

Improving the effectiveness of Australia's bilateral aid program in
Papua New Guinea: some analysis and suggestions

A submission to the Foreign Affairs, Defence and Trade Reference
Committee

Stephen Howes¹

¹ Professor of Economics and Director, Development Policy Centre, Australian National University. This submission represents my opinions, and are not those of The Australian National University nor necessarily of any of my co-authors of works I cite.

Table of Contents

Summary and recommendations.....	4
Introduction	6
Part A: PNG, and aid to PNG	7
A1. Papua New Guinea: an overview.....	7
A2. Global aid to Papua New Guinea	11
A3. Australian aid to PNG.....	14
Part B: Cross-cutting issues.....	23
B1. The need for greater consistency of approach.....	23
B2. The need for realistic expectations and focus	25
B3. The limited utility of benchmarks.....	27
B4. The loss of Australian leverage due to Manus.....	28
Part C: Sectoral issues	30
C1. The new emphasis on infrastructure	30
C2. Service delivery and non-state actors.....	34
Part D: Technical assistance and capacity building.....	35
D1. Technical assistance	35
D2. Dethroning the advisory approach.....	36
D3. Supporting long-term linkages	39
D4. Economics training	39
D5. Scholarships.....	40
Conclusion.....	41

List of Figures

Figure 1: GDP and GDP per capita, 2012 prices.....	7
Figure 2: Mineral rents as a percentage of GDP, 2010.....	8
Figure 3: Top 25 countries on Gini index.....	9
Figure 4: Top 50 perceived most corrupt nations.....	9
Figure 5: Total net ODA received by PNG, 1975 to 2013.....	11
Figure 6: PNG aid dependence (net ODA received as per cent of GNI), 1975-2012.....	12
Figure 7: Top 50 country recipients of net ODA, 2013.....	12
Figure 8: Top 60 most aid dependent countries (aid as per cent of GNI), 2012.....	13
Figure 9: PNG rank in aid volume (net ODA received) and aid dependency (net ODA as per cent of GNI), 1975-2013.....	13
Figure 10: Top 10 recipients of Australian ODA (2013-14 est. outcomes).....	14
Figure 11: Total Australian ODA to PNG, 1975-2015.....	15
Figure 12: Aid to PNG as a share of total net Australian ODA, 1975-present.....	15
Figure 13: Australian aid to PNG and Indonesia, 1975-present.....	16
Figure 14: Australian ODA as a share of total ODA received by PNG, 1975-2013.....	17
Figure 15: Per cent share among 10 largest donors of ODA to PNG, 2013.....	18
Figure 16: Top 15 countries dominated by a single aid donor, 2013.....	18
Figure 17: Proportion of Australian ODA to PNG delivered by AusAID/DFAT, 2001-2015.....	19
Figure 18: Proportion of Australian aid to PNG delivered as budget support and program aid, 1975-present.....	19
Figure 19: Sectoral composition of the Australian aid program in PNG, 1999-2014.....	20
Figure 20: Share of net Australian ODA to PNG delivered as TA, 1975-2013.....	21
Figure 21: Share of top 10 recipients and PNG net Australian ODA delivered as TA, 2003-2013.....	22
Figure 22: Performance of Australian aid programs against program objectives.....	22
Figure 23: Efficiency and effectiveness of PNG and all Australian aid interventions, 2013-14.....	23
Figure 24: Development spending as a share of total government expenditure - PNG trends and international comparisons.....	31
Figure 25: Rebuilding and maintenance requirements in schools and clinics, 2012.....	32

Summary and recommendations

Part A (PNG and aid to PNG background): summary

- PNG is experiencing an extended period of economic growth, but there are heightened economic risks at the current time.
- Many of its people are very poor.
- PNG is an exceptional country: an outlier on a number of international indicators.
- Development in PNG is a long-term project, requiring long-term engagement for success.
- Global aid to PNG has fallen over time and is becoming less important.
- There has been a slight and partial reversal of these trends in the last couple of years.
- Australia has deliberately reduced aid to PNG for most of the period since independence. Again, there has been a partial reversal of this more recently.
- Australia's dominance of total aid to PNG is unusually high by world standards.
- Australia's aid to PNG continues to have a wide sectoral spread.
- The most common form of aid is technical assistance (TA), though the share of TA in the aid program has fallen in recent years.
- DFAT performance management systems indicate that the Australian aid program to PNG is a relatively weak performer.

Parts B, C and D (aid issues): summary and recommendations

An opportunity exists at the current time to give the aid program the focus it needs, but that this opportunity will be wasted if the commitment is made just to spend half of Australian aid across a variety of sectors on economic and social infrastructure. Rather, if the focus is to be on infrastructure, then it should be on economic infrastructure, and on transport in particular. In the social sectors and law and justice – the service delivery sectors – the emphasis should be on supporting better performing organizations, on strengthening the demand for service delivery, and on training the professionals of the future. Throughout the aid program, there should be greater emphasis on supporting and working with PNG organizations, but long-term partnerships with committed externals are useful to build their capacity. Levels of technical assistance should be reduced, and more use made of in-line personnel. There should be greater engagement with tertiary institutions in areas of priority to the aid program to train PNG's doctors, nurses, economists, teachers and lawyers. The scholarship program should be overhauled to give greater attention to quality and selecting the best through a more open, competitive process.

A summary of each of the 11 sections in Parts B, C and D follows below.

Part B: Cross-cutting issues

1. Australia's aid program has suffered over the years from inconsistency of approach: less "chopping and changing" and more continuity is needed. Initiatives that succeed should be continued with for a period of decades.
2. Realistic expectations are needed for the aid program and for individual projects. The aid program can only make a modest contribution to development outcomes in PNG. Framing of the aid program as able to help unlock, transform or catalyse PNG's development potential should be

avoided. Aid interventions also need to be realistic about what they can achieve, and more focused in approach.

3. Performance benchmarks have been used with little effect in the PNG aid program since the early 1990s. They should be viewed as providing useful information but not as a means that will improve mutual accountability or influence the size of the aid program.
4. Australia has lost leverage over the PNG aid program because of the Manus regional agreement relating to asylum seekers. It seems to be but should not be the case that PNG will be exempted, on the grounds of the Manus agreement, from the 20 per cent cut the aid program as a whole is experiencing. Especially on performance grounds, such a decision is not warranted.

Part C: Sectoral issues

1. The new emphasis on infrastructure aligns with PNG government expectations of the aid program. However, the way it is being implemented – across all sectors, rather than focused on economic infrastructure – risks worsening quality. A shift to infrastructure could be a positive way to give the aid program the flagship and specialization it needs, but only if it is focused on economic infrastructure, and transport in particular. The case for a heavy spend on infrastructure in the social sectors is weak, and will further fragment sectoral approaches. Maintenance should continue to have the first call on road and other transport funding.
2. Work more with non-state service providers, to direct aid resources to better-performing organizations. Move away from a supply-side approach, and work more with NGOs and community groups to increase the demand for good service delivery.

Part D: Technical assistance and capacity building

1. More than half of Australia's aid to PNG takes the form of technical assistance. This is still too high.
2. The advisory approach needs to be dethroned. Aid-funded personnel should be given concrete tasks and work alongside, not advise. The word 'adviser' should be dropped from the aid program lexicon.
3. Support PNG organizations through long-term partnerships with international counterparts who have "skin in the game".
4. There has been inadequate support for tertiary education in economics and economic research institutes. Given the aid program's focus on economics and public policy, it is good that this is now being corrected. We commend the government's decision to support the UPNG School of Business Administration (with which we are involved). Similar approaches could be adopted for other priority areas for the aid program, for example, to support the training of lawyers.
5. The PNG scholarship program should be overhauled to increase the quality of the intake. This could be done by reducing the government quota, running a series of standard tests which scholarship candidates have to undertake, and dropping the work experience requirement. Living allowances to those on leave from government should be adjusted to take into account the fact that they are on leave with pay. Reliance on short-courses should be minimized and restricted to specific technical areas or skills.

Introduction

I am the Director of the Development Policy Centre. I have worked on PNG since 2006, first as the Chief Economist at AusAID and then at the ANU. Over this time, I have written various articles and reports on PNG. I co-authored (with Eric Kwa and Soe Lin) the 2010 *Review of the PNG-Australia Development Cooperation Treaty [DCT]* and the 2011 *Independent Review of Aid Effectiveness* (chaired by Sandy Holloway). Several other Development Policy Centre Fellows and Associates have also worked on PNG, and their inputs have also contributed to this submission. Research Officer, Camilla Burkot, produced the tables and graphs. At several points the submission draws on the major research report completed last year [A Lost Decade? Service Delivery and Reforms in Papua New Guinea 2002-2012](#) (co-produced with the PNG National Research Institute). At other points it draws on the [2010 DCT Review](#).²

The Development Policy Centre (Devpolicy) is a think tank for aid and development policy based at Crawford School of Public Policy in the College of Asia and the Pacific at The Australian National University. Devpolicy undertakes independent research and promotes practical initiatives to improve the effectiveness of Australian aid, to support the development of Papua New Guinea and the Pacific island region, and to contribute to better global development policy.³

Papua New Guinea is one of our Centre's major areas of focus, and in fact our largest area of work. Our research in PNG covers: fiscal and macroeconomic policy; service delivery (health and education); infrastructure; corruption, political economy; poverty; and gender-based violence. We are engaged in major research projects (which we draw on in our submission), in collaboration with PNG research institutes, in practical, collaborative initiatives, and also provide the leading Australian blog site for PNG analysis, the Devpolicy Blog.

The Australian aid program is the main funder of the Development Policy Centre's work in PNG. In particular, the aid program is financing our work in three areas related to PNG:

- Collaboration with the PNG National Research Institute (NRI) in relation to public resource management and service delivery. This includes the placement of one of our academic staff in Port Moresby working with NRI.
- Partnership with the University of Papua New Guinea (UPNG) School of Business Administration to improve the quality of teaching and research, especially in the areas of economics and public policy. We co-host with UPNG the annual PNG Update and we support staff exchanges.
- Active participation in the Australian aid scholarship program through our teaching as part of the Crawford School, and innovations to improve the effectiveness of scholarships for economics students.
- Funding of a crisis centre for women and children who have been the victims of gender-based violence in Lae. The Development Policy Centre provides substantial support to the PNG NGO Femili PNG, which runs the centre.

² Since I was a co-author of the DCT Review, I have taken the liberty of repeating a few passages of text when relevant. I have indicated when I have done this via a footnote. As noted in footnote 1, the views in this submission are mine only.

³ Further detail on the Centre's activities can be found in our [2014 Annual Report](#), on our [blog](#) and our [website](#).

This submission is written in four main parts. The first (Part A) provides general background which the Committee might find useful on: (i) PNG, (ii) global aid to PNG; and (iii) Australian aid to PNG. The second (Part B) provides views on various cross-cutting issues concerning Australian aid to PNG. The third (Part C) deals with sectoral issues, and the fourth with capacity building (Part D). The submission does not attempt to be comprehensive but to make a constructive contribution where possible.

Part A: PNG, and aid to PNG

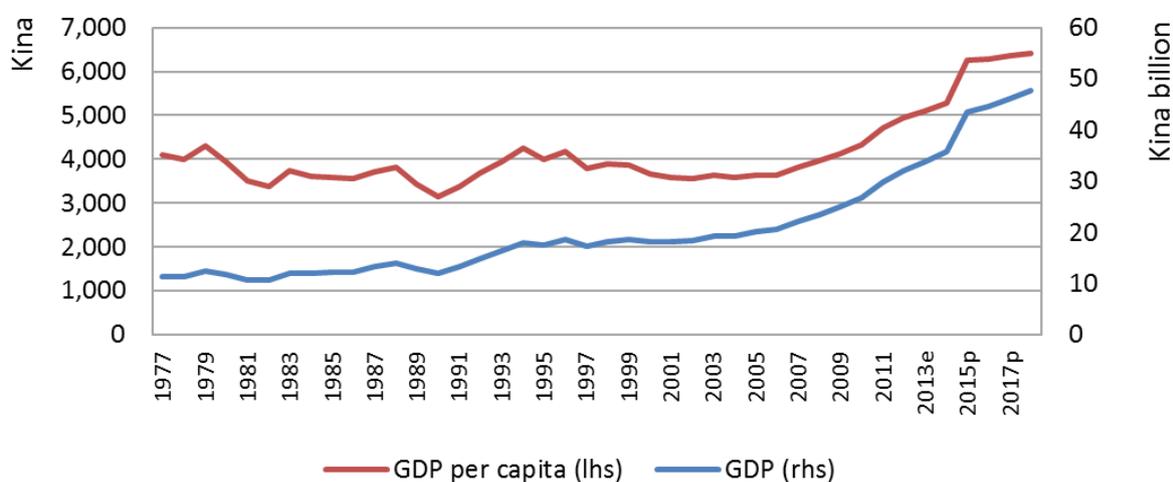
A1. Papua New Guinea: an overview

Summary:

- PNG is experiencing an extended period of economic growth, but there are heightened economic risks at the current time.
- Many of its people are very poor.
- PNG is an exceptional country: an outlier on a number of international indicators.
- Development in PNG is a long-term project, requiring long-term engagement for success.

For most of PNG's period of independence, GDP per capita has stagnated. However, it has grown strongly since the mid-2000s (Figure 1).

Figure 1: GDP and GDP per capita, 2012 prices



Source: Figure 1-1, [A Lost Decade?](#) (p.4)

Notes: GDP deflator provided in budget documents used from 1994 onwards; CPI deflator before that. 'e' is an estimate, and 'p' are projections.

A full assessment of PNG's current macroeconomic situation is beyond the scope of this submission, but I and others have argued elsewhere that PNG risks confronting an economic crisis unless it adjusts its fiscal and exchange rate policies. ([This](#) blog provides a good summary.) The fiscal deficit is high: 6.9 per cent of GDP in 2014 according to official figures, and now PNG has been hit by the falling price of

oil which has reduced the tax and dividends it will receive from its large LNG project. The exchange rate is overvalued. There are both foreign exchange shortages and cash shortages within government. If reforms (primarily to cut expenditure, and to float the exchange rate) are not implemented, PNG may face an economic crisis in 2015 or 2016 in the form of an inability to pay government bills, to raise the funds needed to finance its budget deficit, and to meet foreign exchange requirements associated with imports.

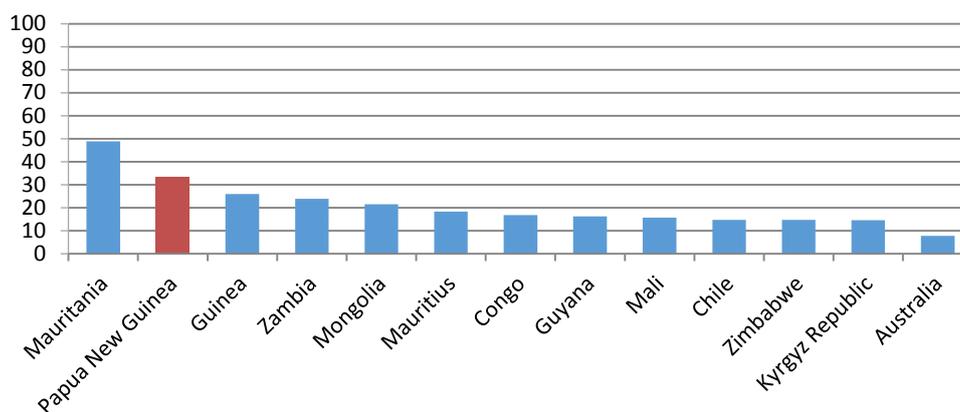
Despite considerable mineral wealth, poverty remains a pressing and under-acknowledged problem in PNG. The latest official estimate is that about 40 per cent of the people live below the poverty line. Recent [research](#) of an urban settlement (slum) in Port Moresby found that two-thirds of households earned 100 Kina (about A\$50) per person per fortnight. Recent [research](#) in a remote set of villages found that the “lives of the villagers surveyed are dominated by vulnerability to disasters, ill health, low cash incomes and limited income earning potential.” (p.2). 90 per cent of these households did not consume animal protein on the day of the survey; and three-quarters did not consume any vegetable protein.

