AUSTRALIA'S OVERSEAS AID PROGRAM 2005–06

STATEMENT BY
THE HONOURABLE ALEXANDER DOWNER MP
MINISTER FOR FOREIGN AFFAIRS
10 MAY 2005

CONTENTS

DIAGRAMS

TABLES

Abbreviations and acronyms

ACIAR	Australian Centre for International Agricultural Research
ADB	Asian Development Bank
ADF	Asian Development Fund
ADRP	AusAID Development Research Program
ADS	Australian Development Scholarships
AFP	Australian Federal Police
AIPRD	Australia–Indonesia Partnership for Reconstruction and Development
AMS	Activity Management System
ANCP	AusAID–NGO Cooperation Program
APEC	Asia–Pacific Economic Cooperation
ARDS	Australian Regional Development Scholarships
ASEAN	Association of South-East Asian Nations
AusAID	Australian Agency for International Development
AYAD	Australian Youth Ambassadors for Development
CFTC	Commonwealth Fund for Technical Cooperation
DAC	Development Assistance Committee (of the OECD)
DAP	Direct Aid Program
DPLGA	(Papua New Guinea) Department of Provincial and Local Government Affairs
ECP	Enhanced Cooperation Program
GDP	Gross Domestic Product
GEF	Global Environment Facility
GNI	Gross National Income
GST	Goods and Services Tax

HIPC	Heavily Indebted Poor Countries
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
IAEA	International Atomic Energy Agency
ICRC	International Committee of the Red Cross
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IOM	International Organisation for Migration
ITTO	International Tropical Timber Organisation
LAPIS	(Indonesia) Learning Assistance Program for Islamic Schools
MDB	Multilateral Development Bank
MDGs	Millennium Development Goals
MPMF	Montreal Protocol Multilateral Fund
NGO	Non Government Organisation
NHASP	(Papua New Guinea) National HIV/AIDS Support Project
OCHA	(United Nations) Office for the Coordination of Humanitarian Affairs
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OGD	Other Government Department
PNG	Papua New Guinea
PPII	(Papua New Guinea) Provincial Performance Improvement Initiative
RAMSI	Regional Assistance Mission to Solomon Islands
SARS	Severe Acute Respiratory Syndrome
SNI	(Papua New Guinea) Sub-National Initiative

SPA	Strategic Partnership Agreement
STD	Sexually Transmitted Disease
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNIFEM	United Nations Development Fund for Women
UNODC	United Nations Office on Drugs and Crime
UNRWA	United Nations Relief and Works Agency
WFP	World Food Programme
WHO	World Health Organisation
WTO	World Trade Organisation

FOREWORD

Australia's overseas aid program plays a central role in Australia's approach to addressing challenges to regional security and prosperity. Through the aid program, Australia is helping our neighbours realise the benefits of broad-based economic growth, respond effectively to the challenges posed by fragile states, and cope with humanitarian crises. The aid program was a central component of Australia's response to the December 2004 Indian Ocean disaster, and plays a role in an integrated, whole-of-government approach to engaging with the region.

From 2005–06 onwards, the Australian Government will provide major additional resources for official development assistance (ODA). For 2005–06, the government will provide an estimated $2.491 billion in ODA, $358 million above the 2004–05 budget figure of $2.133 billion. This represents a real increase of 5.8 per cent over the 2004–05 expected outcome of $2.253 billion, or an 11.7 per cent real increase budget-to-budget. It is the fifth successive budget that the government has delivered real growth in ODA. The ratio of Australia's ODA to Gross National Income for 2005–06 is estimated at 0.28 per cent, placing Australia above the donor average which in 2004 was 0.25 per cent, and which is projected by the OECD to increase further during 2005.

As evidenced by Australia's new $1 billion reconstruction partnership with Indonesia, Australia is committed to building long-term partnerships to achieve our aid goals. From 2005 through to 2009, the government will provide an additional $2.054 billion in ODA, on top of Australia's existing aid program. This will include multi-year commitments to Australia's new partnership with Indonesia, to the Regional Assistance Mission to Solomon Islands (RAMSI), additional assistance for reconstruction in Iraq, and debt relief for the most heavily indebted poor countries. These increases represent real and sustained commitments to our development partners.

A new partnership with Indonesia

The new $1 billion Australia–Indonesia Partnership for Reconstruction and Development (AIPRD) will increase Australia's assistance to Indonesia to $1.8 billion over five years, including $302 million for 2005–06. Through the AIPRD, Australia will work to strengthen even further the close partnership with Indonesia, supporting recovery and reconstruction following the December 2004 Indian Ocean disaster. The AIPRD will help rebuild livelihoods and shattered communities, and also provide assistance for Indonesia's longer-term development, particularly programs of reform and capacity building. Priorities will include supporting the Government of Indonesia's reconstruction plans for Sumatra and Aceh, rehabilitation of health, education and government services in Aceh, and improving Indonesia's disaster management capabilities. Up to 600 additional scholarships will also be funded through the AIPRD. Complementing these activities, the ongoing aid program to

Indonesia will expand its assistance in areas such as basic education, people-to-people linkages, economic and financial management, and legal and judicial reforms.

Promoting stability and growth in Papua New Guinea and the Pacific

Papua New Guinea and Solomon Islands highlight the challenges faced by fragile states in our region. In the Pacific, Australia will enhance its efforts to adopt long-term, innovative approaches to the problems faced by fragile states. Total ODA to Pacific Island countries is estimated to be $463 million in 2005–06, an increase of $80 million over the 2004–05 budget figure. Total ODA to PNG is estimated to be $492 million in 2005–06.

Under a new Fragile States Initiative, the aid program will bring together development, security, economic and political perspectives on fragile states, from across government. Through research, evaluation and analysis, this new approach will boost Australia's capacity to engage with fragile states at both strategic and operational levels. It will ensure Australia can continue to play a lead role internationally on approaches to fragile states. Australia will also support the World Bank in its work on fragile states in the Pacific.

In Papua New Guinea, the five-year, $1.1 billion Enhanced Cooperation Program (ECP) is making progress in strengthening the rule of law and enhancing economic and financial management. The program has the ultimate aim of helping to lay the foundations for stronger economic growth and service delivery in areas like health and education. It complements Australia's broader program of assistance to PNG. A priority for 2005–06 will be the development of a new country strategy, which will focus on core constraints to growth and help PNG strengthen its governance, develop institutional capacity and address HIV/AIDS. It will include initiatives at a sub-national level and with non-state actors. Australia will develop a new program to build on the achievements of Australia's current National HIV/AIDS Support Project.

In 2005–06, RAMSI will continue its efforts to restore law and order and stability to Solomon Islands. The Australian Government has committed $841 million to RAMSI from 2005–06 to 2008–09, to support a measured transition from stabilisation to strengthening national capacity. This will include assistance in law and justice, and in machinery-of-government reform. The aid program will also provide further support for efforts to promote economic growth, particularly in rural areas. Total ODA to Solomon Islands will increase to $247 million in 2005–06.

Bilateral funding for a number of Pacific Island countries, including Vanuatu and Fiji, will be increased. Australia will also place an increased emphasis on Pacific regional approaches and regional cooperation. A new 'Pacific Plan' will be developed by the Pacific Islands Forum in 2005, to create stronger and deeper links between Pacific Island countries and identify sectors where the region can gain most from sharing governance resources. A major AusAID study, *Pacific 2020*, will identify strategies to promote economic growth through factors such as property rights, political

governance and human development. Australia will strengthen links between Australian agencies and their Pacific counterparts, including greater contact between senior Australian government personnel and their counterparts.

Pursuing growth and development in East Asia

Despite continued economic growth, over 280 million people remain in poverty in East Asia. Growth and stability in many countries continues to be undermined by poor governance and corruption. HIV/AIDS, communicable diseases such as Avian Influenza, people trafficking, drugs, and security present challenges that do not recognise national borders, and require coordinated and sustained regional action.

Assistance to East Asia, excluding Indonesia, will total $344 million in 2005–06. A priority will be to enhance regional capacity to undertake further work on trade liberalisation and economic integration, and address security and transboundary threats like HIV/AIDS, illegal drugs and Avian Influenza. Assistance for regional programs will increase to $40 million, including a new $5 million, three-year regional communicable diseases initiative to help build capacity to combat Severe Acute Respiratory Syndrome (SARS) and Avian Influenza, which will bring Australia's total commitment to fighting zoonotic diseases to $13.4 million, and a $2 million, three-year anti-drug initiative focusing on Cambodia, Laos, Thailand and Burma. Australia will continue to work through regional mechanisms, such as the APEC support program and ASEAN–Australia Development Cooperation Program, to promote further trade liberalisation and prepare for the APEC 2007 meeting.

In the Philippines, Australia will provide an additional $5 million over five years for counter-terrorism activities, while continuing efforts to promote peace in Mindanao. Assistance for basic education will be integral to helping build prosperity in the southern Philippines. Australia will continue to promote Vietnam's international economic integration and private sector development, while improving living standards for the rural poor. We will also work to streamline and coordinate assistance amongst international donors in Vietnam and Cambodia, to ensure aid is used effectively.

Australia will maintain existing levels of funding to East Timor, estimated at $42 million in 2005–06. A priority will be assisting with the development of a new sector investment program for the East Timorese Government, to enable East Timor to more effectively harness donor resources for development.

Addressing the HIV/AIDS challenge

HIV/AIDS remains one of the most serious development challenges facing the Asia–Pacific region, with more than eight million people infected by the disease. In 2004 I launched the government's new, $600 million international HIV/AIDS strategy, *Meeting the Challenge*. The aid program is working to combat HIV/AIDS through partnerships with UNAIDS and the Global Fund to Fight AIDS, Tuberculosis and

Malaria. Working with Indonesia, PNG and East Timor, Australia has initiated a major research exercise to better understand the epidemiological, social, economic, and security impact of HIV/AIDS in our neighbourhood.

From 2005–06, the government will commit a further $50 million over three years to the Global Fund. A new $5 million AusAID HIV/AIDS Partnership Initiative will strengthen the capacity of HIV/AIDS organisations in the Asia–Pacific through partnerships with Australian community organisations and professional associations. Australia will also continue to play a leadership role in political efforts to address HIV/AIDS, and has appointed a Special Representative to promote HIV/AIDS action in the region.

Responding to emergencies and crises

The Indian Ocean disaster highlighted the vulnerability of countries in our region, whether to natural disasters or to conflict and instability. Australia responded quickly and generously following the disaster, with financial assistance and with rapid deployment of teams of skilled individuals. Australia will further boost its humanitarian response capacity in 2005–06, increasing the amount of funding available for humanitarian, emergency and refugee assistance from $146 million to $170 million.

Priorities for Australia will include continuing to assist countries affected by the Indian Ocean disaster, and supporting national and regional action on disaster and conflict prevention and peacebuilding. Assistance to Sri Lanka will increase by $6 million to $29 million in 2005–06. The increased humanitarian allocation will also allow Australia to continue to respond to crises beyond our immediate region, including Africa where the government has already committed $40 million to the crisis in Sudan. We will continue our humanitarian assistance and reconstruction activities in the Palestinian Territories and Afghanistan.

In Iraq, the government will commit an additional $45 million for 2005–06 and 2006–07 to help build stability and democracy, and support Iraq's transition to an open, market-based economy. This will bring Australia's assistance to Iraq since 2002–03 to over $170 million. We will continue to focus on the agricultural sector and niche areas where Australia has particular expertise, including law and justice, and economic and trade reform.

Debt relief

Levels of debt, particularly in the world's poorest countries and those recovering from conflict, may constrain development. From 2005–06, Australia will commit $34.8 million over three years to help write off debts of the world's most heavily indebted poor countries. This will be complemented by assistance to build these countries' capacity to manage their economies effectively. Australia has also agreed with other countries, through the Paris Club, to place a moratorium on debt

repayments due in 2005 by Indonesia and Sri Lanka following the Indian Ocean disaster, and forgive 80 per cent of the more than $1 billion owed to Australia by Iraq.
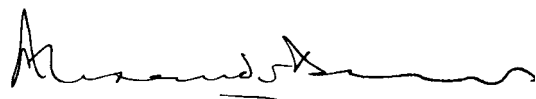
An integrated approach to overseas aid

The aid program sits firmly within a broader, integrated whole-of-government approach to addressing our region's development challenges. Australia's approach was commended by the OECD's Development Assistance Committee in its review of the Australian aid program in December 2004. The review praised our leadership on key development issues in the region, particularly HIV/AIDS, governance, peace and conflict, and fragile states. It welcomed our hands-on and practical methods, including the whole-of-government approach in PNG and Solomon Islands; and acknowledged the high level of coherence between Australia's aid and trade policies. The review also endorsed Australia's geographic focus on the Asia–Pacific, and commended our efforts to move towards further untying of aid, our achievements in harmonising aid delivery with other donors, and our work to align aid with partner government systems.

In my Annual Statement to Parliament on 10 March 2005, I outlined new directions for the aid program, aimed at strengthening political governance, stimulating broad-based economic growth, and addressing constraints to development, in particular those faced by fragile states.

These new directions will be bedded down in 2005–06. Expenditure on governance-related activities will increase to over $1 billion. A new initiative to stimulate growth will look at pilot programs to overcome constraints to growth, particularly in rural areas. Analytical work will focus on the drivers of economic growth, including the linkages between governance and property rights. Strategic partnerships between key Australian government agencies, non government and community organisations are being expanded. As announced by the Prime Minister in 2004, the Australian Youth Ambassadors for Development program will double in size, to involve more young, skilled Australians in the aid program.

These initiatives will feed into a white paper outlining a medium-term, strategic blueprint for the aid program that I propose to table during 2005–06. This paper will lay a strong platform for future Australian aid, and ensure it continues to address development priorities in the most effective and efficient way possible. Coupled with the funding increases announced in this budget, the white paper represents a long-term investment by this government, to address the challenges facing our region in a robust, practical and sustainable way.

