programs in South and West Asia, a region where we have been prominent in the past and that contains countries with higher poverty than either Southeast Asia or the Pacific. Australia’s development assistance to this region was cut severely from 2013, we no longer have bilateral aid programs in countries like Nepal and Pakistan, and much of our remaining aid to South Asia is in form of support for protracted crises and short-term humanitarian support (e.g., support for Rohingya populations in Bangladesh, humanitarian aid in Afghanistan, and food aid in Sri Lanka).⁷

- ***Australia is increasingly “free riding” when it comes to multilateral aid and continues to under-invest in global public goods.***

The policy also needs to explicitly address the role of global and multilateral aid in Australia’s approach to development. The pressures on aid to support global public goods in areas such as climate change, protracted humanitarian crises, and global health are greater than at any point since Bretton Woods.

⁶ When asked whether they want aid focused on promoting development or advancing Australia’s interests in public opinion polls, most Australians typically prefer the former. See: <https://devpolicy.org/want-sell-aid-australian-public-values-not-national-interests-20170323/>

⁷ <https://devpolicy.org/the-indo-pacific-and-australias-aid-program-20220325/>

But despite our increased emphasis on the importance of upholding the “global rules-based” order, we seem less willing it to invest it. Between 2012-13 and 2020-21, the overall share of Australia’s aid to going to regions outside Southeast Asia and the Pacific (i.e., South and West Asia, the Middle East and Africa and global aid) fell from 51% to 36% (see Figure 3).

Figure 3: Australian aid allocations by region (%), 2001-02 to 2021-22



Sources: DFAT Official Development Assistance: Statistical Summaries for 2001-02, 2006-07 and 2012-13; DFAT Aid Budget Summary, 2021-22; DFAT Portfolio Additional Estimates Statement 2021-22. Estimates for 2021-22 include Temporary and Targeted Supplementary (TTS) measures that have been assigned to relevant regions. Since 2019-20, DFAT has also attributed ODA eligible departmental costs to geographic regions, in the same proportion as the amount of total ODA expensed in those regions.

In the context of a declining overall aid budget, the focus on the Pacific has crowded out our contributions to these broader needs. In 2018, Australia withdrew from the Green Climate Fund with little in the way of explanation. And while we remain a top three donor to the Asian Development Bank (ADB), we have fallen from 11th in 2014-17 to 18th in 2020-23 in terms of our contributions to the World Bank’s concessional financing arm, the International Development Association (IDA).⁸ Our ability to strengthen these important components of the “rules-based order”, including our ability influence reform within them, has likely diminished as a consequence.

If, as has been the pattern in the past, we begin to increase our global aid in the lead up to seeking a seat on the UN Security Council for its 2029-30 term we should avoid setting up new, stand-alone bilateral programs in Africa and elsewhere where we have neither the footprint nor the relationships required for credibility and impact. Instead, Australia should scale-up through global NGO and multilateral programs, or via established bilateral donors, in order to maximise both effectiveness and efficiency. This could include revisiting our short-lived attempt in 2012-13 to join the African Development Bank.

IV. What? Sectoral allocations

- ***When it comes to choices around sectors, programs and partners within countries, aid effectiveness considerations should be paramount.***

Rather than having overarching preferences for specific sectors, sectoral choices should be determined primarily at the country level by aid effectiveness criteria such as partners’ priorities, need and our capacity to make a difference. The policy should make these criteria clear, and they should be used to structure country strategies and the policy’s accompanying performance framework.

There are two exceptions to the above, the so-called “cross cutting” issues of climate focused aid, and gender focused aid. Given the importance of both to development outcomes genuine attempts to increase aid focused on these areas is something that should become an overarching objective for the aid program.

⁸ <https://devpolicy.org/australia-decides-18th-is-good-enough-for-ida-20220311/>

In the case of the Pacific, the policy should also make clear how our engagement will draw upon other policy levers (labour mobility, migration, economic integration) to enhance development impact. This should include consideration of broadening the Australia-New Zealand Closer Economic Relations Agreement to Pacific Island states.

In the case of global and multilateral programs, the policy should update the \$500 million commitment in annual humanitarian assistance contained in the 2017 Foreign Policy White Paper in the light of contemporary assessments of Australia’s humanitarian fair share. Globally, the number of people requiring humanitarian assistance has doubled in just three years, driven by the pandemic, climate change and conflict.⁹ Allocations of this assistance should be informed primarily by humanitarian principles, including need and neutrality. Considering the enormous pressures upon it, Australia should work with other donor countries to reform the global humanitarian system.