PNG is an exceptional country. By any number of indicators, the country appears as an outlier. This is not an evaluative remark; simply a statement of fact or rather an empirical claim. In what follows this claim is first established, and then its implications discussed.

First, PNG is extremely fragmented. The fact that PNG has the most number of language groups of any country is well-known. PNG is the only country where the two main cities (Port Moresby and Lae) are situated on the same land mass and yet are not linked by road – on account of the huge mountain range which divides the country’s main island.

Second, PNG is very resource dependent. Figure 2 below shows those countries which are the most dependent on mineral rents (profits). This excludes countries reliant on oil and gas PNG is the second most dependent country on mineral rents in the world.

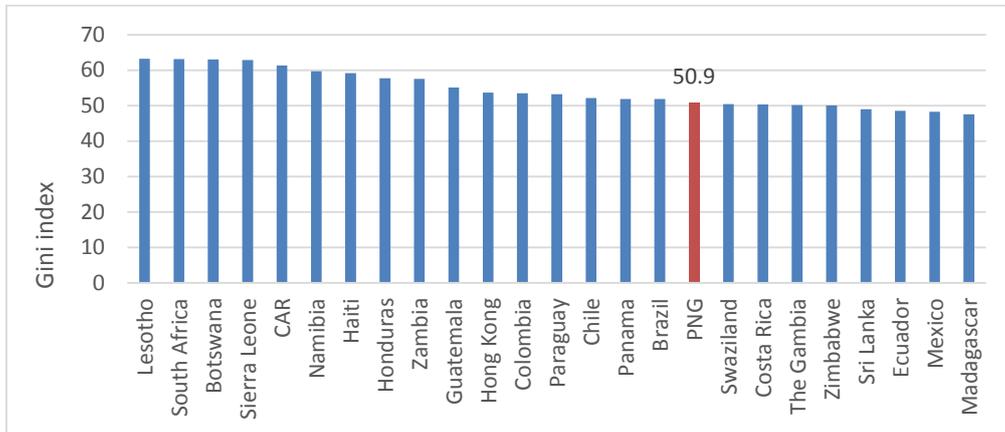
Figure 2: Mineral rents as a percentage of GDP, 2010



Source: David Osborne “An analysis of the PNG Sovereign Wealth Fund’s process of formulation and progress towards establishment” [NRI Issues Paper #9, 2014](#)

Third, PNG is very unequal. Its Gini coefficient which is estimated to be in the range of 0.4 to 0.5 is high by world standards. This reflects PNG’s dual economy: where the formal sector is relatively high-paying, and the informal sector is low-paying or subsistence.

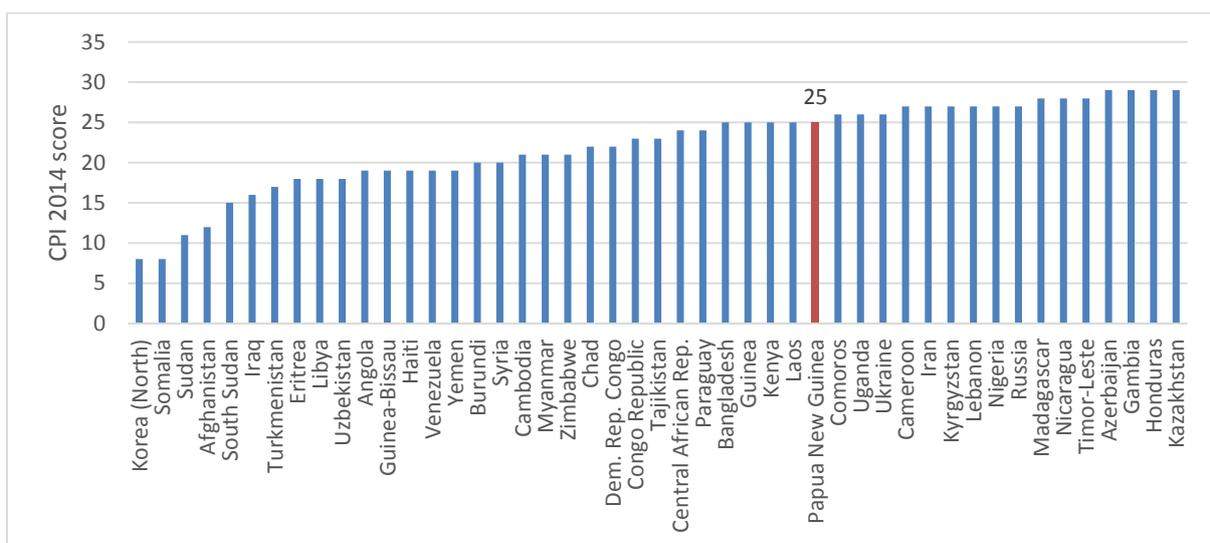
Figure 3: Top 25 countries on Gini index



Source: [CIA World Factbook](#)

Fourth, PNG suffers from a high level of corruption. It is 145th out of 174 countries rated by the Corruption Perceptions Index (CPI) for their perceived level of corruption. Arguably, corruption is less damaging in a country where the private sector is more dominant, and government plays a less important role. But in PNG, the government is relatively large, and the public sector a significant share of the economy. These factors push up the costs of corruption.

Figure 4: Top 50 perceived most corrupt nations



Source: Transparency International – [Corruption Perceptions Index 2014](#); Score is from 0 to 100.

Fifth, PNG has high levels of crime and violence. Port Moresby's homicide rate is [estimated](#) to be 33 per 100,000, and Lae 66 per 100,000. According to a recent [listing](#) of the 50 most violent cities (which did not include PNG), this would make Lae the 9th most dangerous city in the world and Port Moresby the 45th. Gender-based violence in Papua New Guinea is also very high by regional and global standards, as shown [here](#).

Sixth, partly as a result of all of the above factors, PNG is a very expensive place to do business. For example, one Australian Government report estimates that PNG's 2012 elections (not the campaigning for but the running of the elections) cost \$US63 per voter, the highest in the world (higher than Afghanistan). The typical cost of an election is apparently less than US\$5 per voter.⁴ Recent [work](#) by Professor Satish Chand suggests that finance costs are uniquely expensive in PNG. Utility and land costs are also very expensive.

Seventh, politics is clientelistic, and closely linked to local issues. While clientelism is widespread across the developing world, the form it takes in PNG may be particularly acute. The average number of candidates per seat has climbed in every election since independence except one and now [stands](#) at over 30; one of, if not the, highest in the world. In such an environment, where elections are fought on a mix of local short-term and identity issues, finding the political support for a strong national reform program is not easy.

All of this is not a plea for pessimism. PNG has many strengths, including its democratic traditions, and limited armed conflict. There has been strong growth in PNG's middle-class over the last decade. The country has become more integrated with Asia with many more Asian migrants filling skill gaps. Our recent *Lost Decade?* research shows a mixed picture in terms of service delivery, with an expansion in the primary school system over the last decade, but a reversal in primary health care.

However, while PNG's performance and prospects are decidedly mixed, positive change that will really make a dent in poverty, and bring about widespread prosperity will be a long time coming. Relaxing the constraints to the conversion of resource wealth into shared development – overcoming the country's fragmentation, and reducing crime, corruption, clientelism and high costs – will not be easy, and, even in the best scenario, will take decades rather than years.

If this analysis is correct, then above all aid to PNG should take a long-term view. The aim should not be quick results, but enduring change. And we should be realistic: development in PNG is a long-term project, and outsiders can only make a modest contribution.

⁴The authors of the [evaluation](#) find that "Costs are significantly higher in countries that are still establishing basic electoral processes and in particular in post-conflict settings: approximately \$11 per voter in Haiti for prospective 2005 elections, \$6.90 in Lesotho and \$7.50 for post-transition elections in Russia. The estimated cost of the 2004 Afghanistan elections was around \$23 per voter (excluding security operations by international forces). However, the research also found that in general costs fall rapidly as the transition is consolidated: for example, elections in post-war Cambodia in 1993 cost US\$45 per voter, but this fell to \$5 by 1998 and \$2 in 2003." (pp.11-12)

A2. Global aid to Papua New Guinea

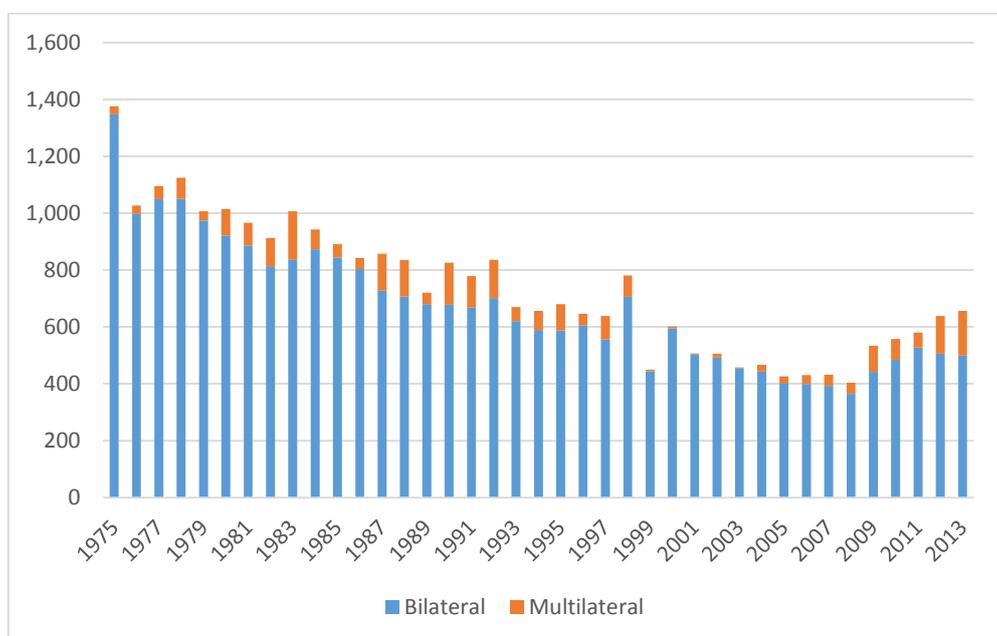
Summary:

- Global aid to PNG has fallen over time and is becoming less important.
- There has been a slight and partial reversal of these trends in the last couple of years.

Net overseas development assistance (ODA) to PNG was at its highest level upon Independence in 1975, at close to US\$1.4b (adjusted to 2013 prices). It dropped immediately to just over US\$1 billion, and fell steadily if bumpily for three decades to reach a low of US\$400 million around 2005. There has been a rebound in recent years, but only to just above US\$600 million (Figure 5). Aid to PNG is mainly bilateral (the blue part of the bars below), but the share of multilateral aid (the orange part of the bars) has increased in recent years. (More on who gives aid to PNG in the next section.)

Figure 5: Total net ODA received by PNG, 1975 to 2013

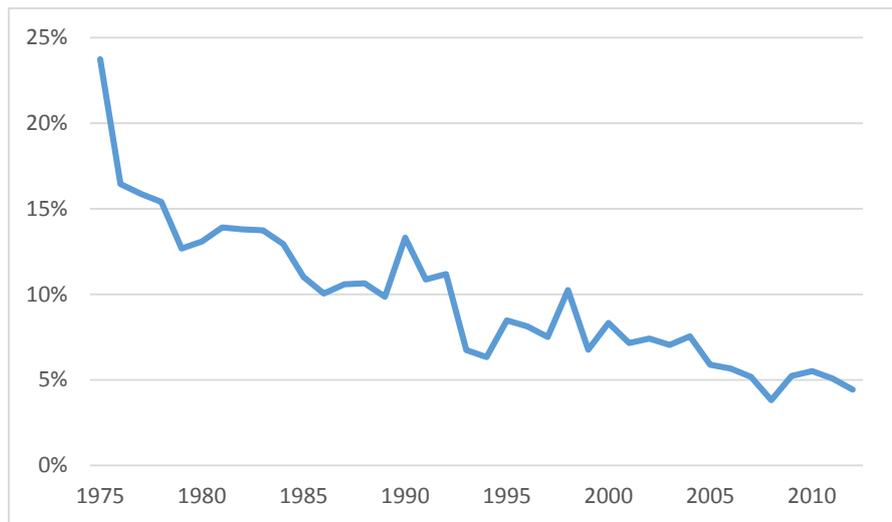
(US\$m, 2013 prices)



Source: OECD.Stat

Since the PNG economy has been growing, the decline in aid relative to the size of the economy has been even more precipitous. The share of aid to PNG's GNI is now just one-fifth the size it was at independence (Figure 6).

Figure 6: PNG aid dependence (net ODA received as per cent of GNI), 1975-2012

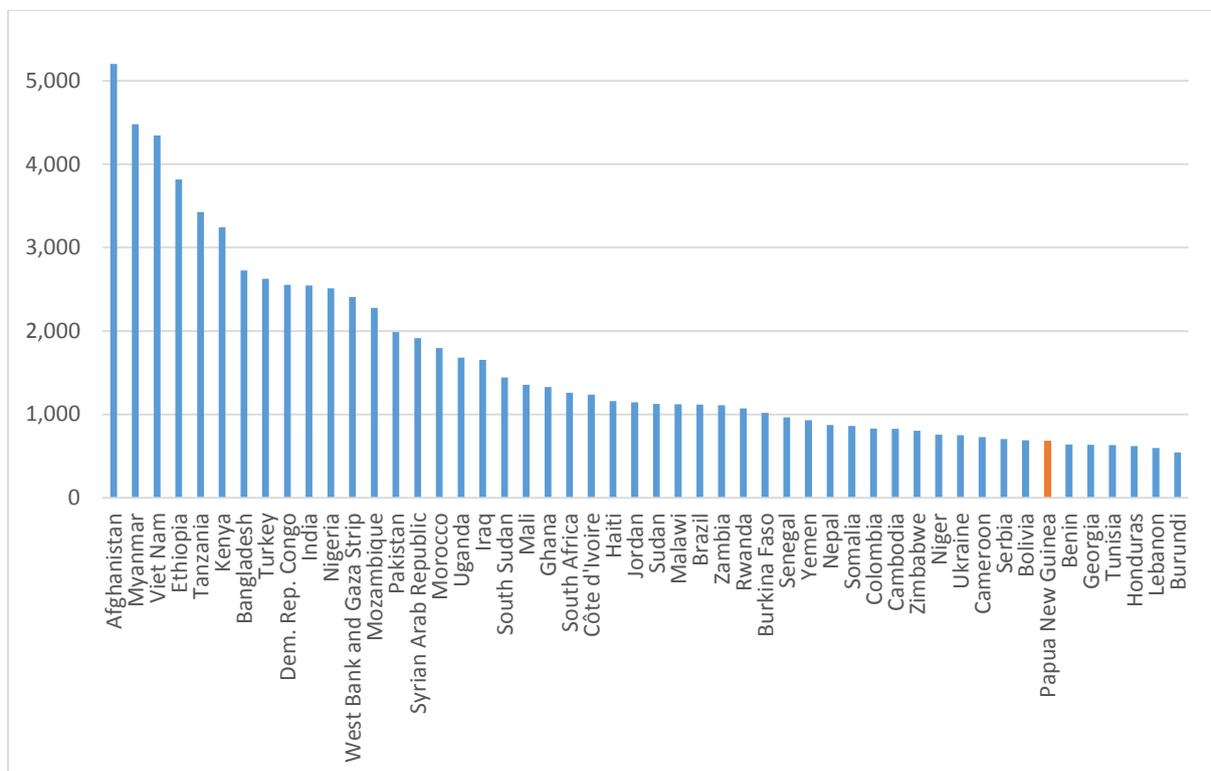


Source: World Bank Databank; current USD used

As a result in the decline of aid to PNG, the country no longer figures prominently as a global aid recipient, ranking 44th in the world in 2013 (Figure 7). This places it on a par with countries such as Serbia, Bolivia, and Georgia, all of which are also classified as middle income countries and have total population sizes comparable to PNG.

