

The aid implications of the PNG solution: what isn't, is, and might be happening

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It's not often that aid hits the front pages. There's been a [lot of commentary](#) in the last few days about the future of Australian aid to Papua New Guinea, and the implications for aid of the Rudd-O'Neill agreement concerning boat arrivals. In this post, I try to clear up some of the confusion. I begin with three things which are not going to happen, and then go on to three that will, and end with one that might.

One thing we know is that we won't be giving our aid as cash to the PNG Government, despite Tony Abbott's [suggestion](#) to the contrary. We used to do that, but the practice stopped at the turn of the century, and there is no appetite on either side to go back again. In fact, there is no suggestion that there will be any change at all in the way that projects are implemented.

Another thing we can confidently say is that there won't be a shift in the sectoral priorities of the aid program. PNG PM O'Neill [said as much](#) on Wednesday by clarifying that his priorities (education, health, law and order, infrastructure) were already those of the aid program.

Third, we can be confident that the Manus solution won't itself be paid for by aid. Off-shore processing hasn't been and can't be counted as aid.

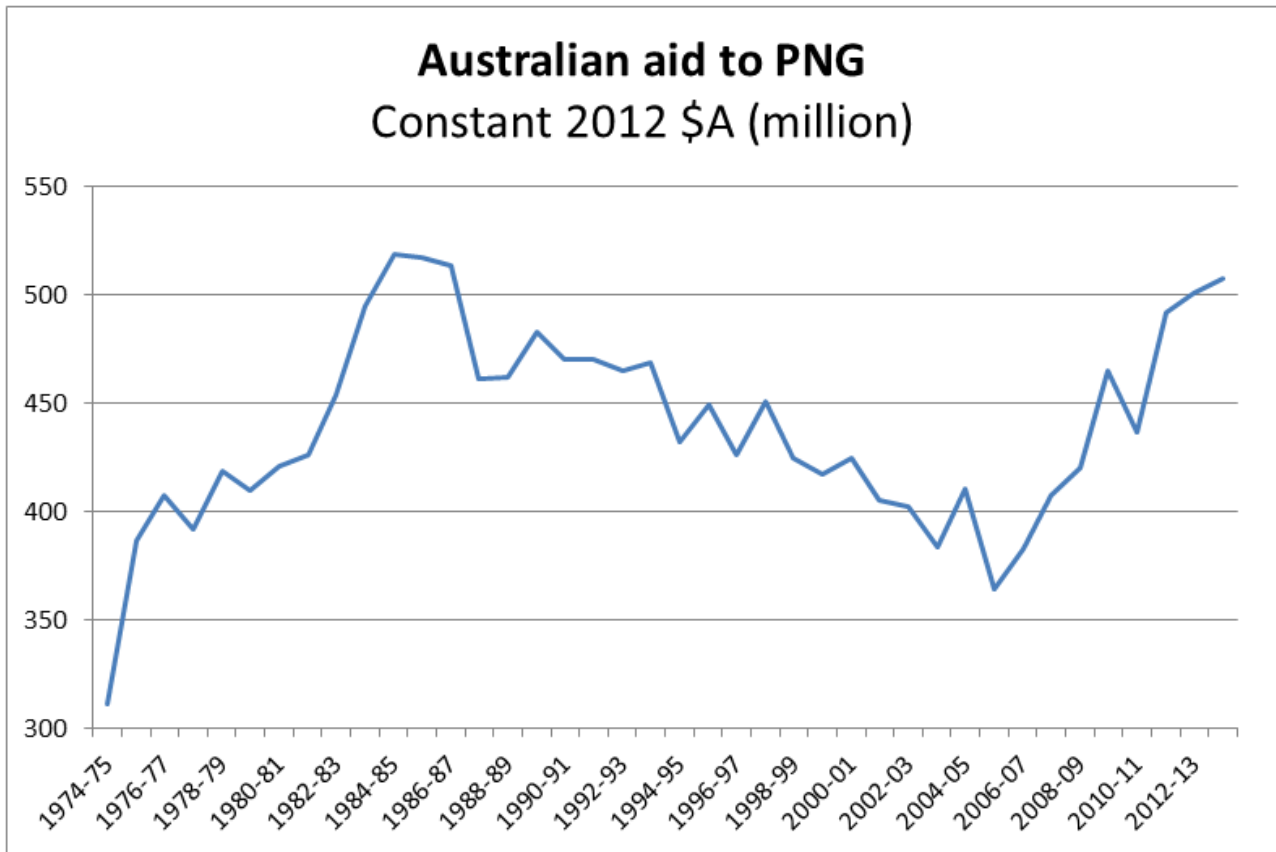
So what is going to happen?

