

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE ON FOREIGN AFFAIRS AND DEFENCE

THE JACKSON REPORT ON AUSTRALIA'S OVERSEAS AID PROGRAM

MAY 1985

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Sub-Committee on the Jackson Report on Overseas Aid

Pursuant to Paragraph 8 of the Resolution of Appointment of the Committee the Chairman, Senator K W Sibraa and the Deputy Chairman, the Hon I M Macphee, MP were ex-officio members of the Sub-Committee.

Chairman: Mr G N Bilney, MP
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Senator N Bolkus
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Secretary to the Sub-Committee: Mr P F Bergin

Adviser to the Sub-Committee: Mr J Kerr-Stevens

ACFOA	Australian Council for Overseas Aid
AAECP	Asean/Australia Economic Co-operation Programme
ACP	Africa, Caribbean and Pacific (states associated with EEC)
ADAB	Australian Development Assistance Bureau
AfDB	African Development Bank
AFFHC	Australian Freedom from Hunger Campaign
AsDB	Asian Development Bank
AsDF	Asian Development Fund
ASEAN	Association of South-East Asian Nations
CAA	Community Aid Abroad
CAI	Confederation of Australian Industry
CDB	Caribbean Development Bank
DIFFs	Development Import Finance Facility
DIGs	Development Import Grants
EEC	European Economic Community
EFIC	Export Finance and Insurance Corporation
GNP, GDP	Gross National Product, Gross Domestic Product
HOMDAF	Head of Mission Discretionary Aid Fund
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
ODA	Official Development Assistance
OECD, DAC	Development Assistance Committee of the Organisation for Economic Co-operation and Development
NGO	Non-Government Organisation
SAS	Staffing Assistance Scheme
UN	United Nations

CHAPTER 1 - INTRODUCTION

Source of the Reference

1.1 The report of the Committee to Review the Australian Overseas Aid Program was tabled in the House of Representatives by the Minister for Foreign Affairs, the Hon Bill Hayden, on 7 June 1984. The Review Committee was chaired by Sir Gordon Jackson and is generally referred to as the Jackson Committee and the report as the Jackson Report which the Minister described as 'comprehensive' and would be the subject of debate within the community. The Minister went on to state:

'The Government will value the views of all those who care to contribute, whether they be non-government organisations, commercial interests or colleagues in Parliament. I am accordingly referring the report to the Joint Committee on Foreign Affairs and Defence and am also drawing it to the attention of the Public Accounts Committee.'

1.2 The Minister subsequently wrote to the then Chairman of the Committee and formally referred the report to the Committee for inquiry and report.

1.3 The Committee appointed a working group of six members to consider the report. The members were the then Chairman, Hon W L Morrison, MP, the then Deputy Chairman, Hon M J R MacKellar, MP, Senator K W Sibraa, Senator R Hill, Mr G N Bilney, MP, and Mr W P Coleman, MP. The Chairman then wrote to a number of Ministers and invited submissions on the impact of the report on their respective departments. Responses were received but before these responses could be considered the Parliament was dissolved.

1.4 On 11 October 1984 the then Chairman presented a report that the Committee had been unable to complete the inquiry. In tabling the uncompleted inquiry report reference was made to the reports on Australia and ASEAN and the Provision of Development Assistance and Humanitarian Aid to the Horn of Africa which dealt with issues covered in the Jackson Report.

1.5 The Committee appointed in the present Parliament resolved to continue the inquiry at its first meeting on 28 February. It appointed a sub-committee to conduct the inquiry. Mr G N Bilney, MP was elected Chairman of the sub-committee and Senator R Hill, Deputy Chairman. The other members of the sub-committee were Senator N Bolkus, Senator N A Crichton-Browne, Senator R C Elstob, Mr D P Beddall, MP, and Mr D F Jull, MP. The Chairman of the Main Committee, Senator K W Sibraa and the Deputy Chairman, Hon I M Macphee, MP, were both ex-officio members of the sub-committee.

Conduct of the Inquiry

1.6 At its first meeting the sub-committee decided not to repeat the information collecting exercise adopted by the Jackson Committee. Accordingly, the inquiry was not advertised nor were submissions sought from the general public. The sub-committee did however receive a number of representations from individuals and organisations interested in the inquiry. A list of the submissions received is Appendix A.

1.7 The sub-committee then invited some of the Departments that had made submissions to appear before it at a public hearing. Hearings were held in Canberra on 9 and 10 April and some 31 witnesses representing 12 departments and organisations appeared before the sub-committee.

1.8 Appendix B lists the witnesses who appeared before the sub-committee. The transcript of the hearings which ran to over 550 pages is available from the National Library and the Committee Secretariat.

1.9 In addition to the Commonwealth Departments the Australian Council for Overseas Aid (ACFOA), an organisation which represents the voluntary aid groups and the Confederation of Australian Industry (CAI) were invited to make submissions and appeared before the sub-committee. These two organisations were able to provide the sub-committee with a different perspective from that put forward by the departmental witnesses.

1.10 Both the sub-committee and the working group appointed in the previous Parliament had informal discussions with Sir Gordon Jackson and some of the members of his committee. The submissions to the Jackson Inquiry were also made available to the sub-committee.

1.11 Issues relevant to the Jackson Report were considered as part of the discussions members of the sub-committee had with members of the diplomatic community and with overseas visitors to Australia.

Guidelines for the Inquiry

1.12 As noted in para. 1.6, the sub-committee decided not to carry out a wide-ranging inquiry. It decided to aim at presenting its report to the Parliament before it rose for the winter adjournment.

1.13 The sub-committee decided to give particular attention to the issues which are attracting public debate. In his statement at the opening of the public hearing, the Chairman of the sub-committee referred to six broad areas on which it intended to concentrate. Those areas, which are considered in

more detail later in this report were aid philosophy, trade and aid, aid to Papua New Guinea, geographical distribution of aid, multilateral aid and the constraints on the effective delivery of Australian aid.

1.14 The Minister for Foreign Affairs, in a letter to the Chairman of the Main Committee referred to discussions on a new aid arrangement with Papua New Guinea, at the end of May 1985. He then expressed the 'hope that the Government will have the benefit of the Committee's views in time for them to be taken into account in the forthcoming negotiations'.²

1.15 The Minister referred to action taken to implement some of the recommendations of the Jackson Report but said that others had 'been held in abeyance in order to allow time for public and Parliamentary discussion'.³

1.16 The views of the Government were noted by the Chairman of the Sub-Committee in his opening statement when he quoted from the letter from the Minister for Foreign Affairs noting that:

'The restraints on Governments outlays in accordance with the Government's priority of reducing the fiscal deficit...the aid program will not be able to be exempted from the overall restraints that will apply to governmental expenditure'.⁴

The Committee was conscious of these factors in undertaking the inquiry since the aid program forms a significant portion of government outlays. Net expenditure on Australia's official development assistance in 1984-85 was estimated at \$992.5 million.

Structure of the Report

1.17 As noted earlier, the sub-committee identified six issues which it intended to pursue during the course of the inquiry. These issues are the subject of chapters three to six in this report. A further chapter deals with the issue of education which was the subject of another inquiry, the Goldring Inquiry. It was commented on in the Committee's report on Australia and ASEAN : Challenges and Opportunities. It was also the subject of a statement by the Minister for Education on 22 March 1985.⁵

1.18 The final chapter deals with other issues which were raised during the course of the inquiry. Before dealing with the issues the Committee has, in the following chapter, provided an outline of the existing program, and the trends in the program in recent years.

ENDNOTES

1. House of Representatives, Hansard 7 June 1984 p. 3068.
2. Transcript of evidence p. 4.
3. Evidence p. 5.
4. Evidence p. 3.
5. Senate Hansard, 22 March 1985, p. 631.

CHAPTER 2

AUSTRALIA'S OVERSEAS DEVELOPMENT ASSISTANCE PROGRAM

Introduction

2.1 The purpose of this chapter is to provide an outline of the Australian Aid program and not to repeat all the descriptive information included in the Jackson Report. The Department of Foreign Affairs provides details of Australia's Overseas Aid Program in a number of publications. These include broadsheets outlining the program, detailed reports on the components of the bilateral aid program and occasional publications on specific projects.

2.2 A summary of the program is included in Budget Statement No.1 which covers foreign affairs, overseas aid and external territories. A general classification of the program is under three broad headings, bilateral aid, multilateral aid and aid administration. This statement is supplemented by a budget paper on the aid program.

The Aid Program

2.3 The 1984-85 budget provided \$973.7m for the aid program. This represented an increase of 7.1% on 1983-84. Certain other aid related expenditures which were taken into account increase total aid expenditure to \$992.5m. The following table (2.1), which has been taken from the 1984-85 Budget statement includes details of the aid program over the past three years.

TABLE 2.1

FOREIGN AFFAIRS, OVERSEAS AID AND EXTERNAL TERRITORIES

	1982-83 Actual	1983-84 Actual	1984-85 Estimate	Change	
	\$m	\$m	\$m	\$m	%
Aid Payments-					
Bilateral Aid-					
Papua New Guinea	275.9	302.1	314.1	+12.0	+ 4.0
Projects, Technical Co-operation and Related Activities	154.5	183.3	198.5	+15.2	+ 8.3
Training	26.8	29.9	34.2	+ 4.3	+14.6
Contribution for Students from Developing Countries(a)	86.3	95.0	98.6	+ 3.6	+ 3.8
Food Aid	69.6	70.1	58.5	-11.6	-16.6
Other	29.2	33.1	48.5	+15.4	+46.5
Total Bilateral Aid	642.3	713.5	752.5	+38.9	+ 5.5
Multilateral Aid-					
International Development Finance Institutions	67.1	102.7	99.3	- 3.4	- 3.3
UN Programs, Regional and Other International Organisations	93.0	81.6	108.8	+27.1	+33.2
Total Multilateral Aid	160.1	184.3	208.1	+23.7	+12.9
Aid Administration	10.9	11.3	13.1	+ 1.8	+16.2
Total Aid	813.3	909.2	973.7	+64.5	+ 7.1
Membership of International Organisations and Other Non-Aid Expenditure	40.8	39.6	43.6	+ 4.0	+10.1
External Territories	5.2	6.7	12.4	+ 5.7	+84.5
General Administration Expenditure	193.2	212.2	235.5	+23.3	+11.0
Recoveries and Repayments	8.0Cr	7.4Cr	3.6Cr	+ 3.9	+52.1
TOTAL FOREIGN AFFAIRS, OVERSEAS AID AND EXTERNAL TERRITORIES(b)(c)	1044.6	1160.2	1261.6	+101.3	+ 8.7

- (a) The net cost to the Commonwealth of educating students from developing countries within Australia is identified for the first time in this year's budget. To assist in comparisons, the figures for 1982-83 and 1983-84 have also been adjusted to incorporate this item.
- (b) Referred to elsewhere in Budget documentation as 'Foreign Affairs Overseas Aid'.
- (c) Some figures in the table differ slightly from those shown in Budget Paper No.9 because of the use of different concepts for recording Australia's overseas aid performance.

Source: Budget Statements 1984-85. Budget Paper No. 1 page 238.

2.4 Table 2.2 shows the growth of the Australian aid program. From this table it may be seen that while growing substantially in money terms, in real terms (after allowing for the effect of including a contribution towards the education of students from developing countries in 1983-84 and 1984-85) there has been very little growth in the last decade.

2.5 As a percentage of GNP, aid has declined from an average of above 0.55 per cent in the decade to 1975, a figure, moreover, which did not allow for student costs, to its present level of 0.49 per cent or about 0.44 excluding student costs. On the internationally comparable figures published by the OECD.DAC, Australia's performance can be seen to have declined from 0.65 per cent in 1975, when we ranked fourth amongst the DAC's seventeen members, to 0.49 per cent in 1983, ranking equal seventh: table 2.3 refers. Australia provides all its aid on grant terms, one of only two donors (New Zealand is the other) so doing.

Composition and Distribution

2.6 Table 2.2 also shows the main program elements of the Australian aid program. Aid to Papua New Guinea still dominates the program accounting for over 30 per cent of disbursements: although having increased continually in money terms since the 1960s, its share of the program has declined considerably from a peak of 70 per cent. There has been a sharp increase in the share of multilateral aid in recent years, rising from an average of about 14 per cent in the 1970s to its current level of 22 per cent. This increase is largely accounted for by an increase in our multilateral food contributions.

TABLE 2.2
GROWTH OF AUSTRALIAN AID
(encashment basis)

(\$'m)	Multilateral Programs	Bilateral Programs	Papua New Guinea	Total Development Assistance	Constant Prices(c)	ODA/GNP Ratio
1964-65	5.7	24.0	68.1	97.8	423.2	0.51
1965-66	8.5	25.7	75.4	109.6	460.6	0.54
1966-67	13.2	28.2	84.3	125.7	515.0	0.56
1967-68	14.6	34.3	92.4	141.3	560.7	0.59
1968-69	13.4	37.5	100.8	151.7	569.0	0.58
1969-70	11.9	39.5	116.3	167.7	630.6	0.58
1970-71	12.3	43.3	125.0	180.6	633.6	0.56
1971-72	13.0	51.0	136.5	200.5	659.6	0.55
1972-73	14.5	60.0	144.3	218.8	660.3	0.53
1973-74	18.0	65.7	177.1	260.8	695.3	0.53
1974-75	49.6	109.7	168.8	328.1	741.9	0.57
1975-76	43.4	91.5	211.9	346.8	687.2	0.51
1976-77	59.7	92.2	226.4	378.3	670.5	0.47
1977-78	79.2	119.8	219.4	418.4	686.2	0.48
1978-79	68.9	154.4	237.2	460.5	700.1	0.45
1979-80	89.3	175.3	235.6	500.2	685.5	0.44
1980-81	100.7	222.2(a)	245.1	568.0	695.2	0.44
1981-82	137.6	267.3(a)	252.9	657.8	730.1	0.45
1982-83	177.7	292.0(a)	274.9	744.6	744.6	0.47
1983-84	202.9	426.7(a)	302.3	931.8	872.8	0.51
1984-85(est)	221.8	454.1(a)(b)	316.0	992.5	873.1	0.49

(a) Includes administrative costs.

(b) Includes contribution towards the education of students from developing countries within Australia. See Annex C for a further explanation.

(c) 1982-83 = 100

Source: Budget Paper No. 9; 1984-85. Australia's Overseas Development Assistance Program. Tables 10 & 11.

TABLE 2.3: ODA/GNP RATIO, DONOR COMPARISON¹

Net disbursements

	1970	1975	1980	1981	1982	1983
DAC countries						
Netherlands	0.61	0.75	1.03	1.08	1.08	0.91
Norway	0.32	0.66	0.85	0.82	0.99	1.00
Sweden	0.38	0.82	0.79	0.83	1.02	0.85
Denmark	0.38	0.58	0.74	0.73	0.76	0.73
France	0.66	0.62	0.64	0.73	0.75	0.74
Belgium	0.46	0.59	0.50	0.59	0.59	0.59
Germany	0.33	0.40	0.44	0.47	0.48	0.49
Australia	0.62	0.65	0.48	0.41	0.56	0.49
Canada	0.41	0.54	0.43	0.43	0.41	0.45
United Kingdom	0.39	0.39	0.35	0.43	0.37	0.35
Finland	0.06	0.18	0.22	0.28	0.30	0.33
Japan	0.23	0.23	0.32	0.28	0.28	0.33
Austria	0.07	0.21	0.23	0.33	0.35	0.23
New Zealand	0.23	0.52	0.33	0.29	0.28	0.28
Switzerland	0.15	0.19	0.24	0.24	0.25	0.32
United States	0.32	0.27	0.27	0.20	0.27	0.24
Italy	0.16	0.11	0.17	0.19	0.24	0.24
	0.34	0.36	0.38	0.35	0.38	0.36

1. Internationally comparable figures: deposit basis, calendar year. 1970 and 1975 data exclude administrative costs for all countries with the exception of the United States. Countries ranked according to their performance vis-a-vis the ODA/GNP target in recent years.

