

Treasury views on development effectiveness

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Development effectiveness

Outline of issue The aid budget will approximately double over the next five years to meet the Government's commitment to increase Australia's Official Development Assistance (ODA) expenditure to 0.5 per cent of gross national income by 2015-16. This will need to be managed in a strategic and cost-effective way. Simply scaling up existing activities will not deliver value for money.

The Pacific Island economies, which are a major focus of our aid program, face continuing challenges that will have implications for Australia. More than just increased aid is required to accelerate development outcomes in the Pacific.

The Treasury has released its [incoming government brief](#) as part of a Freedom of Information request. Here is their analysis of the increasing aid program and development effectiveness.

ODA is expected to increase from \$4.3 billion in 2010-11 to around \$8.6 billion in 2015-16. The Department of Finance and Deregulation (Finance) led Strategic Review scheduled for 2011 should consider the geographic and sectoral scope of the aid program to ensure that scaling up the aid budget by this magnitude can be delivered effectively and in line with Australia's priorities, and AusAID has the required capacity.

Around a quarter of Australia's ODA program is spent in Papua New Guinea (PNG) and the Pacific...

...Each of these countries face its own specific challenges which will have implications for Australia. PNG authorities must manage the impact of a large LNG project that has begun construction. Treasury is currently assisting PNG to consider options for the management of project revenue, possibly via a sovereign wealth fund, although this is a contentious issue. The efficient handling of this revenue flow is particularly important for PNG's economic development and will have implications for Australia's relations with PNG. Security issues may see greater calls for a considerably scaled-up engagement by the Australian Federal Police.

Fiji has entered into discussions with the International Monetary Fund for a program...Without an IMF program, the Fijian economy will continue in a precarious state.

Solomon Islands held general elections on 4 August...One of the greatest challenges to the incoming government is the fragile state of the Solomon Islands' economy. The drawdown of RAMSI will have to be carefully handled...

...Treasury continues to have officers working in PNG and the Solomon Islands. Additional aid funding will not necessarily greatly accelerate development outcomes. More than just increasing aid spending is required.

Sensitivities

There is a risk that the increase in the ODA budget, if not handled well, will result in less effective delivery and public criticism of the aid program. Economic problems in the Pacific could lead to further instability and place additional demands on Australia.

Next Steps

Aid and other development policies will require close scrutiny to ensure they meet basic value-for-money metrics.

A Finance-led Strategic Review of the aid program, which is scheduled for 2011, will be an important step to help plan for the implications of a significant increase in ODA spending.

Close monitoring of developments in the Pacific is important, along with assessing the effectiveness of existing assistance strategies.

It is a welcome step for Treasury to release this important briefing document - one which shapes the way government may approach development effectiveness.

Treasury makes some important points. Firstly, there is a need for a strategic plan to guide the scaling up of aid - and a growing number of commentators, including [ourselves](#), have called for this.

Second, Treasury highlight the importance of ensuring value for money and impact in the aid program. This too is a welcome step and the [review of Australian aid to PNG](#) provides some practical ideas for how to do this in one of Australia's biggest bilateral programs.

Third, it is good that Treasury have highlighted the importance of the LNG project in PNG - a project that will double the size of the PNG economy, but is not guaranteed to translate in better development outcomes. There needs to be more research and debate on this, both in PNG and Australia.

But there are also areas where the brief and its scope could have been improved. Firstly, it could have mentioned Australia's international poverty reduction commitments such as the Millennium Development Goals, working towards a 0.7 per cent of GNI target for aid, and implementing the Paris Declaration and Accra Action Plan on aid effectiveness.

Second, the brief could have looked beyond the Pacific. While our neighbours are important, they are not the only recipient of Australian aid - about three-quarters of aid is spent elsewhere. It would have been good to have some lines on aid to Asia, the rest of the World and multilateral aid.

Thirdly, given that the brief is about 'development effectiveness' more could have been said about broader development policies, such as migration, trade and climate change. Perhaps these are covered elsewhere in the briefing documents, but a point could have been made about the importance of these for achieving development outcomes.

The incoming government brief on development effectiveness is an important marker for discussions on aid and development policy. While Treasury hasn't quite got the parameters of the debate right yet, doing so will be important to the success of a new strategic plan.