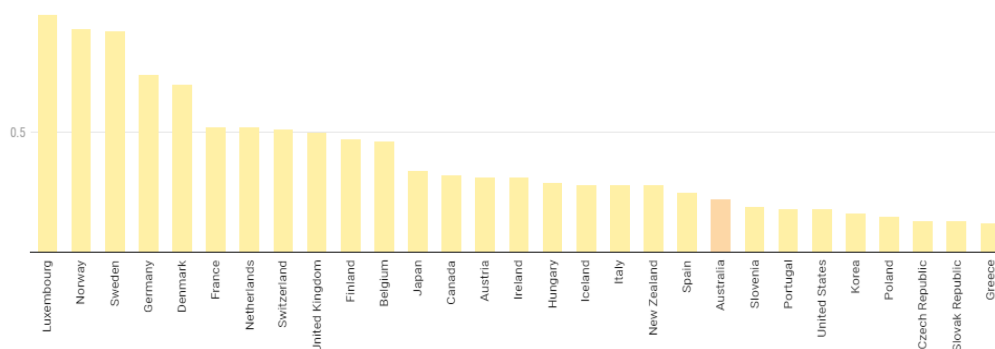
V. How? Budget, effectiveness, capability and transparency

Budget and development finance

- ***Australia’s current aid budget settings reflect neither our relative wealth, nor consecutive governments’ assessments of the more complex strategic and development context within which we are now working.***

The successive aid cuts that occurred between 2013 and 2019 and the sophistry that was involved trying to explain the “temporary and targeted” increases to the aid budget — whilst simultaneously maintaining an artificial aid budget cap — over the last two years undermined Australia’s development credibility, effectiveness and partnerships. By 2021, Australia had fallen to 21st out of 29 OECD country donors — below Hungary and Spain and only just ahead of Slovenia and Portugal — in terms of comparative aid generosity (see Figure 4). In 1995, which was characterised by a much more benign international environment, we ranked 9th out of 22. Even with the Albanese government’s increases in development assistance to the Pacific and Southeast Asia, aid will still go down in real terms and as a proportion of national income over the next several years.¹⁰

Figure 4: ODA as percentage of GNI for DAC members, 2021



Source: [Development Policy Centre](#)

In order to be credible, any new development policy will need establish a clear line of sight between this changing context, our long-term goals and those of our key partners, and resourcing. This is what occurs in the defence sphere and there is no reason this should not also be the case for development. Whether this comes in the form of indexation, a credible ODA-GNI target or something else, a medium-term budget framework needs to define a process for increasing aid in real terms over time that reflects

⁹ <https://hum-insight.info/>

¹⁰ <https://devpolicy.org/labor-aid-budget-20221026/>

Australia's interests, values and relative wealth, avoids future volatility and fragmentation, and enhances our ability to plan over longer timeframes in cooperation with partners.

The budget framework should be endorsed by Cabinet and the government should seek bipartisan support. The former could be secured by linking the policy to a set of high-level development results and long-term development partnerships. Reporting to Cabinet could be achieved through a reformed Aid Governance Board that periodically convenes whole-of-government agencies and is chaired by an Associate Secretary for Aid and Development (see below). In terms of the latter, the government should consider a legislated aid budget framework.¹¹

In terms of Australia's approach to development finance, we have recommended elsewhere the establishment of an independent Development Finance Institution focused on "crowding in" private finance for development impact, with a primary focus on climate change, private sector development and gender equality in Southeast Asia.¹² On sovereign development finance, the strategy should articulate Australia's priorities in the G20 and other fora when it comes to the role of debt relief, the use of global reserves for development purposes, and proposed reforms to the multilateral development banks.¹³ Reform of the Australian Infrastructure Financing Facility for the Pacific should also be pursued with a view to increasing the overall level of loan concessionality, effectiveness and transparency.

Development effectiveness and partnerships

The governance of and capabilities underpinning the delivery of the aid program should be strengthened. The analysis, strategies and designs that underpin investment choices, should be assessed and approved through a reformed Aid Governance Board that has the capacity to access more external, independent and diverse expertise, including development economics and country and sectoral expertise.

Efforts to strengthen performance management, reporting and evaluation should be continued with minimum quality and reporting standards for all programs made clearer and applied across both grant and loan funded investments. A dedicated Development Evaluation Unit, headed by a senior specialist, should be established and should report directly to the Aid Governance Board. Risk management frameworks should be proportionate and, in areas such as localisation and use of partner systems, be explicitly weighed against potential development effectiveness trade-offs.