Alexander Downer

Table 1: Total Australian ODA flows to partner countries

Major Partner Countries / Regions	Outcome ($m) Expenses[1]			Estimate ($m) Expenses[1]		
	2001-02	2002-03	2003-04	2004-05[2] Budget Figure	Expected Outcome	2005-06 Budget Estimate
PAPUA NEW GUINEA & PACIFIC						
Papua New Guinea[3]	328.9	331.5	321.3	435.6	366.6	492.3
Solomon Islands[4]	41.8	33.5	139.5	201.6	171.5	246.8
Vanuatu	21.4	23.5	24.6	30.9	28.7	34.1
Fiji	17.0	20.9	21.9	25.1	28.0	30.5
Samoa	14.1	16.8	18.1	18.4	18.6	21.5
Tonga	11.2	12.2	12.1	12.0	12.8	14.2
Kiribati	10.9	11.9	11.4	11.9	10.9	12.5
Regional Pacific[5]	44.5	53.0	58.7	69.7	68.1	91.4
Total PNG & Pacific	**490.0**	**503.3**	**607.7**	**805.2**	**705.1**	**943.2**
Nauru Additional [6]	*18.8*	*21.3*	*15.5*	*13.5*	*13.5*	*12.0*
EAST ASIA						
Indonesia (Ongoing program)	122.8	131.9	158.5	160.8	259.5	169.6
Indonesia (AIPRD)					10.8	132.1
Vietnam	68.3	70.8	73.5	73.7	74.4	77.3
Philippines	62.7	63.7	48.9	62.2	62.5	63.7
China	54.8	60.7	53.7	49.3	49.8	46.2
Cambodia	37.8	38.5	37.8	41.4	38.2	42.7
East Timor	60.3	56.2	44.8	39.9	64.2	42.0
Laos	20.3	17.7	18.6	18.4	19.4	19.6
Thailand	17.3	19.1	14.9	10.6	13.4	7.0
Regional East Asia[5]	30.3	26.1	29.8	37.1	46.1	45.8
Total East Asia	**474.8**	**484.6**	**480.4**	**493.4**	**638.4**	**646.1**
SOUTH ASIA, AFRICA & OTHER						
Bangladesh	34.6	30.8	28.1	28.7	32.9	32.3
Sri Lanka	10.8	14.0	21.8	23.0	39.8	29.1
India	18.1	15.9	17.1	17.2	17.2	13.7
Regional South Asia[5]	16.5	21.1	19.6	17.6	23.5	22.5
Africa	64.5	70.6	80.5	67.5	75.0	77.0
Middle East and Central Asia[7]	37.6	92.1	83.6	52.9	59.9	66.6
Total South Asia, Africa & Other	**182.1**	**244.4**	**250.6**	**206.7**	**248.3**	**241.3**
Other Government Departments[8] *(not attributed to country/region)*	128.0	145.6	144.2	168.5	204.1	173.2
Core contributions to multilateral organisations, other ODA[9]	495.2	449.0	506.5	450.8	446.4	486.2
Reconciliation of expenses to cash[10]	-33.7	-17.4	-31.9	-5.1	-2.9	-11.1
Total ODA *(cash)*	**1755.1**	**1830.8**	**1973.1**	**2133.1**	**2252.9**	**2490.8**
ODA at constant 2004-05 prices	1919.7	1940.4	2022.4	2133.1	2252.9	2383.6
Real change over previous year (%)	5.8	1.1	4.2		11.4	5.8 [11]
ODA/GNI Ratio (%)[12]	0.25	0.25	0.25	0.26	0.27	0.28

Notes to Table 1

1. Shows total expenses, minus expenses to new multi-year liabilities (for example, the International Development Association (IDA) or the Heavily Indebted Poor Countries (HIPC) Initiative), plus cash payments for these multi-year liabilities. See Technical Notes for more detail.

2. Estimated expenses for 2004–05 represent budget figures as at May 2004 and expected outcomes as estimated at May 2005.

3. PNG estimated expenses in 2004–05 and 2005–06 include ODA-eligible expenditure by Other Government Departments (OGDs) related to the Enhanced Cooperation Program of $43.7 million and $168.9 million respectively.

4. Solomon Islands estimated expenses in 2004–05 and 2005–06 include ODA-eligible expenditure by OGDs related to the Regional Assistance Mission to Solomon Islands of $72.2 million and $136.0 million respectively.

5. Regional Pacific, Regional East Asia and Regional South Asia include multi-country and regional activities and small bilateral programs identified in Table 4.

6. Nauru Additional represents additional funding appropriated to AusAID through new budget measures agreed by the government.

7. Middle East and Central Asia includes Palestinian Territories, Afghanistan and Iraq.

8. OGD not attributed to country/region includes ODA-eligible expenditure by OGDs/agencies that has not been allocated to a specific geographic area.

9. Core contributions to multilateral organisations, other ODA expenditure includes expense payments that cannot be attributed to a particular country/region, such as payments to some UN and Commonwealth organisations, and departmental expenditure. The ODA-eligible components of cash payments to IDA, ADF, IFAD, GEF, HIPC and the MPMF are also included in this line item.

10. See Technical Notes for an explanation of the relationship between expenses and cash.

11. Real per cent change over 2004–05 expected outcome of $2,252.9 million. Budget-to-budget the real increase is 11.7 per cent.

12. See Technical Notes for an explanation of the change in terminology from Gross National Product to GNI.

Table 2: Total Australian ODA by agency

	Outcome ($m) Expenses[1]			Estimate ($m) Expenses[1]		
	2001-02	2002-03	2003-04	2004-05		2005-06 Budget Estimate
				Budget Figure	Expected Outcome	
AusAID ODA	1501.6	1565.3	1651.1	1653.1	1714.4	1878.7
of which:						
Indonesia (AIPRD)					*10.8*	*132.1*
ACIAR[2]	46.3	46.5	46.8	47.7	46.6	48.1
Other Government Departments[3]	207.3	219.0	275.1	432.4	491.9	563.9
TOTAL ODA (cash)	**1755.1**	**1830.8**	**1973.1**	**2133.1**	**2252.9**	**2490.8**

Notes to Table 2

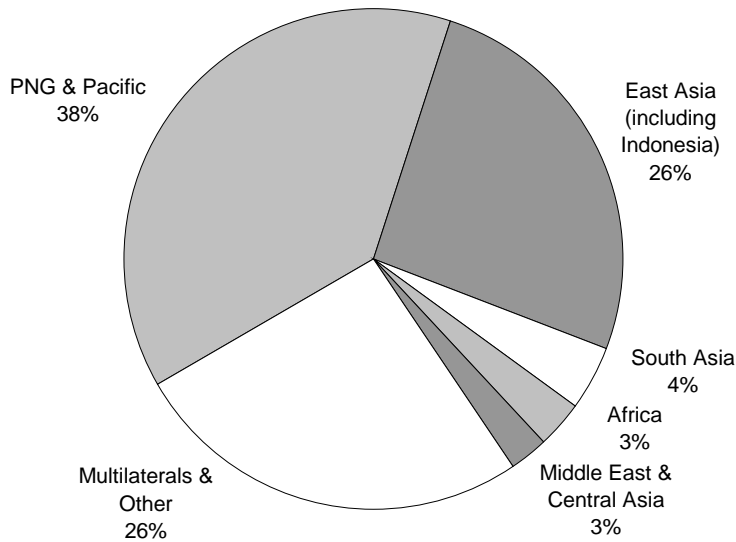1. See Technical Notes for an explanation of the relationship between expenses and cash.

2. ACIAR figures equal their total cash expenditure per year. ACIAR's full financial statements are available in the Foreign Affairs and Trade Portfolio Budget Statement.

3. Other Government Departments includes ODA-eligible activities by State governments and Commonwealth agencies other than AusAID and ACIAR.

CHAPTER ONE: FOCUS OF THE AID PROGRAM

Australia's overseas aid program advances Australia's national interest by assisting developing countries to reduce poverty and achieve sustainable development. In 2005–06, the aid program will continue to help build a stable, prosperous and democratic Asia–Pacific region. It will be flexible and responsive to urgent needs — as evidenced through the December 2004 Indian Ocean disaster — and help our neighbours address longer-term challenges such as poverty, economic growth, weak governance, instability and insecurity, and HIV/AIDS.

In recent years, development issues have become increasingly interlinked with broader Australian regional and international policy priorities, including regional security, trade, economic integration, and the transboundary threats posed by communicable diseases. The aid budget for 2005–06 reflects this changing agenda. Australian assistance to Indonesia will increase substantially, to take into account the $1 billion commitment to the Australia–Indonesia Partnership for Reconstruction and Development. Assistance to PNG and the Pacific will also increase, to reflect the Australian Government's enhanced and long-term engagement in these countries. In East Asia, South Asia, and the rest of the world, Australia will focus its efforts increasingly at a regional level. The flexibility and responsiveness of the humanitarian program will be increased, so that Australia can continue to respond to crises and emergencies.

Diagram 1: Australian ODA in 2005–06

PNG & Pacific 38%
East Asia (including Indonesia) 26%
South Asia 4%
Africa 3%
Middle East & Central Asia 3%
Multilaterals & Other 26%

Note: 'Multilaterals and Other' includes expense payments that cannot be attributed to a particular country or region, for example payments to Multilateral Development Banks, some UN and Commonwealth organisations, and AusAID departmental expenditure.

In delivering the aid program, Australia will continue to develop the innovative approaches that have seen it emerge as a leader in the region. The Australian aid program will draw upon the skills and expertise of a wide range of Australian government agencies, and other stakeholders, to tackle issues in a direct, practical way. It will build long-term partnerships with other donors, regional and multilateral organisations, and most importantly with partner governments, to harmonise and align inputs and priorities.

Global and regional challenges

Over the past 20 years, the Asia–Pacific region has experienced rapid development. More than 500 million people have been lifted out of poverty. China has become a global economic player, and Thailand is graduating from being an aid recipient. Yet significant challenges remain. Countries such as Cambodia, the Philippines, Papua New Guinea and Solomon Islands are struggling to maintain levels of economic growth sufficient to make inroads into poverty. And even with strongly performing economies such as China, there are areas of concentrated urban and rural poor.

In today's globalised world, the peace, prosperity and security of all countries are intertwined. The Asia–Pacific's poverty and development issues transcend political and geographic boundaries, and extend their impacts to many countries, including Australia. This interlinking of fortunes was demonstrated by the December 2004 Indian Ocean disaster that affected millions of people across Indonesia, Sri Lanka, India, Thailand, and other Indian Ocean nations. Following the disaster, countries banded together in an unprecedented international relief effort to rebuild shattered communities and livelihoods.

International trade and investment are bringing the economies of the Asia–Pacific closer than ever before. Continued regional economic growth is crucial for further development and poverty reduction. China and India play a key role in driving this growth in the region and beyond. Further economic integration, facilitated by the WTO and other trade agreements, will also drive poverty reduction. A recent World Bank study[1] has found that reform of agricultural and food trade policy could result in global gains of US$265 billion by 2015 — with the benefits shared roughly equally between developed and developing countries.

More people live with HIV/AIDS in the Asia–Pacific than anywhere else outside Sub-Saharan Africa. The 2004 Avian Influenza and SARS epidemics demonstrated the vulnerability of the region to communicable diseases. People trafficking and the smuggling of illicit drugs impact upon a wide range of communities and livelihoods.

---

[1] Aksoy, M. and Beghin, J. (eds) (2005) *Global Agricultural Trade and Developing Countries*, World Bank.

Effective governance is essential for development. Strong legal and regulatory frameworks stimulate and harness the benefits of trade and investment in promoting stable and equitable growth. Effective law and order, service delivery, and public administration help maintain national stability and security, address crises, and deal with transboundary threats. Unstable and poor political leadership are major constraints to the effective building of the state. Weak governance and corruption can lead to conflict and instability — as in Solomon Islands and the Philippines — with a negative impact on development. Conflict and instability also affect Australia. The September 11 terrorist attacks, and bombings in Indonesia, demonstrated the global ramifications of terrorism and other security concerns.

Diagram 2: Trends in Australian ODA by region
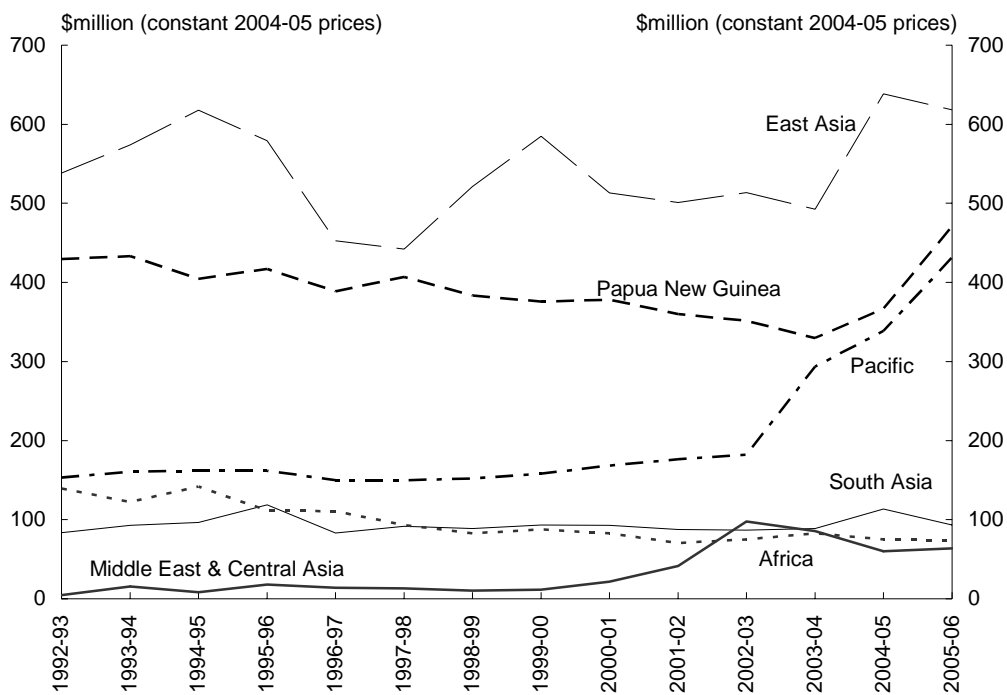
Note: Figures for 2004–05 and 2005–06 are estimates.

Australia's response to the Indian Ocean disaster

On 26 December 2004, a series of tsunamis devastated coastal towns and communities across the Indian Ocean. According to estimates, over 225,000 people died, one million people were displaced, and five million were deprived of basic services.

The Australian Government responded immediately. Australian relief and medical personnel and supplies were dispatched within hours of the disaster. By 31 December, Australia had committed $60 million to the relief effort. Beyond the critical work undertaken by Australian specialists, this commitment included support for key multilateral agencies (UNICEF, WHO, WFP and IOM) and Australian, international and in-country NGOs.

On 5 January 2005, the Australian and Indonesian governments agreed to form an **Australia–Indonesia Partnership for Reconstruction and Development**. Australia has committed $1 billion over five years, the largest single aid commitment ever made by Australia. This will consist of $500 million in grant assistance and $500 million in highly concessional loans, and will extend Australia's aid program to Indonesia to $1.8 billion over five years. Australia also committed $33 million to Indonesia for immediate emergency assistance.

In **Sri Lanka**, Australia committed over $10 million for emergency relief in the aftermath of the disaster. Australia's aid program to Sri Lanka is being reprioritised to complement rehabilitation and reconstruction efforts. For example, $1 million is being provided under the Australian Community Rehabilitation Program for small-scale infrastructure projects, such as cash for work activities, to help clean up the debris in affected areas.

With schools destroyed and its reefs badly damaged, the **Maldives** turned to Australia for teachers, marine specialists, and engineers. Australia committed approximately $4 million for an immediate assistance package. Further packages will bring together the numerous offers of assistance received, for a collaborative response by government departments, private agencies and individuals.

In the **Seychelles**, Australia contributed $500,000 to the United Nations Development Programme to provide shelter for families, rebuild infrastructure, and help with general economic recovery.