Source OECD 'Development Co-operation' Paris 1984.

2.7 The following table (2.4) lists the major recipients of Australian bilateral aid. Table 2.4 also provides a regional analysis of our aid by activity which shows that, Papua New Guinea excepted, the major emphasis is on South East Asia. If student costs were allocated by country of origin this emphasis would be even more apparent. The amounts allocated to the South Pacific and Africa are roughly comparable although the Pacific program is concentrated on project aid and the African program on food aid.

2.8 From table 2.4, it may also be seen that our bilateral aid is heavily oriented towards middle-income countries: in particular only 9 per cent is allocated to the 'least developed' countries. The main reason for this is the geographic bias of the program towards South East Asia and the Pacific, regions which include relatively few countries classified as low-income or least developed.

TABLE 2.4
DISTRIBUTION OF BILATERAL AID

(A) By Major Recipient, percentage¹

1	Papua New Guinea	50.2	7	Burma	1.8
2	Indonesia	9.4	8	Tanzania	1.7
3	Thailand	3.9	9	Fiji	1.7
4	Bangladesh	3.5	10	Malaysia	1.2
5	Philippines	2.9	11	Solomon Is	1.2
6	China	1.9	12	Egypt	1.1
				TOTAL	80.5

\$492m

(B) Australian Bilateral Aid by Type and Region Notional Allocation - 1984-85

(\$'000)

Region	Project Aid (a)	Training Aid	Food Aid	Other Aid (b)	Totals
Papua New Guinea	-	-	-	316 589	316 589
South East Asia	90 762	16 896	2 802	29 918	140 378
South Pacific (excluding PNG)	40 202	5 652	-	-	45 854
South Asia	12 177	3 216	15 325	2 308	33 026
North Asia	11 660	344	-	8 085	20 089
Africa and Middle East	11 589	4 188	33 527	-	49 304
Other Regions	420	1 104	-	-	1 524
Unallocated to Regions(c)	3 020	101 424	5 334	34 334	144 112
Total	169 830	132 824	56 988	391 234	750 876

(a) Includes DIGs, SAS and Discretionary Aid activities.

(b) Includes Co-financing with International Institutions, AAECF, Disaster Relief, NGO support programs, DIFF, aid to PNG and expenditure by other Government Departments and instrumentalities.

(c) Includes \$98.6 million contribution towards education costs of students from developing countries within Australia.

(C) By Income Grouping¹

	\$m	%
Low-income countries	180.7	30.0
- of which LLDCs	54.6	9.1
Middle-income countries	376.9	62.6
- of which PNG	302.3	50.2
Others	<u>44.7</u>	<u>7.4</u>
Total	602.3	100.0

1. Year ending 30 June 1984, excluding student costs.

Sources: 'ADAB Statistical Summary 1983-84', 'Australian Bilateral Aid 1984-85', both published by ADAB; and Budget Paper No. 9.

CHAPTER 3

THE RATIONALE AND PURPOSE OF AID

The Rationale for Aid

'Australia, like other Western aid donors, gives aid for a complex of reasons, with humanitarian considerations being paramount. My Government believes it is the unquestionable right of all human beings to be relieved of poverty and to have a decent standard of living.'¹

3.1 Statements such as this by Mr Peacock have typified Australia's bi-partisan approach to foreign aid with the primary humanitarian, or altruistic, basis for aid having been recognised by successive governments. This has, however, resulted only in a generalised commitment to provide a reasonable level of assistance to developing countries: a comprehensive, logical rationale for the giving of aid has never been developed - the complex of reasons referred to above has never been clearly defined.

3.2 This complex of reasons clearly covers both humanitarian and other concerns: in its opening statement, the Jackson Report attempts to place these in context in a single all-encompassing statement:

'Aid is given primarily for humanitarian reasons to alleviate poverty through economic and social development... Aid also complements strategic, economic and foreign policy interests, and by helping developing countries to grow, it provides economic opportunities for Australia.'²

3.3 In reaching this conclusion, the Jackson Committee had the opportunity to examine the views of the community in the more than 400 submissions it received and in the hearings which it conducted. The results of this exercise were summarised thus:

'Australians generally agree that the overall aims of foreign aid are to achieve humanitarian, strategic and commercial goals, and are prepared to support an aid program which achieves these objectives. Australian aid policy has, therefore, not one but several mandates, and these need to be balanced against each other through the political process.'³

Reactions to the Report

3.4 There has been considerable criticism of the above broad view of the rationale underpinning aid. Although the report recognised commercial interests as a legitimate aspect of the aid program, it has been strongly put to this Committee that these interests should have a much higher place in the aid program than Jackson indicated: in effect that the aid program should have a considerable commercial orientation - albeit without detracting from aid objectives of a development or humanitarian nature. These views are discussed in Chapter 6 of this report.

3.5 At a more general level, the overall basis of the Jackson rationale has been questioned. In its submission, ACFOA expresses regret that the Jackson Report 'has failed to end the confusion that exists around the objectives of Australia's aid program'⁴ although they commend the statement "Aid is given primarily for humanitarian reasons to alleviate poverty through economic and social development",⁵ which they believe should be the principal aim of the aid program.

3.6 Community Aid Abroad, a voluntary organisation, is rather more direct in its criticism, '(the Jackson report and recommendations) are now seen by CAA as a totally unacceptable basis for Australia's overseas aid program... (the report) does nothing to solve the present 'confusion of objectives' of the aid program.'⁶ The Australian Freedom from Hunger Campaign 'cannot agree with the underlying philosophy of the Report... (it) fails to delineate an effective aid strategy which will have poverty alleviation as its focus ... places too much emphasis on growth and little on equity.'⁷

3.7 Goals, aims, principals, objectives, mandates, interests, concerns and philosophy are words which are all freely substituted in discussing the answer to the simple question Jackson poses, 'Why Give Aid'. While whatever answer and terminology is used will cause concern to some, the Jackson report has identified the principal factors which constitute the rationale for aid.

Motivation

3.8 As Jackson states, the principal motive for giving aid is humanitarian: its overriding policy goal is development. Development is not only in the interest of the Third World, it serves our national interests and objectives as well -whether these be economic, strategic or humanitarian. As pointed out in the Brandt Report, there is a mutuality of interests between developed and developing countries.⁸ Therefore, as long as pursuing other elements of our national interest does not jeopardise the overall developmental goal of our aid program, then they are legitimate factors in the national mandate for aid. This is a view not entirely dissimilar to that put forward by ACFOA, who have commented to the effect that a program focussed on developmental priorities and humanitarian concerns could serve national and foreign policy interests and that within these concerns the commercial sector can participate to the fullest extent in providing goods and services.⁹

Conclusion

3.9 The Committee endorses the basic concepts put forward by Jackson that, firstly, the primary reason for giving aid is humanitarian; that, secondly, the goal of the aid program is development; and that, at a third level and without compromising the integrity of the aid program, there can be a concidence of humanitarian, foreign policy and economic objectives, 'a plurality of mandates'¹⁰; and that humanitarian concerns must be paramount. These mandates have to be taken into account in the Government's decisions on the direction of the aid program in order to ensure continuing broad-based community support.

The Purpose of Aid

3.10 Closely related to the question of aid rationale is that of aid purpose, or how aid can most effectively assist in the process of development. The Department of Foreign Affairs in their submission, stated 'The Jackson development philosophy is unambiguous. Development must be sustainable and therefore must be oriented towards the twin objectives - growth with equity.' Jackson notes that development cannot be achieved solely by concentrating on basic needs: infrastructural development is also essential. Its recommendation on the purpose of Australian aid is quite clear:

'In some circumstances poverty alleviation and a contribution to economic growth could be combined. However, in the main, Australian funds and skills would be most effective when applied to removing major constraints to development.'¹¹

3.11 Again, this view generated debate. The report's economic analysis was classified as neo-classical and out of date, '(the report) seems to be providing little more than a thinly veiled justification for the long discredited 'trickle-down process' as

a basis for our aid effort;¹² ACFOA expressed disappointment at the 'continuing reliance on the widely questioned 'trickle-down' approach to economic development...'13 The Jackson view has not been without its supporters, however: the Confederation of Australian Industry endorsed the reports emphasis on development and sustainable economic growth¹⁴ and the Department of Housing and Construction supported the view that 'Australian government aid funds and skills are most effective when applied to removing major constraints to economic development.'¹⁵

3.12 At the centre of this debate lies the issue of developmental priorities and how best official aid can foster development (the Jackson report made no prescription for non-official aid flows). Development theory and the role of aid in the development process has been the subject of much academic debate since the 1950s¹⁶ however public perception of the debate has tended to focus on the 'trickle-down' versus basic needs arguments.

3.13 Trickle-down theory, which emphasises the benefits of economic growth, dominated development thinking in the 1950s and 1960s. Aid was directed to the provision of infrastructure, a necessary component of economic growth. However, a marked change in attitudes occurred in the late 1960s and early 1970s. There was evidence that developmental benefits were not reaching the poor as rapidly as had been expected and that the number of absolute poor¹⁷ in the world was increasing. This resulted in the development of a basic needs or people-oriented 'grass-roots' approach including the provision of adequate shelter, health-care, food and education. The concern shifted from economic growth as a means to achieve the alleviation of poverty to the direct alleviation of poverty itself: often this was equated with 'aid for humanitarian purposes.'

3.14 There is no doubt that the greater attention given in recent years to basic human needs aspects has introduced - or re-emphasised - an extremely important element in aid programs which ought always to be given adequate attention in the design of particular projects, but which in some cases, may have been lost sight of. But saying that is not to deny that infrastructure projects are necessary to ensure self-sustaining development. The achievement of basic human needs objectives over the long term requires not only short term humanitarian assistance but aid directed at achieving self-sustaining growth. For example, massive investment in hydro-electric power has ensured rural electrification in India; in much of the Third World, small farmers who have benefitted from improved agricultural techniques now have the roads to enable them to get their goods to market. The trickle-down versus basic needs argument is not an either/or situation: rather it is about ensuring that in any one country the mix of development projects will help foster self-sustaining development.

3.15 Jackson's analysis on the use of official aid funds is not, however, governed by theoretical arguments but rather is concerned with ensuring maximum effectiveness. The aim is to ensure that both the Australian Government and its aid recipients get the best value out of the Australian aid dollar. It is in this regard that the upgrading of ADAB's skills recommended by Jackson assumes major importance. When this is accomplished, it will be better able to identify those projects which have the highest returns and better able to implement them.

3.16 The Department of Foreign Affairs have assessed this concern with effectiveness as 'perhaps (the reports) major contribution to the debate on this issue (Australia's aid program)',¹⁸

Conclusion

3.17 The manner in, or purpose for which aid funds are applied must be related to ensuring their maximum developmental impact. In view of the scale and nature of the resources that can be mobilised by a donor government, its most effective contribution will often be in removing major constraints to development which are beyond recipients' capacity to overcome. The positive benefits that can flow from such investments should not be underestimated: the rural electrification program in India has, for example, increased educational opportunities for the peasantry. However, decisions on the most effective use of Australia's aid, whether it may be for infrastructural development or for basic needs projects, will have to be on a case by case basis in the context of comprehensive country programming.

ENDNOTES

1. Mr Peacock, Address at Swinburne College, November 1976.
2. Jackson Report p.3.
3. Jackson Report, p.19.
4. Evidence p.494.
5. Evidence, p.494.
6. CAA Review, September/October 1984.
7. Submission from AFFHC, p.8.
8. Report of the Brandt Commission: 'North-South: A program for Survival', Pan, London 1980, p.20.
9. Evidence, 10 April 1985, pp.501-502.
10. Evidence p.18.
11. Jackson Report, p.4.
12. CAA Review, September/October 1984.
13. ACFOA Press Release, 7 June 1984.
14. Evidence, p.259.
15. Evidence, p.282.
16. The Jackson Report, p155, suggests a number of publications that outline the debate on aid; a more extensive bibliography is contained in J. White's 'The Politics of Foreign Aid (The Bodley Head, 1974).
17. See for example the address by Robert J McNamara to the IBRD Board of Governors, 1978. (World Bank, Washington, 1978).
18. Evidence, p.17.

CHAPTER 4

RESOURCE CONSTRAINTS & AID EFFECTIVENESS

4.1 There are two major resource constraints which affect the Australian aid program: its volume and the efficiency of the organisation administering the program.

Aid Volume

4.2 Aid volume by itself is no particular measure of how effective aid is or of the extent of its developmental impact. Nevertheless, donor performance is usually measured in relation to its achievement or non-achievement of the U.N. target for aid of 0.7% of GNP: the ODA/GNP ratio. It should be noted that this target has no statistical validity as a measure of the volume of aid required to promote the process of development.¹ However, as the Jackson report noted:

'Although it is an arbitrary goal, it is useful as a yardstick of donor's willingness to assist less developed countries.'²

4.3 Most donors³ have committed themselves to achieving this target, as have successive Australian Governments. Five of the OECD.DAC's seventeen members have already exceeded that target (Table 2.3 refers) while three others have indicated that they will achieve it by the end of this decade.⁴ Australia's position has always been that while committed to the target, progress towards it will depend on economic circumstances. While this pragmatic consideration will always exist, progress towards achievement of this target is a measure of our commitment to development and this Committee would support the Jackson recommendation in this regard. More importantly, as Jackson states, Australia should not allow the share of GNP allocated to

aid to fall. Should the ODA/GNP ratio fall any further than it has in recent years, then clearly the commitment of Australia to assist its developing country neighbours could be called into question.

4.4 While achieving the 0.7 per cent target is a desirable aim for Australia, more important to the immediate program is the volume of resources that are available to it each year. For a program with as large and diverse a range of delivery mechanisms and of recipients as Australia's, small shifts in the size of the program can have dramatic effects.

4.5 The Jackson Report envisaged its recommendations being implemented against a background of sustained growth in the aid program, sufficient to at least maintain the ODA/GNP ratio, together with (i) a continuing real decline in the level of aid to Papua New Guinea; and (ii) no further growth in the level of food aid. Indicative scenarios showing how the Jackson recommendations could be accommodated were included in the Report.⁵ However, as stated by the Department of Foreign Affairs,⁶ the minimum level of real growth anticipated by Jackson was not achieved in the first year after tabling of the report; no decision to hold food aid constant in dollar terms has been taken by the Government; and a decision on the level of our future commitment to Papua New Guinea is awaited. Mr Hayden has already indicated to this Committee that 'the aid program will not be able to be exempted from the overall restraints that will apply to Government expenditure'.⁷ In this connection, the Committee notes with considerable disquiet the announcement of the Treasurer on 14 May 1985 that the forward estimates for the 1985/86 aid program have been reduced by \$23.9 million and that there will be a decline in the ratio of official development assistance to gross national product in that year.