Figure 7: Top 50 country recipients of net ODA, 2013

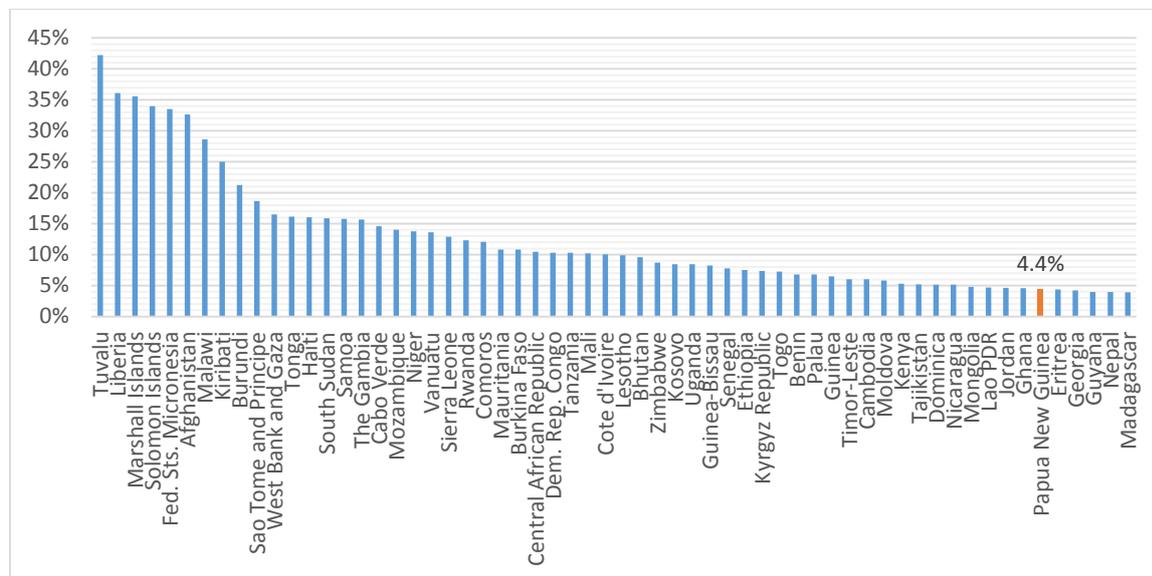
(US\$m, 2012 prices)



Source: OECD.Stat

PNG's aid dependency is also moderate by global standards: it is the 46th most aid dependent aid country in the world. (Several other recipients of Australian ODA are among the most aid dependent in the world: Tuvalu, Solomon Islands, Micronesia). PNG's aid dependency ratio of 4.4 per cent is well below the 10 per cent level used to define high aid dependence, and below the 6.6 per cent average (unweighted) aid dependency ratio among lower middle income countries.

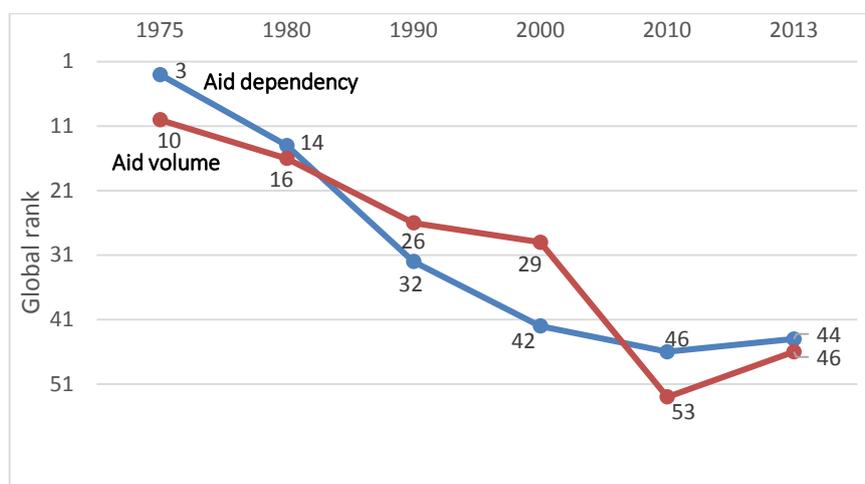
Figure 8: Top 60 most aid dependent countries (aid as per cent of GNI), 2012



Source: World Bank Databank

Since 1975, PNG has moved a long way down the ranks of aid dependent countries. At independence, it was the third most aid dependent country in the world. Just five years later it was the 14th most aid dependent, by 1990 the 32nd most aid dependent, and by 2000 the 42nd most. A similar trend can be seen for ranking in terms of total aid.

Figure 9: PNG rank in aid volume (net ODA received) and aid dependency (net ODA as per cent of GNI), 1975-2013



Sources: own calculations from World Bank Databank and OECD.Stat

A3. Australian aid to PNG

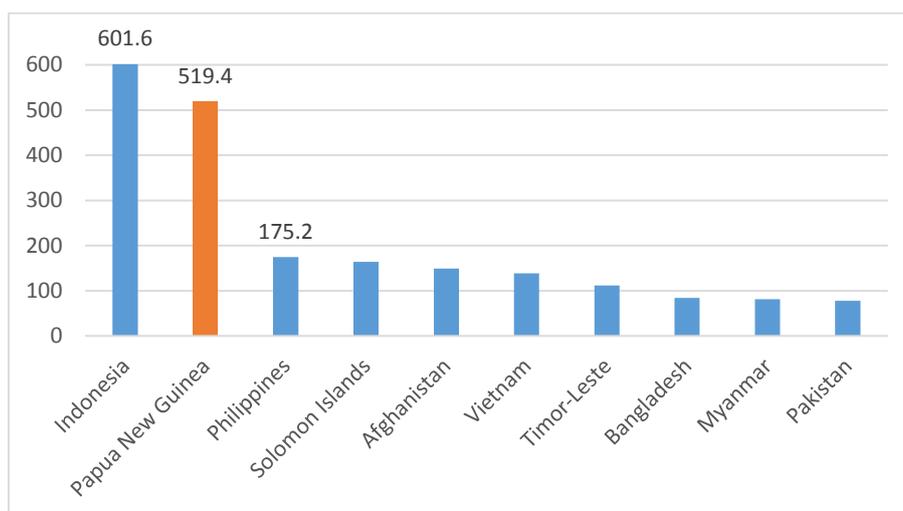
Summary:

- Australia has deliberately reduced aid to PNG for most of the period since independence. Again, there has been a partial reversal of this more recently.
- Australia's dominance of total aid to PNG is unusually high by world standards.
- Australia's aid to PNG continues to have a wide sectoral spread.
- The most common form of aid is technical assistance (TA), though the share of TA in the aid program has fallen in recent years.
- DFAT performance management systems indicate that the Australian aid program to PNG is a relatively weak performer.

PNG received an estimated A\$519.4m in aid from Australia in 2013-14. As Figure 10 shows, only Indonesia received a greater quantity of aid from Australia; and the amount allocated to PNG is nearly 3 times that allocated to the Philippines, the third largest recipient of Australian ODA.

Figure 10: Top 10 recipients of Australian ODA (2013-14 est. outcomes)

(A\$m, 2013 prices)

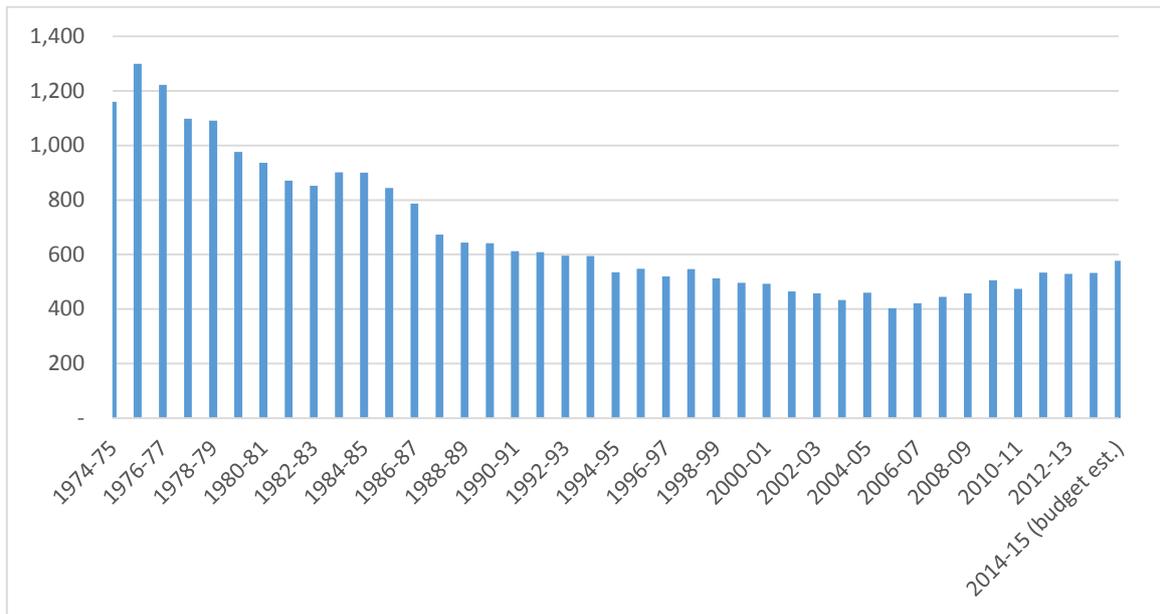


Source: DFAT budget documents

While PNG obviously remains a key recipient country for Australia, the importance to PNG to the Australian aid program has, like the importance of Australian aid to PNG, significantly declined over time. Figure 11 shows the amounts of Australian ODA flowing to PNG from Independence to the present, adjusted to 2015 prices. It shows a clear decrease in aid until the last 10 years, when levels of aid slowly began to rise again.

Figure 11: Total Australian ODA to PNG, 1975-2015

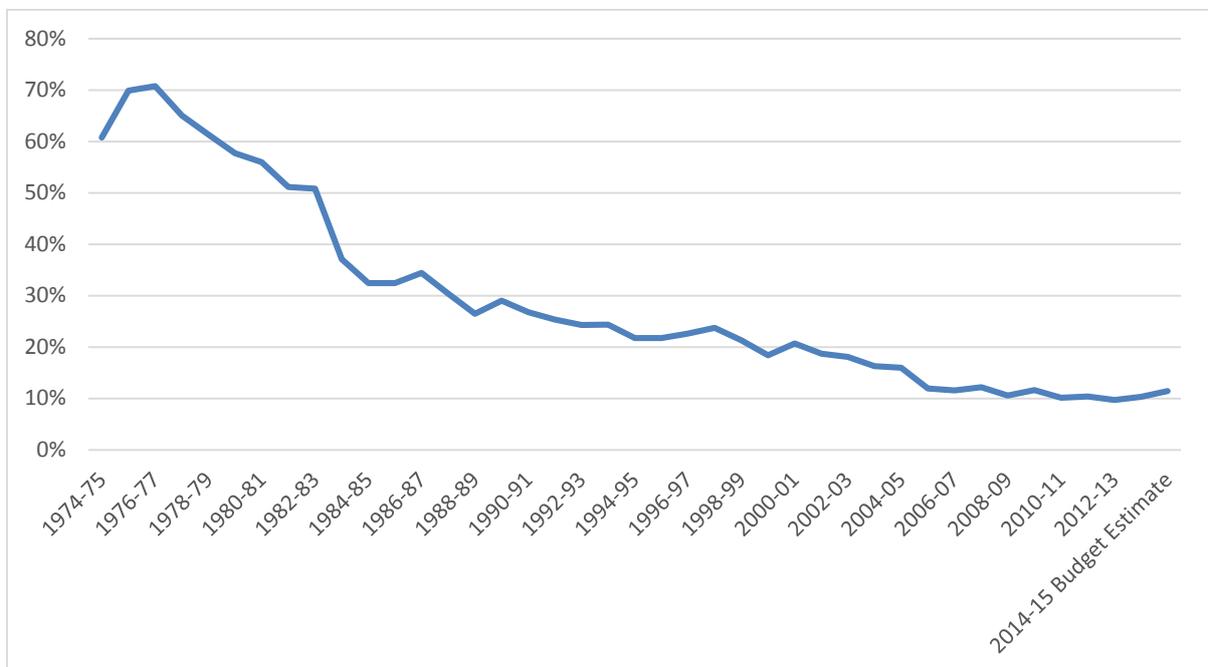
(A\$m, 2015 prices)



Source: DFAT budget documents

Indeed, in many ways, the history of Australian aid is a history of diversification away from PNG (Figure 12). In the mid-70s, two-thirds of Australian aid went to PNG. Today it is just 10 per cent.

Figure 12: Aid to PNG as a share of total net Australian ODA, 1975-present

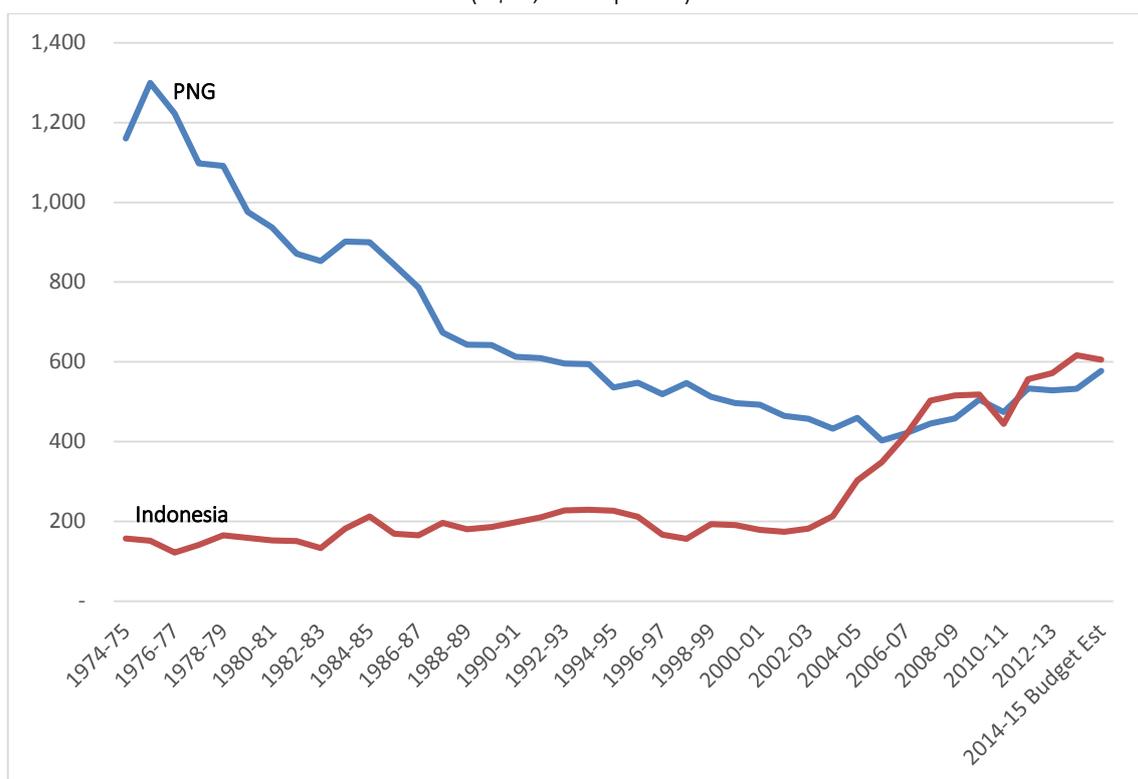


Source: DFAT budget documents

Interestingly, the rise in Australian aid to Indonesia is a relatively recent phenomenon, but it reflects as much the declining importance of PNG as it does the growing significance of Indonesia (Figure 13).