This assistance is in addition to the vast efforts of, and expenditure by, the Australian Defence Force (estimated at $62 million) and Australian Federal Police, and the generous donations of over $280 million from the Australian community.

Through the aid program, Australia will also contribute to the establishment of a tsunami warning system for the Indian and south-west Pacific Oceans. This will include technical assistance for scientists and technicians in the region.

Future directions

In 2005–06, the Australian Government will table a white paper that will examine the future directions of Australia's aid engagement in our key development partnerships, namely Papua New Guinea, the Pacific, Indonesia and Asia, and provide a medium-term strategic blueprint for the aid program.

As a platform for the white paper, Australia's aid will be guided by the strategic framework set out in the March 2005 Ministerial Statement *Australian Aid: An Integrated Approach*. Australia's aid will focus on the Asia–Pacific region, particularly our immediate neighbours — a focus strongly supported by the Development Assistance Committee's peer review of Australia's aid program in December 2004. Drawing upon the skills and expertise of a wide range of Australian government agencies, and through long-term partnerships with regional neighbours, the aid program will develop integrated, practical solutions to development challenges.

The aid program will continue to be guided by five themes, which promote broad-based economic growth and further the objectives of the Australian aid program's poverty reduction strategy:

- promoting improved governance across all areas of partner governments and strengthening democratic processes;

- assisting developing countries to access and maximise the benefits from trade and new information technologies;

- supporting stability and legitimacy through improved delivery of basic services;

- strengthening regional security by enhancing partner governments' capacity to prevent conflict, enhance stability and manage transboundary challenges; and

- promoting sustainable resource and environmental management.

AusAID will continue to implement changes to its management of human and corporate resources. Further devolution of staff and programs to the field will enhance the responsiveness of the aid program. There will be a further opening up of the range of mechanisms and institutions used to implement the aid program. When it is judged most appropriate to use contractors, continued improvements to tendering and contracting including partnering approaches, new approaches to tender assessment, streamlining of contractual processes and further untying of aid, will increase partner country involvement in aid activities and further enhance aid effectiveness.

Over the next three years, Australia will pursue a number of priorities that will further enhance the focus, effectiveness and relevance of the aid program.

Build a closer partnership with Indonesia

Australia will deepen its already extensive relationships with Indonesia, to assist the rebuilding process after the Indian Ocean disaster and to meet long-term development challenges. Through the Australia–Indonesia Partnership for Reconstruction and Development, Australia will commit an additional $1 billion to Indonesia over five years. Under the ongoing program with Indonesia, Australia will expand its assistance in key areas, particularly economic and financial management, legal and judicial reforms, and education. Expanded people-to-people linkages will promote and sustain the aid program and build broader understanding and cooperation between the two countries.

Adopt a long-term and innovative approach to engagement with fragile states

Australia will continue to implement innovative approaches with development partners in our region, including Papua New Guinea, Solomon Islands, East Timor, Vanuatu, Fiji, Nauru, and other Pacific Island countries. Mechanisms such as the PNG Enhanced Cooperation Program and the Regional Assistance Mission to Solomon Islands will be continued. Through a new Fragile States Initiative, the aid program will synthesise whole-of-government contributions to research, evaluation and analysis, and boost Australia's capacity to engage with fragile states at strategic and operational levels. In the Pacific, Australia will work closely with regional organisations and other donors to coordinate assistance and maximise impact. Australia will address long-term development challenges through persistent, robust, and sustained engagement.

Stimulate broad-based economic growth

Sustained and broad-based economic growth lies at the heart of the region's and Australia's prosperity and stability. A new Stimulating Growth Initiative, to be implemented through existing programs, will accelerate new approaches to growth. It will focus on improving market access, increasing participation of the poor in the formal economy, encouraging rural development and agricultural productivity, and improving the investment environment. To underpin the initiative Australia will work with key international institutions and organisations such as the International Finance Corporation, APEC, and ASEAN, and place a renewed emphasis on helping countries benefit from trade liberalisation.

Strengthen political governance and tackle corruption

Australia will expand its assistance to strengthen political governance and accountability in partner countries. Support for parliamentary and electoral programs will be consolidated. Anti-corruption activities will be expanded, and new partnerships will be built with relevant international and regional organisations such as Transparency International, the UN Office on Drugs and Crime, APEC and ASEAN.

Through the promotion and protection of human rights, Australia will further build political governance and accountability in the region.

Supporting the Millennium Development Goals

In September 2005, the United Nations will review progress towards the Millennium Declaration, adopted by representatives from 189 countries at the Millennium Summit in 2000. The Millennium Declaration included a set of ambitious goals which focus on the major challenges facing developing countries — poverty and hunger, education, gender equality, child and maternal mortality, health, and the environment. These goals are what have come to be known as the Millennium Development Goals, or MDGs. The Declaration also included wide-ranging proposals on UN reform, global security, human rights and good governance.

In the Asia–Pacific region, significant progress has been made against key poverty indicators. The success of some countries such as Vietnam, a low-income country that reduced poverty by 37 per cent in 12 years, illustrates what can be achieved. However, progress has not been uniform. Serious challenges remain for some goals, for example, health and education in Melanesia.

Australia's aid program is playing its part to support developing countries' progress towards the MDGs by providing well-targeted and effective aid. The aid program focuses on the essential building blocks for achieving progress towards the MDGs, namely governance, growth and stability, as well as providing direct assistance for health and education, water and sanitation, environment, and HIV/AIDS. Australia is also producing an MDG report in the lead up to the UN Summit, outlining how a partnership approach focused on improvements in economic policy, good governance, trade, debt, and aid effectiveness helps progress towards the goals.

Address transnational threats, particularly HIV/AIDS

The aid program will address, as a matter of priority, transnational threats such as HIV/AIDS, communicable zoonotic diseases such as Avian Influenza, illicit drugs, and transnational crime. This will include implementation of the $600 million HIV/AIDS strategy launched in July 2004; a further contribution of $50 million over three years to the Global Fund to Fight AIDS, Tuberculosis and Malaria; a new $2 million, three-year Asian anti-drug initiative; and a new $5 million, three-year program to strengthen the capacity of East Asian developing countries to respond to Avian Influenza and related diseases.

Contribute to stability and security

Australia will continue to work closely with key partner countries, including the Philippines, Iraq, and Afghanistan, to address issues of security and stability, mitigate the impacts of conflict, and assist in post-conflict recovery. In the Asia–Pacific,

Australia will work with regional organisations such as ASEAN and APEC to strengthen economic integration and security. Additional funding of $45 million will enable Australia to provide further assistance to Iraq in 2005–06 and 2006–07.

Meeting the HIV/AIDS challenge

The incidence of HIV/AIDS in the Asia–Pacific is growing, with potentially grave social and economic impacts on the region's developing countries. Currently, almost 40 million people globally are living with HIV/AIDS. Over eight million of these people live in the Asia–Pacific.

Australia is taking a central role in addressing this pandemic. At the Second Asia–Pacific Ministerial Meeting in Bangkok on 7 July 2004, the Minister for Foreign Affairs launched Australia's international HIV/AIDS strategy, *Meeting the Challenge*. The strategy builds upon the $200 million HIV/AIDS initiative announced in 2001, and increases Australia's commitment to $600 million by 2010. It aims to both reduce the spread of HIV/AIDS and mitigate the effects of HIV/AIDS, on people living with the disease and their communities.

Under the strategy, Australia will support multilateral action against HIV/AIDS through an additional contribution of $50 million over three years to the Global Fund to Fight AIDS, Tuberculosis and Malaria, and $4 million to UNAIDS in 2005–06, including $1 million to the Asia–Pacific Leadership Forum.

Bilaterally, Australia is implementing major HIV/AIDS activities in Indonesia ($35 million), PNG ($60 million), and China ($15 million), with a new activity planned for PNG later in 2005.

At a regional level, initiatives include:

- $10 million over four years for the Asia Regional HIV/AIDS Project and $12 million over four years for the Pacific Regional HIV/AIDS project.

- A sub-regional HIV/AIDS initiative, announced in December 2004, with Australia initiating collaborative studies on the epidemiological, social, economic and security risks posed by HIV/AIDS in PNG, Indonesia and East Timor.

- The AusAID HIV/AIDS Partnership Initiative ($5 million over three years), which will build the capacity of civil society organisations and professional associations in the Asia–Pacific through supporting partnerships with like-minded Australian organisations.

A number of NGO activities are also supported in Africa ($10 million) and Burma ($3 million).

Sectoral breakdown

Australia's aid is delivered across a range of sectors including governance, health, education, rural development, infrastructure, and humanitarian assistance. Diagrams 3 and 4 illustrate the estimated sectoral breakdown for 2005–06.

In 2005–06, governance will continue to be a particular priority for the aid program. Governance — including improved economic and financial management, strengthened law and justice, increased public sector effectiveness, development of civil society and strengthened political systems — is an essential foundation for development. In 2005–06, an estimated $885 million will be expensed on activities directly relating to these five areas, and it is estimated that a further $292 million will be expensed on governance through other priority sectors, such as planning and management of basic service delivery (see Diagram 4).

Diagram 5 illustrates the estimated sectoral breakdown for the governance sector in 2005–06. Detailed sectoral breakdowns for the health and education sectors are included in the Appendix, in Diagrams 14 and 15.

Diagram 3: Estimated sectoral breakdown of Australian ODA 2005–06
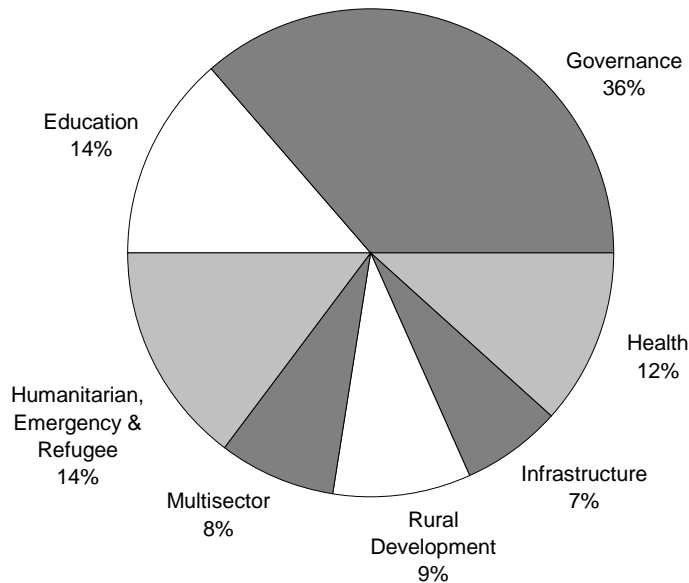
Note: 'Multisector' includes direct expenditure on cross-cutting issues such as gender, environment and multisector program expenditure.

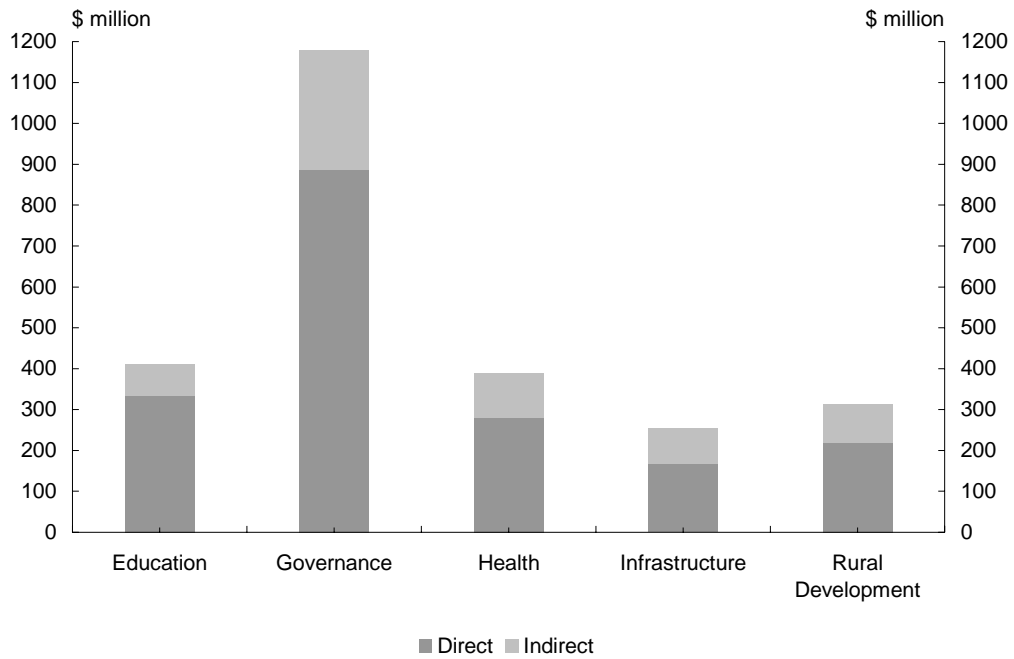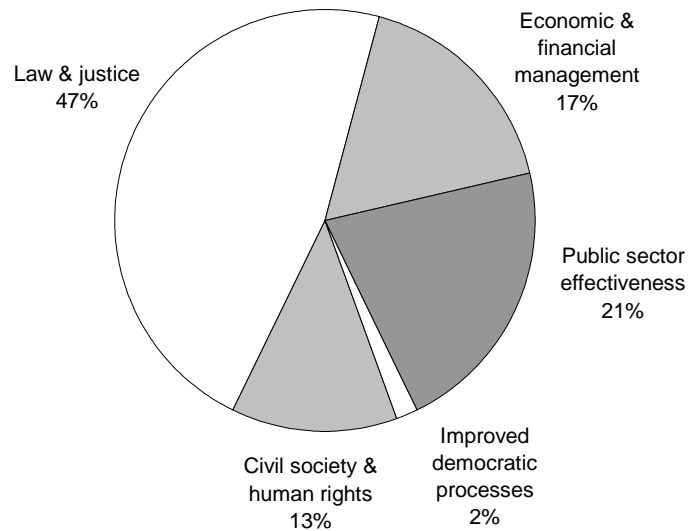**Diagram 4: Estimated Australian ODA by key sector 2005–06**

$ million $ million

1200				1200
1100				1100
1000				1000
900				900
800				800
700				700
600				600
500				500
400				400
300				300
200				200
100				100
0				0

Education   Governance   Health   Infrastructure   Rural Development

■ Direct   ■ Indirect

Diagram 5: Estimated Australian ODA in the governance sector 2005–06

Law & justice
47%

Economic & financial management
17%

Public sector effectiveness
21%

Improved democratic processes
2%

Civil society & human rights
13%

10

CHAPTER TWO: INDONESIA

Country program estimate	**$125.0 million**
Australia–Indonesia Partnership	
for Reconstruction and Development (AIPRD)	**$132.1 million**
Estimated other ODA	**$44.6 million**
Estimated total ODA	**$301.8 million**

Indonesia development indicators

Country	GNI per capita ($A)	Access to water (% of population)	Life expectancy (years)	Adult literacy (% of population)
Indonesia	1,249	78	67	88

Source: GNI per capita: World Development Indicators, World Bank, 2003; other indicators: Human Development Report, UNDP, 2004.