TABLE 4.1
INDICATIVE SCENARIOS FOR THE DEVELOPMENT OF THE AID PROGRAMME

	Scenarios (1984/85 Constant Prices)				
	'Low' (a)		'Optimistic' (a)		
	(Maintain Real Value)		(3 per cent growth)		
	1984/85 \$m(b)	1988/89 \$m	1993/94 \$m	1988/89 \$m	1993/94 \$m
PNG	317	281	241	281	241
Education/Research	143	143	143	143	193
Project Aid	159	63	30	165	215
Project Related Activities (c)	38	84	94	95	123
NGOs	9	20	35	22	45
DIFFs	16	35	50	39	65
Other(d)	11	20	20	22	26
TOTALS					
Bilateral	693	646	613	767	908
Food	112	112	112	112	112
Multilateral	167	209	242	209	242
Administrative	20	25	25	28	32
TOTAL	992	992	992	1116	1294
AID/GDP RATIO(e)	0.49	0.44	0.38	0.49	0.49

(a) The Jackson Committee Report had 'Low' and 'Optimistic' scenarios of 3 and 5 per cent growth. This revision adopts the more conservative figures of nil and 3 per cent.

(b) Original 1984/85 appropriations; additional funding for Ethiopian famine relief not included.

(c) Includes technical assistance, co-financing, DIGs and HOMDAF.

(d) Includes disaster relief and expenditure by other departments.

(e) 3 per cent economic growth rate assumed.

Note: Individual program projections have been made on the same basis as the Jackson Committee Report except that project aid rather than education and research has been used as the balancing item. Because of the high, relatively constant, level of the student subsidy, it is not possible to use education and research as a balancing item in the no growth scenario. In the 3 per cent growth scenario, available funds in 1993-94 are distributed evenly between project aid and education and research.

Source: Department of Foreign Affairs, April 1985.

4.6 In view of the above developments, the Committee requested the Department of Foreign Affairs to update Jackson's scenarios. Two scenarios have been provided based on expectations of zero and three per cent real growth in the program. Wherever possible, Foreign Affairs have used the same assumptions as Jackson and taken into account the same recommendations. (Table 4.1 refers). As may be noted, the effects of zero growth in the aid budget are rather dramatic in terms of the Aid/GNP ratio and also on the most visible element in our aid program, project aid. Under the 3 per cent growth scenario, the effects are less dramatic but the growth in the project aid program is clearly less than that envisaged by Jackson. These projections serve to validate the Department of Foreign Affairs comment that:

'Clearly if either of these assumptions (real growth in the aid budget and real decline in the level of aid to PNG) is not realised to the extent anticipated by the Committee, the Government, in setting priorities amongst competing claims, may have to assign quite different amounts to constituent parts of the program. In a situation of no real growth, for example, increases in one program may have to be offset by adjustments elsewhere.'⁸

4.7 The above table highlights (i) the crucial role of aid to Papua New Guinea and the manner in which the size of this program may crowd out many or all of the initiatives recommended by Jackson, particularly if the rate of decline in aid to Papua New Guinea is lower than that envisaged by Jackson and (ii) the growing likelihood that implementation of some of the Jackson recommendations which require increased funding may have to be foregone or at best delayed: it is not realistic to expect the project aid program to be cut substantially so as to finance all of these initiatives.

4.8 The Committee notes that the Jackson Committee saw these initiatives as contributing to a more effective program. Therefore, while the overall level of the aid program remains a matter for the Government to determine in the light of broader considerations, the Committee draws attention to the effects of a decision to reduce the level of aid in relation to GNP and to the consequent detrimental effects on the effectiveness of the aid program.

Aid Management

4.9 Unless the organisation responsible for administering the aid program is efficient, then the overall effectiveness of the program is impaired. That ADAB, previously ADAA and before that an amalgam of units from different government departments, has been less than wholly effective is widely recognised. There have been fourteen reviews on aspects of Australia's aid administration since 1974: this is at the least indicative of shortcomings in the operation of the program. It is a reflection on the commitment of many of ADAB's staff that they have been to the forefront of those in calling for reform and improvement.

4.10 Aid administration in Australia has had a long and sad history of neglect which has had a cumulative and detrimental effect on the morale and capacity of ADAB. That ADAB's performance has been less than optimum has been recognised in recent years by the Joint Committee of Public Accounts and the Auditor-General.⁹ The OECD.DAC in its 1983 review of the Australian aid program¹⁰ also drew attention to the extent of the aid management problems facing Australia.

4.11 The Jackson Committee identified the shortcomings in ADAB's performance as a major drawback to improving the effectiveness of the aid program and devoted a fifth of its report to analysis of deficiencies and solutions regarding management capacity, management systems and staffing resources.

Although it was able to identify some strengths, shortcomings were described as 'widespread' and amongst those mentioned were lack of:

- . sufficiently qualified staff;
- . adequate financial planning and management systems;
- . detailed policy goals and policy-making capacity;
- . country programming techniques;
- . information systems;
- . adequate appraisal, monitoring and evaluation capacity; and
- . necessary support services

In short, it amounted to a fairly damning assessment of an organisation responsible for disbursing a billion dollars a year.

4.12 Jackson recommended coherent change on four broad fronts: (i) an immediate 'catch-up' program to remedy the most critical deficiencies; (ii) an on-going program to strengthen management; (iii) a different internal structure which will allow the necessary work to be done in a professional style; (iv) and a different place within the bureaucracy so that accountability is clear and necessary resources are available within the organisation. Public reaction to these recommendations has been strongly supportive of them.¹¹ Similarly, this Committee strongly supports the Jackson recommendations on aid management.

4.13 The Department of Foreign Affairs has stated that 'initiatives are underway to improve the resources and capabilities of ADAB'¹² and has listed a number of major themes which are currently being pursued as well as the establishment of a new organisational structure.¹³ As the Department of Finance has stated¹⁴ what amounts to a vast organisational change will

have to be undertaken in stages. For this to be effective, it will therefore be necessary for the Government to remain committed to a sustained program aimed at improving management systems and resources, as well as encouraging staff development and the recruitment of appropriately qualified staff. As the Department of Foreign Affairs state:

'An appropriate organisation structure to reflect program priorities in the first step in this process but must be followed by the introduction of program delivery systems, financial and other supply arrangements, communications and control mechanisms, and management information systems.'¹⁵

Ensuring the Program Works

4.14 Reorganisations and recommendations for dynamic change are not always successful no matter how well founded they may be in principle. This may be particularly so in the case of the aid program where so many competing interests have to be accommodated. The Jackson Committee was clearly concerned about assuring the coherent and timely implementation of those of its recommendations endorsed by the Government. To this end it recommended the establishment of an external review unit and an internal effectiveness review unit.

4.15 The Committee considers that in a period of vast organisational change, it would be logical to establish such an external and independent public review unit. The Jackson report suggested a small group of informed and concerned individuals. Such individuals could be chosen from the business community, trade unions, non-government aid organisations, ADAB, the academic community and should have representation from the Joint Committee on Foreign Affairs and Defence on the Parliament. Members of this committee, would be able to provide the

Parliamentary perspective as well as provide a less formal input to the Parliament. The insights acquired not only in this inquiry but earlier inquiries could be used to advantage.

4.16 The Committee notes that the function of such a group would be to monitor implementation of the Jackson Report and to report annually to the Minister and the Parliament not only on the implementation of the Jackson report but the response of the Government to this report. After a period of, say, three years the need for such a group should be re-examined.

4.17 The Committee also endorses the Jackson recommendation for the establishment of an internal effectiveness review unit with a wide mandate, separate from the normal organisational structure and reporting directly to senior management.

4.18 The Jackson Report recommended that ADAB occupy a different place in the bureaucracy. As part of this recommendation it was suggested that the position of Director of ADAB be made a statutory appointment.¹⁶ The Minister for Foreign Affairs in his letter of 22 March to this Committee indicated that he intends to review this proposal in 1986.¹⁷

4.19 This Committee concurs with the Jackson view that such an appointment would not only give ADAB a further degree of independence in the bureaucracy, but would also raise the credibility of Australia's aid organisation internationally: it would give added credence to the Government's commitment to development. This Committee therefore welcomes the Minister's statement and looks favourably on the Jackson recommendation.

Aid Effectiveness

4.20 As Dr Harris, Secretary of the Department of Foreign Affairs stated:

'...Australia's long term national interests in aid whether it is foreign policy in pursuit of humanitarian interests or simply in pursuit of economic interests require an aid program that is effective. We see effectiveness in this sense meaning that the aid program is well managed, is sensitive to the sovereign prerogatives or recipients, is efficient in its use of resources, both theirs and ours, and is targeted on areas where Australia has a capacity to assist.¹⁸

4.21 The need to ensure maximum aid effectiveness must be constantly taken into account in the administration and delivery of the aid program. In this regard the Committee notes that ensuring aid effectiveness is not solely the responsibility of the donor. The willingness of the recipient country to utilise aid in a manner consistent with the objectives of the aid program must be a consideration in committing aid resources.

4.22 The concern with improving aid effectiveness is perhaps the major theme of the Jackson report and reflects an increased awareness of, and commitment to this issue internationally.¹⁹ This increased commitment is in response to continuing criticism that aid does not work and can sometimes be counter productive.²⁰ Jackson acknowledges that these views have some validity and notes that 'Aid has been unproductive where poor donor aid policies have been joined with poor recipient policies.²¹ However, Jackson then goes on to say:

'But this does not invalidate the need for aid or its potential for accelerating development ... Overall, aid has resulted in faster development with more alleviation of poverty. Maintaining and improving on this record will require a strong emphasis on aid effectiveness'.²²

4.23 The concept of effectiveness is essential to maximising the developmental impact of aid. In essence it recognises that the absolute volume of aid funds is scarce and that their contribution to development is as a catalyst at the margin of the development process: therefore every effort must be made to maximise their value. Aid effectiveness involves the use of management techniques to ensure that our aid is appropriate and its impact maximised; management systems to ensure that the delivery of our aid is both efficient and effective; and both sectoral and geographic focus to ensure the maximum benefit from both our funds and expertise.

Country Programming

4.24 As Jackson notes, the key management technique 'in translating a broad understanding of local circumstances into effective aid delivery is country programming'.²³ Country programming is a technique that has been used by other donors for many years. It requires detailed analysis of a recipient's aid strategy so as to decide how best Australia's aid can be used linking developing country needs with our strengths; it then requires adequate resources to be devoted to project identification, appraisal and design. A high standard of country programming is essential to the effective implementation of our bilateral aid program.

Forward Budgeting

4.25 Jackson emphasised forward budgeting as an essential management system. It noted that 'Present Australian budget practices hamper the development of an efficient aid program'. The Department of Finance on the other hand considers that '... the current financial arrangements for funding the overseas aid program have worked quite satisfactorily'.²⁴ While the present arrangements may work satisfactorily, Jackson draws attention to advantages that would derive from greater funding predictability and flexibility:

- (i) Forward programming on a 5 year rolling basis is seen as essential if proper country programming is to take place: it would allow better matching of financial flows between donor and recipient as well as enhancing overall planning. More generally it is also seen as a critical element in corporate planning, assisting in individual program and overall policy development and management.
- (ii) Increased flexibility through a reduction in the number of appropriations and ease of transfer between items is seen by Jackson as a management tool which would increase efficiency.

4.26 Jackson's recommendations appear to have merit. As ADAB's skills develop in the areas of country programming and financial control, we believe it would be appropriate for forward budgeting on a 5 year rolling basis to be adopted, as suggested by Jackson. Increased effectiveness will result in better value for the aid program.

Focus

4.27 The Jackson Committee concluded that 'the effectiveness of Australia's modest aid program has been reduced by its fragmentation over too many sectors, by its use of too many instruments of delivery and by its implementation in too many countries'.²⁵ The rationalisation of our geographic distribution is discussed in Chapter 5, however the Jackson Committee also concluded that 'A greater sectoral focus is needed to link developing country needs with Australian strengths'.²⁶ A number of submissions to this Committee²⁷ have drawn attention to areas in which Australia is believed to have

strengths or comparative advantage. Aid effectiveness will be increased if efficient country programs are developed which make use of areas in which Australia has demonstrated expertise and matches them to recipient needs through appropriate delivery mechanisms. Dry land farming was one area identified by the Committee in its report on the Provision of Development Assistance and Humanitarian Aid to the Horn of Africa. ACFOA also referred to 'Australian experience and expertise in semi and tropical zone farming'.²⁸

ENDNOTES

1. As regards aid targets, the Department of Finance note that 'It is important that the achievement of such aid targets does not become an end in itself and so become the overriding consideration in determining the size and composition of the aid program, displacing the underlying objectives of the program'. Evidence.
2. Jackson Report, p.45.
3. Of the seventeen members of the OECD.DAC, all but Switzerland and USA have endorsed the target.
4. Austria, Finland and Italy. Evidence, 9 April 1984, p.88.
5. Jackson Report, p.143.
6. Evidence, 9 April 1985, p.81.
7. Evidence, p.5.
8. Evidence, p.14.
9. 'Efficiency Audit - Administration of Bilateral Overseas Aid,' AGPS, Canberra 1982; 'Report of the Auditor-General on an Efficiency Audit,' AGPS, Canberra 1981.
10. OECD, Development Assistance Committee Aid Review 1982/83, Australia; Document DAC/AR(83) 2/23.
11. Evidence, p.500 (ACFOA).
12. Evidence, p.14.
13. Evidence, p.33.
14. Evidence, 9 April 1985, p.174.
15. Evidence, p.34.
16. Jackson Report, p.238.
17. Evidence, 9 April 1985, p.5.
18. Evidence, 9 April 1985, p.73.
19. In recent years the OECD.DAC has given particular attention to the subject of aid effectiveness. Information regarding activities may be found in 'Development Co-operation,' 1981 and 1984 Reviews, OECD, Paris 1981 and 1984.
20. See for example P.T. Bauer 'Dissent on Development' (Weidenfeld and Nicolson, 1971) and 'Equality, the Third World and Economic Delusion' (Weidenfeld and Nicolson, 1981) for arguments against aid.

21. Jackson Report, p.133.
22. Jackson Report, p.133.
23. Jackson Report, p.134.
24. Jackson Report, p.142; Evidence p.160.
25. Jackson Report, p.59.
26. Jackson Report, p.59.
27. Evidence, 9 April 1985, pp.345-346 (Housing and Construction); 9 April 1985, p.275 (CAI); 9 April 1985, pp.237-238 (Industry, Technology and Commerce).
28. Evidence, p.498.

CHAPTER 5

MAJOR ASPECTS OF THE AID PROGRAM

Papua New Guinea

Introduction

5.1 Australia's aid to Papua New Guinea is the single most important element in the Australian aid program: it received significant attention in the Jackson Report. Papua New Guinea's development problems were discussed in some detail and the special relationship between our two countries acknowledged. In its main recommendations concerning the level of aid, Jackson stated that budget support should continue to decline in real terms at 5 per cent a year although the overall decline should be less, about 3 per cent. This would release an increasing volume of aid for other forms of assistance including project aid and technical assistance.

5.2 Negotiations to determine the post-1986 aid relationship are about to commence and, as the Department of Foreign Affairs state:

'... consideration will need to be given to the principles and understandings established between successive PNG and Australian Governments over the past decade. The basis for the post-Independence aid arrangement was set out in a Joint Communique in 1976:

"The Prime Ministers agreed that a new aid relationship was required properly to reflect Papua New Guinea's independent status. They agreed that the objectives of the new relationship would be to facilitate and promote economic and social development

for the people of Papua New Guinea, to facilitate the achievement by the Papua New Guinea Government of its objective of increasing self-reliance, and to enable Papua New Guinea to plan its development on the basis of resources available to it including those to be provided by Australia, but to put an end to arrangements under which Australia had been involved in Papua New Guinea's budget-making".¹

In discussing the future direction of our aid to Papua New Guinea, this Committee has been conscious of the principles noted in the above statement as well as a number of other factors including: the unique relationship that exists between our two countries; the fact that Australia will remain Papua New Guinea's major development partner for the foreseeable future; and that the nature of our aid should ensure that it makes an effective contribution to Papua New Guinea's long term development and is not designed in response to short-term pressures, many of them arising in Australia.