Figure 13: Australian aid to PNG and Indonesia, 1975-present

(A\$m, 2015 prices)



Source: DFAT budget documents

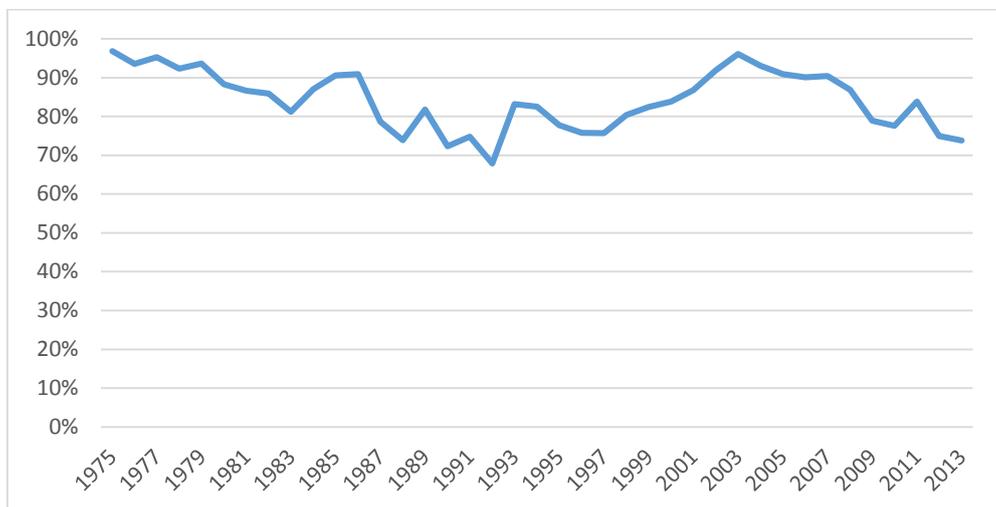
The reduction in Australian aid to PNG has been deliberate. The initial strategy of “a steady reduction in the real value of Australian aid” (Jackson Review, 1984, p. 163) can be traced back to at least the Crawford Report of 1980, which “drew attention to both governments’ objectives of achieving a gradual but predictable real decline in aid over the longer term.” (Jackson Review, 1984, p. 160). The recommendation of the Crawford Report was that Australia’s aid should decline at a real rate of 5 per cent per annum. Eventually, a reduction rate of 3 per cent was agreed on in the mid-eighties, and realized. But all of this was on the assumption that PNG would grow and develop. It was certainly not foreseen that PNG’s per capita income would stagnate (Figure 1).⁵ However, with the aid budget flat, and PNG seen as a poor performer, there was no inclination to reverse the decline in aid to PNG until the aid program as a whole continue to increase. One can observe from Figure 12 that since the mid-2000s (the start of the official scale up), aid to PNG has been very stable at 10 per cent of total aid.

One can also note from the same figure, however, that the share of Australian aid to PNG has just started to edge up. It is widely reported that the PNG aid program will be protected (on account of the Manus agreement: discussed further in section B4) from the 20 per cent budget cuts to the aid program as a whole to be implemented in May 2015. If so, aid to PNG will climb back to about 15 per cent of Australia’s total aid.

⁵ The preceding sentences are taken from the 2010 DCT Review (p.53).

Trends in Australian and global aid to PNG coincide because Australia contributes some 75 per cent of total aid to PNG. As Figure 14 shows below, Australian ODA as a share of total ODA to PNG has never fallen below 67 per cent, and averaged 87 per cent from 1975 to 2013.

Figure 14: Australian ODA as a share of total ODA received by PNG, 1975-2013



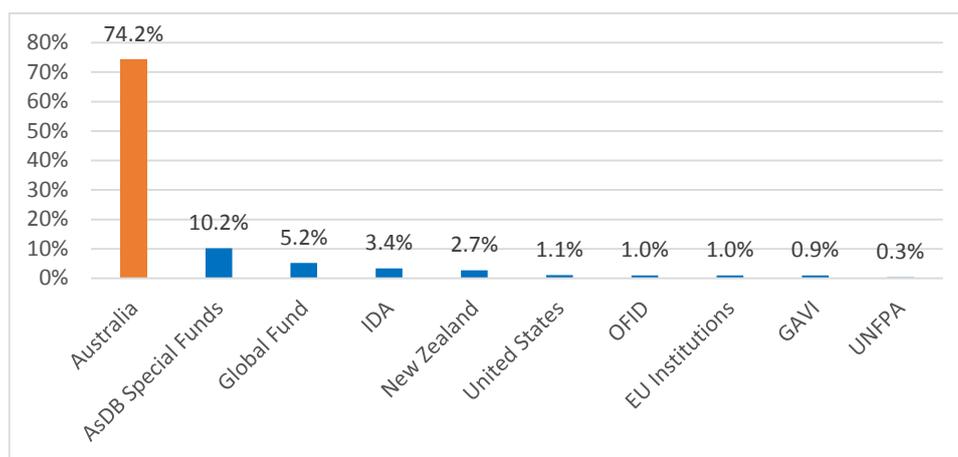
Source: OECD.Stat

Note: the data point for 2008 excludes a repayment of US\$101.39m made by PNG to Japan.

As a result of its dominance, Australia currently dwarves other donors to PNG: it is seven times the next biggest donor.⁶ With the exception of New Zealand and the United States (ranked 5th and 6th, respectively), the other top ten donors of ODA to PNG are multilateral organisations, including the Asian Development Bank, The Global Fund to Fight AIDS, Tuberculosis and Malaria, and the International Development Association (the concessional arm of the World Bank). It should also be noted that Chinese aid to PNG has grown significantly in recent years. (Chinese aid is not included in the above global ODA calculations because it is not a member of the OECD.) According to [Lowy Institute](#) calculations, China would rank as the second largest bilateral donor to PNG if these donations were captured in OECD reporting. Nevertheless, the basic point remains that Australian aid remains several times larger than PNG’s next largest donors: the Lowy estimates that Australian aid is about ten times as big as China’s.

⁶ According to OECD data, Australian ODA accounted for over 70 per cent of all net ODA to PNG in 2013. This number is slightly higher than the 66 per cent figure estimated by DFAT in its [2012-13 PNG Aid Program Performance Report](#) (p.8). Nevertheless, by either set of figures, the dominance of Australia in the PNG aid scene is clear.

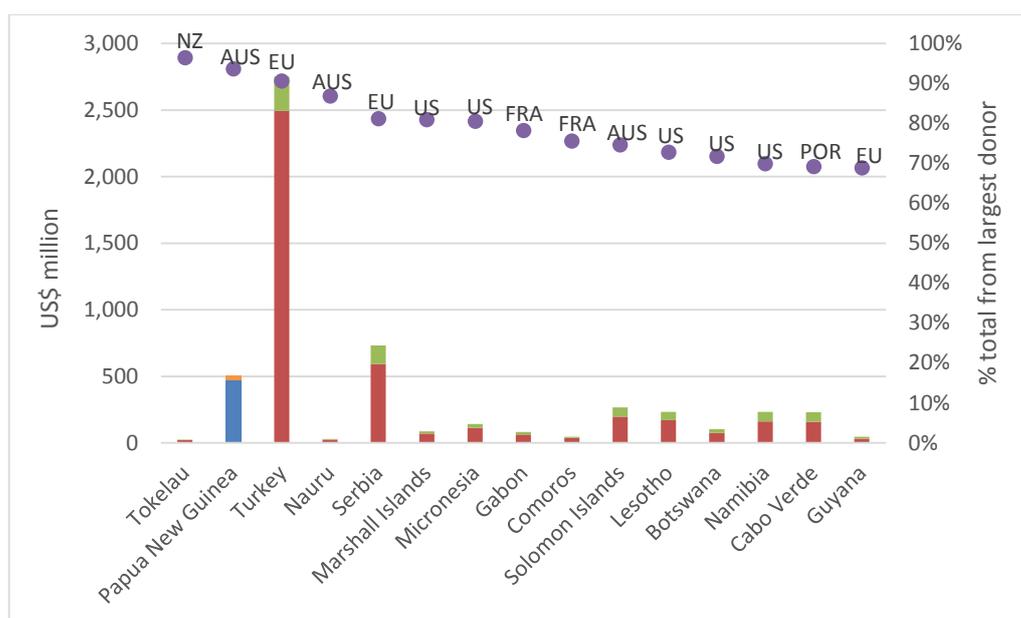
Figure 15: Per cent share among 10 largest donors of ODA to PNG, 2013



Source: OECD.Stat

Australia’s importance as a donor in PNG has few parallels worldwide. Considering countries where the aid program is at least \$20 million, there is only one country where a single donor is as dominant as Australia is in PNG: and that is NZ in Tokelau (Figure 16).

Figure 16: Top 15 countries dominated by a single aid donor, 2013

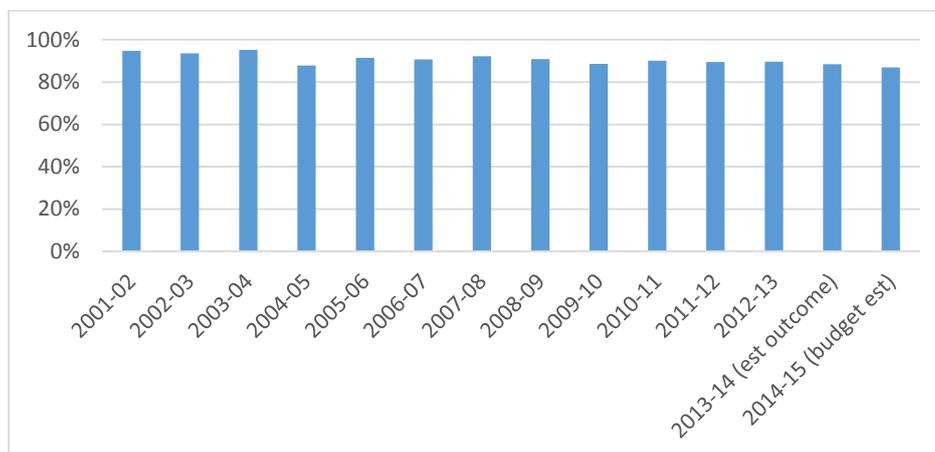


Source: OECD.Stat. Calculations exclude countries receiving less than US\$20m in aid. Bars indicate dollar amounts (lhs) and dots shares (rhs).

Most Australian aid to PNG is delivered by DFAT (and before that AusAID). From 2001-02 to the present, the proportion of Australian aid to PNG delivered by the aid program has ranged between 87 per cent and 95 per cent (Figure 17). The share dipped in 2004-05 with the introduction of the Enhanced Cooperation Program, which saw significant numbers of staff in PNG from Australian Federal Police, the Attorney General’s Department, Treasury and Finance. The withdrawal of AFP after a court challenge to ECP saw the DFAT ratio rise again. This ratio has recently fallen slightly

again, but that may reflect that recent cuts to the Australian aid program have fallen on DFAT rather than other departments.

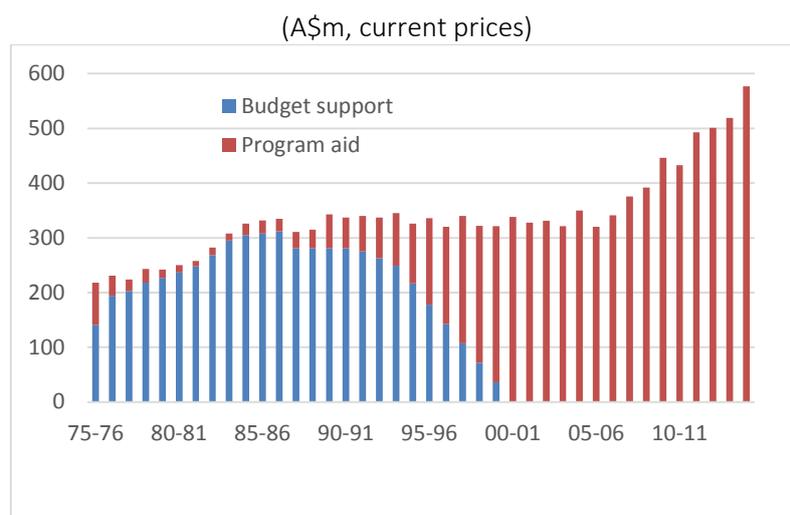
Figure 17: Proportion of Australian ODA to PNG delivered by AusAID/DFAT, 2001-2015



Source: AusAID/DFAT and Federal Budget documents

The nature of Australian aid to PNG has changed greatly over time. At first, nearly all the aid was given as budget support, directly to PNG’s government. However, the first Development Cooperation Treaty (DCT) between Australia and PNG signed in 1989 agreed that budget support would be progressively replaced by program aid. This process commenced in 1992-93, and was completed by around 2000 (Figure 18). As the 1997 Simons Review of the Australian aid program noted: “The common reason for supporting the shift to program aid is a belief that budget support was not well used and that programmed Australian aid can be more effective in the restoration of services and the building of capacity” (1997, p.102).⁷

Figure 18: Proportion of Australian aid to PNG delivered as budget support and program aid, 1975-present

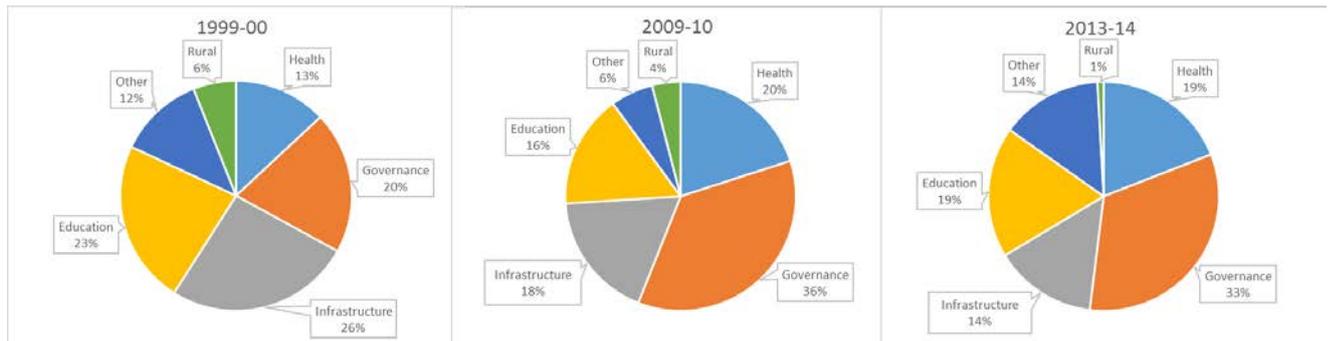


Source: Own calculations from AusAID/DFAT budget documents

⁷ This paragraph draws heavily on the 2010 DCT Review, pp.14-15.