Despite the devastating impact of the December 2004 Indian Ocean disaster — which, according to World Bank estimates, will cause national GDP growth to fall by 0.1 to 0.4 per cent during 2005 — Indonesia's national economic prospects remain relatively stable. During 2004 there was evidence of growing confidence in the Indonesian economy, and progress in key areas of economic reform. The economy grew by approximately five per cent, and inflation remained largely under control at around six per cent. Although investment as a percentage of GDP fell to 17.8 per cent at the end of 2003, there were signs of improved investment growth of 11.3 per cent over the first three quarters of 2004, compared to just 1.9 per cent during 2003. Successful democratic parliamentary and presidential elections were held in 2004, important steps towards the consolidation of Indonesia's democratic transition. The Yudhoyono Government has prepared a National Medium-Term Development Plan which seeks to build on these developments through three objectives: creating a peaceful and secure Indonesia; creating a fair and democratic Indonesia; and improving public welfare.

However, significant challenges remain. According to the World Bank, even though poverty levels in Indonesia are declining (the percentage of people below the international poverty line of US$1 a day fell to 7.2 per cent in 2003), growth has been unequally distributed, and major inroads into poverty still need to be made, particularly in rural areas. The poor still lack access to health and education services, and unemployment in the formal economy remains a major concern, with the open unemployment rate reaching 9.3 per cent in 2004. Investment in human capital and infrastructure from domestic, foreign, government and private sources continues to be inadequate. Conflict still affects several areas of the country and, despite effective action by the Indonesian police, the threat of terrorism remains.

Indonesia's education outcomes are poor by regional standards. Many teachers lack formal qualifications, educational resources are scarce, education in life skills and vocational subjects is very limited, drop-out rates are high, and there is uncertainty

about the roles of national and local governments in the resourcing and regulation of education. Assistance to education is critical for poverty reduction and lays the foundation for economic growth by providing Indonesians with the skills to participate in the workforce.

In recent years the overall health situation of Indonesians has improved. Infant mortality has declined, life expectancy has increased, and a higher number of people now have better access to safe drinking water and sanitation. However, Indonesia's maternal mortality is still significantly above the levels of neighbouring ASEAN countries and basic health interventions do not always reach the poor. A relatively small number of health conditions cause a large part of the burden of disease in Indonesia, particularly among the poor, and contribute to high levels of avoidable death. These include communicable diseases such as HIV/AIDS, malaria, tuberculosis and childhood infections, as well as nutritional deficiencies and, increasingly, tobacco-related illness.

Corruption continues to be a serious problem, which the Indonesian Government is addressing with the preparation of a national anti-corruption strategy. The newly established Commission for the Eradication of Corruption and Anti–Corruption Court are central to the government's approach in this area. Legal sector reform is on the government agenda and includes a significant court reform program. However, much work is required to promote efficiency, transparency, predictability and equity in the justice sector.

The destruction caused by the December 2004 Indian Ocean disaster was greatest in Indonesia, with over 120,000 dead, 300,000 missing and 500,000 internally displaced persons. Australia responded quickly with a $33 million emergency relief package, of which $13 million was directed to key agencies (UNICEF, IOM, WHO, WFP), $8 million to Australian, international and in-country NGOs, and the remainder delivered through activities by AusAID, Emergency Management Australia, the Australian Defence Force, and other Australian government agencies. In addition, Australia contributed $12 million to NGO activities across all tsunami-affected countries including Indonesia. The assistance included Australian civilian medical teams, disaster management expertise, and immediate air freight of over 1,000 tonnes of food, water and medical supplies. The relief effort focused on improving health and water and sanitation (with most assistance going to Banda Aceh) and also included small-scale support for the north-west coast including the outlying islands of Nias, Batu, Banyak and Simeulue. Australia played a leadership role in the international community by helping the Government of Indonesia, UN and NGOs coordinate the ongoing response. On 28 March 2005 another earthquake affected islands off the coast of Sumatra. Australia committed $1 million in immediate assistance, along with support from the Australian Defence Force.

Building coherence

While Indonesia welcomed the massive outpouring of international assistance following the disaster, the response also presented Indonesian authorities with serious logistical and coordination challenges. Donors have recognised these challenges and worked together under an Indonesian Government framework for recovery and reconstruction. It is anticipated that the coordinated and cooperative approaches developed for post-tsunami assistance will influence the broader donor-government dynamic in Indonesia, and provide an impetus for progressing donor coordination and harmonisation more generally.

Australia's aid to Indonesia will be delivered within this new framework of international coordination and harmonisation. Planning is already underway for activities under the Australia–Indonesia Partnership for Reconstruction and Development (AIPRD). The AIPRD will complement existing approaches, which Australia will expand on in 2005–06 to achieve greater coherence and reinforce impact across the program. Through its activities in Nusa Tenggara and in the Indonesian basic education sector, the aid program will build synergies across Australian aid activities, and develop partnerships with other organisations and donors. In maternal and child health, HIV/AIDS and education, Australia will strategically invest in local and international initiatives, and facilitate other donors' investment in Australian-supported programs.

Australia–Indonesia Partnership for Reconstruction and Development

Demonstrating Australia's long-term commitment to Indonesia, and concern for the disastrous effects of the Indian Ocean disaster, on 5 January 2005 the Prime Minister announced the establishment of a $1 billion, five-year, Australia–Indonesia Partnership for Reconstruction and Development. The objective of the AIPRD is to support Indonesia's reconstruction and development efforts, both in and beyond tsunami-affected areas, through sustained cooperation focused on the Indonesian Government's programs of reform, with an emphasis on economic and social development.

The AIPRD is governed by a Joint Commission, overseen by the Prime Minister of Australia and the President of Indonesia. The Commission also comprises Australia's Minister for Foreign Affairs and Treasurer; and Indonesia's Minister for Foreign Affairs, Minister for Finance, and State Minister for National Development Planning and Chair of the National Planning Board.

The partnership will be implemented according to agreed guiding principles which, inter alia, emphasise the joint nature of the AIPRD, the need to properly take account of Indonesia's needs and development efforts, the assistance that Australia is able to

provide, and the importance of coordinating activities with international development partners.

Under the AIPRD, $500 million will be provided through a grant assistance program, to be managed in accordance with the existing General Agreement on Development Cooperation between Australia and Indonesia, and $500 million will be provided through a highly concessional loan program.

Early priorities for grant funding include restoring health, education, and local government services in Aceh ($50 million), urgent rehabilitation assistance to other areas of Indonesia ($5 million), capacity building of Indonesia's own systems for managing and responding to natural disasters ($10 million), and development of a Government Partnerships Fund to support exchange of skills, knowledge and expertise between Australian government agencies and their Indonesian counterparts ($50 million). Under the AIPRD, Australia will also offer 600 scholarships, thereby doubling the number of scholarships currently funded for Indonesia. Further areas for assistance will be developed, subject to agreement by the Australian and Indonesian governments.

The loan program will provide funding at zero interest for up to 40 years with no repayment of principal for 10 years. The Joint Commission will consider and endorse proposals for loans under a AIPRD Loan Framework, consistent with the broad strategic directions for the partnership. It is anticipated that the loan component will be used largely for infrastructure development.

AIPRD activities will be jointly managed and implemented by the Australian and Indonesian governments under both the loan and grant components, and will be developed so that they complement Australia's assistance under the existing Indonesia bilateral program. Australian, Indonesian and New Zealand companies will all be eligible to tender for projects.
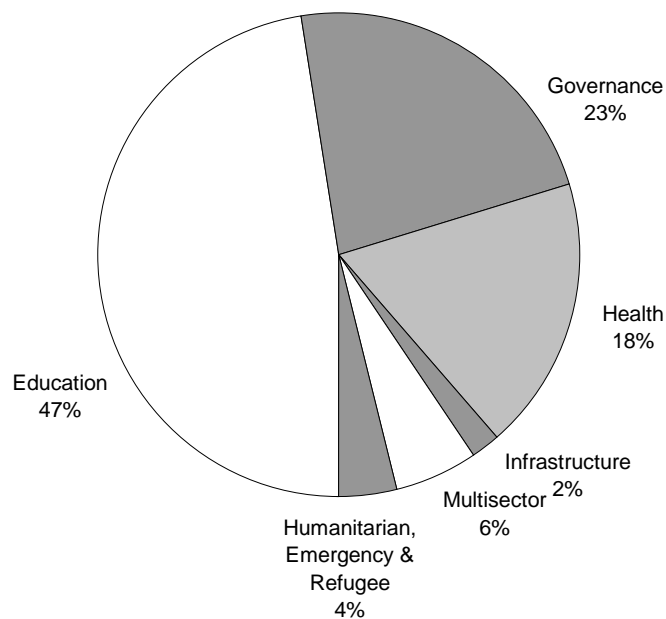
Ongoing program

The objectives of Australia's ongoing program with Indonesia, as agreed between the two governments in 2003, are to:

- help strengthen economic and financial management;

- help build the institutions of democracy;

- promote stability and security; and

- improve the quality and accessibility of government service delivery, particularly in the poorer eastern provinces.

Strengthening economic and financial management

Australia will continue to help Indonesia strengthen its economic and financial institutions. The Technical Assistance Management Facility, a major five-year, $26 million program launched in 2004 to support key economic reforms, will work with central government agencies, including the Ministry of Finance, to assist in improving fiscal management, institutional reform, and strengthening the integrity of the financial system. Through the facility, Australia will also provide additional debt management assistance to follow on from the Debt Management Project which, by helping develop local debt management capacity, saved the Indonesian Government an estimated $12.5 million per annum. Australia has also committed $4 million to the Program for Eastern Indonesia Small to Medium Enterprise Assistance, to help develop a viable small and medium enterprise sector in Eastern Indonesia that will generate sustainable employment and economic growth.

Diagram 6: Estimated breakdown of ODA to Indonesia by sector 2005–06

Note: Diagram 6 includes only the ongoing program to Indonesia ($169.6 million in 2005–06). It does not include the Australia–Indonesia Partnership for Reconstruction and Development.

Building the institutions of democracy

Assistance in the areas of legal reform, political governance, civil society development and anti-corruption will continue to be high priorities in 2005–06. Through the Legal Development Facility, a five-year, $22 million program which commenced in 2004, the aid program will work with Indonesian government institutions and civil society to

assist with legal and institutional reform and development. Key partners include the Indonesian Supreme Court, the Human Rights Commission and the Directorate General for Human Rights.

In 2004, Australia provided assistance worth $15 million for Indonesia's presidential and legislative elections. Beginning in 2005, Indonesia will hold direct popular elections for the provincial governor, district head and municipal mayor positions. Australia will provide assistance for this process of local-level democratisation through a coalition of Indonesian organisations known as the People's Network for Voter Education. A new one-year program of cooperation with Indonesia's newly formed Regional Representative Council (DPD) began in December 2004 and aims to support the DPD in conducting their constitutional functions relating to legislation, oversight, and regional representation.

Australia has helped the Government of Indonesia fight corruption by providing more than $6 million of assistance to a number of important institutions including the Ombudsman, Centre for Reporting and Analysis of Financial Transactions, the Supreme Audit Board, the State Banks Monitoring and Governance Unit, and the Anti–Corruption Commission. Australia will continue to respond quickly to new requests in this area.

Promoting stability and security

Counter-terrorism

The Australian and Indonesian governments continue to strongly condemn all forms of terrorism. The instability and uncertainty that occurs as a consequence of terrorist acts and organised criminal activity hinders Indonesia's development aspirations.

Following the Prime Minister's 2002 announcement of a $10 million commitment to assist Indonesia build its counter-terrorism capacity, Australia has provided support in three broad areas: building the capacity of the Indonesian National Police to fight terrorism and transnational crime ($3.5 million), restricting the flow of financing to terrorists ($3.5 million), and enhancing travel security ($3 million).

On 7 December 2004, the Australian Government announced a doubling of this commitment over five years. The additional $10 million will support emerging counter-terrorism priorities, including removing anomalies from Indonesia's counter-terrorism laws; strengthening the Indonesian bureaucracy's counter-terrorism coordination efforts; further training for prosecutors and judges, particularly in the management of complex crimes of violence; and further assistance to fight money laundering.

Building partnerships with mainstream Islam

Islam is a major force for development in Indonesia. Mass-based Islamic organisations have networks throughout the country, giving them access and influence in the community unmatched by any other groups. These organisations provide basic services to communities in Indonesia and are committed to promoting pluralism and religious tolerance. The Australian aid program recognises the important role mainstream Islamic organisations play in the development of Indonesia and is continuing to develop partnerships with these organisations.

In 2004–05 Australia's aid program has engaged with and supported moderate Islam in a range of ways:

- supported large-scale domestic election monitoring for the 5 July Presidential poll by a coalition of Indonesian organisations known as the People's Network for Voter Education;

- provided funding to Aisyiyah, the women's arm of the Islamic welfare organisation Muhammadiyah, to help individuals and families affected by the September 2004 Australian Embassy bombing;

- funded the regional Islamic Perspectives on Governance conference, bringing together Muslim leaders and academics from around South–East Asia;

- supported the International Dialogue on Interfaith Cooperation held in Indonesia in December 2004. A joint Australia–Indonesia initiative, the dialogue brought together faith leaders from around the region to discuss the potential role of religion to address issues relating to religiously diverse communities, including peace and conflict prevention; and

- continued to integrate partnerships with mainstream Islamic organisations into the ongoing aid program, particularly through the education and training program.

In 2005–06, the aid program will continue to develop community development and democratisation initiatives with mass-based Islamic organisations. These organisations' nationwide network and unparalleled access to communities make them invaluable partners in building democracy and civil society in Indonesia.

Australia will provide funding to the Peoples' Network for Voter Education to undertake monitoring of Indonesia's local elections which begin in June 2005. The elections will be the first ever popular elections for Indonesia's provincial governors, district heads and municipal mayors. The aid program will also work with Islamic organisations through the Learning Assistance Program for Islamic Schools (LAPIS) and continue to explore ways of delivering small-scale assistance to moderate Islamic civil society organisations in democracy-building, through a partnership with the Asia Foundation.

Communicable diseases

The numbers infected by HIV/AIDS in Indonesia continue to grow alarmingly. Australia, working collaboratively with other key international development partners, is well-positioned to help Indonesia deal with the epidemic. The Australian aid program has played a major role in the HIV/AIDS response, drawing on Australia's comparative advantage in injecting drug use harm reduction strategies, and understanding of the determinants of the epidemic in Eastern Indonesia. In 2005–06, in close partnership with other key donors, further assistance will be provided to national, and selected provincial, AIDS commissions to implement Indonesia's National HIV/AIDS strategy. Australia will also support Indonesian community-based organisations who are working to deliver prevention and care services to high-risk groups.