Reactions to the Report

5.3 Initial reactions by Papua New Guinea to the report's comments and recommendations were relatively favourable. Although some of the Jackson Committee's criticisms could not be accepted it had 'carefully and, reasonably fairly, assessed developments in Papua New Guinea.'²

'(The Committee has) chosen to take a long term view of aid and its effects, something that this Government has advocated for a long time.'³

'It is obvious from even the most cursory reading that the committee took a sympathetic and helpful attitude towards Papua New Guinea.... At the same time they have

accepted the importance to Papua New Guinea of our knowing in advance what aid we can expect from Australia.'⁴

5.4 Detailed debate on the recommendations is a matter for formal Government-to-Government negotiation. However, as regards the critical element of budget support, Papua New Guinea has already said it does not accept the Jackson proposal of a 5 per cent decline, but rather that 'while accepting the principle of an annual real reduction, PNG wants the figure to be "manageable"'.⁵

5.5 Reaction in Australia to the Jackson recommendations has tended to focus on two aspects: the rate of decline of the overall package, including in particular budget support, and the composition of the package - especially the extent to which some or any of it should be tied. Not surprisingly, the Department of Foreign Affairs has noted that the forthcoming renegotiation of the agreement will focus on these two points.⁶

5.6 The Department of Finance, as did the Department of the Treasury, gave broad support to the Jackson recommendations.⁷ Without specifying any particular rate of decline for budget support, Finance considered that the move towards financial self-reliance in Papua New Guinea had to be encouraged more positively than Australia has in fact done.

'The indications are that Australian budget support to PNG over the years has facilitated the pursuit of the softer options in public finance and economic management. If anything, Finance would favour a more rapid real terms decline in budget support to PNG than the 5 per cent per annum suggested by the Report, though. Finance recognises that the rate of decline in any particular year may have to be adjusted to take account of adverse trends in the world economy and international

commodity prices. Such a rate of reduction in budget assistance by Australia could initially, at least to some extent, be replaced from other aid sources and from Australian bilateral aid of a more conventional kind; however, this would require PNG to pay closer attention, than appears to have been the case, to specifying its development assistance needs.⁸

5.7 The CAI agreed with the direction the Jackson recommendations were taking, i.e. a gradual substitution of project aid for budget support, noting that, 'It is somewhat galling to Australian companies to see that we are providing this large slab of budgetary support to Papua New Guinea, only to see it used to purchase goods from New Zealand or any country round the world often at prices that are subsidised by export incentives and other artificial subsidies and so on'.⁹

5.8 The Department of Trade, in noting that Australia's share of the Papua New Guinea market declined from 49 to 40 per cent in the period since 1979,¹⁰ recommended that an increasing share of the program be tied to the purchase of Australian goods and services.

5.9 To balance the above views, Dr Harris, Secretary of the Department of Foreign Affairs, drew attention to the fact that while there was support for the Jackson line in Australia there were 'others who would still feel strongly that indeed the movement away from program support at the time, while in principle perhaps desirable, would inevitably reintroduce elements of neo-colonialism and the like, and that it could well strain the administrative base of Papua New Guinea to operate that program or project lending of various forms'.¹¹

Budget Support

5.10 As Papua New Guinea enters its second decade of independence, Australian budget support will still constitute some 30 per cent of Government revenue. In theory, such a high level of untied budgetary support, without detailed accountability, can distort the efficient allocation of resources, foster or maintain inefficient bureaucracies and delay the adoption of appropriate domestic economic policies.

5.11 In practice, this Committee is impressed by the increasing efforts of the Papua New Guinea authorities to create a policy environment that ensures efficient resource allocation and use. Nevertheless, self-reliance can only be achieved if Papua New Guinea comes to rely more on domestic revenues and less on the Australian aid grant. This does not imply radical reductions in the level of the budget support grant - such a course of action would not only be developmentally irresponsible but also in contradiction to the principles laid down in the 1976 communique (see para 5.2 above).

Composition of the aid package

5.12 Commercial interest groups in Australia clearly believe that there should be a more rapid move than Jackson suggests towards the tying of a considerable portion of our aid to Papua New Guinea. They point to the considerable decline in Australia's share of the Papua New Guinea market and claim evidence of other countries subsidising their exports to a country for which Australia would expect to have a natural trading advantage. This trading advantage, which is currently of the order of \$450 million, or a ratio of over 6:1 in our favour, may be discounted because of our position as a natural supplier to Papua New Guinea, but it cannot be dismissed.

5.13 While there is some value in the argument that our industry should not be disadvantaged, substantial tying of our present aid program might only result in short-term advantage for Australian industry. Such advantage could be at the cost of distortion and disruption of Papua New Guinea's development priorities. Moreover, whether such a move would result in significant long-term trading advantage is open to doubt: Papua New Guinea's overall pattern of procurement in Australia and other countries would increasingly be determined by normal trading criteria as the percentage of Government expenditure constituted by our aid declined.

5.14 Although the above argues against the tying of our aid, the nature of the present program is not satisfactory. It is a program that lacks balance: it relies on a single mode of delivery and the recipient's ability to use it effectively to achieve its objectives; it does not necessarily allow and take advantage of Australian skills and expertise to develop aid activities in areas of Australian strength. Therefore, there would seem to be merit in gradually establishing a more normal pattern of aid to Papua New Guinea incorporating well designed and executed activities in addition to our budget support. The overall development impact of the Australian aid program should be enhanced by such a move. Provided under the same terms as the rest of our program there is no reason why such assistance should not benefit Australia's commercial sector.

Conclusion

5.15 This Committee endorses the general direction of the Jackson recommendations that in the long-term the aid program 'should increasingly be administered under arrangements similar to those applicable to Australia's other bilateral aid programs'.¹²

5.16 As regards the rate at which this integration should occur, the Committee has given careful consideration to Jackson's suggestion of a 5 per cent decline in the level of budget support and a 3 per cent decline in the overall level of aid. Factors that have been taken into account include the need

- . for predictability in Australia's aid flows to assist Papua New Guinea in its budgetary and development planning;
- . to foster an increasing level of self-reliance avoiding the adverse implications of a high level of dependence;
- . to encourage Papua New Guinea to seek additional sources of assistance;
- . to develop a broader program of assistance directed towards encouraging a strong and growing economy; and
- . for any decline in the rate of budget support to be manageable: to avoid radical changes that might in any way affect Papua New Guinea's internal stability.

5.17 The level of assistance to Papua New Guinea cannot, however, be seen in isolation from the rest of the program: it is a five year commitment that pre-empts almost a third of the aid program's resources. This is especially so in a situation where the Foreign Minister has advised that the aid program cannot be exempted from the overall restraints that will apply to Government expenditure. For example in a situation in which other priority activities in the program are being delayed, reduced, or abandoned, it has to be recognised that a 1 per cent cut in the program to Papua New Guinea could allow assistance to NGOs to be increased by a third, or a doubling of our aid to India, or finance membership of the African Development Bank.

5.18 The Committee therefore consider that the Jackson recommendations should serve as a basis for our agreement with Papua New Guinea but that the rates of decline recommended by Jackson should be gradually accelerated. Adequate technical assistance should be provided to Papua New Guinea to assist in identifying opportunities for use of other forms of Australian assistance (and also areas where other donors might be able to provide assistance). This is consonant with the factors listed above; there would be no radical reduction in the level of budget support yet the move towards self-reliance would be encouraged as would the development of a better balanced Australian aid program to Papua New Guinea: it would also free-up additional resources in the Australian aid program for other recipients. For illustrative purposes, a table is shown below which demonstrates the effect on the level of our aid of a gradual acceleration in the rate of decline.

5.19 In order for the current high level of dependence, which itself leads to distortions in the development process, to be reduced, both countries must work hard to reduce the proportion of the Papua New Guinea budget funded by Australia. This will require a real application of political will, especially by the Papua New Guinea authorities. The Committee hopes that this important goal of reducing dependence will not be compromised by any accommodation of short-term economic and political pressures by either Government.

5.20 This Committee recognises the importance of an adequate level of dialogue between Papua New Guinea and Australia, not only as regards the design and use of the aid program but also as part of the wider relationship between the two countries. We would therefore support and place considerable emphasis on the Jackson recommendation that this dialogue be improved so as to maintain the close relationship that currently exists.

TABLE 5.1: ILLUSTRATIVE SCENARIOS FOR THE REDUCTION OF AUSTRALIAN AID TO PAPUA NEW GUINEA

Note: Scenario 1 is based on the Jackson recommendations; Scenario 2 on the rates of decline for both total aid and budget support accelerating at the same rate; and Scenario 3 on the rate of decline for budget support declining at a faster rate than that of total aid.

	1. Jackson(a)			2. Accelerated Decline(b)			3. Accelerated Decline(c)		
	Total Aid	Budget Support	Other Aid	Total Aid	Budget Support	Other Aid	Total Aid	Budget Support	Other Aid
1984/85	317	302	15	317	302	15	317	302	15
1985/86(d)	305	290	15	305	290	15	305	290	15
1986/87	296	276	20	296	276	20	296	276	20
1987/88	287	262	25	285	260	25	285	260	25
1988/89	278	249	29	274	245	29	274	243	31
1989/90	270	236	34	262	229	33	262	225	37
1990/91	262	224	38	249	213	36	249	207	42

* Figures for 1984/85 as per budget estimates.

* Figures for 1985/86 and subsequent years in constant 1985 dollars.

(a) Decline calculated at 3% for total level of aid and 5% for budget support.

(b) Decline calculated at
 1986/87 : total aid 3% ; budget support 5%
 1987/88 : " " 3.5% ; " 5.5%
 1988/89 : " " 4% ; " 6%
 1989/90 : " " 4.5% ; " 6.5%
 1990/91 : " " 5% ; " 7%

(c) Decline calculated
 as for (b) but with
 budget support figures
 substituted as indicated. 7.25%
 8.00%

(d) Estimate.

Geographic Distribution

Introduction

5.21 The Jackson Report described Australia's bilateral aid program as one of the most fragmented of all donor programs. The effects of this fragmentation are accentuated by the concentration of such a large proportion of the program on one recipient, Papua New Guinea, and the consequent reduction in the volume of our aid available to other developing countries. Despite this, Australia lists over 70 developing countries amongst our recipients. The report summarised the situation thus:

'... Australia gives aid to a greater number of countries than most other donors, and in a wide variety of forms and in almost every sector of aid activity. Thus the Australian program is one of the most fragmented of all donor programs, spreading small quantities of aid over many activities in many sectors.'¹³

Given the limited staffing resources available to ADAB, 'this fragmentation has prevented the building up of significant expertise in particular sectors or in particular countries.'¹⁴

5.22 The concern that dominates the Jackson Report, that of improving the effectiveness of the Australian aid program, resulted in their reaching the conclusion 'that the number of countries eligible to receive all forms of bilateral aid should be substantially reduced'.¹⁵ As the Department of Foreign Affairs noted:

'In this respect, the Report continues a trend already underway in the programs of Australia and other aid donors: there has been a growing realisation that donor

countries serve their own, and developing country, interests better if they concentrate more on regions where they have particular experience and on sectors where they enjoy comparative advantage'.¹⁶

A Framework for the Delivery of Aid

5.23 Jackson suggested four geographic categories as a framework for the delivery of Australian aid, with eligibility for the various forms of aid varying between categories as would the extent of sectoral involvement and of country programming. Table 5.2 below details the eligibility framework proposed by Jackson.

5.24 The framework is not as radical an innovation as it would seem on first impression. As the Department of Foreign Affairs point out, "...for many years there has been a basic differentiation between two broad groups: recipients who receive a full range of aid forms and those which receive food aid, training etc. but not projects".¹⁷ The principal difference, therefore, between Jackson and current practice is the exclusion of project aid to Africa and a more focused use of project aid in Categories 2 and 3.

TABLE 5.2
JACKSON'S ELIGIBILITY FRAMEWORK

Categories	General aid instruments	Projects	Country programs
I. Papua New Guinea, South Pacific island states, Indian Ocean island states	Yes	Yes, in all sectors	Yes, in a detailed way
II. South-East Asia and small south Asian countries	Yes	Yes, in selected sectors only	Yes, in a detailed way
III. China, India, Pakistan, and Bangladesh	Yes	Yes, but narrowly focused	Yes, but in broad terms
IV. Other developing countries - Africa, Middle East, Latin America, Caribbean	Yes	No	No

General aid instruments include training (including short courses), technical assistance, research, aid provided through multilateral agencies including co-financing, food aid, the Head of Mission Discretionary Aid Fund, relief aid, the Development Import Finance Facility (DIFF), and support for the activities of voluntary aid agencies.

Budget support will continue to be provided to Papua New Guinea, but the level will slowly decline (see Chapter 10).

Development Import Grants will continue to be available to all except Category IV countries.

SOURCE: Box 9.2 Jackson Report.

NOTE: The Committee notes that the Jackson recommendation relating to withdrawal of "project" aid refers only to large scale technical co-operation projects, para 5.28 refers, and further that this framework is not inconsistent with increasing the volume of aid to the countries in any category.

5.25 Although the rationalisation of the program suggested by Jackson has received some support¹⁸ reservations have been expressed, particularly as regards the reduction of project aid to Africa. Concern has been expressed that this may result in the loss of commercial opportunities but more substantial criticism has been based on perceptions of the need for assistance in Africa. ACFOA stated:

'...the arguments for including the four Indian Ocean states in Category I priority are unconvincing. Humanitarian need would suggest Australia should give a greater priority to Africa and South Asia. In particular ACFOA believes Australia should maintain a bilateral projects program in selected countries of East and Southern Africa.'¹⁹

5.26 The argument that commercial opportunities will suffer is not convincing. Australia's project aid program in Africa has never been substantial: at present only two projects are being undertaken. Moreover, a withdrawal of project aid to Africa could be expected to be offset by an increase elsewhere; in addition the option of co-financing was not excluded by Jackson nor was membership of the African Development Bank (see following section) which could be expected to result in additional opportunities for Australian industry.

5.27 ACFOA put a strong case forward²⁰ for continued project aid involvement in Africa on basically humanitarian grounds and on the need for particular Australian expertise. However, to an extent, the concerns expressed by ACFOA and others would appear to be founded on a misinterpretation of the Jackson recommendations. Firstly, the Jackson framework is not concerned with volume - the report specifically states that:

'Focus is aimed at improving the mix of forms of aid and improving the geographic distribution. It does not imply the withdrawal of Australia's effort from regions such as South Asia or Africa'.²¹

and again

'Restructuring of the Australian aid program does not mean a withdrawal of Australian aid from Africa, or a reduction of the Australian commitment to help the world's poorest peoples'.²²

5.28 Secondly, 'projects' in their traditional sense, that is large-scale technical co-operation activities, have been excluded by Jackson from Africa on the grounds that it makes little sense for Australia to devote its scarce administrative resources to undertaking one-off major capital intensive projects in distant regions at the expense of more effective aid delivery in its own region. However, technical assistance was not precluded - indeed the report specifically states that it should be expanded where Australia has particular expertise. This then would not preclude the development of technical assistance activities in the areas where a real contribution to development could be made, most notably in agriculture.