The sectoral composition of the aid program (for the period since the abolition of budget support) is shown in Figure 19. The main change is the growth of governance as a sector: this includes support for core government agencies, such as treasury, finance, and the law and justice sector. It has risen from 20 per cent in 1999-00 to 36 per cent in 2009-10 before falling slightly to 33 per cent in 2013-14. The share going to health has risen over this period (1999-00 to 2013-14) from 13 per cent to 19 per cent, while infrastructure and education have gone in the opposite direction, from 26 and 23 per cent to 14 and 19 per cent respectively.

Figure 19: Sectoral composition of the Australian aid program in PNG, 1999-2014



Sources: 1999-00 & 2009-10: 2010 DCT Review

2013-14⁸: DFAT PNG Aid Program Performance Report 2013-14; ACIAR Annual Report 2013-14.

Note: Comparability in sectoral definitions over the three years is believed to be high rather than exact. 2013-14 reporting no longer specifies 'Rural' as a unique sector; the figure shown for 2013-14 is based on ACIAR's 2013-14 expenditure in PNG.

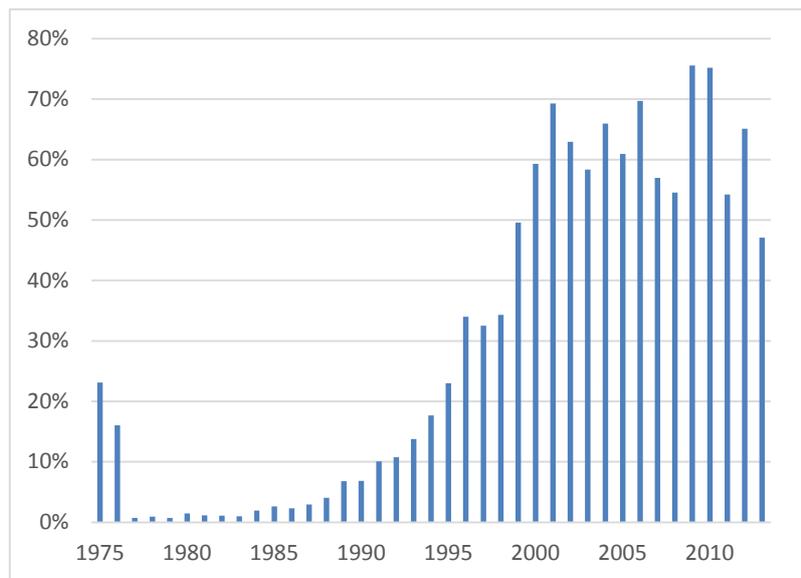
The 2010 DCT Review made the claim that “over time, as the aid program has become a smaller part of the PNG economy, it has been spread so thinly that its impact has become hard to discern.” (p. 1) Yet the Review also acknowledged that it would be difficult to increase the sectoral focus of the aid program, given how much the much Australia dominates aid to PNG. If Australian aid becomes more focused, then the entire aid program to PNG becomes more focused. There were claims since the DCT review that the aid program has become more focused,⁹ but these are not borne out by Figure 19 (except for a reduction in rural spending). The new strategy for Australian aid to PNG (“[A new direction for Australian aid in PNG: refocusing Australian aid to help unlock PNG’s economic potential](#)”) announces that 30 per cent of the program will be directed to “aid for trade”. What change this will make to the shape of the aid program is unclear, because baseline figures for expenditure on “aid for trade” by Australia in PNG do not seem to be available, though it is likely that this category includes all infrastructure spending, and a significant some portion of the expenditure on governance. The issue of the focus of the aid program is discussed further in section B2. The new aid strategy also commits to spending 50 per cent of the aid program on infrastructure, but this includes social infrastructure. The emphasis on infrastructure as an activity rather than a sector is discussed in section C1.

⁸ DFAT’s sectoral reporting changed between 2010 and 2013, and as a consequence some reporting categories from the 2013-14 PNG APPR were collapsed to better enable comparison with previous years. Additionally,

⁹ For example, see [this](#) Senate Estimates transcript_p. 141. Interestingly, this claim was often put in terms of the DCT Review recommending a narrower focus, but it did not actually.

Australian aid to PNG is dominated by technical assistance (TA, also known as technical cooperation).¹⁰ At the time of the 2010 DCT review, the proportion of the aid program going as technical assistance was at a record level: three-quarters of the program or 75 per cent. The aid review recommended reduced reliance on technical assistance, and this recommendation was implemented, with technical assistance falling to an average of 55 per cent of the aid program for the next three years (Figure 20), still a significant figure. Technical assistance for 2008-2010 averaged \$231 million and that for 2011-13 averaged \$275 million, suggesting that the reduced dominance of TA was more a result of the growth in the aid program than a downsizing in its TA component.

Figure 20: Share of net Australian ODA to PNG delivered as TA, 1975-2013

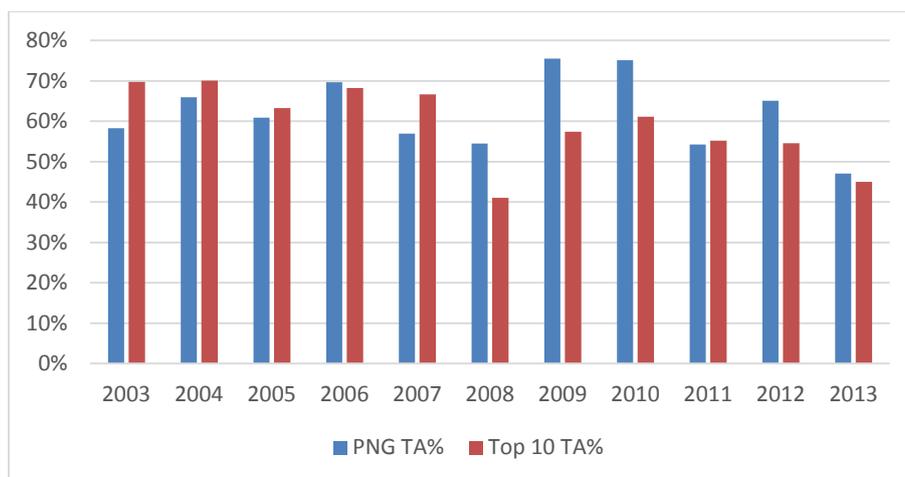


Source: OECD.Stat

The reduction in the TA share in aid to PNG reflects the broader decline in technical assistance as a share of the total aid program. Use of TA in PNG remains broadly on par with the other main recipients of Australian aid. On average, PNG’s share of TA is some 2.8 percentage points above the top 10 average, though in some years (2008-2010) it was between 13 and 18 percentage points higher. The issue of TA to PNG is explored further in Part D).

¹⁰ Technical Assistance (or Cooperation) is defined by the OECD DAC as the provision of know-how in the form of personnel, training, and research and associated costs. This includes donor-financed activities that augment the level of knowledge, skills, technical know-how or productive aptitudes of people in developing countries; and services such as consultancies, technical support or the provision of know-how that contributes to the execution of a capital project. Technical assistance includes both free standing technical assistance and technical assistance that is embedded in investment programs (or included in program-based approaches). Technical assistance includes scholarships. (Taken from 2010 DCT Review, footnote 7.)

Figure 21: Share of top 10 recipients and PNG net Australian ODA delivered as TA, 2003-2013

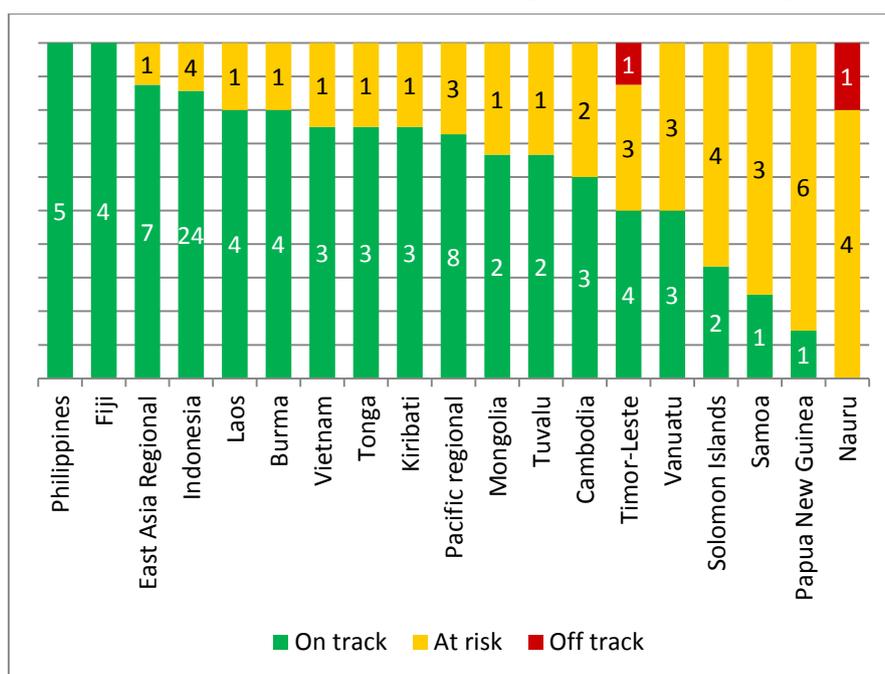


Source: OECD.Stat

Finally, what of the performance of Australian aid to PNG? A full evaluation is well beyond the scope of this submission. The conclusion reached by the 2010 DCT review was that there were “significant successes” but also “areas for improvement”, and that “substantial change” was needed. In general, these conclusions are still valid.

Of course, assessing the quality of Australian aid is not easy. However, DFAT’s performance section provides some useful analysis. It compares the performance of the top 19 aid programs against the program objectives: each country program rates its performance against each of its objectives: whether it is on track to meet that objective, at risk of not meeting it, or clearly off track. As Figure 22 below shows, by this criterion the only country to do worse than PNG is Nauru.

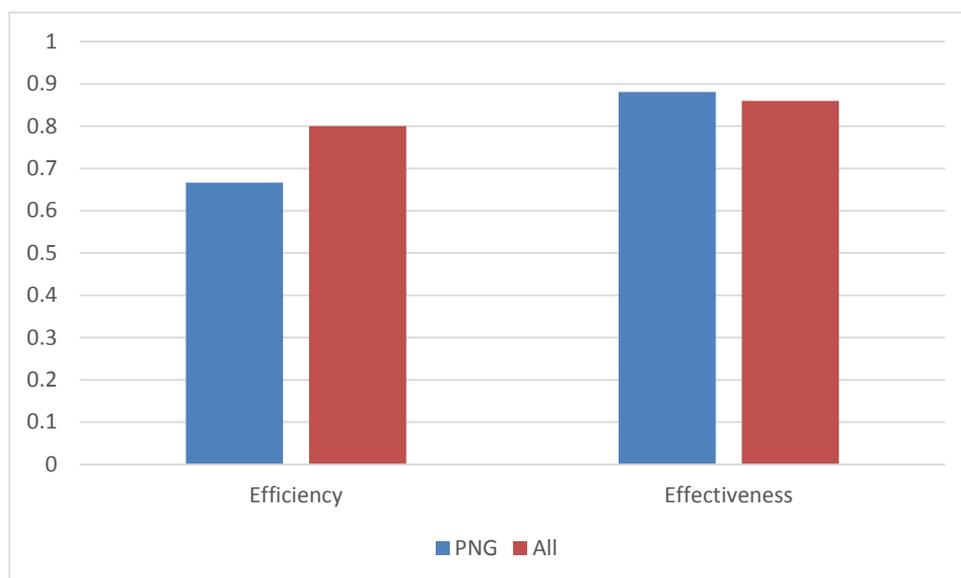
Figure 22: Performance of Australian aid programs against program objectives



Source: DFAT [Performance of Australian Aid 2013-14](#)

We can also compare the performance of PNG projects against the averages for the aid program. PNG's projects are judged by DFAT to be as effective as the aid program average, but significantly less efficient.

Figure 23: Efficiency and effectiveness of PNG and all Australian aid interventions, 2013-14



Sources and notes: Bars show percentage of projects getting a satisfactory or better rating. Data from PNG from the [2013-14 PNG Aid Program Performance Report](#) and for the aid program as a whole from [Performance of Australian Aid 2013-14](#).

Part B: Cross-cutting issues

This section presents views on four important cross-cutting issues for the aid program: the need for greater consistency of approach (B1), the need for realistic expectations and for focus (B2); the limited utility of benchmarks (B3); and the loss of leverage due to the Manus Island regional resettlement agreement (B4).

B1. The need for greater consistency of approach

Australia's aid program has suffered over the years from inconsistency of approach: less "chopping and changing" and more continuity is needed. Initiatives that succeed should be continued with for a period of decades.

Successful aid requires experimentation, but it also requires finding things that work and sticking with them. This is nowhere truer than in PNG, where, as noted in the previous section, the development challenge is by definition a long-term one. Australia's aid interventions to PNG have chopped and changed too quickly over the years. Here are three examples of this.

- (i) **NRI.** The National Research Institute is PNG's premier research institution. For a period of time the Australian aid program provided significant support to NRI, including over the period 2005 to 2010. This was evaluated positively, but the funding appeared to fall and then dried up altogether. Then for several years, NRI received hardly any support at all from the Australian aid program. Then last year, significant funding to NRI was resumed. This resumption of funding is a good thing, but why the gap in the intervening years? No reason was ever provided. No good reason exists.
- (ii) **Drugs and textbooks.** Views differ on whether the Australian aid program should be responsible for the delivery of basic services, such as drugs and textbooks. However, we can all agree that if Australia takes on these responsibilities, it should hold on to them for some time. Andrew McNee, an experienced former AusAID staffer in PNG, reflecting on his own experience and on international lessons, [wrote](#) in April 2011 that there was in fact a strong case for PNG's donors to support reform of medical supply distribution by "the direct provision of medical supplies." He noted that the earlier episode of medical supply provision through the aid program from 2000 to 2006 had worked well and that its cessation had been followed by a drop in drug supplies. He concluded "There will be pressures, both internal and external, to end external support prematurely... [T]his pressure must be resisted." Sadly, this advice was ignored. In the end, AusAID returned to the provision of medical supplies for only one year (2012-13). It is true that the support ended prematurely due to misprocurement by the PNG government. But procurement responsibility for medical supplies should never have been handed back to the PNG government given the long history of misprocurement in this area. It should instead have been retained by the organization with responsibility for funding and distribution: the Australian aid program. And in any case the new Australian aid strategy announces that the aid program will no longer finance the delivery of drugs and textbooks. (More on this later.) It is almost certain that the ending of external support for medical supply distribution will once again result in a decline in medical supplies reaching health centres.
- (iii) **Support for school boards.** From 2004 to 2010, the Australian aid program supported the Basic Education Development Project (BEDP), designed to strengthen school Boards of Management, the committees legislated to manage PNG's schools. An evaluation of this project found that: "Schools have increased the level of community collaboration and self-reliance in improving school infrastructure using local means and materials. Nine out of 10 schools included in BEDP visits have a communally developed School Action Plan which has, in the main, been implemented. School BoM are operating more effectively in that they are holding more meetings each year and organising communities to assist in school maintenance. More women are being appointed to the BoM, with increasing numbers appointed to executive roles such as chairperson, treasurer and secretary. Communities where BEDP capacity building activities have been completed are proud of their increased level of self-reliance and have undertaken a large range of activities to improve their schools. They report that the result is a better school environment, improved infrastructure, happy teachers and generally increasing student enrolments."