Avian Influenza has affected a number of Asian countries, including Indonesia, since December 2003. Australia is actively supporting the Indonesian Government's Avian Influenza Taskforce and, through participation in a multi-donor forum, is helping coordinate the international response.

Australia has initiated a new $3 million partnership with the World Health Organisation (WHO) to support emergency responses to zoonotic and communicable disease outbreaks in Indonesia. The program will strengthen monitoring and surveillance systems, and build the longer-term local capacity to prepare for and respond to future outbreaks. Through the partnership, Australia has already partly funded the WHO's response to the Indian Ocean disaster and the latest Avian Influenza outbreaks. Australia has also assisted the WHO to develop a mass media campaign for the prevention of Avian Influenza, and to provide laboratory testing, anti-viral medicines and technical support to the Indonesian Ministries of Health and Agriculture.

Improving government service delivery, particularly in Eastern Indonesia

Education

Basic education institutions (primary and junior secondary) cater for approximately 45 million students across Indonesia. The Learning Assistance Program for Islamic Schools (LAPIS), which commenced in June 2004, will improve the quality of basic education in non-state Islamic schools. These schools play a critical role in educating poor children and girls, and enrol around 15 per cent of school-aged children. LAPIS has initially focused on building relationships and coordination with key stakeholders in the Islamic education sub-sector, including a detailed needs assessment in a number of locations throughout Indonesia. LAPIS is also responding to urgent needs, including the provision of $2 million in assistance to Aceh for Islamic junior secondary schools and the Banda Aceh State Institute of Islamic Studies (*Institut Agama Islam Negeri*). A number of other Australian programs are also working with schools, communities and local governments to improve the management and delivery of basic education services.

The Australian Development Scholarships program adopted a targeted approach for up to 33 per cent of its scholarships in 2004, in which awards are allocated to candidates from agencies involved with AusAID projects or AusAID-related activities. This will help ensure that human resource development is consistent with agreed development priorities. The scholarships program has also formed partnerships with two state Islamic universities, encouraging graduates of mainstream Islamic institutions to apply for further study in Australia.

The Indonesia–Australia Specialised Training Program will deliver over 325 short courses from 2004 to 2008, with a focus on capacity building for mid-career professionals in the fields of economic management, governance, and improving the delivery of basic services such as health and education.

In 2005–06, options for further assistance in vocational education and skills development will be explored, with a focus on policy-level support and skills development in Eastern Indonesia.

Maternal and child health

In Indonesia, and especially its eastern provinces, the health, nutrition and development status of women and children remains poor. For example, Indonesia's maternal mortality ratio, variously estimated between 334 and 380 per 100,000 live births, is among the highest in ASEAN countries, and higher than many poorer countries worldwide. To assist in addressing maternal and child health issues in Indonesia, Australia will expand its support in selected provinces of Eastern Indonesia where the need is great, particularly Nusa Tenggara Timur, Papua, and Nusa Tenggara Barat. Australia will also strengthen its partnerships with other donors, particularly UNICEF and the United Kingdom's Department for International Development. This will provide Australia with an excellent opportunity to take a lead role in assisting the Indonesian Government to harmonise policy and programming mechanisms.

Child protection

Child exploitation, trafficking and child sex tourism issues are becoming increasingly significant in Indonesia and South–East Asia. In Indonesia, Australia will deepen and broaden its engagement in child protection, and implement a flexible child protection pilot program, most likely in Bali and Lombok, with a view to developing a longer-term plan of engagement.

Australia – Nusa Tenggara Assistance for Regional Autonomy

In line with the development cooperation strategy agreed with Indonesia, Australia will establish a strategic, flexible approach to regional development in Nusa Tenggara Timur and Nusa Tenggara Barat, two of Indonesia's poorest provinces. The $30 million, five-year, Australia – Nusa Tenggara Assistance for Regional Autonomy program will aim to reduce poverty through promoting sustainable and equitable social and economic development in Nusa Tenggara. Australia will focus on

helping improve regional and provincial governance, increasing peri-urban and rural incomes, and improving the quality of and accessibility to basic services in a decentralised environment. Assistance will be provided through a strategic, flexible and program-based approach, facilitated by partnerships with a wide range of stakeholders within local governments, business communities and civil society organisations. Existing programs of Australian assistance in these areas will be brought together in a more coordinated way so as to reinforce impact.

In the longer term, a similar approach may be adopted in other selected eastern provinces of Indonesia. Opportunities for activity implementation are currently being explored.

Water supply and sanitation

In collaboration with the World Bank and other international organisations, Australia is helping Indonesia develop effective water and sanitation services for poor rural communities, promote hygiene awareness and hygienic behaviour, and develop policy frameworks for water supply and sanitation that encourage demand-driven and participatory initiatives for poor communities. Assistance is being provided through two projects, with a total value of $19.2 million and a focus on poorer eastern provinces.

Humanitarian relief

Indonesia remains vulnerable to natural disasters, terrorist attacks, and inter-communal conflict. Australia is helping Indonesia build national and local capacity to recognise and defuse triggers for conflict, and respond quickly and effectively to natural disasters and terrorist activities. Australia will continue to provide substantial support for national and international agencies mandated to prevent, mitigate, and/or respond to humanitarian crises, and increasingly enter into longer-term strategic partnerships with key humanitarian agencies. Australia has pre-positioned funds with the International Federation of Red Cross and Red Crescent Societies for rapid response to disasters, and provided support to the Indonesian Red Cross for disaster preparedness, prevention and mitigation.

In addition to its response to the Indian Ocean disaster, Australia will continue to respond quickly and generously to humanitarian crises in Indonesia. Following the 28 March 2005 earthquake off the Sumatra coast, Australia responded with a $1 million assistance package. In Bali, the 12 October Australia Memorial Centre burns unit is now officially open, and a new Australia–Bali Memorial Eye Centre is currently being constructed. Australia responded to the Australian Embassy Jakarta bombing with generous assistance for Indonesian victims of that tragedy. Humanitarian aid will continue to be provided for disaster and conflict-prone areas such as Muluku, West Timor, and Sulawesi.

CHAPTER THREE: PAPUA NEW GUINEA AND THE PACIFIC

Papua New Guinea

Country program estimate	**$300.0 million**
Retirement benefits	**$13.6 million**
Estimated other ODA	**$178.6 million**
Estimated total ODA	**$492.3 million**

PNG development indicators

Country	GNI per capita ($A)	Access to water (% of population)	Life expectancy (years)	Adult literacy (% of population)
Papua New Guinea	786	42	58	65

Source: GNI per capita: World Development Indicators, World Bank, 2003; other indicators: Human Development Report, UNDP, 2004.

The development of a stable and prosperous Papua New Guinea remains a high priority for the Australian Government. Official Development Assistance (ODA) to PNG is expected to total $492.3 million in 2005–06, an increase of $56.6 million.

PNG's macroeconomic position improved markedly during 2004 through a combination of a favourable external environment, including buoyant commodity prices, and fiscal restraint. Increased foreign reserves and a strengthened kina helped inflation and interest rates remain low. With moderate GDP growth, rising tax receipts and reduced government borrowing costs, the PNG Government's fiscal deficit is anticipated to remain small, coming off a modest surplus in 2004. However, with weak medium-term revenue prospects, PNG needs to consolidate and build on current economic and fiscal progress, and provide a level of basic services that will support broad-based growth. Improved accountability and governance mechanisms, including public expenditure management and public administration, are needed to facilitate and safeguard improved public sector performance.

It was agreed at the 16th Australia–PNG Ministerial Forum in December 2004 that a new medium-term country strategy for PNG would be developed during 2005. The new strategy will build on the findings of the August 2004 joint review of Australian development cooperation with PNG. It will incorporate a new approach which places substantially more emphasis on working through PNG's own budgeting and planning mechanisms, both in terms of identifying priority inputs and in monitoring and reviewing performance.

Consistent with Australia's approach to engaging with fragile states, the PNG country strategy is expected to include a focus on:

- fostering sustainable economic growth, particularly in rural areas;

- building stronger governance, including supporting state-building;

- developing institutional capacity at all levels of government; and

- addressing HIV/AIDS.

Diagram 7: Estimated breakdown of AusAID program in PNG by sector 2005–06
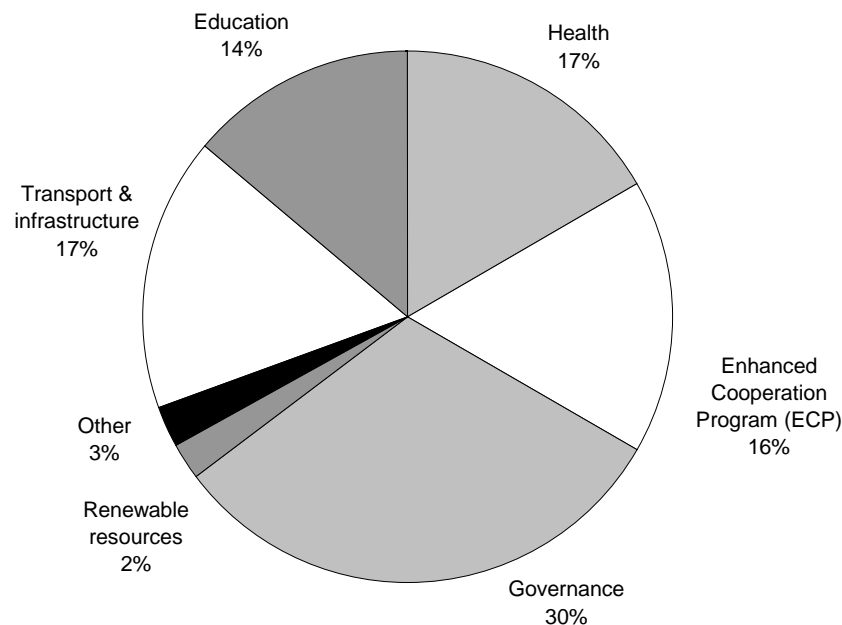
Note: Diagram 7 includes only AusAID country program expenditure to PNG.

Fostering sustainable economic growth

Transport infrastructure and renewable resources

Australia will assist PNG to promote growth in the agricultural economy by increasing opportunities for the rural poor to generate income. Initiatives will focus on the preconditions for agricultural growth such as sound infrastructure, law and order, the delivery of essential services to rural areas, and agricultural information.

Sound infrastructure improves access to essential services and markets, and is a major contributor to broad-based economic growth. Roads and airports in PNG play a significant role in promoting nation building, political stability and communication,

particularly given PNG's mountainous terrain and scattered population. In 2005–06, Australia will support the maintenance of the Highlands Highway and bridge restoration on major road networks. In the aviation sector, Australian support through the Enhanced Cooperation Program (ECP) will improve service delivery by the Civil Aviation Authority. Australia will continue to work with the Asian Development Bank (ADB) and World Bank to strengthen the Department of Transport and the Department of Works in establishing an affordable, prioritised national transport development plan.

Australia is designing a new program of assistance to agricultural research and development organisations in PNG, to encourage them to develop practical programs to transfer agricultural research information to village farmers. This program will build on previous work to strengthen the National Agricultural Research Institute and links between the research system and farmers.

Building stronger governance

Australia is working with PNG to strengthen civil society's capacity to play an active role in the affairs of the state and deliver essential services. Over the past year the Community Development Scheme has developed strategic partnerships with local organisations and is supporting them to represent, and meet, the needs of society in a transparent and accountable way.

In 2005 the Electoral Support Program will expand to include capacity building for key government agencies as well as civil society reform activities. Planned outcomes include a peaceful and democratic first general election for the Autonomous Region of Bougainville in mid-2005, improvements to the PNG electoral legislative framework, and improvements in electoral planning and management in preparation for the 2007 PNG national elections.

The Media for Development Initiative will support the media sector, particularly rural radio, to improve access, content and voice. It will be delivered in partnership with the PNG Media Council and through a twinning relationship between the Australian Broadcasting Corporation and the PNG public broadcaster, the National Broadcasting Commission.

The Church Partnership Program aims to strengthen the capacity of the seven major churches in Papua New Guinea — Anglican, Catholic, United, Lutheran, Seventh Day Adventist, Baptist and Salvation Army — to contribute to development and stability. The program will operate for five years (2004 to 2009) with funding of up to $25 million. The PNG churches will receive targeted support from their sister churches in Australia to improve governance, expand essential health and education services, and strengthen organisational capacity.

Developing institutional capacity

Governance

Australia will continue to support PNG-led public expenditure management and administration reforms. In 2004–05, Australia helped implement important gains in procurement, debt management, civil service retrenchments, and expenditure control. In 2005–06, Australia will assist with central agency leadership of public sector wide improvements in budgeting, financial management, workforce development, and performance management.

Australia's governance activities are provided in close coordination with other Australian government agencies under the ECP, and other development partners including the World Bank and the ADB. Australia will continue to engage with central agencies as they implement PNG's Public Sector Reform Strategy 2003–07 and Public Expenditure Review and Rationalisation reform agenda, by providing advisory support, training and local contracting inputs, and facilitating capacity building programs that complement support provided under the ECP.

Health

In 2005–06, Australia will move away from conventional project-based assistance and, through a sector-wide approach, work to strengthen PNG's own health system from within. While Australia's recent project-based assistance has made significant contributions, sectoral approaches are more likely to yield long-term benefits. This evolution in approach is being undertaken in close harmony with other donors, and following analysis of the fundamental weaknesses within the PNG health sector.

Existing health projects will be completed during 2005–06, and new activities will be based around a health sector Capacity Building Service Centre. The centre will support PNG's government and church-based health service delivery at national, provincial and district levels. Australia and other donors will also continue to contribute to basic services such as rural immunisation and outreach programs, and supervision and support to health centres and aid posts.

Education

Australian support for basic education has helped double, over the last 10 years, the number of children enrolled in PNG schools to approximately one million. In 2005–06, Australia will continue to support basic education through development and implementation of revised primary and lower secondary curricula, and by strengthening the capacity of provincial and local level organisations to plan and manage school infrastructure.

The Education Capacity Building Program, a flexible funding and technical assistance program, will work collaboratively within PNG government systems to strengthen planning and management, support improved coordination between government agencies, and strengthen monitoring, evaluation and reporting systems. A major

24

objective of Australia's education assistance is to support the PNG Government to refine and implement its National Education Plan for the period 2005 to 2014.

Law and justice

Law and justice assistance will support PNG-developed sector objectives (as opposed to individual agency priorities), recognising that improvements in law and justice depend on all parts of the sector working effectively; weakness in one part undermines the entire system. Assistance will be incentive-based, responsive to emerging priorities, and support agencies' demonstrated commitment to improved operational and administrative performance.

The provision of broader Australian government assistance under the ECP has increased the scope for positive law and justice outcomes in PNG, particularly through increased AFP support to the Royal PNG Constabulary, and provision of legal specialists such as prosecutors, litigators, Solicitors-General and judges.

In 2005–06, improving the deterrence capacity of the system through increased effectiveness of agencies will be a priority. Other priorities include supporting the PNG Government's National Coordinating Mechanism; supporting development of a sector strategic plan; strengthening planning, management and financial systems; and developing a sector performance monitoring system.