5.29 Thirdly, aid delivered through two mechanisms, HOMDAF and the NGOs, will actually increase if Jackson's recommendations for additional funding are put into practice. This will allow a greater number of small-scale development projects to be carried out at the grass-roots level.

5.30 Fourthly, we can discern no intent in Jackson to reduce the information flow on Africa's needs and thus, within, Australia's limited resources, the capacity to develop an appropriate response. (Indeed, membership of the African Development Bank would significantly increase that information flow.)

5.31 To summarise the above, this Committee concurs with the view expressed by the Department of Foreign Affairs who do not see the Jackson proposals as precluding the development of an effective program in Africa:

'From the point of view of the administration of aid, however, the Jackson proposals for restructuring our aid to Africa would not preclude the development of an effective, focussed program of bilateral assistance (which would complement our aid to multilateral bodies, much of which is allocated to Africa). Such a program might, for example, be based on the existing elements of food aid, technical assistance, training and research and be programmed on a multi-country basis with a concentration on sectors related to a priority area such as agriculture, where Australia has something to contribute.'²³

Conclusions

5.32 This Committee supports the general thrust of the Jackson recommendations aimed at rationalising the geographic distribution of our program in terms of program delivery. The suggested approach will 'provide a planning framework for the use of various forms of aid and provides a basis for judgements on the sectoral concentration in country programs and the level of analysis required for aid planning'.²⁴

5.33 That the categories generally co-incide with perceptions of our foreign policy and economic interests is fortunate: indeed as Jackson notes¹⁴ they were two of the criteria used in developing the framework. However, the principal aim of the framework is to maximise the developmental impact of our aid in the light of the level of resources available in ADAB to support effective aid delivery.

5.34 This logic is exemplified in the inclusion of the Indian Ocean states in Category I. There is no difference in terms of distance and accessibility between these states and those of East Africa. However, strategic interests apart, if Australia is able to generate developmental expertise, it would be expected that this would, at least initially, be in respect to the problems of small island states. As such, it seems logical to include these states in Category I: as noted earlier this would not be interpreted as indicating a greater financial involvement is necessarily warranted, although efficient country programming might reveal opportunities for increased, effective assistance.

5.35 The Committee's endorsement of the Jackson concept is subject to several caveats. Firstly, the framework should not be regarded as immutable: it should be expected that as financial and management resources permit, the level of country programming would be intensified in Categories 3 and 4, the sectors of concentration broadened and, ultimately, that technical co-operation projects would be re-established in Category 4. Secondly, the Jackson Committee recommended the withdrawal of the DIGs program for Category 4 countries. This Committee is advised that, since the Jackson Committee made its recommendation early problems in the operation of DIGs have been resolved and the scheme is now operating effectively in Africa. As such this Committee can see no reason why the scheme should be withdrawn and considers its use could make a valuable contribution to the sort of regional activity envisaged above (at para 5.31).

Multilateral Aid

Introduction

5.36 Although multilateral aid accounts for nearly a quarter of our aid, some \$220 million, the Jackson Report devoted relatively little attention to it. It concentrated instead on the bilateral program where Australia itself could increase the effectiveness and impact of its aid. Nevertheless the Report did make several recommendations which could have major implications as regards both the funding and the structure of the program. These included:²⁵

- . no major change in the share of the program devoted to multilateral aid;
- . support for the development banks to be increased in relation to other multilateral funding;
- . contributions to the development banks to reflect at least Australia's GNP share;
- . contributions to the UN agencies to reflect Australia's assessed share: additional and new contributions to depend on effectiveness of the organisation;
- . contributions to effective Commonwealth and regional programs to be maintained in the context of country programming: Commonwealth contributions to reflect Australia's status as a major Commonwealth donor;
- . closer monitoring of the activities of the multilateral agencies;

- . the establishment of an indicative forward rolling program;
- . consideration of membership of the African and Caribbean Development Banks.

5.37 Apart from the submission made by the Department of Foreign Affairs there has been little public reaction to this aspect of the report,²⁶ with perhaps the exception of the recommendation to join the African Development Bank, a matter which was raised with a number of witnesses.

5.38 Multilateral aid, food aid apart, consists of contributions to the international financial institutions, to United Nations agencies and to Commonwealth and Regional organisations. Of these by far the largest proportion, currently 60 per cent, goes to the financial institutions of which we are a member: the World and Asian Development Banks and their concessional lending affiliates, the International Development Association (IDA) and the Asian Development Fund (AsDF), and the International Fund for Agricultural Development (IFAD). The Banks have long been accepted as efficient and effective development institutions while, after an initial period of difficulty, evidence is emerging²⁷ that IFAD too, is meeting its objectives. Membership of these institutions enables Australia to participate to a fuller extent in the global development effort and to ensure that a reasonable proportion of our aid is effectively used in the poorest countries outside our region of bilateral involvement. These institutions mobilise capital and expertise on a scale far beyond the capacity of most donors, including Australia, and participation in these institutions thus opens up significant procurement opportunities.

Levels of contribution

5.39 The Department of Foreign Affairs has stated that, taking into account our recent voluntary contribution, our overall level of contribution to IDA is above our adjusted GNP share.²⁸ However, this Committee is aware that our basic level of contribution to both IDA and IFAD has for some years been below our GNP share: in fact in IDA we are one of only five donors in this position. While the voluntary contribution has resulted in significant credit accruing to Australia, it has not resolved the basic question of the level of our involvement.

5.40 The financial implications of increasing our basic shares, while substantial, are not beyond the capacity of a gradually increasing aid program. For example, an increase in our share in IDA's last replenishment from 1.98 per cent to our GNP level of 2.06% would have increased our commitment by \$8 million; in IFAD's case the funds required to increase our share in the yet undetermined replenishment to our GNP level would be of the order of \$2 million. Moreover, because of the way in which contributions are paid to these organisations - over a period of up to ten years - and the fact that the next IDA replenishment (and thus opportunity to increase our share) is several years away, no substantial financial impact would be expected until at least 1992.

5.41 For the globally based financial institutions, this Committee would therefore endorse the Jackson Committee's recommendation regarding level of share. In the regional financial institutions our share should take into account broader political and strategic interests as well as our level of GNP.

5.42 The Jackson recommendations regarding the levels of contribution to the United Nations, Commonwealth and Regional organisations raise certain practical difficulties. Although in

the larger UN agencies the concept of contributions based on assessed share can readily be applied,²⁹ for programs which have only a few donors or where Australia has particular interests this is more difficult. This Committee would therefore suggest that the level of contribution to such organisations, and in some cases decisions on whether to join or resign from them, should depend on their level of effectiveness and the extent to which they meet particular sectoral and regional objectives of the aid program. The need for closer, more efficient monitoring and evaluation of these organisations is therefore self-evident.

Funding and structure of multilateral aid

5.43 On overall funding and structure, Jackson recommends the maintaining of a share for multilateral aid at 'roughly' 25 per cent of the program as a whole, a forward rolling program and within this program a greater share for the development banks.

5.44 The concept of a specific 'share' for multilateral aid has little real value. Major elements of the program - contributions to the development banks, commitments to food aid are established years in advance of appropriation; in the case of the banks, the actual amount paid each year is decided by them in the light of their requirements and represents a first charge on the aid budget; in the case of food aid the actual dollar amount of the tonnage committed is affected by international price movements. Thus Jackson's recommendation can only be seen as an indicative statement implying no radical changes in the amounts allocated to multilateral aid, a view shared by the Committee.

5.45 The Department of Foreign Affairs note that

... 'the concept (of a five year rolling program) is useful for both corporate planning and for planning allocations to particular multilateral/global programs.'³⁰

Since, as Jackson notes³¹ contributions to multilateral aid channels are largely ongoing, such a proposal would seem to have considerable merit. In particular, it would bring some stability to a program that has suffered from ad hoc decisions regarding annual levels of commitment to individual organisations and give some basis of predictability to planning the levels of minimum commitment to the 140 multilateral organisations and programs to which Australia contributes.

5.46 If the Jackson recommendations on increasing the level of Australia's share in the development banks to at least the level of our GNP share are implemented, as this Committee recommends, then over time the share of the development banks will rise in relation to other multilateral funding as Jackson suggests. This change in relationship would be achieved rather earlier if Australia were to join one or more of the regional development banks of which we are not a member.

The Regional Development Banks

5.47 Almost alone amongst multilateral issues the subject of joining the regional development banks, in particular the African, has engendered some discussion. There are three major regional development banks of which Australia is not a member, the Inter-American (IDB), the Caribbean (CDB) and the African (AfDB). Of these the Inter-American is by far the largest (larger in fact than the Asian Development Bank) disbursing over \$US3 billion a year. The African Bank is about half the size of the Asian and the Caribbean far smaller.

5.48 The Committee is advised that membership of the IDB is not a feasible proposition for Australia at this time on both technical and cost grounds. Attention has therefore been focussed on the two banks to which Jackson recommended that consideration of membership be given, in particular the African.

5.49 The Department of the Treasury has stated that while no recent analysis of the AfDB's performance has been undertaken in Australia, 'in 1982 an assessment by the US Treasury had indicated that it was the least efficient of the regional development banks'³²; it also stated that any consideration of membership which the Treasury 'was not urging'³³ would have to be taken in the context of overall development priorities³⁴. The Department of Foreign Affairs also noted that 'consideration must also be given to the timing and financial implications of such an initiative' [i.e. joining the AfDB]³⁵, a point further emphasised by the Department during the Committee's hearings³⁶.

5.50 Notwithstanding the above, there are sound developmental reasons for joining the African Development Bank. The continent contains the greatest concentration of poor countries in the world: of the 36 countries classified as 'least developed' by the United Nations, 26 are located in Africa.

5.51 This Committee shares Jackson's view that a large scale bilateral involvement in Africa, including project aid, is not a practical option for Australia's already stretched aid program, nor would it represent an effective use of our aid. Nevertheless Australia will continue to channel some bilateral aid to some African countries and, through our contributions to the global multilateral organisations, will continue to assist in the general development effort in Africa.

5.52 Our assistance to the region will continue to be dominated by our role in supplying food aid and while our contribution to promoting durable solutions may be vital in certain areas such as dry land farming, it is, and will be, marginal in the context of the overall developmental effort in Africa. On the other hand, a contribution to Africa's regional development financing institution would demonstrate our specific commitment to the region as a whole and to its long term development.

5.53 As has been noted earlier, Australia's aid is disproportionately allocated to middle-income countries, a consequence of our location in a region which contains few of the world's poorest countries. However, aid provided through the AfDB would almost entirely be directed towards assisting low-income countries. Moreover, the opportunities afforded by membership to participate in bank funded and co-financed projects would to an extent, balance the Jackson recommendation to terminate bilateral project aid to Africa. It would enable Australian skills and expertise to continue to be used in large scale projects in the region.

5.54 A strong case has been put forward for joining the AfDB on procurement grounds alone. Australian companies cannot compete for contracts awarded by the AfDB until we become a member. It has been put to this Committee that a number of Australian companies 'have had first hand experience of lost business in consulting and supplier opportunities because of Australia's non-membership'³⁷. The Department of Trade although not expressing any opinion on the merits or otherwise of joining, informed the Committee that:

'[the consultants industry, in particular, see membership] as being another opportunity for them. They argue that if we did join they would be able to do better than our contribution in terms of the contracts won, because of the nature of the contracts being let by the AfDB.'³⁸

The Department of Housing and Construction also endorsed the Jackson recommendation noting that Australian industry had the talents and expertise that could be used in African development given an appropriate entree.

5.55 The Department of the Treasury drew attention to a United States Treasury report which, in 1982, inferred that the AfDB although ranking high on humanitarian grounds was not as efficient as the other regional development banks³⁹. This Committee is advised that the AfDB did face considerable problems in the early stages of its operations and, by comparison with what are regarded as three of the most efficient development institutions in the world (the IBRD, AsDB and IDB) it was not regarded as having the same level of performance. However, since that report was issued, a new management structure has been established with the accession to full Bank membership of 21 non-regional members. Non-regional membership includes all of the western donors with the exception of Australia and New Zealand.

5.56 The AfDB is increasingly recognised as a soundly functioning institution. A recent study by Kidder, Peabody and Co (a major USA firm of Corporate Financial Analysts who have prepared a series of studies on the international financial institutions for submission to the United States Congress) concluded that "from our analysis of the Bank's capital structure, financial condition, operating history and member country support together with its conservative loan operating and liquidity policies, it is our opinion that the AfDB is among the premier financial credits in the international capital markets. Moreover, we are confident that the African Development Bank will continue to strengthen its fine operating performance in the future and continue to fully merit the premium credit ratings assigned to its securities".⁴⁰ This conclusion is reflected in its current credit ratings which are now directly comparable with those of the Asian, Inter-American and World Banks.

5.57 The financial implications of membership, while substantial, (membership is indicative of a commitment to participate in future replenishments and other increases in resources) are not beyond the capacity of Australia's aid program to accommodate. This Committee understands that the initial level

of contribution would be unlikely to exceed \$4 million per annum and could be as low as \$2 million per annum depending on the nature and extent of our involvement. [Because of the manner in which the Banks raise funds for their activities, the benefit to African countries from this contribution would be several times higher than its face value]. If membership could not be funded out of growth in the aid program as a whole, then this Committee still recommends that membership be considered as a higher priority than some other elements of our present bilateral program to Africa.

5.58 The Caribbean Development Bank is a small but efficient institution with close links to the World Bank. Its membership contains 20 developed states and territories of whom 17 are members of the Commonwealth. A number of developed countries with close links to the region are either members of the Bank or have in the past provided finance to it, including the United Kingdom, Canada and New Zealand.

5.59 The developing members of the CDB are generally classified as small island states with problems not dissimilar to those of our Pacific neighbours. Our bilateral assistance to this region has always been small and there is no realistic possibility that this will change: distance in this case is prohibitive. However, a relatively small contribution to the CDB would have only marginal funding implications and would allow us to participate to a greater extent in the development of this region; it would also enable Australian firms to tender for certain contracts let by the CDB. More importantly, the two way flow of information that would arise from membership would enable Australia to further develop its expertise in assisting with the problems of small island countries.

5.60 This Committee recommends that very positive consideration should be given to seeking early membership of the African Development Bank. As our expertise on the problems of small island states develops consideration should also be given to joining the Caribbean Development Bank.

ENDNOTES

1. Evidence, pp28-29.
2. Statement delivered by Mr R Namaliu, Minister for Foreign Affairs, to the Papua New Guinea Parliament, 7 June 1984.
3. Statement delivered by Mr R Namaliu, Minister for Foreign Affairs, to the Papua New Guinea Parliament, 7 June 1984.
4. Statement delivered by Mr R Namaliu, Minister for Foreign Affairs, to the Papua New Guinea Parliament, 7 June 1984.
5. Evidence, p.28.
6. Evidence, p.27.
7. Evidence, p.166. (Finance); 10 April 1985, p.487 (Treasury).
8. Evidence, p.166.
9. Evidence, 9 April 1985, p.271.
10. Evidence, p.415.
11. Evidence, 9 April 1985, p.82.
12. Jackson Report, p.163.
13. Jackson Report, p.49.
14. Jackson Report, p.49.
15. Jackson Report, p.139.
16. Evidence, p.11.
17. Evidence, p.22.
18. Evidence, p.282. (Housing and Construction).
19. Evidence, p.497.
20. Evidence, 10 April 1985, p.510.
21. Jackson Report, p.139.
22. Jackson Report, p.9.
23. Evidence, p.26.
24. Evidence, p.23. (Foreign Affairs)
25. Jackson Report p.7: pp.65-68.
26. ACFOA gave a summary response in this submission. Evidence, p.500.
27. See 'program Review of IFAD', U.S. Agency for International Development Washington D.C., 1985.
28. Evidence, 9 April 1985, p.87.
29. Evidence, p.48. (Foreign Affairs)

30. Evidence, p.46.
31. Jackson Report, p.68.
32. Evidence, 10 April 1985, p.488.
33. Evidence, p.476.
34. Evidence, p.475.
35. Evidence, p.48.
36. Evidence, 10 April 1985, p.547f.
37. Submission from the Australia/Africa Business Council, p.3.
38. Evidence, 10 April 1985, p.458.
39. 'United States Participation in the Multilateral Development Banks in the 1980s', Department of the Treasury, Washington D.C., 1982.
40. 'African Development Bank', Kidder Reabody & Co, New York 1984.