Our own nationwide survey of schools and health clinics in 2012, reported in our *Lost Decade?* report (co-produced with NRI), also found that school Boards of Management were

functioning reasonably well, and that their success helped explain the relative success of the school sector over the last decade.

Despite these success indicators, BEDP was not continued by a follow-up project. AusAID ceased its supports to school boards. Why? It is true that there was a problem with acquittals: many schools did not acquit for the infrastructure grants they received. However, this problem could have been easily solved, or indeed the requirement of acquittal dropped.¹¹ Instead, the Australian aid program walked away from what was a successful approach.

A positive example can also be cited: the Incentive Fund. This performance based infrastructure fund was first established in 1999. (It was the only specific aid project mentioned in the 1999 DCT.) Successively in receipt of a number of positive evaluations, the fourth phase of the Incentive Fund is shortly to commence.

More continuity like this is needed in the PNG aid program. There are many good things that Australian aid could do. There are many needs in PNG currently unmet. What is more important is that the aid program should learn what works and stick with what it is doing well. Initiatives that succeed should be continued with. This is equally relevant to both the bureaucratic managers and political masters of the aid program. More discipline is needed, especially when initiatives come to an end. If they are positively evaluated, they should be continued, indeed expanded, over a timespan of a decade or decades.

B2. The need for realistic expectations and focus.

Realistic expectations are needed for the aid program and for individual projects. The aid program can only make a modest contribution to development outcomes in PNG. Framing of the aid program as able to help unlock, transform or catalyse PNG's development potential should be avoided. Aid interventions also need to be realistic about what they can achieve, and more focused in approach.

International experience supports the proposition that by and large countries are masters of their own destiny, and that what makes the difference between development success and failure is the quality of a country's institutions and policies, not the amount of aid it receives.

Moreover, as argued in the previous section, PNG's unusual if not unique configuration of disadvantage means that change will be slow, and the development journey a long one. The relatively small contribution of Australian aid to PNG and to the national budget further limits the influence of aid, as does the loss of leverage associated with the Manus agreement (discussed in B4).

This does not mean that Australian aid cannot achieve worthwhile outcomes and value for money. It can. But if we raise expectations we will only be disappointed. Australia's most recent strategy for aid is titled "[A new direction for Australian aid in PNG: refocusing Australian aid to help unlock PNG's economic potential.](#)" At least there is the qualifier "help". But the idea that the Australian aid program can make a significant contribution to unlocking PNG's potential is nevertheless overly ambitious.

¹¹ Ironically, several years later, the aid program funded the PNG central government to increase its payments to schools. There was no requirement of school-level acquittals.

Only PNG can unlock its economic potential, and Australian aid can at best make a marginal contribution to that desired-for outcome.

Related to this, the argument that aid to PNG needs to be changed because the country is not doing well, though it seems a natural one to make, is not in fact a strong one.¹² If aid is a relatively minor determinant of development outcomes, then lack of progress on the latter should not be blamed on the former. The question should rather be: can the aid program do better?

A lack of realism can be found at the project as well as the program level. Take, for example, the “Draft investment design” recently released for the next Law and Justice aid project.¹³ This \$90 million project over four years, commits 5 per cent of its resources to anti-corruption: so less than \$1 million (or, say, 2 advisers) a year after overheads. With this, the project hopes to achieve four ambitious anti-corruption results. To think that less than \$1 million a year will really make a difference in such areas as “workplace culture and leadership” and “accountability to citizens and civil society capability” is unrealistic.¹⁴ A design more focused on what that one million dollars will be used for and why, and less concerned with the big picture into which it does or does not fit would stand a greater chance of success.

What is needed is not just greater realism but also more focus. The 2010 DCT review found the aid program to be highly fragmented, not only across but within sectors (p.32). The above-mentioned Law and Justice design provides a good example of this dispersion of effort within a sector. (The next section deals with the issue of dispersion across sectors). As noted, the intervention is worth some \$90 million or \$22.5 million a year. If overheads and M&E are, say, 25 per cent, then that is about \$17 million a year. This is to be spent over five different areas: village courts; family and sexual violence; state legal services; anti-corruption; and in Bougainville, where there will be a separate program. Each of these areas has their own sub-areas. For example, the family and sexual violence program has seven components, including working with the police, working with the courts, working with emergency response and referral; and working with communities. In all, there are 36 components or “program elements”.¹⁵ One of the 36 is for infrastructure, which is 30 per cent of the program. That leaves about \$330,000 on average per year for the other 35 components. The spread of activities is so thin that it is likely that impact in many of them will be negligible. A focus on just one of the five areas, or, within each area, on just one component would have a greater chance of success and visible impact.

¹² The Foreign Minister deployed this argument in her 2015 Aid Conference [speech](#).

¹³ DFAT is to be commended for the release of the draft design prior to finalization.

¹⁴ I choose these two because it seems no other funds from the aid program, apart from this provided by this intervention, will address these result areas.

¹⁵ This includes 14 “Key Result Areas” for Bougainville and 22 “Program Elements” for the other 4 components. Program elements are not provided for Bougainville, but for the other components there are more program elements than key result areas.

B3. The limited utility of benchmarks

Performance benchmarks have been used with little effect in the PNG aid program since the early 1990s. They can provide useful information but should not be expected to improve mutual accountability or influence the size of the aid program.

One of the terms of reference of this inquiry concerns “establishing realistic performance benchmarks to assess aid outcomes against set targets and to improve accountability.” This is also a preoccupation of the new PNG aid strategy which aims to “Establish clearer, realistic performance benchmarks to assess both our and PNG’s performance against set targets, and to drive mutual accountability for agreed actions.” This is part of a wider Australian aid program [goal](#) to ensure that “funding at all levels of the aid program will be linked to progress against a rigorous set of targets and performance benchmarks.”

This is the fifth effort in two decades to make performance benchmarks central to the program of Australian aid to PNG:¹⁶

- Performance benchmarks were first introduced into the aid program following a 1995 review. 25 benchmarks were introduced to determine the nature and extent of future assistance to PNG (Simons Review, 1997, p. 106).
- In 1999, benchmarks were incorporated into the Development Cooperation Treaty (DCT) itself. The DCT benchmarks included both measures of PNG participation in the aid program, and output and budget indicators for roads, health and education. The 2004 DCT Review noted, however, that: “Despite a significant proportion of the benchmark targets not being met, the benchmark system has not been enforced. The failure to achieve the benchmarks did not give rise to any review of the quantity of aid to be available, and there is no evidence to suggest sectoral funding allocations were revised as a result of benchmark performance analysis” (Lepani, Morris, and Tuioti, 2004, p. viii). The Review concluded that: “...[T]he performance benchmark system has been of some limited benefit in highlighting performance issues, but it has clearly not been used as a performance management tool in order to improve the effectiveness of the aid program.” (p. viii)
- Following the 2004 Review, the Policy Review and Dialogue system was introduced which tied a portion of the aid program to “performance against jointly agreed indicators of reform.” PNG met the agreed benchmarks in 2006 and 2007 and two disbursements of \$30 million and \$35 million respectively were made as a result. The PRD ceased operating at the end of 2008, but without any apparent impact on total aid volumes which rose sharply in subsequent years.
- Under the Rudd Government, “Partnership for Development” agreements were reached throughout the Pacific, including in PNG. These were very similar to, though more numerous than, the original 1999 DCT benchmarks. (For example, both the Partnership and the DCT benchmarks required that PNG hold real funding levels in key sectors such as roads and

¹⁶ This part of the submission draws on the relevant section of the 2010 DCT Review.

education constant.) The amount of political capital which went into these partnerships should not be underestimated. The [Port Moresby declaration](#) announced by then Prime Minister Kevin Rudd on March 6 2008, at which this new approach was first articulated, began by stating that “The Government of Australia is committed to beginning a new era of cooperation with the island nations of the Pacific.” When in August 2008 Rudd signed the first set of these agreements (with PNG and Nieu) [he said](#): “This recasts our entire development assistance relationship with these countries on one core principle - mutual responsibility.” An evaluation of the Partnership for Development approach is yet to be undertaken. 2010 was too early for such an assessment but the DCT Review did note that the usefulness of the Partnership for Development benchmarks had already “been undermined”.

There is no reason to expect that the new approach will be any more successful than the four earlier efforts, and in fact good reason to expect that it will be less successful. For these benchmarks to influence aid performance, two conditions need to be met: the Australian government has to be ready to reduce or increase its amount of aid in response to performance; and the PNG government has to be ready to adjust its performance accordingly. There is no evidence at all that either of these pre-conditions hold. Indeed, with Australia increasingly in PNG’s debt due to the Manus agreement (on which see below), and with Australian aid of increasingly little importance to PNG, if the two pre-conditions ever did hold, they no longer do so. In any case, the technical difficulty of finding appropriate benchmarks should not be underestimated. How do you judge the performance of a half-billion dollar aid program spread over so many sectors? What are realistic benchmarks in a complex environment? If the benchmarks are not achieved, was performance bad, or the hurdles too high? What if, as is invariably the case, some but not other benchmarks are met?

This is not to say that benchmarks are not useful to gauge performance, especially at the intervention level. Discussing and trying to quantify government spending responsibilities can also be a useful way to influence budget outcomes. But the PNG experience suggests that benchmarks will not improve accountability and they cannot be used to manage the aid program as a whole. Failing to recognize that benchmarks have long been part of Australian aid to PNG, and have made little difference, makes it more likely we will repeat history, and less likely that we will learn from it.

B4. The loss of Australian leverage due to Manus

Australia has lost leverage over the PNG aid program because of the Manus regional agreement relating to asylum seekers. It seems to be but should not be the case that PNG will be exempted, on the grounds of the Manus agreement, from the 20 per cent cut the aid program as a whole is experiencing. Especially on performance grounds, such a decision is not warranted.

One would expect that Australian leverage in relation to the PNG aid program would fall over time as the importance of the aid program to PNG has fallen. But there is clear evidence that the Manus agreement has further reduced Australian leverage.¹⁷ Here are three pieces of evidence.

¹⁷ So far, most expenses related to the Manus refugee centre have not been charged to the aid program though some additional aid has been provided to Manus. It is [possible](#) that if asylum seekers are ever resettled in PNG in large numbers, the costs associated with that resettlement could be charged to the aid program.

First, for a long time PNG has had interest in having Australian police return to PNG after their abrupt departure in large numbers in 2004 as a result of their diplomatic immunity (under the Enhanced Cooperation Program) being struck down by the High Court of PNG. The Australian position was that this would only be possible with the restoration of diplomatic immunity. But then, as a recent [ASPI briefing paper](#) notes, all of a sudden, in July 2013, in the context of negotiations over Manus, PM O’Neill requested 50 additional Australian police (a small contingent had always remained), and this request was acceded to. As the ASPI briefing paper notes, without immunity and therefore executive policing power this deployment (which, unlike the ECP contingent, is there only in an advisory capacity) cannot be “truly effective” (p. 23). The only positives the latest annual DFAT report on aid to PNG (*Aid Program Performance Report 2013-14*) could report from the expanded AFP presence were “improvements in the quality of data recorded at stations”, a reduced number of prisoners held on bail in Lae, and a reduction in school fighting due to police visits to schools. But, when it comes to the main game, “Efforts to improve RPNGC patrolling have, however, been of limited success.” (p 10). Lacking executive authority, AFP advisers are unable to solve the problems of a lack of staff and vehicles that undermine effective patrolling (and so many other critical policing functions). That Australia acceded to the request for many more police, despite their limited effectiveness as advisers and high expense, shows the leverage lost because of Manus.

Second, last year Prime Minister O’Neill defunded Operation Taskforce Sweep the anti-corruption taskforce, and sacked its head Sam Koim when the taskforce started levelling allegations of corruption against the PM himself. Despite the strong emphasis of the aid program on anti-corruption activities, that move drew no public protest from Australia, nor did it lead to any defunding of anti-corruption activities, despite it being a clear breach of pre-agreed benchmarks. (The first anti-corruption indicator in the Australia-PNG law and justice partnership agreement is “effective investigation and prosecution of corruption cases”.)

Third, it is widely reported that PNG (along with Nauru and Cambodia) will be ring-fenced from the 20 per cent cut the Australia’s aid program as a whole will suffer in the May budget because of these countries’ importance in relation to Australia asylum seeker policies. This would be most unfortunate. While no-one likes to see any aid program cut, there is no reason why the PNG program should be spared the pain, especially considering that it is, as far as one can tell, relatively speaking a low-performance program (see Figure 22 in Part A).

Australian leverage in relation to the aid program is important not because Australia knows best or should throw its weight around. But there is the risk that Australia will not say “no” when it should, and will end up taking responsibility in areas beyond its capability. Given the significant corruption in PNG (Figure 4), Australia needs to be able to stand up for good governance in PNG, and make sure that the aid program does as well. The citizenry of both countries demands it. The converse of this is that Australian assurances of the importance of good governance ring hollow when Australia fails to speak out at critical times. Martyn Namorong, a PNG social commentator, [tweeted](#) at the time of Sam Koim’s sacking: “next time DFAT wanna talk about good governance in PNG remind them of their silence now”.

Part C: Sectoral issues

This section focuses on two sectoral issues: the role of infrastructure in the aid program (C1); and the role of non-state actors in service delivery (C2).

C1. The new emphasis on infrastructure.

The new emphasis on infrastructure aligns with PNG government expectations of the aid program. However, the way it is being implemented – across all sectors, rather than focused on economic infrastructure – risks worsening quality. A shift to infrastructure could be a positive way to give the aid program the flagship and specialization it needs, but only if it is focused on economic infrastructure, and transport in particular. The case for a heavy spend on infrastructure in the social sectors is weak, and will further fragment sectoral approaches. Maintenance should continue to have the first call on road and other transport funding.

The new aid strategy aims to increase aid expenditure on infrastructure from 37 per cent to 50 per cent. Since economic infrastructure expenditure is reported for 2013-14 as only 14 per cent, these figures (the 37 and 50 per cent) must include infrastructure spending in other (social and governance) sectors: building schools, and health clinics, police offices, and law courts.

There is no doubt that the Government of PNG has for some time wanted a greater focus of the aid program on infrastructure. And that is important: obviously recipient views should be taken seriously. Nevertheless, the shift to infrastructure is problematic for a number of reasons.

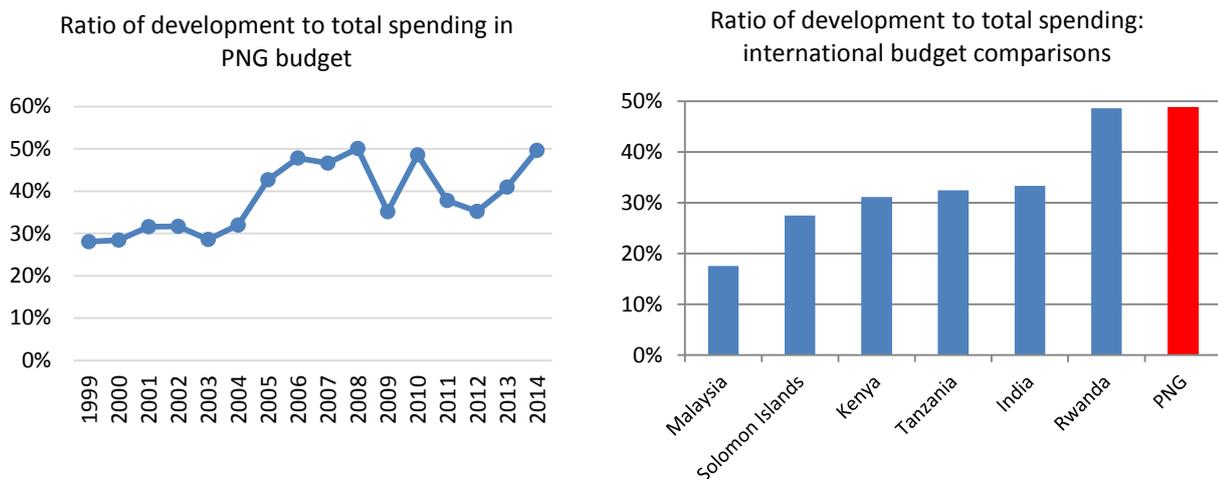
First, no rationale is provided. The strategy says that “Insufficient or inadequate infrastructure creates significant costs to doing business and constrains economic growth.” This is true for economic infrastructure, but not for social infrastructure (or least no more true for social infrastructure than any other form of social spending).