First, there is going to be more capital spending. Look at the [announcements](#) made by Rudd in PNG and then [in Brisbane](#) with O'Neill on Friday. Three were restatements or expansions of long-standing initiatives and proposals: more Australian police, matching funding for the tertiary sector, and drugs for PNG clinics. But the other three were new capital projects: rebuilding the Moresby Court House, the Lae hospital, and the Ramu-Madang highway.

This shift towards more capital spending is the biggest change we can expect in the aid program. There has been little Australian-aid-funded capital spending in recent times. Most Australian aid to PNG goes to paying for advisers or scholarships, or to support existing services: getting drugs to rural clinics, maintaining roads. PNG has long wanted Australia to focus more on capital projects (or "high impact projects" as they are referred to). O'Neill has achieved this. This is what he means when he [says he has achieved the "realignment" of aid](#) which previous PMs have failed to do.

While it is a significant change, it is not a huge one, at least not yet. We [don't have any costings](#), but the annual costs of these projects will likely be relatively small by comparison to the \$500 million total of Australian aid given to PNG every year. The three capital projects are also at a very early stage of preparation. It might be a year or two before the detailed feasibility and design work is complete. There will also be contentious issues to negotiate. For example, Australia would not want to rehabilitate a hospital without discussions around maintenance and management.

Another thing we can be confident about is that there will be more aid to PNG. It is unlikely that the new initiatives will be paid for by cutting back existing initiatives. Aid to PNG has been increasing since 2005, reversing a long earlier decline (see the graph). It was already scheduled to increase to about close to \$700 million by 2015-16.^[1] Will aid increase by more than it would have without this agreement? You'd have to think it would, but it might not be by much.



Third, one would have to think that the leverage of the PNG Government will go up in relation to the aid program in general and the leverage of the Australian Government will go down. Aid projects frequently involve differences in perspectives, if not straight-out disagreements, between the donor and recipient government. An empowered recipient government is important for aid effectiveness, so this change in leverage might not be a bad thing. However, it will weaken Australia's voice in relation to important PNG policy issues.

Finally, there is also one major uncertainty. Manus can't be charged to the aid program, but what about the cost of supporting refugees in PNG after they are processed? This could be counted as aid. DAC guidelines say that resettling refugees in a developing country is an eligible aid expenditure. However, PNG doesn't seem very keen to resettle a large number of refugees. So, how important a liability this turns out to be remains to be seen.

Overall, then, what can one say? I finish with three points.

One, more detail is needed.

Two, the adjustments to the aid program seem to be fairly minor at this stage. However, they could grow over time. One possibility is that what has been announced is just the beginning and that many more capital projects will be proposed and developed. Another possibility, noted above, is that large post-processing refugee support costs could be charged to the aid program.

Three, we don't know enough about the new initiatives to make a full judgment, but the shift to capital projects, even if just at the margin, is unfortunate. We all know that maintenance is underfunded in PNG, and that maintenance has far higher returns than new construction. Why then would we then shift the aid program from maintenance to construction? Australia's commitment to supporting recurrent programs – not

only maintenance, but drugs and text books – has been important both for keeping services going, and important symbolically. It is unfortunate that this commitment has been weakened. It is understandable that PNG should want to see more visible results from the Australian aid program, but Australia should keep its focus on maintenance and service delivery.

Stephen Howes is Director of the Development Policy Centre. He was an author of the 2010 independent review of Australian aid to PNG, which reported to both governments. That report can be found [here](#). Its section 3.2 contains further analysis on whether aid should be used for recurrent or capital projects.

[1] This is based on the AusAID 2012 [Comprehensive Aid Policy Framework](#). The figure given in that report is for PNG and the Pacific, and I assume PNG keeps its relative weight within that larger country grouping.