CHAPTER 6

AID AND TRADE

Introduction

6.1 The relationship between trade and aid has assumed increasing importance over the last decade as the Western economies have struggled to avoid the effects of recession. As the Department of Trade have noted:

'...in practice the last decade or so has seen most OECD countries increasingly using aid to promote their own national interests, including trade interests. The reasons for this are: decrease in economic growth, slow down of growth in international trade and consequently increased competition. Today virtually all OECD countries use aid in various forms to secure major export contracts'¹

6.2 Donors can use aid to benefit their own economies directly in several ways: for example, it can be tied to the provision of goods and services, or used to soften financial terms, or to assist in market penetration. As long as the primary purpose in its use is genuinely developmental and the furthering of commercial interests incidental, then such uses of aid can be said to be legitimate, or at least to have a degree of legitimacy.

6.3 The Jackson Report acknowledged the legitimacy of commercial interests in the aid program. However, it came out strongly against any use of aid as a subsidy mechanism for industry or as a substitute for industry policy:

'The provision of subsidies to particular producers would be against the long-term national interests of Australia. It would be difficult to justify on equity grounds the outlay of taxpayers' funds to subsidise particular sectional interests'.²

Although the Australian aid program is closely related to trade, and although aid and trade policies should be complementary, aid policy cannot substitute for export policy.³

6.4 As Jackson notes, the provision of subsidies to particular producers is not in Australia's long-term interests nor in fact of the producers themselves. Insulation from the rigors of competition may produce some short-term advantage but in the long-term will only lead to inefficiencies. Moreover, in the case of Australia's aid program, the volume of aid funds that could be made available for further advancing commercial interests has to be put in context. After allowing for continuing commitments such as to Papua New Guinea, the multilateral agencies, food aid, education etc., then the funds remaining in the aid program are very small in relation to our exports (either as a whole or purely in relation to manufacturing). This is all the more so when one takes into account that of this remainder, a substantial amount, some \$39 million in 1984/85, is already allocated to directly supporting Australian industry through the DIFFs, DIGs and co-financing programs. In addition, the bulk of what is left is in any case already tied to the provision of Australian goods and services. The salvation of Australia's exports is not going to come, as the Department of Trade itself admits⁴, through the aid area.

6.5 Jackson considered that, 'by focusing aid on particular sectors where Australian services and goods have a comparative advantage, a coincidence of aid and commercial interests can be

served without sacrificing the integrity of either'.⁵ The Jackson Committee expressed considerable reservations regarding the use of mixed credits but nevertheless, 'so that Australian suppliers to the aid program are not put at a competitive disadvantage by the mixed credits of other donors.'⁶ recommended the expansion of the DIFF scheme towards a ceiling of 5 per cent of the aid program.

Reactions to the Report

6.6 The discussion and the recommendations on the aid/trade relationship have proved amongst the most contentious in the Jackson Report. On the one hand there have been strong criticisms of the Jackson recommendation regarding DIFFs and of the aid/trade linkage in general. The AFFHC in agreeing with Jackson's criticisms of mixed trade/aid schemes pointed out that 'they result in a misallocation of aid funds and are a direct subsidy to local industry. They should be more appropriately funded and controlled by the Department of Trade and not considered as part of Australia's aid allocation.'⁷ ACFOA while endorsing Jackson's 'cogent arguments against the tying of aid and its serious concern about ... mixed credits' strongly opposed the Jackson recommendation on DIFFs.⁸ Arguments against increasing and direct linkages between aid and trade were made in trenchant comments by ACFOA:

'Our argument would be that there is substantial tying, there are substantial benefits that flow to Australia already from the program, and that if we see any further increases we will simply see gross distortions of the program. No longer could we effectively argue that it is seeking to meet aid objectives. It would increasingly be simply meeting our problems within Australian industry. We recognise those problems - we are not arguing against that - but they ought to be addressed more

fairly and I do not think that trying the back door through the ADAB budget to meet those problems is addressing the proper issue. If they have a serious case, why does not the Department of Trade, within the context of the Budget, argue their case for increasing the subsidies? If their figures are accurate, then clearly it would be a good investment for the Government to put that kind of money - the figures they have mentioned in their submission - in trade subsidies if it is going to gain that kind of benefit for Australian industry. I think it is a back door approach. If we do it internationally we simply will not cope with the degree of competition that other countries could offer.'⁹

6.7 On the other hand, Jackson's recommendations were seen as unsatisfactory and insufficient by a significant section of the community. Criticisms ranged from the Department of Trade's view expressing disappointment that 'the Jackson Report has approached the question of the complementarity of our aid and trade policies in such a cautious way that it will not maximise economic opportunities for Australia'¹⁰ to the CAI's more direct statement:

'In its treatment of Commercial Interests... the report abstracts itself from the real world'¹¹

Moreover, the CAI concluded that the Jackson Committee's idealistic approach deterred them from considering in detail a number of issues and that this 'has raised valid questions about (the report's) value as a basis for changes to our aid'¹².

6.8 Critics of the Jackson Committee's views, in the business community, have been virtually unanimous in calling for: (i) increased tying of the aid program; (ii) an improved range

and increased funding of direct financing mechanisms such as DIFFs; (iii) and a much closer integration of trade and aid policies with much greater weight being given to economic and commercial considerations. These demands are not seen as running counter to, or compromising the basic aims of the aid program:

'We believe that... it is possible to inject a commercial interest without detracting from the aid objectives of the development or humanitarian nature'.¹³

'This can be done, to our way of thinking, without compromising the developmental purposes of aid and our reputation as an aid provider'.¹⁴

'... that can be done without diminishing the quality of Australia's aid'.¹⁵

Tying

6.9 The view was put strongly to the Committee (as it was to the Jackson Committee) that the proportion of aid tied to the provision of goods and services from Australia should be increased. The Department of Trade drew particular attention to OECD.DAC statistics which show that Australia ties a considerably lower proportion of its aid, 28.3 per cent, than other countries.¹⁶

6.10 However, this Committee has been advised that these statistics should be treated with caution: the statistics may not reflect what is actually happening in practice. In Australia's case the figures considerably understate the benefit that accrues to Australian suppliers. Of the major components of the Australian aid program, only two - Papua New Guinea and (non-food) Multilateral Aid - are untied. These represented 49 per cent of the program in 1984-85. The remaining parts of the

program are subject to some degree of tying and the Committee is advised that, after allowing for such items as third country training, freight costs, local cost financing etc., approximately 45 per cent of total Australian aid can be regarded as 'tied'.

6.11 If the DAC statistics are examined in detail, albeit allowing for their unreliability, Australia's performance appears better than the Department of Trade have inferred. In 1983, Table 6.1 refers, 70.4 per cent of Australia's aid was classified as untied. This percentage was exceeded by several Nordic countries and Switzerland but was not significantly above Denmark, Germany, Italy, Japan, the Netherlands and New Zealand; this is despite the fact that Australia is the only DAC donor that provides 32 per cent of its aid as an untied grant to a single recipient. Moreover, if our aid to PNG were excluded when measuring the extent of tying of grant aid, according to DAC statistics Australia would share the dubious distinction of having one of the most heavily tied bilateral programs after Austria.

6.12 There is clearly no possibility of increasing the extent of tying in the non-PNG bilateral program beyond its present level.¹⁷ Additional benefits to the commercial sector in this area can only derive from increasing the program size. Therefore, the only other options for increased tying that presently exist are in our untied multilateral and PNG aid programs.

6.13 Multilateral aid (food aid apart which is already almost wholly tied) constitutes some 17 per cent of our program. The Department of Trade in its submission stated that:

'The Australian taxpayer could rightfully expect a larger proportion of our multilateral aid contributions to flow to Australian suppliers of goods and services, either from the multilateral agencies themselves, or through a switch of

TABLE 6.1
 TYING STATUS OF TOTAL ODA, 1983, PERCENTAGES^a

	UNTIED	TIED	PARTIALLY TIED	EEC ^c	BILATERAL TIED ^d	GRANTS UNTIED
Australia	70.4	29.6	-	-	37.1	62.9
Austria	23.0	77.0	-	-	88.4	11.6
Belgium	38.0	45.4	-	16.6	67.5	32.5
Canada	45.6	54.4	-	-	78.7	21.3
Denmark	67.3	25.2	-	7.5	12.4	87.6
Finland	81.7	18.3	-	-	16.1	83.9
France	38.5	46.9	7.6	7.0	62.4	37.6
Germany	68.3	20.4	-	11.3	33.5	66.5
Italy ^b	61.3	17.1	0.5	21.1	30.2	69.8
Japan	69.9	14.1	15.9	-	58.3	41.7
Netherlands	64.0	11.3	16.3	8.3	29.7	70.3
New Zealand	63.3	36.7	-	-	46.6	53.4
Norway	81.0	19.0	-	-	34.9	65.1
Sweden	84.7	15.3	-	-	15.3	84.7
Switzerland	76.1	23.9	-	-	20.1	79.9
United Kingdom	42.0	41.0	0.3	16.7	74.6	25.3
United States	56.0	32.0	12.0	-	58.9	41.1
Australia (excluding PNG)	53.8	46.2	-	-	75.8	24.2

- a) Gross disbursements, excludes administrative costs
 b) 1982 figures
 c) EEC procurement may be undertaken in member countries, or in any of the 64 associated ACP states. Such aid is not included by the DAC as either tied or untied aid.
 d) Includes partially tied.

SOURCE: OECD, 'Development Co-operation', Paris 1984.

TABLE 6.2: PROCUREMENT¹ FROM THE DEVELOPMENT BANKS

	IBRD (1980-84)			IDA (1980-84)			AsDB (cumulative total ⁶)			AsDF (cumulative total ⁶)		
	Procurement US\$m	Share of Subs ² %		Procurement US\$m	Share of Subs ² %		Procurement US\$m	Share of Subs ² %		Procurement US\$m	Share of Subs ² %	
Australia	206.0	1.2	2.35	53.3	1.0	2.01	73.7	1.36	7.14	40.2	2.12	5.16
Austria	166.4	0.9	1.01	27.0	0.5	0.68	54.3	1.01	0.42	6.2	0.33	0.68
Belgium	207.5	1.2	2.29	130.4	2.4	1.32	24.9	0.46	0.21	8.9	0.47	0.62
Canada	400.2	2.2	3.39	99.7	1.9	5.00	85.4	1.58	6.45	28.3	1.49	8.38
Denmark	98.7	0.6	0.96	55.1	1.0	0.95	14.0	0.26	0.42	6.5	0.34	0.59
Finland	63.2	0.4	0.62	24.8	0.5	0.49	2.1	0.04	0.17	3.2	0.17	0.49
France	1370.5	7.7	5.32	469.4	8.8	4.51	138.7	2.57	2.10	11.3	0.60	2.70
Germany	2014.5	11.3	6.32	487.5	9.1	11.70	306.1	5.67	5.34	123.2	6.48	6.05
Italy	1109.2	6.2	3.65	362.6	6.8	2.67	117.3	2.17	0.82	66.5	3.50	2.35
Japan	3053.5	17.1	6.30	734.7	13.7	13.93	1489.1	27.58	16.80	547.0	28.78	43.08
Netherlands	370.4	2.1	2.78	141.7	2.6	2.59	75.9	1.41	0.92	25.9	1.37	1.85
New Zealand	42.9	0.2	0.56	7.3	0.1	0.10	26.0	0.48	1.89	21.2	1.12	0.17
Norway	55.8	0.3	0.44	7.4	0.1	0.93	3.0	0.06	0.42	*	0.01	0.52
Sweden	261.5	1.5	1.36	96.6	1.8	2.76	24.4	0.45	0.17	20.6	1.08	0.79
Switzerland ³	739.9	4.1	-	170.0	3.2	-	99.5	1.84	0.28	41.8	2.20	1.11
United Kingdom	1108.4	6.2	6.51	773.0	14.4	10.11	194.1	3.59	2.52	152.6	7.03	3.29
United States	3529.9	19.7	20.43	689.7	12.5	33.04	475.3	8.80	16.80	111.2	5.85	22.00
Sub-Total	14798.5	82.9	64.30	4310.2	80.4	92.79	3203.8	59.33	62.87	1214.6	62.94	99.83
Others	3075.7	17.1	35.70	1049.9	19.6	7.21	2195.9	40.67	37.13	685.4	37.06	0.17
Totals	17874.2	100.0	100.00	5360.1	100.0	100.00	5399.7	100.0	100.00	1900.0	100.00	100.00

Australian Contributions
\$m Aus\$4

\$A35.2m⁵

\$A199.8m

\$A95.6m⁵

\$A66.9m

Note: The above figures illustrate that, expressed as a ratio between share of procurement and share of subscription, in the IBRD only New Zealand has a poorer rate of return than Australia; in IDA, Canada, Norway and the USA; in the AsDB, Norway; and in the AsDF, Canada, Finland, France, Norway and the USA.

1. Disbursements.
2. The percentage shares in all four cases have been calculated since inception based on total subscriptions/contributions at end of fiscal year 1984.
3. Switzerland does not subscribe to the IBRD but is eligible for procurement.
4. Sum of contributions for: period 1980-84 IBRD and IDA; cumulative total to 31.12.84 AsDB and AsDF.
5. This figure represents only the paid-in proportion of our subscription, the remainder being on call. For example in the case of the AsDB while Australia has paid-in \$95.6 million we have actually subscribed \$1.003 billion to the Bank's capital.
6. To 31.12.84.

Source: Australian Development Assistance Bureau based on statistics in World Bank and Asian Development Bank 1984 Annual Reports.

multilateral aid funds to bilateral aid, where the recognition of Australian capacity to supply is more evident'.¹⁸

6.14 However, the transfer of any significant volume of multilateral funds to the bilateral program could not be readily achieved. The major part of our multilateral aid is constituted by our contributions to the international financial institutions (the World and Asian Bank Groups and the International Fund for Agricultural Development). Commitments to these organisations are made in advance and paid over a number of years: even if we were to reduce our shares in these organisations there could be no substantial switching of aid to the bilateral program for at least ten years.

6.15 As a proportion of our aid program, the level of multilateral aid (excluding food aid) is low by comparison to other donors. Apart from the international financial institutions, our multilateral contributions (again excluding food aid) are made to United Nations, Commonwealth and Regional organisations and will amount to some \$67.5 million in 1984/5 or less than 7 per cent of the aid program. These contributions serve major development objectives, and even if significant cuts were possible, which this Committee does not believe to be the case, the absolute amount of funds that could be transferred to the bilateral program would be minimal.

6.16 Although our multilateral contributions have to be untied by definition, it has also to be noted that they entitle Australian companies to bid for contracts financed by multilateral organisations. This is particularly important in the case of the development banks of which we are a member and which in 1984 financed US\$12 billion of contracts. The Jackson report included figures that showed the return on our contributions to the Banks, in terms of contracts won, exceeds their cost.