Second, there is a related intent in the new strategy of “transitioning out of service delivery” on the grounds that this is a “sovereign responsibility” of the Government of PNG. (This is the declaration, mentioned earlier, that such activities as the delivery of textbooks and drugs will no longer be undertaken by the aid program.) The reference to sovereignty makes no sense. Why is the provision of textbooks a sovereign responsibility, but not the construction of class rooms? Any aid program involves one sovereign government assisting another. What if, as continues to be the case in PNG, the country’s medical supply system is plagued by [“dysfunction”](#)? Is a donor to do nothing on the grounds that this is a sovereign responsibility in which it must not get involved, unlike all the other sovereign responsibilities of PNG, from policing to defence, in which Australia is involved? As McNee argues, in such a context direct provision of medical supplies by a donor might be a perfectly reasonable response.

Third, any shift in the aid program towards the construction of new infrastructure, as appears to be the intent (rather than spending on maintenance) will contribute to the imbalance already existing in PNG between the creation of new assets and the maintenance of existing ones. In PNG new investments are captured by the development budget, and maintenance is funded by the recurrent budget. Over the last decade, the ratio of the development to the recurrent budget has steadily

increased, to reach a point where it is now one of, if not the, highest in the world (Figure 24). There has been a particularly rapid expansion in funds under the control of MPs, such as the DSIP (District Support Improvement Program). These are project funds, unsuitable for maintenance, but eminently suitable for the construction of things, including class rooms, health clinics, legal offices and so on. Such funds have increased from K200 million in 2012 to K1.5 billion in 2013, and subsequently. These funds provide a more than ample source for the social sector building projects the Australian aid program is now financing.

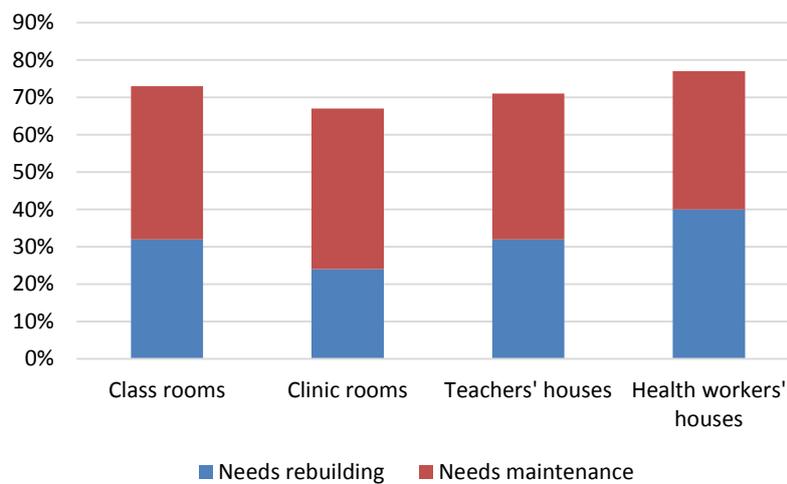
Figure 24: Development spending as a share of total government expenditure - PNG trends and international comparisons



Source: Figure 9-4, [A Lost Decade?](#) (p.166)

The underfunding of maintenance was clearly captured by our *Lost Decade?* report and survey. 65 to 80 per cent of classrooms, clinic rooms and staff houses were found to require rebuilding or maintenance (Figure 25).

Figure 25: Rebuilding and maintenance requirements in schools and clinics, 2012



Source: Tables 1 and 3, [A Lost Decade?](#) (pp.vi, xi)

Only a third of health clinics we surveyed said that they had undertaken maintenance in the survey year. In such a context, when the likelihood is that they will not be maintained, there is no point to constructing new assets.

A recent aid [evaluation](#) of Australian-aid-funded infrastructure investments (court rooms, etc.) in the law and justice sector shows that this is exactly the problem that aid-funded investments will face. The evaluation concluded that: “Maintenance programs for infrastructure were poor to non-existent throughout the LJS [Law and Justice Sector]. Budgets for maintenance programs were very low and also impacted the cleanliness of facilities.”

The “build, neglect, rebuild” cycle is well known in the Pacific, and has been extensively documented by one of our own researchers, Research Fellow Matthew Dornan in [this](#) book. It is unfortunate that Australia is now contributing to this syndrome, with its focus on building new class rooms and other buildings.

Fourth, outside of the economic infrastructure investments, in sectors such as health and education, the aim necessarily remains to improve service delivery. But the link between improved infrastructure and improved service delivery is weak. Again the recent evaluation described the link between improved infrastructure and service delivery as “tenuous.” The evaluation wrote: “The contribution of infrastructure development to improved service delivery was constrained if basic services/supplies, furniture and equipment, staffing and management systems were inadequate.”

These findings are backed up by our own work in Lae in support of Femili PNG. We have found that agencies responsible for helping women and children who are the survivors of gender-based violence are constrained by a lack of recurrent funds to finance such basics as mobile phones, computers, printers, and ink for printers.

Fifth, in addition to the PNG Government itself, there are other donors who are already committed to the provision of infrastructure, including the ADB, the World Bank, and, increasingly, China. Why should Australia duplicate the role of these donors?

Sixth, this commitment to infrastructure in the social sectors worsens the problem of fragmentation or dispersed effort. Now Australian aid must not only deal with policy issues, and personnel, and training, and non-government groups, but also mount a significant infrastructure effort across the board: not only in the infrastructure sectors, but in health, education, and law and justice. The aid program takes on the appearance of a “mini-PNG-government”, doing a little of many things.

All these problems aside, the 50 per cent infrastructure commitment does have its upsides. As mentioned, it is something that the PNG Government wants, and that is important. Spending more on infrastructure would also mean spending less on technical assistance, an outcome argued for in section D1. And having a central focus on a particular sector could provide the “flagship” which the aid program needs, and which the 2010 DCT Review called for.¹⁸ But this would argue for a focus on **economic** infrastructure, i.e. a sector, not for an emphasis on infrastructure as an activity spread across health, education, transport, law and justice, which would lessen rather than sharpen the aid program’s focus.

My recommendation then, given the decision to spend 50 per cent of aid on infrastructure, would be to focus on economic infrastructure, and transport in particular. With this, the decision to shift to infrastructure will help to give the aid program the focus and specialization that it needs. It will help orient the aid program to the goal of shared growth, while at the same time making a positive contribution to service delivery (easing access to schools and hospitals).

Without a shift to transport, the swing to infrastructure will be a missed opportunity. It will become just another activity to spread across a range of sectors, and will increase rather than reduce the aid management burden and the scattergun approach already evident in individual aid activities. A focus on transport would also have the advantage of avoiding adding to the “build, neglect, rebuild” cycle in the social sectors, and would avoid having to confront the “tenuous link” in these sectors between infrastructure and service delivery.¹⁹

Within the economic infrastructure or transport sectors, the primary focus should remain on maintenance. Any commitment to rehabilitation and new roads should be contingent on adequate funding and execution of road maintenance by the PNG Government,²⁰ and be accompanied by an undertaking to maintain those roads for the next decade or more.²¹

¹⁸ The 2012 DCT Review considered both roads and education as possible flagship sectors. In the end, it decided in favour of education on account of the absorptive capacity constraints in transport (p.33). Clearly, if these still exist, they would have to be addressed

¹⁹ This is not to say that social infrastructure should never be built. Clearly, sometimes there is a strong case for it: New lecture theatres are definitely needed at UPNG, for example. What is being argued against is a strategy of requiring a certain infrastructure spend in non-infrastructure sectors to hit an overall infrastructure target. Rather, if the emphasis is to be on infrastructure, spending in the infrastructure sectors should increase, and in other sectors fall.

²⁰ See [this](#) analysis of increased road maintenance funding by the PNG Government.

²¹ Whether the focus even in the road sector will in fact remain on maintenance is unclear. Australian aid has traditionally “primarily” supported road maintenance: see p.12 of the DFAT 2013-14 PNG aid performance report, and p.27 of *Performance of Australian Aid 2013-14* – “In 2013–14, 73 per cent of Australia’s expenditure in infrastructure in PNG was directed to the National Priority Roads Network, supporting the maintenance of 2,705km of PNG’s most economically important roads”. While the new Australian PNG aid strategy says that the aid program will shift aid investments away “from road maintenance”, a September 2014 Australian High Commission [press release](#) indicates that the aid program will expand road maintenance in Bougainville, and finance long-term maintenance on the Highlands Highway. Moreover, the 2013-14 PNG aid performance report calls for a “maintenance first” approach across all transport sectors (p. 14).

C2. Service delivery and non-state actors

Work more with non-state service providers, to direct aid resources to better-performing organizations. Move away from a supply-side approach, and work more with NGOs and community groups to increase the demand for good service delivery.

The Australian aid program does do some work with non-state actors, but much more could be done to shift aid resources to better-performing organizations, whether government, private or non-government, as the long-running Incentive Fund does, for example.

The aid program could also do more to support NGOs who work with government service providers and whose job is to make the system deliver better outcomes for citizens. Again, the aid program is already active in this area through its support for such partners as Transparency International, the Consultative Implementation and Monitoring Council, Eastern Highlands Family Voice, and CARE International among others (through the Strongim Pipol Strongim Nesen program).

The potential effectiveness of this sort of engagement is evident from our own work in relation to gender-based violence in Lae, supported by the Australian aid program. In the law and justice sector the focus has been on supply-side investments: supporting the police and courts. But these investments (in new buildings, training, equipment) do little in themselves to improve service delivery. There needs to be the demand for better services. It is very difficult for individuals to provide an effective demand for better services. Nor does the political system work well in expressing that demand.

Now in Lae, the Case Management Centre run by Femili PNG, a PNG NGO, provides that demand, in two ways. First, its case workers work with individuals to help them negotiate the system: that is, it helps individuals to more effectively express demand. Second, through agency level meetings, the CMC is itself a source of demand, by raising expectations of service providers. It does this in a constructive way by providing practical resources alongside the injection of higher expectations. It is still early days (the CMC commenced operations in July 2014) but indications so far are very promising. For example, recently the Lae Supervising Magistrate signed an MOU with the CMC and acknowledged the work the organization was doing to improve services. It is critical that such “demand side” organizations sit outside the public sector. Though over time they should come to receive funding from the PNG government, if they are government agencies themselves they will likely suffer the same dysfunctions that the government agencies they are trying to help suffer from.

[International experience](#) confirms shows that demand-side NGOs and community mobilization are not guaranteed to work but can be effective in improving service delivery. There are some examples of the aid program pursuing this model in PNG: But note that there is just one CMC in the whole country (in Lae), whereas there are 14 specialist police Family and Sexual Violence Units across the country.²² Clearly, this suggests an imbalance between demand and supply side interventions. The

²² According to the 2013-14 DFAT performance report on Australian aid to PNG: see p. 11.

law and justice design confirms this: just three of its 36 components deal with civil society, the rest with government.

The support to school boards under the Basic Education Development Project discussed earlier (Section B1) was probably the Australia's biggest demand-side intervention, but it was terminated in 2010. Various possibilities could be pursued, including further support to school boards, and the establishment of similar boards for health facilities. Alternatively, following the CMC model, education and health resource centres, run by NGOs and largely staffed by national staff, could be very useful in working with schools and health clinics to help them to deliver better results.

Part D: Technical assistance and capacity building

This section deals with the important goal of capacity building. Subsection D1 argues that there is still too much emphasis in the aid program on technical assistance (TA); D2 calls for a dethroning of the advisory approach to TA and greater reliance on in-line positions; D3 advocates for an emphasis on long-term institutional linkages; D4 argues for aid program support for economics training; and D5 argues for an overhaul of the scholarship program.

D1. Technical assistance

More than half of Australia's aid to PNG takes the form of technical assistance. This is still too high.

As pointed out in section A3, though the share of technical assistance to PNG has fallen, it remains high at over 50 per cent (last three year average; Figure 20). Moreover, it is noticeable that despite the strong commitment of the Australian government in its response to the 2010 DCT review to reduce the number and unit cost of advisers, the total spend on technical assistance has not changed. If anything, it seems to have gone up slightly.

The extensive analysis of technical assistance in the DCT Review concluded that, while there were some notable exceptions, in general it has had little impact (see pp. 27 to 30). Of course, some technical assistance is extremely useful, and one cannot always know in advance what will work. But spending half the aid program on technical assistance? Given its limited impact in general, a further reduction would seem warranted. For example, having some 50 Australian Federal Police each costing, say, half a million and all of them acting as "advisers" lacking executive authority is unlikely to provide value for money: see the discussion in section B4 for more on this.

The other reason why technical assistance should be further scaled back at the current time is that this is an aid instrument which is more effective when there is a government commitment to pro-development reform. As Paul Collier (*The Bottom Billion, 2007*) has argued, technical assistance is only useful if there is domestic backing for reform. The economic reform credentials of the current PNG government are relatively weak. As noted in the earlier section, the government's monetary, exchange rate and fiscal policies are all risky. The government has backed away from tackling corruption (see section B4), and failed so far to set up a sovereign wealth fund, despite undertaking to

do so several years ago, and agreeing with the Australian government that it would). Extensive service delivery changes have been undertaken with the devolution of funding and authority to the district level, but most analysis suggests that these changes are unlikely to improve service delivery. There has been some interest in partial sell offs of state-owned enterprises (SOEs), but no attempt to undertake SOE reform, despite the abysmal performance of many SOEs.

As noted in section A1, it is possible that, if the current fiscal and exchange rate problems are not addressed, PNG will face some sort of economic crisis. Economic crises often beget economic reforms, and if this were to happen some ramping up of TA support would be warranted. At the current time, however, my assessment is that the Australian aid program is still overly tilted towards technical assistance. A reduction in the total aid spend on personnel would raise the bar for advisory effectiveness, which seems to remain very low. (As there is no cost sharing with government, there is always massive excess demand for advisers.)

Finally, it should be noted that technical assistance is very expensive to deliver in PNG because of the security umbrella DFAT is required to aid-funded personnel provide due to PNG's high rates of crime. This is illustrated by the high cost of the Australian volunteer program in PNG. The housing allowance for Port Moresby is three times that of the next most expensive city, reflecting that fact that PNG is unique in being the only country where housing is provided for volunteers: the \$6,000 a month is ScopeGlobal's [estimate](#) of the cost of providing this housing.

Whatever one's views on the issue of technical assistance, it should be noted that the commitment to increase infrastructure spending to 50 per cent from its current level of 37 per cent will in any case push down the share of technical assistance in aid to PNG. Therefore the more important issue is how technical assistance funds should be spent. This question is explored in the sections following.

D2. Dethroning the advisory approach.