Addressing HIV/AIDS

PNG has the highest incidence of HIV/AIDS in the Pacific region. Since the 1990s, HIV prevalence amongst women has grown sharply. This is evident amongst women attending antenatal clinics, blood donors, and tuberculosis patients. Significant prevalence rates are found not only in large urban areas (for example Port Moresby), but also in rural pockets, particularly around primary industry sites.

Heterosexual transmission is the predominant means of infection. Approximately equal numbers of men and women are infected, except in the 15 to 29 year old age group where women outnumber men. The second most common means of infection is parent to child transmission.

An AusAID-commissioned report, *Potential Economic Impacts of an HIV/AIDS Epidemic in Papua New Guinea*, concluded that if not checked, the HIV epidemic in PNG will lead to major declines in economic and social indicators. The report concluded that PNG is facing a major HIV epidemic, with annual increases of 15 to 30 per cent in numbers infected; that HIV has the potential to exacerbate poverty in PNG, with measures of economic welfare falling between 12 and 48 per cent by the year 2020; that HIV could cut the labour force by 13 to 38 per cent by 2020; and that the budget deficit will increase by between 9 and 21 per cent by 2020.

The centrepiece of Australia's response is the $60 million National HIV/AIDS Support Project (NHASP) which works with PNG's National AIDS Council. The project

commenced in October 2000 and operates in all provinces of PNG. With NHASP due to finish in late 2005, AusAID is currently working with the PNG Government and other development partners to design a new program of support that will build on international best practice and lessons learned from our experience to date.

Australia is also incorporating HIV prevention and education components into other PNG aid activities. For example, inmates and prison officers in PNG's gaols are learning more about the transmission and prevention of HIV through a wider Correctional Services Development Project.

Delivering the PNG program

Since 2003 the Australian Government has worked with the PNG Government to develop new methods of delivering aid to PNG, to address better systemic governance issues and build more effective linkages between partners both within and between the Australian and PNG governments.

The Enhanced Cooperation Program, jointly agreed to by the governments of Australia and Papua New Guinea, is supporting PNG economic management and growth, aiming to improve the law and order situation, and supporting the integrity of national security systems. Through the integrated approach of the ECP, Australian police and officials are focused on improving the capacity of PNG institutions by creating durable institutional linkages between Australian and PNG government agencies.

Responsibility for the delivery of many key services in PNG rests with provincial and local administrators. However, public administration and basic service delivery at the sub-national level are failing due to a range of complex and interrelated problems such as mismanagement and lack of capacity. As a result service delivery, especially in rural areas, has been in decline with a detrimental impact on development in PNG.

The Sub-National Initiative will provide a means through which the aid program can more effectively help PNG address key constraints to effective service delivery. An initial trial will commence in three provinces during 2005 and involve the placement of AusAID officers within the Department of Provincial and Local Government Affairs and provincial administrations, to jointly manage the aid program with the PNG Government. The initiative will allow aid management to be better integrated within PNG systems. It will increase Australia's understanding of these systems and enhance Australia's ability to support key PNG policy and reform agendas.

The PNG Enhanced Cooperation Program

The Enhanced Cooperation Program has been designed to address weaknesses in PNG administrative capacity, re-establish investor confidence, and provide an enabling environment for broad-based development. It includes initiatives in policing (administered by the Australian Federal Police), law and justice, economic management, public sector management, and border and transport security. To date, 43 Australian public servants are working in a variety of non-policing positions in the PNG bureaucracy: 25 in economic and public sector administration agencies, 8 in law and justice agencies (non-policing), and 10 in the border and transport security agencies. The total cost of the non-policing program in 2005–06 is expected to be around $50 million. The ECP has built upon existing support to provide:

- improved planning and quality of the 2005 PNG Budget and other decision making processes related to economic management;

- assistance with public sector workforce management, including the removal of a number of non-operative staff from the payroll, and resolution of public sector pay claims; and

- assistance with operations at Port Moresby airport, including in areas of security and passenger processing.

In the future, the ECP will give priority attention to key challenges such as maintaining PNG commitment to sound economic and public sector management policies, tackling corruption, and coordinating efforts with other aid interventions to maximise impact.

To help officials improve their effectiveness, participating Australian agencies will engage in dialogue and provide guidance on issues such as:

- reporting, monitoring and evaluation;

- institutional strengthening; and

- workforce development.

The dialogue will include the officials' PNG colleagues and will give emphasis to incorporating PNG systems and views into the processes for addressing these issues.

The Sub-National Initiative

In 1995, the PNG Government enacted the Organic Law on Provincial Governments and Local-Level Governments, which passed primary responsibility for service delivery to sub-national levels of government. However, the decentralised model for service delivery has faced many hurdles including insufficient funding and confusion over which level of government is responsible for service delivery. The PNG Government's current Medium-Term Development Strategy (2005–2010) states that 'the government will intensify its efforts to address the current problems of the decentralised system, and the impediments to service delivery in particular'.

The Sub-National Initiative (SNI) is Australia's response to PNG's decentralised system. It has three objectives: to improve the PNG National Government's ability to support sub-national levels of government, to support sub-national governments to meet their service delivery mandates, and to improve the impact of the aid program by increasing consultation with both levels of government and by improving coordination between program sectors.

At the national level, the SNI will focus on building the capacity of the Department of Provincial and Local Government Affairs (DPLGA). With Australian support, the DPLGA has undertaken a comprehensive corporate planning process, remobilised PNG's National Monitoring Authority, and developed a Provincial Performance Improvement Initiative (PPII) that will strengthen provincial public administration and the integrity of provincial planning and budgeting systems.

At the provincial level, the SNI will be tailored to suit the circumstances in each province, including their commitment to improve public administration and expenditure. To date, the SNI has focused on implementing the PPII in three provinces — Eastern Highlands, East New Britain and Central Province. Full-time budget advisors were mobilised in each of these provinces in October 2004. From 2005, the SNI will provide additional budgetary and technical support, with assistance directly linked to reviews of each province's budget and improvement plan. This support will be jointly monitored by DPLGA, the Department of National Planning and Rural Development and AusAID on a quarterly basis.

The SNI supports and complements the ECP's work with central agencies to help improve fiscal discipline and ensure appropriate expenditure in key sectors such as law and justice, infrastructure, health, and education. It is also consistent with PNG's Public Expenditure Review and Rationalisation process.

Humanitarian relief

PNG is highly vulnerable to natural disasters. In recent years these have included drought, flood, a tsunami and volcanic eruptions. In 2004–05, Australia provided over $300,000 to assist the 10,000 people forced to flee the Manam Island volcano eruptions, supported the Rabaul Volcanological Observatory to provide early warnings of destructive volcanic events in PNG, and provided adviser assistance to the National Disaster Management Office to build PNG's capacity to respond effectively to disasters. In 2005–06, Australia will continue to provide humanitarian assistance on an as needs basis.

Bougainville

Australian assistance has played a key role in bringing peace to Bougainville. Since 1997, over $200 million has been provided through the aid program to support the Bougainville peace process and the province's post-conflict recovery.

Assistance to the law and justice sector in Bougainville remains a high priority for Australia, particularly during the transition period to autonomous government. Australia will also continue to support positive progress of the peace process and the conduct of the elections for the autonomous government planned for mid-2005.

The Pacific

Estimated ODA to the Pacific in 2005–06   **$463.0 million**

Pacific regional development indicators

Country	GNI per capita ($A)	Access to water (% of population)	Life expectancy (years)	Adult literacy (% of population)
Solomon Islands	925	71	69	77
Fiji	3,638	47	70	93
Vanuatu	1,819	88	69	34
Samoa	2,466	99	70	99
Tonga	2,297	100	69	99
Kiribati	1,357	48	64	100
Nauru	na	na	63	95
Tuvalu	na	100	61	98

Source: GNI per capita: World Development Indicators, World Bank, 2003; life expectancy for Kiribati, Nauru and Tuvalu: World Health Organisation, 2002; other indicators: Human Development Report, UNDP, 2004.

Diagram 8: Estimated Australian ODA to the Pacific by country 2005–06

- Vanuatu 8%
- Fiji 7%
- Other Pacific islands 4%
- Regional Pacific 15%
- Tuvalu 1%
- Kiribati 3%
- Tonga 3%
- Samoa 5%
- Solomon Islands 54%
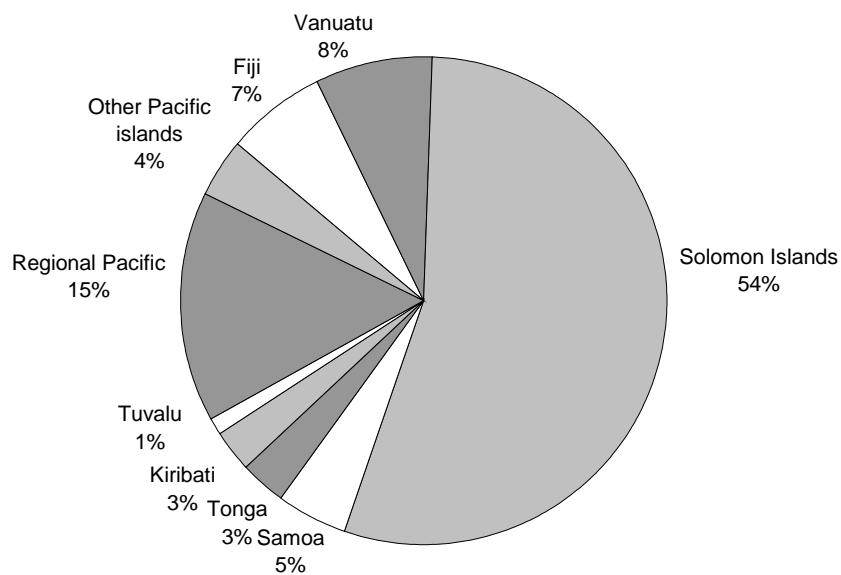
REGIONAL OVERVIEW

The development prospects for the Pacific are mixed even though some achievements have been made, such as substantial improvements in life expectancy over the past 15 years. The fragile states of the Pacific are especially vulnerable to developmental decline due to their small size, lack of economic diversity, remoteness from major trade and commercial sectors, and weak governance frameworks. Economic gains have been weak, volatile, and unequally distributed. Weak public expenditure frameworks have affected the quality and distribution of key services and infrastructure. Social instability has hampered growth, particularly in Solomon Islands where civil unrest contributed to a decline of 25 per cent in GDP from 2000 to 2003. Growing populations pose future challenges for sustainable development.

Governance is the key development issue for the Pacific. Poverty is ultimately linked to poor governance, especially weak leadership and corruption. There is an urgent need to address key governance issues including the building of law and order, peace and stability; tackling corruption; and improving fiscal management. HIV/AIDS is a growing concern, especially given the high rate of STD transmission in Pacific countries. Pacific countries are particularly vulnerable to social and economic devastation were an HIV/AIDS epidemic to proceed unchecked.

A new *Pacific Regional Aid Strategy 2004–09* provides the framework for Australia's long-term development goals in the Pacific. The framework focuses on four themes: stronger broad-based growth; more effective, accountable and democratic government; improved law and justice and security; and enhanced service delivery, including effective fiscal management. Under the strategy, Australia will channel an increased proportion of assistance to Melanesia and focus more closely on capacity building and conflict prevention. The strategy will promote and be based on sound analytical analysis of the development situation in the Pacific.

Australia will apply a 'hands-on' approach to its aid program in the Pacific. Rather than stand back and let regional neighbours' problems deteriorate, Australia will work actively to build the region's capacity to pursue governance reform and work collectively to address shared problems. Links will be strengthened between core Australian agencies and their Pacific counterparts, including through placement of senior Australian government personnel in priority areas of Pacific Island governments.

In 2005–06, the aid program will implement a new Fragile States Initiative, which will bring together development, security, economic and political perspectives from across government into a single, dedicated unit. The initiative will boost Australia's capacity to engage with fragile states at both strategic and operational levels. It will also provide Australia with an opportunity to play a leading role in shaping international thinking on approaches to fragile states: for example, our experience in Solomon Islands will be used as a pilot for the OECD's *Ten Principles of Good International*

Engagement in Fragile States. To complement the Fragile States Initiative, Australia will provide $10 million to the World Bank to support work on fragile states in the Pacific.

In line with the recommendations of the 2004 Pacific Islands Forum Review, Australia will place a greater emphasis on regional approaches in aid programming, and play a lead role in building cooperative frameworks with other donors and with regional organisations. Australia will also seek to harmonise its programs with other donors and align with Pacific countries' own development plans.

A new 'Pacific Plan' will be developed by the Pacific Islands Forum during 2005. The plan will create stronger and deeper links between Pacific Island countries, and identify sectors where the region can gain most from sharing governance resources. Australia will work together with regional organisations through the Pacific Plan process to improve the effectiveness and impact of aid activities.

Pacific 2020

A new study, *Pacific 2020*, will focus on long-term growth options for the developing economies of the Pacific. The study will be a follow-up to the 1994 study of development prospects in the Pacific, *Pacific 2010*, and will be launched at a regional conference on growth prospects for the Pacific, PNG and East Timor to be held early in 2006.

Pacific 2020 will focus on the issues most critical to achieving sustainable growth and development in the region, and highlight the key actions needed in the short to medium term to give countries of the region the best chance of realising their potential by 2020. Issues will include:

- political governance;

- key productive sectors such as agriculture, fisheries and tourism;

- land property rights issues; and

- HIV/AIDS and demographic issues, including high population growth and the youth bulge.

Bilateral programs

SOLOMON ISLANDS

Country program estimate	**$98.0 million**
Estimated other ODA	**$148.8 million**
Estimated total ODA	**$246.8 million**

Solomon Islands has endured considerable challenges in the years following the tensions and coup of 2000. By early 2003 the country had many of the characteristics of a failed state — general lawlessness was growing, and effective state functioning was in real decline. In April 2003, the Solomon Islands Government formally sought assistance from Australia and other regional partners.

The Australian-led Regional Assistance Mission to Solomon Islands (RAMSI) highlights the challenges facing our developing country neighbours, as well as the outcomes that can be achieved by working through a whole-of-government partnership with other countries in our region. RAMSI focuses on three key areas: economic governance, rebuilding the machinery of government, and strengthening law and order. RAMSI is a new way of working together to achieve development solutions, through a more hands-on approach by Australia together with its regional partners. Under RAMSI, significant gains have been made in promoting political and economic stability, and returning to rule of law. The challenge for 2005–06 is to bed down these achievements by continuing to promote local leadership and ownership of change and reform, and developing the capacity of key Solomon Islands institutions.

Long-term economic recovery and growth in Solomon Islands will also depend on building sustainable rural livelihoods. Lack of income-earning opportunities for the 85 per cent of the population that live in rural areas has resulted in increased rural-urban migration, youth unemployment, and broader issues of uneven development and inequitable distribution of resources. These inequities exacerbated the recent tensions. To address some of these issues, AusAID recently funded a rural livelihoods and agriculture assessment with the objective of developing a strategic framework for AusAID's work in agriculture and rural development in Solomon Islands.