Although the return is substantial, our performance in recent years is not impressive and, as is shown in Table 6.2, by comparison with other donors is below average.

6.17 Nevertheless, the return on our multilateral contributions (both to the development banks and other multilateral agencies) is significant and represents a substantial benefit to our commercial sector. Moreover, it is possible that this level of benefit could increase if companies were more active in their pursuit of the contracts let by these organisations. In this regard, the Committee endorses the Jackson recommendation that the flow of information about the opportunities available should be improved both by ADAB and the Trade Commissioner Service.

6.18 The only other option that exists in the aid program for substantially increasing procurement opportunities is in the PNG program. Many of the submissions made to this Committee have advocated a change in the nature of, or a reduction in our aid to Papua New Guinea: they have endorsed the Jackson Committee's recommendation that an increasing proportion of this aid be allocated as project aid and thus tied to the provision of Australian goods and services. These matters have been discussed in Chapter 5.

Aid/Trade Financing Mechanisms

6.19 It was put to this Committee by several witnesses¹⁹ that there should be expanded and improved financing facilities in the aid program available for the promotion of our exports. A number of mechanisms were suggested for this including, in particular, a rapid and significant increase in DIFFs, i.e. mixed credits, and the use of soft loans.

6.20 The Department of Trade put forward the view that these facilities should be subsumed into an Aid/Trade Fund with at least 20 per cent of the aid vote directed to it. This 'Fund' would 'represent a proportion of aid to be allocated for commercial objectives'²⁰ and would include monies allocated as DIFFs, soft loans or lines of credit as well as 'project funding which is linked to commercial objectives for the supply of goods from Australia'.

6.21 The issue of mixed credits and soft loans has been receiving considerable attention both internationally and in Australia. That these credits are a distorting factor on international trade has been recognised by the OECD. They have a distorting effect on competition between donors by introducing a form of subsidy: they can and have been used by donors to subsidise inefficient producers at the cost of aid recipients and efficient producers in other countries. Nevertheless the aggressive use of such credits by a number of donors, particularly France, has led to the establishment of mixed credit schemes in virtually all donor countries, Australia's version being DIFFs

6.22 The Jackson report apart, the Departments of Finance and the Treasury have also expressed considerable reservations about their use:

'One must speculate that if it is necessary to introduce special measures on a large scale to cause decision makers to opt for Australian supply rather than supply elsewhere, there must be some cost to the quality of aid delivered in so doing'²¹

'... we should try, as far as possible, to, in effect, let the market determine where procurement goes and so get a better allocation of resources'²²

6.23 On the other hand, the need for Australia to develop its financing mechanisms has been stressed by several witnesses:

'(DIFFs) is the nearest thing we have to answer the soft loan situation that is brought forward by many of our competitors, so it is extremely important'23

'We believe there is substantial competition in the market-place and at the present time many Australian firms are losing commercial opportunities, particularly in our own region, because of their inability to match the financial terms which are offered, particularly by European countries'24

The Department of Trade has summarised the argument:

'While Australia may be better served by an open trade environment rather than a free-for-all in trade and aid subsidies, regrettably for the present and foreseeable future our exporters will need to compete and survive in an imperfect world.'25

An Aid/Trade Fund

6.24 If multilateral aid, aid to PNG, education and training and expenditure by other departments and on NGOs is excluded the remainder, that is the 'core' of the bilateral program, amounts to \$285 million in 1984/85 or 29 per cent of our aid. Further if bilateral food aid is also excluded, then this core program amounts to only 23 per cent of our aid. Of this \$228 million, \$39 million is already allocated to DIFFs, DIGs and co-financing; this is apart from the considerable procurement benefits

available in other areas of this core program. While commercial interests may have a legitimate place in the aid program, to allocate 20 per cent of our entire program to an aid/trade fund would in present circumstances, mean that virtually the entire bilateral core program would disappear into the fund. This would not leave any bilateral funds available for activities of a primarily developmental, rather than commercial, nature - an untenable situation for an aid program. This Committee considers that while commercial interests have a legitimate place in the program, and should be taken into account in programming our activities, they must not be allowed to dominate it.

Financing Mechanisms

6.25 This Committee shares Jackson's concerns as regards the use of mixed credits. However, it would be unrealistic for Australia to allow its industry to be placed at a competitive disadvantage by other donors' aggressive use of aid to foster their exports. The Committee therefore accepts that, for the present, direct aid/trade financing mechanisms are a necessary feature of the Australian aid program. Their use, however, should be subject to strict development criteria and then only in cases where the Department of Trade is able to certify the Australian goods to be financed are internationally competitive.

6.26 The Committee would agree with Jackson that a limit of 5 per cent of the program should be placed on such mechanisms; we would suggest that the use of such funds should be allocated either as mixed credits or used to provide soft loans if these are seen as more appropriate.

Other issues

6.27 Within the program as a whole the use of co-financing should be expanded as finance permits: this will allow Australian industry to gain experience of the bidding and contracting practices of the international development banks.

6.28 The allocation of Australia's aid as between the private and public sectors has been raised. Both are major suppliers to the aid program and both have particular sets of skills to offer: both have reservoirs of expertise to offer the aid program. There can be no decision to favour one sector at the expense of the other: the decision on which to use must be made solely on the grounds of value for money and the extent to which that sector can supply the requirements identified through the process of country programming.

6.29 The administration of aid/trade funds is another matter which has been raised with this Committee: attention has been drawn to the present cumbersome nature of the DIFFs scheme.²⁶ In view of the fact that considerable expertise in financing trade has been developed by EFIC, this Committee would concur in the suggestion by the Department of Trade ²⁷ that aid/trade finance be administered by the one organisation, EFIC - now part of the Australian Trade Commission. This would of course be subject to satisfactory guidelines being developed which would enable the funding organisation, ADAB, to ensure that development criteria were being met for each project.

Conclusions

6.30 The value of the aid program to commercial interests can best be extended by careful selection and design of aid so as to emphasise areas in which Australia is competitive and has demonstrated strengths that are appropriate to the needs of developing countries. This will allow both recipients and the Australian taxpayer to obtain best use of the aid dollar.

6.31 The Committee would also note that there appear to have been major shortcomings in the relationship between the business community and ADAB. If the optimum level of commercial

involvement in the aid program is to be achieved, then these shortcomings have to be resolved. ADAB should give this priority attention and ensure that the business community is fully aware of the opportunities available to them under the aid program. At the same time it is important that the business community understand the other interests the aid program has to serve; it should also ensure that its information disseminating mechanisms take advantage of, and in fact build on, the information that is provided it by the Government.

ENDNOTES

1. Evidence, p.404.
2. Jackson Report, p.121.
3. Jackson Report, p.115.
4. Evidence, 10 April 1985, p.454.
5. Jackson Report, p.115.
6. Jackson Report, p.13.
7. Submission from AFFHC, p.6.
8. Evidence, p.496.
9. Evidence, 10 April 1985, p.507.
10. Evidence, p.396.
11. Evidence, p.256.
12. Evidence, p.258.
13. Evidence, 10 April 1985, p.454 (Trade)
14. Evidence, 9 April, p.333. (Housing & Construction)
15. Evidence, p.256 (CAI)
16. Evidence, p.396. This figure does not take into account the contribution towards student costs now counted as part of our aid program.
17. The small amounts of aid presently untied, e.g. local cost financing, are necessary to efficient functioning of the program. A higher rate of tying in the bilateral program would severely reduce aid effectiveness.
18. Evidence, p.401.
19. For example Departments of Trade, and Housing and Construction, the CAI. Evidence p.402; p.283; p.256 respectively.
20. Evidence, 10 April 1985, p.464-465
21. Evidence, 9 April 1985, p.180. (Finance)
22. Evidence, 10 April 1985, p.486. (Treasury)
23. Evidence, 9 April 1985, p.342. (Housing & Construction)
24. Evidence, 10 April 1985, p.451. (Trade)
25. Evidence, p.399.
26. Evidence, 10 April 1985, p.462 (Trade); p.301 (Housing & Construction; p.262 (CAI)
27. Evidence, p.402

CHAPTER 7 - EDUCATION

Introduction

7.1 The 1984-85 budget, included for the first time the costs involved in educating developing country students, both sponsored and private, attending secondary and tertiary institutions. The cost was estimated to be \$102.5 million of which \$3.8 was administrative costs. The cost for 1983-84 was estimated at \$98.5m of which \$3.5m was administrative expenditure.¹

7.2 During 1984-85 some 3500 students and trainees would have the full cost of their studies and subsistence met by the Australian Government while a further 15 000 would benefit from having their educational costs met in part by the Australian Government.

7.3 While the students come from some 70 developing countries, the largest share comes from South East Asia and the South Pacific Region. The following table, which is a summary of the information given in the budget papers, illustrates the dominance of Malaysian students ie. over 9000 of the 16 000 students in 1983.

STUDENTS FROM DEVELOPING COUNTRIES WITHIN AUSTRALIA
BENEFITING FROM COMMONWEALTH CONTRIBUTION
TOWARDS THEIR EDUCATION
1979-1983

	1979	1980	1981	1982	1983
Africa	264	273	337	350	379
Hong Kong	1173	1163	1256	1734	2141
Indonesia	705	662	753	915	1306
Malaysia	4301	4900	5706	6990	9267
Singapore	413	412	459	621	874
Fiji	306	372	487	613	762
P.N.G.	167	183	231	295	344
Thailand	442	392	373	306	333
Total	8806	9373	10697	13042	16630

Source: 1984-85 Budget Paper No. 9.

7.4 The Jackson Report advocated a market approach to the promotion of education in which education would be regarded as 'an export industry'² with educational institutions in open competition for students and funds. Given the fact that overseas students represent 'a potential source of export earnings',³ they should be recruited in greater numbers and pay full economic cost fees. Such fees would go to the host institutions who would use them to create courses appropriate to the needs of overseas students.

7.5 The report went on to suggest that the 'subsidy' to overseas students which had previously been hidden in Australia's general education budget be made explicit by transferring it to the aid budget. Such a move would ensure that the net cost of educating students from developing countries would be recognised as ODA, and would raise Australia's ODA as a share of its GNP by about 0.04 per cent. At the time the subsidy was estimated by Jackson to be some \$70m.⁴

7.6 A three-tiered scholarship system designed to ensure that students from developing countries are selected according to ability and need and not income was recommended. This system would be composed of the existing Australian Government sponsorship scheme, merit scholarships awarded directly by Australian tertiary institutions, and 'special' scholarships for students from disadvantaged groups. It suggested that if the \$150 million, in constant prices were available by the mid-1990s scholarships could cover about 10 000 students.⁵

7.7 The issues relating to private overseas students were considered in another report 'Mutual Advantage - The Committee of Review of Private Overseas Student Policy'. The Committee was chaired by Professor John Goldring and is known as the Goldring report. It did not agree with the expansionist approach of Jackson report and recommended only modest increases in foreign student members. It also recommended no substantive changes to the present level of overseas student charges.

ASEAN Report

7.8 The two reports were considered in this Committee's report entitled on Australia and ASEAN, Challenges and Opportunities which was tabled on 9 October 1984. The following extracts from the report provide a comparison between the Jackson and Goldring report.

SUMMARY COMPARISON BETWEEN
'JACKSON' AND 'GOLDRING' RECOMMENDATIONS

Jackson

1. Student Numbers

Lift country quotas; numbers to be limited only by ability to win merit scholarships or eligibility for scholarships for disadvantaged groups or ability to pay full fees, and by available places in institutions.

2. Student Charges

'Full economic fee' for students not on scholarships.

3. Scholarships

Comprehensive system of scholarships (not means tested), most based on merit and including some development criteria, and some for disadvantaged groups.

4. Funding

Extra places for overseas students to be funded from full fees paid directly to institutions.

Scholarship funds to come from aid budget (perhaps up to \$150 million by mid-1990's).

Goldring

1. Student Numbers

Lift country quotas and allow modest increase in numbers, within present education system capacity and without displacing Australian students; capacity would be encouraged by a more even distribution of overseas students amount Australian institutions (5-10% of each institution's total student numbers).

2. Student Charges

Maintain Overseas Student Charges (OSC) at between 30% and 40% of education costs.

3. Scholarships

Limited scholarship fund for students in financial hardship, but with no comprehensive scheme because means testing impractical.

4. Funding

As present, with OSC paid into general government revenue, and subsidy.

Subsidy, for education costs not met by OSC, to be recognised in, and debited against, the aid budget.

Source: Australian and Asean - Report of the Joint Committee on Foreign Affairs and Defence - October 1984, p.240.

Government response

7.9 The Minister for Foreign Affairs in his letter to the Chairman on 22 March 1985 referred to the 'expeditious consideration of those parts of the Jackson Report which dealt with the training of overseas students in Australian tertiary institutions'.⁶ This was necessary as the arrangements had to be in place at an 'early date'.

7.10 On the same day the Minister for Education announced to the Parliament that 'the Government has now decided on a new program to be implemented, adopting basically the Goldring approach'.⁷

7.11 Features of the system were the creation of an Overseas Student Office within the Department of Education, an increase in Overseas Students Charge, and quota restrictions in terms of courses and institutions. The Overseas Student Charge would represent 35 per cent of cost in 1986 and 45 percent in 1987. These charges would be \$4340 for medicine, dentistry and veterinary service and \$3500 for other courses in 1986. The quota limits would limit overseas students to 20 per cent in any course and up to 10 per cent at any institution.

7.12 The institutions would be able to offer courses specifically designed for overseas students. The courses which would provide increased opportunities for students, would be at full cost.

Conclusions

7.13 The Committee in its report on Australia and ASEAN leaned towards the recommendations of the Jackson Report in regard to overseas students. It considered that the existing system 'with its combination of quotas and subsidies, is not satisfactory to either Australia or those foreign countries whose students demand exceed the supply of Australian places'.⁸ It went on to recommend careful consideration of a new overseas student policy.

7.14 A feature of the new policy would be a gradual and predictable increase in overseas students charges with the fees being retained by the enrolling institutions. In parallel with this would be the development of a comprehensive system of scholarships which would be funded out of the aid budget.

7.15 The policy proposed by the Committee in the ASEAN report would be undertaken 'in the closest possible consultation with all source countries, especially the ASEAN countries, so that their concerns will be taken into account fully.⁹

7.16 The Committee acknowledges that the Government has made a decision in relation to overseas students. However it needs to be acknowledged that the expenditure on education now represents around 10 per cent of Australias Official Development Assistance.

7.17 A considerable part of the aid program will not be administered by ADAB and will be separated from overall consideration of the aid program. How the scheme will be integrated into country programming will need to be considered. This assistance goes in the main to the countries of South East Asia who provide over 70 per cent of students with Malaysia provided over 50 per cent of total students.

7.18 The Committee is still attracted to the approach proposed in the Jackson Report as a way of encouraging the development of a sector in which Australia enjoys a comparative advantage. It would also redirect Australian aid away from the more developed countries such as Malaysia. Whether the proposed program can be implemented is untested at present. A related issue is whether the quota limits presented for the University and for particular courses can be applied.