The advisory approach needs to be dethroned. Aid-funded personnel should be given concrete tasks and work alongside, not advise. The word 'adviser' should be dropped from the aid program lexicon.

In PNG, and perhaps in the rest of the Australian aid program, the "advisory approach to capacity building" is still king. I have experienced this myself last year in working to draw up job descriptions for volunteers to be placed through the PNG volunteer program. There was strong drafting pressure from the aid program to craft these positions as advisory ones. But that is not what we wanted. For UPNG, for example, we needed an economics lecturer, not an adviser. There was hardly anyone to advise, and the need was for an additional faculty member. In the end, our approach prevailed, but only because I pushed back. The default would have clearly been for volunteers as advisers.

Yet global and PNG experience confirm the proposition that the idea of sending someone in for a year or two will make a difference to counterpart capacity is a deeply flawed one. It should be abandoned, not only for volunteers (who should be there as much to learn as to do, and not at all to build capacity) but also for aid personnel more generally.

Instead, the starting point for the provision of aid-funded personnel should be that PNG faces acute shortage of skilled labour. I have had personal experience of these shortages through my own work. I have, for example, in the last year or so sat on two interview panels to recruit four economics lecturers at UPNG. No hires at all came from either of those two interviews.

Personnel should be hired through the aid program primarily to relieve PNG's skill shortages, and accordingly given concrete tasks to perform. As argued for in the 2010 DCT Review, personnel should as much as possible be placed in "in line" positions so that they are insiders rather than outsiders.²³ I reproduce in the box on the next page our discussion of in line positions from the DCT Review, which remains as relevant today as it was when written in 2010.

Unfortunately, the DCT Review recommendation 2.8 to "pilot the use of aid funded in-line positions" has not been implemented beyond a few isolated cases. However, our own Centre has recently itself got involved in a few cases of in-line positions, which we think provide promising models.

- With funding from the Australian aid program, we have placed an ANU academic, Dr Carmen Voigt-Graf at the PNG National Research Institute in Port Moresby. Dr Voigt-Graf is a Fellow (mid-level academic) at the Development Policy Centre of the ANU, and she is a Senior Research Fellow in the Economic Policy Research Program (EPRP) at the National Research Institute. She participates fully in the NRI EPRP work program and activities, not as an adviser, but as a member. She has been in that position since October 2014, and is making a valuable contribution. It is clear that being part of the team makes her much more valuable to the NRI than if she were an adviser. She is working "alongside" and "inside", rather than "above" and "outside".
- We are planning to replicate this model at UPNG in the School of Business Administration, where we hope, with Australian aid funding, to place several ANU academics in the School as Visiting Lecturers for two or three year placements.

The aid program is to be commended for supporting these innovative "in line" approaches. Much more like this could and should be done.

Though it has been said many times before, it should be said again that aid-funded personnel should be provided only when there is some evidence that they can have an impact. Demand for an adviser is not enough to justify the funding of an adviser: they are free to the PNG government; of course there will be massive demand. There also needs to be evidence that the personnel should be able to have influence. The recent announcement that the Australian Government will establish an "Economic Infrastructure Advice Facility" to provide advice on infrastructure "scoping, planning and financing" and "SOE reforms and privatization". Given the already ample technical assistance available from the multilateral banks in relation to these areas, and the lack of appetite shown for SOE reform, it is very hard to envisage that this facility will return value for money.

²³ Of course, some of these in-line positions might be advisory ones. For example, an economic policy adviser in Treasury would have the job of giving economic policy advice, but (importantly) not advising someone else how to give such advice.

Arguments from the 2010 DCT review for greater use of in-line advisers: extracted text (pp. 29-30)

Eighth, and most importantly, consideration should be given to the funding of in-line positions. We were surprised by the number of times this came up as an issue during our consultations. In the words of one Provincial Administrator: "Advisers are outside the system. They find it very difficult to tell [staff] what to do. They are not attached to any position number in the civil service. They've got to be in the action, in the 'tribe', not outside."

Using Australian aid to fund in-line positions would be a return to earlier days, when budget support was often used for this purpose. A revealing set of interviews with eminent former PNG civil servants synthesized by Lynn Pieper suggests that moving away from this model was a mistake: "[After independence], expatriate personnel were in contracted, line positions, subject to normal lines of command, discipline, and public service ethics. The shift to off-line, advisory support during the 1980s, whilst a well-intentioned part of the localisation process, 'was a step backwards' in the opinion of interviewees. Apart from being much more expensive, it has created a feeling of condescension between 'advisers' and their 'counterparts'; reduced sustainability prospects by separating the work done by advisers from the 'normal' work of departments; created a dependency by Departmental Heads on using advisers to fix problems rather than training nationals to learn the job by doing it; destroyed the collegiate sense that previously existed ('we used to work and socialise together'); and eroded any sense of pride in achievements – counterparts do not have any sense of ownership of results, and advisers today 'are not long term stayers'." (Pieper, 2004, p.3)

The in-line model was used effectively by another small resource-rich country, Botswana. In Botswana, "TA personnel [were] generally assigned to established posts (line positions) rather than to projects or advisory positions; and TA personnel are contracted by, and [were] responsible to the government in the first instance, and to the sponsoring donor second." (Land, 2002).

A number of consultants in PNG already undertake tasks other than capacity building. Some help implement the aid program, some are engaged on government tasks. The most-celebrated TA triumph in recent years – the work with the National Economic and Fiscal Commission – arose from assigning consultants responsibility not for capacity building or advising but for the delivery with counterparts of a specific task: a new funding formula for provincial governments. Recent aid program guidelines note the different roles which TA can play, including "doing" and "advising," and the situations in which each may be most appropriate. This pragmatism is to be welcomed, and a greater emphasis on "doing" would be consistent with the suggested increased focus on implementation. This recommendation goes further, however. At the current time very few aid-funded personnel are actually hired into in-line positions. Funding in-line positions would go beyond setting advisers concrete tasks, or embedding them into a team which has responsibility for specific tasks (the "embedded adviser" approach). Under the in-line approach, aid-funded personnel would operate with and under whatever authority and reporting lines normally go with the position they are hired into. This would promote both accountability and effectiveness, and through the training of junior staff would make an important contribution to capacity building. There would be less risk of displacement of local effort, since the in-line model would do away with the practice under the current advisory approach in which the adviser is there only to help, which means that the more the adviser does, the less work there is for the person or team s/he is helping.

Aid-funded personnel occupying in-line positions would not normally be Australian government staff. The Enhanced Cooperation Program had the insight that it might be useful to have the aid program fund in-line positions, but the flaw which quickly undermined the ECP was that any aid-funded in-line positions had to be filled by Australian government staff. This created the perception, if not the reality, of conflict of interest, and infringement of sovereignty. As a result, the ECP/SGP program increasingly operates as an advisory facility. What is needed now is the possibility to fill in-line positions through the aid program, but not through reliance on Australian government staff.

Recruiting expatriates into in-line positions could be done either on a sectoral basis or could be centralized. GoPNG could indicate where they need expatriates to fill particular positions. AusAID would agree (or not), and, could assist PNG in its search and with logistics. To promote local ownership, and to keep down overall costs, the PNG Government could be responsible for payment of the local wage, and the aid program for the funding of an agreed salary supplement. Hiring would typically be for a fixed term. Accountability of such staff would automatically be to their PNG Government supervisor. Contract agreements would include commitments to avoid corrupt behaviour, and guidelines on how to report corruption among peers or supervisors, and how to deal with corruption among juniors. As with any other activity, the aid program would monitor overall effectiveness.

Using the aid program to fund in-line positions is a controversial suggestion, but one which has strong support. It should not be mandated, but rather piloted by those willing to use it. Clearly, the in-line approach will only work if the widespread support we found for it is translated into concrete demand. We suggest that views be canvassed to find agencies willing to pilot an in-line approach.

Finally, there is still too much emphasis on planning and not enough on implementation. Much of the Australian investment in health over the last decade has gone into the development of plans. Yet on

the ground, our *Lost Decade?* research showed that health services are going backwards. While home-grown and owned plans may be highly valuable, there is no doubt that too many plans are donor driven, and have very little if any impact.

D3. Supporting long-term linkages

Support PNG organizations through long-term partnerships with international counterparts who have “skin in the game”.

As well as moving away from an advisory to an in-line model of technical assistance, there should also be a shift towards supporting institutional linkages. This recognizes that the main capacity building thrust of the aid program should be to support PNG organizations. They are the ones who will be there for the long haul. But such organizations often need strengthening, and often the most effective way to do this is through partnerships with Australian (or other international) counterparts. To its credit, the aid program does some of this, and it is the way we operate at the Development Policy Centre through our partnerships with UPNG, NRI and Femili PNG. Some Australian government departments have also entered into institutional linkages, such as the Treasury. Another good non-government example is [Buk Bilong Pikinini](#), the PNG NGO which has opened libraries throughout the country and is attempting to lift literacy and provide early-childhood education. BbP is a PNG NGO, but it receives significant institutional as well as financial support from Australia. This model is attractive for a number of reasons:

- Low costs, because of heavy reliance on PNG nationals.
- A long-term institutional commitment and therefore contribution.
- The leveraging of effective institutional and financial support: in the case of BbP and Femili PNG, the support from Australia does not have to be paid for by the aid program. It is pro bono. This is not only value for money, it is also “skin in the game”. Aid agents who do not have all their costs covered but who nevertheless want to be involved are more likely to show commitment and be there for the long haul.

D4. Economics training

There has been inadequate support for tertiary education in economics and economic research institutes. Given the aid program’s focus on economics and public policy, it is good that this is now being corrected. We commend the government’s decision to support the UPNG School of Business Administration (with which we are involved). Similar approaches could be adopted for other priority areas for the aid program, for example, to support the training of lawyers.

The easiest criticism of the aid program is that it has provided inadequate support to some area of activity. There is always more that the aid program should do. My point here is somewhat different. The aid program has invested heavily in economic policy. Tens of millions of dollars are spent each year through such programs as the Economic and Public Sector Program (EPSP) and the Enhanced Cooperation Program (ECP, now called the Strongim Govman Program) to improve the quality of economic policy. Most of this funding is provided through advisers, each of which will cost half a million dollars or more.

This support for economic policy makes no sense if the supply of PNG economists is drying up. And it has been. There is only one university which teaches economics (the University of Papua New Guinea (UPNG)), and it was down to one faculty member last year, a tutor. Other more senior faculty have left over recent years to pursue more lucrative opportunities elsewhere. As a result both the quantity and quality of economics graduates are completely inadequate relative to what PNG needs. The flow-on effects are felt by government, but especially by the research sector, which struggles to fill vacancies.

The importance of supporting domestic economic analytical capacity has been emphasized recently by Jim Adams, former World Bank Vice President. As he has written: “In the Pacific, as in Africa, there is no substitute for home-grown analysis. There continues to be a shortage of capable policy makers, advisers and commentators in the Pacific region. Increased domestic and regional capacity in economic policy analysis will be critical to address the Pacific’s economic reform challenges.”

In the health sector, which, like the economics sector, is one the aid program prioritizes, substantial support (including core funding) is provided to the University of Papua New Guinea for the training of doctors. It is unfortunate that the same approach has not been taken in economics. Over the last three years, our Centre, and the ANU Crawford School of which we are part, has partnered with the UPNG School of Business Administration, within which the UPNG economics division sits, to build a long-term partnership to strengthen the teaching of economics at UPNG. We have resurrected the PNG Update as an annual Port Moresby event. We have started testing UPNG economics students to get an idea of their quality, and also to identify promising scholarship candidates. And we have placed a Crawford economics graduate through the Australian volunteer program at UPNG as an economics lecturer. Initial results of this support have been encouraging and size of the economics faculty at the university has increased now to five.

But much more needs to be done. The initiative of the Foreign Minister to support and further deepen the ANU Crawford-UPNG School of Business Administration partnership is very welcome, and makes perfect sense given the emphasis placed by the aid program on economics and public policy. Similar approaches could be applied in other sectors of importance to the aid program, such as the training of lawyers.

D5. Scholarships

The PNG scholarship program should be overhauled to increase the quality of the intake. This could be done by reducing the government quota, running a series of standard tests which scholarship candidates have to undertake, and dropping the work experience requirement. Living allowances to those on leave from government should be adjusted to take into account the fact that they are on leave with pay. Reliance on short-courses should be minimized and restricted to specific technical areas or skills.

Australia provides a large number of scholarships to PNG. Yet it is well documented that PNG scholarship students struggle in Australia.²⁴ This is also borne out by our own experience of teaching scholarship students at the Crawford School. The response of the scholarship program has been to provide more support to the selected students (for example, PNG students now have their own dedicated manager), but we would instead advocate the use of a different approach to selecting students in order to increase the quality of the intake.

Our understanding is that half of the scholarship students are nominated by PNG government. Government-nominated students go on leave with pay, but still receive a full aid-financed scholarship. This is a value-for-money issue: it would make more sense to pay the tuition fees of government scholars, but only provide them with a living allowance to make up the difference (if any) between the normal scholarship amount and their pay. More importantly though, having a large government quota reduces the extent to which scholars can be competitively selected. To get more on competitive selection and merit, the government quota should be reduced, perhaps focusing only on universities and research institutions.

Second, although anyone can apply for a scholarship, this does not guarantee that the best apply or are selected. To increase the probability of this, a series of tests (either general quantitative and qualitative tests; or discipline-specific tests) could be conducted in a number of regional centres, and widely advertised. The top performers would then be invited to apply for a scholarship.

Third, at the moment, there is a work requirement: scholarship applicants have to have worked for two years before they are entitled to a scholarship. If this was done away with, it would help shift the focus to picking the best university graduates for further training.

Fourth, in general short courses are of very little use unless they are highly targeted and relate to a specific technical area or skill which the students will be able to put into practice. The focus should be on long courses which can really make a difference to an individual's skill set.

We have attempted to put some of these ideas into practice in a limited way by introducing an economics test at the Crawford School which prospective scholarship students from PNG have to take prior to admission. This has both revealed the low quality of education training at UPNG and increased the quality of the students coming from PNG to ANU. Our recommendation is that this approach be mainstreamed, and taken up by the aid program itself.

Conclusion

A summary of key points and suggestions can be found at the start of the paper. Here, I conclude on a positive note. It is easy to be critical, and these are certainly difficult times for the aid program in PNG,

²⁴ For example, this ANAO 2010 [report](#) singles the PNG scholarship program out for its "high and costly course extension and failure rates of scholars" (p.69) It also notes high levels of unemployment of graduates on return (p.70). Just this year, DFAT confirmed in their latest [annual PNG report](#) that PNG scholars face "challenges" with respect to the graduation rate (p. 9).

especially given the backdrop of Manus. But what should be done? What would a focused, realistic aid program oriented to the long term look like in PNG?

An opportunity exists at the current time to give the aid program the focus it needs, but that this opportunity will be wasted if the commitment is made just to spend half of Australian aid across a variety of sectors on economic and social infrastructure. Rather, if the focus is to be on infrastructure, then it should be on economic infrastructure, and on transport in particular. In the social sectors and law and justice – the service delivery sectors – the emphasis should be on supporting better performing organizations, on strengthening the demand for service delivery, and on training the professionals of the future. Throughout the aid program, there should be greater emphasis on supporting and working with PNG organizations, but long-term partnerships with committed externals are useful to build their capacity. Levels of technical assistance should be reduced, and more use made of in-line personnel. There should be greater engagement with tertiary institutions in areas of priority to the aid program to train PNG's doctors, nurses, economists, teachers and lawyers. The scholarship program should be overhauled to give greater attention to quality and selecting the best through a more open, competitive process.