Rural livelihoods will be addressed through a new five-year $32 million package of community-level assistance to Solomon Islands. The Community Support Program will build on the achievements of the current Community Peace and Restoration Fund to strengthen community-level peacebuilding and development.

In the health sector, Australia will provide a further $9 million to help Solomon Islands improve basic health service delivery and tackle key new health issues, including HIV/AIDS. This additional contribution to health services will have a significant

impact on the public health program and assist in the fight against diseases such as malaria.

The Regional Assistance Mission to Solomon Islands

In July 2003, the Australian Government initiated a Regional Assistance Mission to Solomon Islands. RAMSI was deployed to restore peace and security, and stabilise government finances, at the invitation of the Solomon Islands Government and under the auspices of the Pacific Islands Forum. It comprises personnel from Australia, New Zealand, Fiji, Tonga, Papua New Guinea, the Cook Islands, Kiribati, Samoa, Vanuatu and Nauru.

Together with Australian personnel drawn from the Australian Federal Police and the Departments of Foreign Affairs and Trade, Finance, Treasury, and Defence, AusAID staff have been helping the Solomon Islands Government restore law and order and rebuild the country's institutions and economy.

Since the arrival of RAMSI, Australian aid has helped stabilise government finances, revitalised the courts and rebuilt the prison system. Health and education services are being provided. Public servants are being paid on time, and there are signs of economic recovery and the return of confidence and optimism.

Australia's strengthened assistance program is building on our existing aid activities, which are aimed at:

- strengthening law and justice;

- improving economic management;

- maintaining access to basic services (especially health); and

- supporting peacebuilding, community and civil society development.

An important focus of RAMSI's activities will be to ensure that development benefits the vast majority of Solomon Islanders who live in rural areas in the provinces. This will occur in cooperation with other donors such as the European Commission.

In 2005–06, RAMSI will focus on helping Solomon Islands implement a comprehensive reform agenda to improve the accountability and affordability of government. In the legal sector, significant assistance will continue to enable Solomon Islands to work through the backlog of pre-tension and tension-related trials.

VANUATU

Country program estimate	**$24.0 million**
Estimated other ODA	**$10.1 million**
Estimated total ODA	**$34.1 million**

Vanuatu faces issues of limited economic growth and policy instability, and rapid population growth continues to undermine real growth and development prospects. It remains one of the poorest countries in the Pacific, with 40 per cent of the population living in poverty.

Following a period of political instability, on 17 December 2004 the new Vanuatu Government of Prime Minister Ham Lini and the Australian Minister for Foreign Affairs signed a joint *Good Governance Statement of Principles* which reinforced Vanuatu's commitment to good governance, transparency and democracy — necessary foundations for Vanuatu's growth and stability.

In March 2005, Australia and Vanuatu agreed on a new joint strategy (2005–10) for development cooperation. The new strategy will support long-term stability for Vanuatu through three objectives: improved governance, in particular strengthening the management, accountability and service delivery roles of central and line Ministries and provincial authorities; raising the productive capacity of ni-Vanuatu, especially young people, to improve economic growth, employment and income generation; and improving the quality and delivery of essential services to populations in greatest hardship, particularly health and education.

To raise productive capacity, a range of activities will be implemented to strengthen the enabling environment for growth in the most productive sectors (agriculture and tourism), facilitate government and private sector partnerships to promote growth, and build more effective and innovative partnerships with communities so that they can better deliver essential services.

The program will be underpinned by whole-of-government engagement through provision of Australian advisers and building of institutional linkages in key governance areas, particularly the law and justice sector. Australian activities will be coordinated with those of other donors, particularly New Zealand and France.

FIJI

Country program estimate	**$19.5 million**
Estimated other ODA	**$11.0 million**
Estimated total ODA	**$30.5 million**

Australia is working with Fiji to reduce the threat of social instability arising from poverty and inequality between different social groups, and rebuild confidence for

stability and growth, in line with Fiji's national Strategic Development Plans. In 2004 Australia and Fiji agreed to an updated country strategy, which will focus firstly on governance, including law and order, the rule of law, strengthening civil society, and promoting investment and economic growth; and secondly on the effectiveness, transparency, equity of service delivery, and community participation in government health and education services.

The Fiji program will build the capacity of government, and also seek to deepen its engagement with civil society including NGOs and local communities. It will target the quality and delivery of services to vulnerable groups, particularly in rural areas and, where needed, in urban areas. The program will also build the capacity of NGOs in disaster mitigation, preparedness and response. To further these objectives, a new governance program is expected to commence in 2005–06.

Activities in Fiji will be integrated with Pacific regional programs in the law and justice, governance, health and education sectors. Whole-of-government engagement will be promoted through the building of linkages with relevant Australian government agencies.

NAURU

Country program estimate	**$0.6 million**
2005–06 additional ODA	**$12.0 million**
Estimated other ODA	**$4.3 million**
Estimated total ODA	**$16.9 million**

Nauru is grappling with a legacy of mismanaged resources and substantial accumulated debts. It could once rely on its phosphate reserves, but that resource has been largely depleted. With limited revenue, the Nauru Government has struggled to provide basic services. Australia has deepened its aid program in response to the severity of Nauru's economic problems. Australia is helping Nauru to implement tough but necessary reforms that will enable the Nauru Government to manage Nauru's long-term expectations and adapt to significantly different livelihoods.

Australia's assistance is being provided under a February 2004 Memorandum of Understanding. Under this agreement, senior Australian officials from the Department of Finance have helped Nauru progress its economic and financial reforms, assess its assets and liabilities, establish budgets, and introduce fiscal discipline. Advisers from the Australian Federal Police and a Special Police Adviser have worked with the Nauru Police Force to increase skills, accountability and professionalism in the force and reduce the backlog of prosecutions. Australia has also helped Nauru address short-term food security and nutritional issues, refurbished Nauru's courthouse, helped rebuild schools, provided vital medical equipment, and provided support for essential infrastructure and utilities, including power and water.

In preparation for the expiry of the current Memorandum of Understanding in June 2005, the Australian Government is working with the Nauru Government to identify long-term options for assistance and establish a sustainable long-term development strategy.

OTHER PACIFIC COUNTRIES

Australia's assistance to **Samoa** will continue to focus on strengthening public administration, improving education and health standards, and ensuring effective delivery of basic services. Australia will also assist Samoa to improve opportunities for employment and investment in the formal and informal sectors.

Australian assistance to **Tonga** will help build national economic and financial capacity. It will stimulate opportunities in the financially important fisheries sector and work to improve conditions among at-risk groups at national and community levels. The construction of the Nuku'alofa solid waste disposal facility will contribute to improved health and environmental conditions.

In **Kiribati**, Australia will continue to focus on better educational outcomes through improving the quality, relevance and efficiency of basic education services. Australian assistance will also help to improve governance through better public sector management, particularly in financial management, public sector reform and community policing.

A trust fund for **Niue**, which Australia is supporting, is in place. In **Tuvalu**, Australia will continue to support the operation of a successful trust fund, in addition to funding activities in the education sector. Australia will assist the **Federated States of Micronesia** with border security as well as tertiary scholarships for study in Australia and the Pacific region. Scholarships will also be offered to the **Marshall Islands**, **Palau** and **Tokelau**.

Australia will work to harmonise approaches and funding mechanisms with other key donors in the Pacific region, in particular New Zealand. In the **Cook Islands**, a pilot of a joint Australia–New Zealand development cooperation program (through which Australia has devolved responsibility to New Zealand) is being implemented.

CHAPTER FOUR: EAST ASIA[2]

Estimated total ODA to East Asia in 2005–06   **$344.3 million**

East Asia regional development indicators

Country	GNI per capita ($A)	Access to water (% of population)	Life expectancy (years)	Adult literacy (% of population)
Vietnam	740	77	69	90
Philippines	1,665	86	70	93
China	1,696	75	71	91
Cambodia	478	30	57	69
East Timor	663	na	50	59
Laos	493	37	55	66
Thailand	3,376	84	69	93
Burma	na	72	57	85
Mongolia	740	60	64	98

Source: GNI per capita: World Development Indicators, World Bank, 2003; other indicators: Human Development Report, UNDP, 2004.

Diagram 9: Estimated Australian ODA to East Asia by country 2005–06

China 13%
Cambodia 12%
East Timor 12%
Laos 6%
East Asia Regional 8%
Other East Asia Countries 5%
Vietnam 23%
Philippines 19%

---
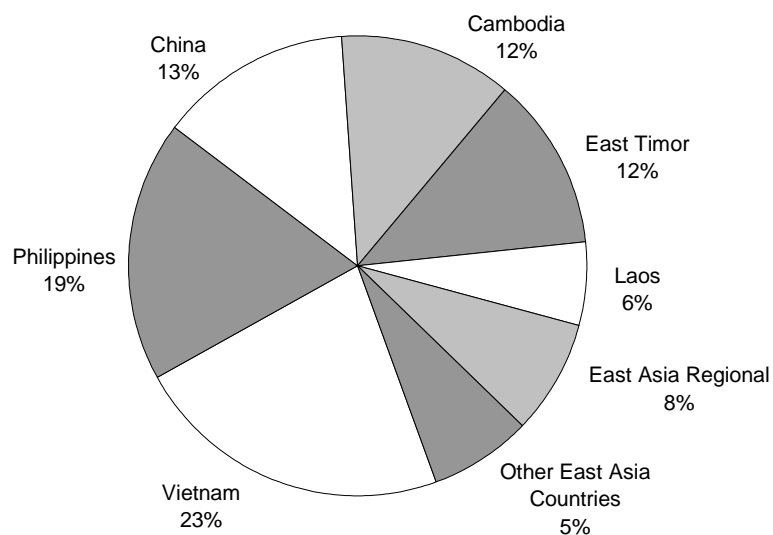
[2] Note that in previous Budget Statements, 'East Asia' included Indonesia. In this 2005–06 Statement, Indonesia is covered in a separate chapter.

East Asia is returning to useful levels of economic growth, having recovered from the 1997 Asian financial crisis and other shocks such as the SARS and Avian Influenza outbreaks of 2004. According to the World Bank, East Asian growth topped 7 per cent in 2004. This growth has brought impressive reductions in poverty, with over 50 million people lifted out of poverty in 2003 alone.

Despite these successes, East Asia's development challenges remain extensive. Over 280 million people still live in poverty, on less than US$1 per day. Moreover, benefits from economic growth have not been shared equally around the region. While parts of China, Thailand, and Vietnam have been particularly successful in achieving rapid economic growth, other parts have not performed so well. While Cambodia has shown some progress, Burma remains disengaged from the world economy, and Laos continues to lag behind. The Philippines has experienced reasonably rapid growth by its own standards, but against a backdrop of significant ongoing problems.

Many of East Asia's development challenges are regional in nature. Regional trade, investment, economic integration, and economic governance are high priorities. Transboundary concerns including HIV/AIDS, communicable diseases, people trafficking, drugs, and security are also important.

East Asia's continued rapid development is of great importance to Australia. Australia's regional and bilateral relationships with East Asian countries are amongst our most politically and economically significant. Regional economic, security and transboundary issues also impact directly upon Australia's national interests. Mutual national interest underpins much of Australia's development cooperation with East Asian partners.

Regional programs

East Asia regional program estimate   **$39.8 million**

Australia's East Asia regional programs aim to help enhance regional capacity to progress economic integration, improve security, and tackle critical transboundary challenges.

To address these issues, the building of effective strategic partnerships with regional and international organisations, and with other donors, is an important priority. Australia will work especially closely with regional institutions including ASEAN, APEC, the Mekong River Commission, the International Organisation for Migration and the United Nations Office on Drugs and Crime.

Key areas of focus include economic integration in the East Asian region, counter-terrorism, corruption and money laundering, disease outbreaks, water, people trafficking, drugs control, and child protection. Special attention will be given to supporting cooperation through ASEAN and APEC and through two sub-regions, the

Greater Mekong Sub-Region and the Brunei–Indonesia–Malaysia–Philippines East ASEAN Growth Area, to help promote economic growth and security in these areas.

Australia will continue to support regional economic integration and trade liberalisation through the five-year, $45 million ASEAN–Australia Development Cooperation Program. A major new three-year, $2 million anti-drug initiative focusing on Cambodia, Laos, Burma and Thailand will be pursued, as announced at the ASEAN–Australia–New Zealand Commemorative Summit in November 2004.

Continued support for APEC will help developing economy members in the region to strengthen their trade liberalisation, economic governance, and trade and financial security. In particular, Australia will provide $3 million over three years to help establish an APEC Support Fund — an Australian initiative to improve trade, governance and build security capacity for developing APEC economies. Australia will also provide $3 million over three years to help promote anti-corruption policies and programs. In addition, Australian agencies and departments will continue to assist APEC developing economies and others in the region through an APEC component of the new Public Sector Linkages Program.

In 2005–06 Australia will continue to help stop the spread of communicable diseases such as Avian Influenza. A new three-year, $5 million regional program of assistance will start early in 2005–06, and aim to strengthen the capacity of developing East Asian countries to identify and respond to outbreaks of Avian Influenza and other related diseases. Together with earlier initiatives, this will bring the aid program's total commitment to fighting zoonotic diseases to $13.4 million. The Asia Regional HIV/AIDS project ($10 million from July 2002 to July 2006) is contributing to the reduction of HIV transmission through injecting drug use in South–East Asia and China. Australia is also implementing a number of anti people-trafficking activities, with a total value of approximately $14 million. These include the $8.5 million Asia Regional Cooperation to Prevent People Trafficking Project, and two return and reintegration projects delivered through the International Organisation for Migration.

Bilateral programs

VIETNAM

Country program estimate	**$60.4 million**
Estimated other ODA	**$16.9 million**
Estimated total ODA	**$77.3 million**

Vietnam's economy continues to grow at impressive rates, with strong domestic consumption and investment and good export performance. This growth, combined with the government's reforms to date and increasing social expenditures, is reducing poverty levels, with less than 30 per cent of the population now classified as poor by

international measures. However, poverty reduction has recently been slowing, and inequality is rising as disadvantaged groups such as rural women and ethnic minorities are less able to reap the benefits of growth.

The impacts on poverty of Vietnam's proposed accession to the WTO remain unclear, as much depends on implementation of further reforms so that capital is used more effectively and employment opportunities are maximised. The Vietnamese Government is increasingly willing to acknowledge and address the threat that corruption poses to both economic performance and social harmony.

Australia's aid program with Vietnam, according to the agreed country strategy, will continue to support Vietnam's international economic integration and private sector development, and to reduce vulnerability and improve living standards for the rural poor in the Mekong Delta and Central Coast regions. Rural water supply and sanitation continues as a focus, along with natural disaster mitigation.

Work will continue on sharpening the focus of the scholarships scheme (150 offered in 2005–06) to achieve enhanced strategic impact in key Vietnamese institutions concerned with economic management and rural development. Australia will also continue to support Vietnam in developing an effective national system for monitoring and evaluating aid, helping Vietnam and its donors to increase aid efficiency and effectiveness while supporting the broader agenda of donor harmonisation.