7.19 The Committee recommends that the present overseas student policy be reviewed in three years time:

- (i) to ascertain whether or not the aims of the policy has been achieved
- (ii) whether the policy has unduly restricted the development of the Australian education industry, and
- (iii) whether the administration of the overseas student policy should be transferred to ADAB

7.20 Another aspect of Australia's assistance to the education of developing countries' students is its support for the development of educational institutions in those countries. The Committee's 1984 Report, 'Australia and ASEAN: Challenges and Opportunities' was supportive of continued Australian efforts, administered under the Australian Universities International Development Program, to assist the improvement of teaching, research and administration capabilities of institutions in Australia's region.¹⁰ This Committee supports a similar position taken by the Jackson Committee.¹¹

ENDNOTES

1. Budget Paper No. 9 - 1985.
2. Jackson Report p.87.
3. Jackson Report p.10.
4. Jackson Report p.91.
5. Jackson Report p.95.
6. Evidence p.5.
7. Senate Hansard, 22 March 1985 p.630.
8. ASEAN Report p.247.
9. ASEAN Report p.249.
10. ASEAN Report p.252.
11. Jackson Report p.89-90.

CHAPTER 8

OTHER SPECIFIC ISSUES OF IMPORTANCE

Introduction

8.1 During the course of the inquiry a number of specific issues were raised with the Committee in relation to some of the recommendations of the Jackson Committee. These issues, which are considered in turn, were:

- . Women
- . Migration from Kiribati and Tuvalu
- . The Head of Mission Discretionary Fund (HOMDAF)
- . Non-Government Organisations (NGO's)
- . Development Education

The Committee decided to comment on these issues and where appropriate make recommendations.

Women

8.2 A separate chapter in the Jackson Report considered issues in relation to women in development. The title of that chapter - 'Women: a special concern' - examined how women in developing countries are disadvantaged and looked at how aid can assist women.

8.3 The Jackson Report recommended that a special effort be made to assist women to play a full and equal role in development. It proposed an attempt to raise the population of women trained in Australia to 50 per cent of all students from developing countries. A special fund was to be created to stimulate projects specially designed to meet the needs of women: in this regard a 'Women-in-Development Fund' has been established

this financial year to support innovative and catalytic projects involving women.¹

8.4 The chapter included a section on women in aid administration. It noted that the number of professionally trained women working in aid programming and aid administration is low and suggested that accelerated recruitment, training and exposure to practical experience for women are needed for the improved management of the aid program. The report recommended women be encouraged to pursue professional careers in development.²

8.5 The Office of the Status of Women in its submission, while appreciating the emphasis that a separate chapter gave to women's issues, was concerned that the failure to integrate women's interests into the overall framework to a greater extent serves to reinforce the idea that women's concerns are peripheral to the real issues of development³. The Office of the Status of Women referred to existing opportunities for the promotion of women within ADAB. It suggested that the women's area within ADAB would have to be significantly upgraded and that while 'Australia has claimed credit for having a womens unit within ADAB it did not reveal that the said unit consisted of one officer of relatively junior status'.⁴

8.6 ACFOA strongly supported the proposal for a special effort to assist women to play a full and equal role in development and commented that the Jackson Report provides a valuable analysis of the way women have been left out of the development process.⁵

8.7 In response to queries at the hearing regarding the Women's Unit in ADAB, the Committee was advised that the position of women-in-development adviser is being filled and that the position would now 'move out of the policy branch and into the area concerned with appraisal, evaluation and general management

of the program'⁶ and that the question of how best to integrate these issues into the program was being examined.

8.8 This Committee supports the views and recommendations expressed in Jackson. More particularly, we strongly support the view expressed by the Office of Status of Women to the effect⁷ that while retention of a small special women's program is merited, the emphasis should be on ensuring that aid planning and implementation does not overlook women's potential; that knowledge of women's issues should be widely disseminated throughout ADAB; and that aid managers take these issues into account when developing country and other aid programs: the Committee would further emphasise that this must be a continuing concern of aid managers.

Migration from Kiribati and Tuvalu

8.9 The Jackson Report gave particular attention to the small island states of the Pacific. It noted the exceptional problems facing the micro-states of Kiribati and Tuvalu. The long term development prospects were considered discouraging and it was recommended that 'Australia should make available limited opportunities for immigration from Tuvalu and Kiribati⁸. (The current populations of Kiribati and Tuvalu are 60,000 and 8,000 respectively).

8.10 The course which Jackson proposed would, according to the Department of Immigration and Ethnic Affairs 'breach quite fundamental principles (of Australia's immigration policy)... the numbers explicit to Tuvalu and Kiribati may be quite small but the extension of the principle goes into hundreds of thousands, or millions if you take Africa into account⁹.

8.11 The Committee considers that the situation of these micro-states is such that innovative solutions to their problems are necessary. Jackson has recommended one possibility though it is not one which this Committee can support.

Head of Mission Discretionary Aid Fund

8.12 The Head of Mission Discretionary Aid Fund (HOMDAF) is provided by ADAB to be applied to local developmental activities of a small-scale nature. The funds vary from \$5000 to \$50 000 per year and the Jackson Committee considered there was scope for a very significant expansion of this type of Australian aid. It recommended that selected posts have funds of up to \$350 000 a year with a limit of about \$50 000 for any particular project.

8.13 This considerable expansion of HOMDAF was not favoured by the Department of Finance which referred to two main disadvantages: while 'individual allocations are small, in total they can tie up quite large amounts for activities of relatively low priority' also 'discretionary funds tend to be fully spent as a matter of course'.¹⁰

8.14 Reservations were also held by ACFOA which was concerned that grants made from HOMDAF to local NGOs could 'interfere with long-established and carefully nurtured relationships'.¹¹ ACFOA then went on to suggest 'it must be public and clear what criteria govern the grants made under HOMDAF'.¹² Reference was made to a project being supported by an Australian NGO and by the local diplomatic mission through HOMDAF with neither of the other's knowledge: it was suggested that there was insufficient contact between overseas missions and NGO's active in the countries for which the missions were responsible. ACFOA's reluctance to endorse the expansion of HOMDAF would appear, in part, to be a concern at possible competition from the fund in seeking out projects.

8.15 The views of the Department of Finance have been noted: however, the Committee is also aware that many productive, though small-scale, projects have been financed through this fund. HOMDAF grants are a useful mechanism for promoting Australian interests and, more importantly, for participating in the development process in countries and regions where we do not have

a visible bilateral involvement. The concerns of ACFOA are valid but can, however, be resolved by improved liaison, and in this regard the Committee recommends that the guidelines for HOMDAF's use, which have been provided to it by the Department of Foreign Affairs, also be made available to ACFOA.

8.16 The Committee supports the proposal for the expansion of head of mission discretionary aid funds provided they can be effectively administered.

Non Government Organisations

8.17 Non-Government organisations (NGOs) were considered an important part of the Australian aid effort by the Jackson Committee. It recommends an increase in funding for the NGO programs as well as simplifying the means by which the agencies are provided with government funds. A new umbrella program 'The ADAB Voluntary Agencies Co-operation Program' was proposed.

8.18 The role of the NGOs in building community support for aid, contributing to the understanding of development and providing a plurality of approaches that is complementary to official aid was recognised by the Jackson Committee. In its report on The Provision of Development Assistance and Humanitarian Aid to the Horn of Africa (December 1983) the Committee drew particular attention to the self help Primary Health Care Program in Somalia. The valuable work was supported by Community Aid Abroad and considered to be of world wide significance both in terms of the implementation of the program and the success achieved. Continuing Australian support for the program was recommended.

8.19 The Jackson Committee recommended that the funding of the agencies should double with further rises to depend on increased public support and better administrative capacity. The NGO response to these proposals has been positive¹³ although

concern about the administrative aspects has been expressed by the Department of Finance which suggested the appropriate accountability processes be established¹⁴.

8.20 ACFOA welcomed the recognition given the voluntary agencies in the report and strongly supported the recommendation to double the aid channelled through the NGO's. Work has begun on standardised voluntary agency definitions, accounting procedures and agreed disclosures of information on administration and operations ¹⁵.

8.21 This Committee notes the different but complementary roles of official aid agencies and non-government organisations in the development process. Australian NGOs and their sister organisations overseas have consistently proven themselves, within the limits of their administrative and financial capacity, efficient channels for the provision of small-scale project aid and for relief aid. These activities complement ADAB's larger programs. In many countries or areas where Australia does not have an official presence, activities financed by Australian NGOs evidence our commitment to development. Within Australia, NGOs are playing a valuable role in promoting development education. This Committee therefore welcomes and endorses the Jackson recommendations concerning increased funding of NGO activities.

Development Education and Information

8.22 The several objectives of development education were set out in the Jackson Report.

- (a) to enhance community awareness of development issues;
- (b) to encourage a more informed debate on what Australia should do to assist developing countries;

- (c) to counteract community prejudices, including racist and sexist prejudices; and
- (d) to educate people on aid and development.¹⁶

8.23 The amount spent by ADAB (about \$50 000 p.a.) was considered extremely meagre by international standards and it was suggested that this be given high priority: 'aid expenditure on aid information and development education should be substantially increased with appropriate institutional support within ADAB. An initial allocation of \$1 million should be made'.¹⁷

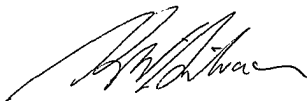
8.24 The 1984-85 budget provided \$150 000 for information and development education to allow a start to be made on developing a more professional approach in this area. Foreign Affairs in its submission noted that the new organisational arrangements for ADAB provided for the establishment of a development education and information section.¹⁸

8.25 ACFOA strongly supported the recommendation 'that an initial allocation of \$1 million be made for community development education through NGOs'.¹⁹ It went on to suggest that 'such funds should be primarily allocated to a combined agencies centrally co-ordinated program rather than a wide range of unco-ordinated individual projects'.²⁰

8.26 Development education and information activities, properly carried out and funded, are vital if the level of public knowledge and understanding of development and development assistance is to improve. ADAB's role in disseminating information will be important but as regards development education this will be less so. Emphasis in this area will be on the activities of the NGOs and more importantly the formal education system. In this connection, the Committee notes the

offer of the Department of Education to assist ADAB in implementing development information and education activities.²¹

8.27 The Committee therefore welcomes and endorses the Jackson recommendations and notes that the initial allocation of \$1 million (which Jackson does not allocate solely for 'community development through the NGOs) should be seen as a base from which a comprehensive and adequately funded program of information and development education can be developed. The Committee is in agreement with ACFOA that a centrally co-ordinated program is necessary and would support the Jackson recommendation that the CDC, with the participation of the Department of Education, should have an advisory role in this regard.



K.W. Sibraa
Chairman
May 1985

ENDNOTES

1. Evidence, p.63 (Foreign Affairs)
2. Jackson Report, p.10.
3. Evidence, p.188 (OSW)
4. Evidence, p.190.
5. Evidence, p.498.
6. Evidence, 10 April 1985, p.554.
7. Evidence, 9 April 1985, p.200.
8. Jackson Report, p.8.
9. Evidence, 9 April 1985, p.211.
10. Evidence, p.167.
11. Evidence, p.497.
12. Evidence, p.497.
13. Evidence, p.498 (ACFOA)
14. Evidence, pp164-165,.
15. Evidence, p.498.
16. Jackson Report, p.112.
17. Jackson Report, p.12.
18. Evidence, p.66.
19. Evidence, p.499.
20. Evidence, p.499.
21. Evidence, p.364.

APPENDIX A

SUBMISSIONS RECEIVED

1. Harry H Jackman and Associates
2. African Studies Association of Australia and the Pacific
3. Department of Trade
4. Community Aid Abroad - Bathurst Chapter
5. Department of Education and Youth Affairs
6. Department of Finance
7. Ms H. Newton-Turner
8. Office of Status of Women
9. Association for Research Exploration and Aid Ltd
10. Department of Industry and Commerce
11. MTIA National Export Group
12. Airport Consulting and Construction Australia Pty Ltd
13. Department of Defence
14. Australian Council for Overseas Aid
15. Department of Foreign Affairs
16. Department of Immigration and Ethnic Affairs
17. Confederation of Australian Industry
18. Department of the Treasury
19. Department of Housing and Construction
20. Department of Local Government and Administrative Services
21. Balfour Beatty Australia Pty Ltd
22. Mr J.S. Fingleton Canberra
23. Department of Primary Industry
24. World Vision Australia
25. Hassall & Associates
26. Department of Resources and Energy
27. Australian Institute of Agriculture (W.A. Branch)

APPENDIX B

WITNESSES

Australian Council for Overseas Aid

Mr J Birch, Chairman, Canberra, A.C.T.
Mr R Rollason, Executive Director, Canberra, A.C.T.

Confederation of Australian Industry

Mr H J Boulton, Director, Trade and Industry Division,
Canberra, A.C.T.
Mr W J Henderson, Director-General, Trade and Industry
Division, Canberra, A.C.T.
Mr J A Hopwood, Assistant Director, International,
Canberra, A.C.T.

Department of Defence

Mr A I C Pratt, Acting Assistant Secretary, Papua New
Guinea and Defence Co-operation Programs Branch,
Canberra, A.C.T.

Department of Education

Mr F R Grotowski, Acting Assistant Secretary,
International Education Branch, Canberra, A.C.T.
Miss J L Miller, Acting First Assistant Secretary,
Education Programs Division, Canberra, A.C.T.
Mr N van Weelden, Director, Overseas Student Section,
Canberra, A.C.T.

Department of Finance

Mr T H Kanaley, Chief Finance Officer, Aid Section,
Government Aid Branch, Canberra, A.C.T.
Mr I K Lindenmayer, Assistant Secretary, Government Aid
Branch, Canberra, A.C.T.

Department of Foreign Affairs

Mr L Corkery, First Assistant Secretary, Australian
Development Assistance Bureau, Canberra, A.C.T.
Dr R Dun, Director, Australian Development Assistance
Bureau, Canberra, A.C.T.
Dr S Harris, Secretary, Canberra, A.C.T.
Mr G Lawless, Assistant Secretary, Policy Development
and Co-ordination Branch, Australian Development
Assistance Bureau, Canberra, A.C.T.
Mr J M Powell, Assistant Secretary, Program Planning
and Review Branch, Australian Development Assistance
Bureau, Canberra, A.C.T.

Department of Housing and Construction

Mr P J Barrett, Acting Deputy Secretary, Canberra, A.C.T.

Dr R G Hawkins, First Assistant Secretary, Industry Policy Division, Canberra, A.C.T.

Mr P M McGrath, First Assistant Secretary (Civil Programs), Canberra, A.C.T.

Mr D G Price, Director, Snowy Mountains Engineering Corporation, Cooma, New South Wales.

Department of Immigration and Ethnic Affairs

Mr W A McKinnon, Secretary, Canberra, A.C.T.

Mr I G Simington, First Assistant Secretary, Migration Division, Canberra, A.C.T.

Department of Industry, Technology and Commerce

Mr P R Field, Assistant Secretary, International Branch, Canberra, A.C.T.

Mr R O Hope, First Assistant Secretary, Executive Division, Canberra, A.C.T.

Department of the Prime Minister and Cabinet

Dr A Summers, First Assistant Secretary, Office of the Status of Women, Canberra, A.C.T.

Dr H Ware, Senior Adviser (International), Office of the Status of Women, Canberra, A.C.T.

Department of Trade

Mr B R Jacobs, Assistant Director, Community Services, Trade and Export Facilitation Division, Canberra, A.C.T.

Mr J E D McDonnell, Assistant Secretary, Transport, Insurance and Investment Section, Canberra, A.C.T.

Mr J L Menadue, Secretary, Canberra, A.C.T.

Department of the Treasury

Mr P W Tormey, Assistant Secretary, Overseas Economic Relations Division, Canberra, A.C.T.

Mr R J Whitelaw, Acting Deputy Secretary, Canberra, A.C.T.