Aid partnerships should be framed by joint long-term (5-10 year), whole-of-government country and partnership strategies that are aligned with partners' development goals and articulate high-level results. These strategies could also include provision for a flexible portion of overall resourcing (up to 20%) to be used for agreed, short-term contingencies and priorities, based on clear, jointly agreed development criteria. This will be particularly important as DFAT and other agencies continue to devote more and more resources to fragile states in the Pacific. Here, more than anywhere, we need predictable, long-term, flexible funding and programs. We also need to stick with what works rather than creating lots of new, fragmented, short-term initiatives.

¹¹ It is worth noting that in 2019 a bipartisan JSCFADT inquiry recommended in its interim report that "the Australian Government, within a year, commit to a set timeframe of no more than five years for increasing Australia's funding for Development Partnerships (aid) to at least 0.5 per cent of gross national income, and to a second set timeframe of no more than 10 years for increasing Australia's funding for Development Partnerships (aid) to at least 0.7 per cent of gross national income." See:

https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Foreign_Affairs_Defence_and_Trade/Australiasaidprogram/Interim_Report/section?id=committees%2freportjnt%2f024253%2f27031

¹² The Centre's submission to DFAT Development Finance Review can be viewed here:

https://devpolicy.org/publications/submissions/DFAT-Development-Finance-Review_CHill-SHowes_Sep2022.pdf

¹³ For a discussion of some of these proposals see: <https://devpolicy.org/the-polycrisis-and-global-development-finance-options-and-dilemmas-20221114/>

Development capability

In order support enhanced development partnerships and improved aid effectiveness, the number of aid specialists and people with international expertise working in DFAT on the aid program should be increased rapidly. At the senior leadership level, DFAT should appoint an Associate Secretary for Aid and Development with visibility of the entire program across DFAT geographic and multilateral programs and across whole-of-government and line management responsibility for aid policy, budget and effectiveness. The Associate Secretary should chair the Aid Governance Board and be responsible for advising the Secretaries' Committee on National Security on development issues.

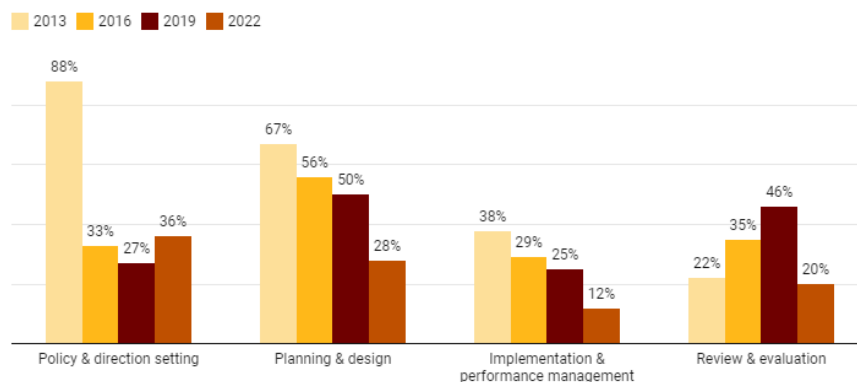
At the country level, DFAT should appoint senior, dedicated Development Minister-Counsellor positions in key posts and consider adopting a differentiated remuneration scale to attract long-term locally engaged staff with exceptional development skills. These staff are a critical source of expertise and management continuity. More resources should be invested in their recruitment and retention, and they should be given greater autonomy. DFAT should regularly monitor and report on the balance between APS/locally engaged and contracted staff working on the development as part of its 10-year capability plan.

The government should also consider adding "development" to DFAT's title as a tangible expression of its commitment to increasing the profile of development in the Department's work and to elevating it as a core component of Australia's foreign policy.

Transparency

- **The Development Policy Centre's 2022 Aid Transparency Audit shows that most aspects of aid transparency have deteriorated since 2019, and that overall transparency is now very low. Australia now ranks 41st out of 50 donors on Publish What You Fund's global Aid Transparency Index.**

Figure 5: Availability of detailed DFAT project information throughout the project cycle



Source: [Development Policy Centre](#)

The aid program should continue its stated transparency goal of meeting the transparency objectives set out in Development Policy Centre's Aid Transparency Audits.¹⁴ At a high level the government should signal its commitment to aid transparency through introducing a guiding set of transparency principals such as those found in the 2011 Australian government Aid Transparency Charter. DFAT should also devote adequate staff resources to ensure transparency improvements occur.

The aid program should continue with its practice of making high-level historical statistical summaries available online, and high-level information made available on budget night. To ensure quality and a standard approach to budget night information, this information should be returned to their former status of Ministerial Statements.

¹⁴ For the latest Transparency Audit see: <https://devpolicy.org/wp-content/uploads/2022/09/2022-Aid-Transparency-Audit-FINAL.pdf>