PHILIPPINES

Country program estimate	**$55.5 million**
Estimated other ODA	**$8.2 million**
Estimated total ODA	**$63.7 million**

In 2004, the Australian and Philippine governments commenced implementation of a new Philippines development cooperation strategy. The strategy has three objectives: reduce impediments to broad-based growth through improved economic governance; strengthen security and stability through counter-terrorism capacity building and support for Mindanao peace processes; and raise the living standards of the rural poor in the south of the country, particularly through improving educational opportunities.

Strengthening counter-terrorism and peace building capacity in the Philippines is a priority. In accordance with the government's 2004 election commitment, Australia will double the current $5 million counter-terrorism package over five years (2004 through 2009). A major new program of targeted interventions will be implemented in support of peacebuilding, conflict prevention and economic development in Mindanao. This will include continued support for the United Nations Multi–Donor Program that responds to the 1996 peace accord with the Moro National Liberation Front. Australia has also indicated in-principle willingness to contribute to a new

Mindanao Trust Fund that will become operational once peace is achieved with the Moro Islamic Liberation Front.

A new Partnership for Economic Governance Reforms will be fully operational in 2005–06. This program will support reforms in priority areas such as public financial management. Australia will work with the Philippines to develop a new program of assistance to improve financial and resource management and service delivery at the local government level, supporting the Philippine Government's decentralisation process.

In the education sector, the successful Basic Education Assistance for Mindanao program will continue, and a new basic education program will commence in the Visayas in 2005–06. Australia will also expand its engagement in vocational and technical education, provide significant support for UNICEF's Sixth Country Program for Children (2005–09) and explore options for further assistance for Islamic education in Mindanao.

CHINA

Country program estimate	**$38.0 million**
Estimated other ODA	**$8.2 million**
Estimated total ODA	**$46.2 million**

Despite rapid economic growth and impressive reductions in poverty, more than 200 million people in China still live below the World Bank's $1 a day poverty line.[3] Recently, poverty reduction has slowed and inequality has risen, especially between rural and urban areas, and coastal and inland provinces. This inequality, together with macroeconomic instability stemming from incomplete legal and financial reforms, rising unemployment, lack of basic health services, and mounting environmental pressures, threatens the sustainability of China's future development. The Chinese Government recognises these challenges and has initiated a policy of 'balanced development', whereby future economic growth will not be pursued at all costs, but with due attention to the side-effects of growth.

The Australia–China relationship is one of the most economically, politically and culturally important relationships to Australia. China is now also a significant regional and global player — its economic growth underpins much of the economy of East Asia, and China is playing an increasingly important role in regional dialogue and cooperation.

In mid-2005, the Chinese and Australian governments expect to approve a new strategy for China–Australia development cooperation. In line with directions agreed

---

[3] World Bank, *Country Assistance Strategy for China 2003–2005*

in 2004 that the overall level of ODA would decline over time, this new strategy will focus on three areas: governance, health (with a focus on communicable diseases) and environment (with a focus on water management). The China Australia Governance Program, which commenced implementation in September 2004, will provide assistance in the areas of fiscal reform and other economic governance issues (including trade-related reforms and social security reform). New approaches in health and environment will be developed during 2005–06. All three areas will support Australia's broader national interest objectives in China and facilitate the building of broader linkages between Australian and Chinese government agencies.

CAMBODIA

Country program estimate	**$25.0 million**
Estimated other ODA	**$17.7 million**
Estimated total ODA	**$42.7 million**

Cambodia has made considerable progress following many years of devastating conflict. However, it remains one of the poorest countries in East Asia, with social indicators amongst the worst in the world. Corruption and poor governance are major constraints to development.

Australia's strategy for development cooperation with Cambodia has three themes: strengthening the rule of law; increasing the productivity and incomes of the rural poor (particularly in the agriculture sector); and reducing the vulnerability of the poor to natural disasters. Australia will act as a lead donor in the agricultural and rural development sector, and coordinate inputs from the broader donor community. To help fight corruption, Australia will support community demand for better governance through a three-year project with the Cambodian state radio organisation, and work with other donors to reduce opportunities for corruption by improving public financial management and accountability.

Years after the cessation of conflict, land mines still threaten vulnerable populations in Cambodia. Australia will continue to provide funding to the Cambodian Mine Action Centre, through the United Nations Development Programme (UNDP), to clear landmines and reduce mine-related casualties in Cambodia.

EAST TIMOR

Country program estimate	**$30.0 million**
Estimated other ODA	**$12.0 million**
Estimated total ODA	**$42.0 million**

Since independence in May 2002, East Timor has made considerable progress toward building a stable and sustainable government. Under its National Development Plan 2002–07 and with assistance from the donor community, the East Timorese

Government is strengthening its national institutions and administration. However, East Timor remains fragile. It is still one of Asia's poorest countries, with the UNDP estimating that over 40 per cent of the population live below the poverty line. Rapid population growth, capacity constraints, unemployment, food insecurity and poor infrastructure hamper development. East Timor will enter a new development phase following the establishment of a successor mission to the United Nations Mission of Support in East Timor.

Australia has a major stake in ensuring that East Timor is equipped to meet the challenges it faces in becoming a stable and democratic nation. Together with other donors, Australia will help the East Timorese Government implement its Sector Investment Program, which articulates key development priorities. A new country strategy, currently being finalised, will integrate with these investment programs. It will focus on building the capacity of the East Timorese Government in areas including law and governance, public expenditure management, transparency, and accountability. Australia will also focus on service delivery in rural areas, particularly in water supply and sanitation, stimulating growth, and sustainable livelihoods.

OTHER EAST ASIAN COUNTRIES

Australia's development cooperation with **Thailand** will be phased out to reflect Thailand's desire to move away from being an ODA recipient. A small amount of technical assistance will continue, to develop institutional linkages between Australian and Thai government departments and agencies, and build capacity to address issues of mutual national interest. Australia will also provide specific technical assistance in coastal rehabilitation to address impacts of the December 2004 Indian Ocean disaster.

Cooperation with **Laos** will be tightly focused on improving access to education, supporting the growth of a market economy, and reducing the vulnerability of poorer communities to disasters and the impact of unexploded ordnance.

With a lack of progress on democratic reform and the chronic humanitarian situation, Australia's assistance to **Burma** will focus on vulnerable populations, particularly ethnic minorities in areas of conflict and refugees on the Thai–Burma border. Assistance will be delivered through local and international NGOs and UN agencies. AusAID's Humanitarian Assistance Coordinator in Rangoon will strengthen Australia's capacity to monitor and respond to emerging humanitarian needs.

Australia's aid program to **Mongolia** will continue to build the skills base of key government agencies and provide Australian Development Scholarships to develop specialised expertise and qualifications.

Aid harmonisation in Cambodia and Vietnam

Harmonising donor practices and aligning donor-supported activities with recipient country development priorities can yield significant gains in terms of efficiency and developmental effectiveness.

Decades of conflict have left **Cambodia** with extremely weak institutions and serious human resource constraints. Cambodia remains a very poor country and is heavily dependent on donor assistance. In the absence of effective government leadership, some of the donor assistance provided over the last decade and a half has been poorly targeted or unsustainable.

Since 2002, Australia has organised and chaired regular donor agency meetings to progress aid harmonisation in Cambodia. As an outcome of this effort, in late 2004 the Cambodian Government and donors agreed to establish 17 sectoral and thematic working groups, which will provide a practical framework for joint planning and action. Australia is the lead facilitator for the agriculture and water working group, and participates actively in a number of other groups including those dealing with legal and judicial reform, public financial management reform, landmine action, and private sector development. The Australian-chaired donor meetings have also helped enhance donor policy dialogue with the Cambodian Government on key governance reform issues. This led to agreement between government and donors at the December 2004 meeting of the Cambodia Consultative Group on a set of priority monitoring indicators linked to the reform agenda. Australia and several other donors stressed that future aid allocations would be linked to progress against these indicators, providing additional incentive to the government to maintain reform momentum.

In the last decade **Vietnam** has experienced a major increase in donor numbers, from four to more than 40. While Vietnam has welcomed this surge in support from the international community, the transaction costs of dealing with increased aid volume and diverse donor procedures are high. The Vietnamese Government is now working closely with the donor community to achieve efficiencies through streamlined and consistent approaches, harmonised procedures, joint donor action, and new ways of delivering aid.

Australia is contributing to this harmonisation process though a number of mechanisms, including support for the Vietnam–Australia Monitoring and Evaluation Strengthening Project. Following an earlier pilot phase, the current activity ($5.4 million over three years) will assist Vietnam to establish an effective national monitoring and evaluation system for aid. This system will allow the Vietnamese Government to check whether aid project timetables are being met, funds disbursed and outputs delivered. The project is piloting this work with six ministries in seven provinces, including the development of harmonised project reporting for use by donors to enable collection of standardised data and improved analysis of ODA performance across different sectors and regions.

CHAPTER FIVE: SOUTH ASIA, AFRICA, MIDDLE EAST AND CENTRAL ASIA

South Asia

Estimated total ODA to South Asia in 2005–06   **$97.6 million**

South Asia regional development indicators

Country	GNI per capita ($A)	Access to water (% of population)	Life expectancy (years)	Adult literacy (% of population)
Bangladesh	617	97	61	41
Sri Lanka	1,434	77	73	92
India	817	84	64	61
Nepal	370	88	60	44
Pakistan	725	90	61	42

Source: GNI per capita: World Development Indicators, World Bank, 2003; other indicators: Human Development Report, UNDP, 2004.

South Asia has experienced rapid growth in recent years, but is still one of the world's most disadvantaged regions. More than 40 per cent of the region's 1.4 billion people live on less than US$1 per day.

Australia is just one of a number of donors working in South Asia. Australia will therefore focus on delivering its program through regional mechanisms and by working with major multilateral partners, other donors, and NGOs to respond flexibly to major regional issues such as HIV/AIDS, governance reform and people trafficking.

On 4 March 2005, the Australian Government signed a partnership agreement with the United Nations Children's Fund (UNICEF) for a joint South Asia regional program. This program will focus on education (especially primary education) and health at a regional level, with the potential for activities in specific countries to also be considered. Australia is also working with the Joint United Nations Programme on HIV/AIDS to develop an umbrella agreement that will facilitate joint programming of HIV/AIDS activities in South Asia during the period 2005 to 2010.

Australia strongly supports Sri Lanka's post-conflict peacebuilding and economic recovery efforts. In 2005–06, Australian ODA to Sri Lanka will total $29.1 million, an increase of $6.1 million from 2004–05. Australia is assisting conflict-affected communities in the north and east of the country through the provision of basic rural services such as water and sanitation, trauma counselling, microfinance, and vocational training. Peacebuilding initiatives totalling $3.5 million will include $1 million through the United Nations Development Programme, to help rehabilitate small-scale infrastructure in Trincomalee, Batticaloa and Ampara, and $2.5 million

through UNICEF to rehabilitate schools, provide 'catch-up' education for conflict-affected children, help young landmine victims, and provide women and children with better access to health nutrition, and water and sanitation services.

Australia will continue to provide significant humanitarian assistance to South Asia, a region vulnerable to crises and natural disasters. Following the December 2004 Indian Ocean disaster, Australia committed $14.5 million in assistance to countries in South Asia including Sri Lanka, the Maldives and the Seychelles. In Bangladesh, Australia's ODA of $32.3 million in 2005–06 will continue to include substantial contributions to activities of the World Food Programme.

A small number of existing bilateral aid activities will complement the regional and humanitarian initiatives. The aid program will also provide scholarships to a range of South Asian countries.

Africa

Program estimate	**$34.5 million**
Estimated other ODA	**$42.5 million**
Estimated total ODA	**$77.0 million**

Africa remains a major development priority for the international community. Australia will play its part in international efforts to assist Africa's development through a small but strategically targeted aid program focused on southern and eastern Africa. To maximise impact, Australia will focus on promoting good governance by strengthening basic service delivery; responding to humanitarian needs, especially where linked to food security and conflict; and fighting the spread of HIV/AIDS.

In 2005–06, Australia will begin implementation of a new multilateral and donor cooperation framework. Australia will also partner with NGOs in delivering assistance, and utilise regional mechanisms such as the Africa Governance Facility.

Since May 2004, Australia has committed $40 million in assistance to help those affected by the humanitarian crisis in Sudan. In 2005–06, Australia will boost its capacity to continue to respond to humanitarian needs in Africa as they arise.

Australia will continue support for the Australian Partnerships with African Communities program. This program works across seven countries to reduce poverty, improve health and food security, and tackle communicable diseases such as HIV/AIDS, tuberculosis and malaria. With input from Australian NGOs, the program will build the skills of local NGOs through community-based HIV prevention and AIDS care programs, and provide basic support to orphans and education workers in high-risk groups, such as commercial sex workers.

Middle East and Central Asia

Estimated total ODA to the Middle East and Central Asia   **$66.6 million**

Australian assistance to the Middle East and Central Asia is supporting reform and democracy and helping people emerge from conflict.

IRAQ

Together with international partners, Australia will continue its efforts to help build stability and democracy in Iraq following the recent elections, and support the transition to an open market-based economy. Australia has to date pledged over $126 million for reconstruction and assistance to Iraq. Additional funding of $45 million will enable Australia to provide further assistance in 2005–06 and 2006–07. Australia will continue to focus on the agriculture sector, with niche contributions in related areas such as planning and development cooperation, trade reform, and other critical areas such as electrical power generation and police training. Through short-term training programs and technical assistance, Australia will help enhance Iraq's human resources capacity and strengthen key institutions. Australia will also continue its support through multilateral agencies including the UN and the World Bank.

AFGHANISTAN

Australia will continue to support Afghanistan's transition from conflict to peace and democracy. Australia's existing $110 million commitment to Afghanistan's reconstruction will be fully allocated by June 2005. An estimated $26 million in assistance will be provided in 2005–06. Priorities will include supporting delivery of essential services through the Afghanistan Reconstruction Trust Fund, and democracy and capacity building of Afghan institutions. Australia will also assist the return and reintegration of displaced Afghans, improve food security and rural livelihoods, and continue its support for health and education initiatives.

PALESTINIAN TERRITORIES AND REFUGEES

Australia will work with multilateral agencies to support the newly elected Palestinian President and Palestinian Authority's efforts to undertake reform and further the peace process. In 2005–06, Australian ODA to the Palestinian Territories and refugees is estimated at $16 million. Australia will also continue to work with the United Nations Relief and Works Agency and NGOs to reduce the vulnerability of Palestinians to poverty and conflict, through support for activities to deliver essential services and develop the capacities of local organisations.

Direct Aid Program

The Direct Aid Program (DAP) is a small grants scheme administered by Australia's diplomatic posts in developing partner countries. It is used to fund basic humanitarian and small-scale community development projects. A total of $4 million will be provided for the DAP in 2005–06.

CHAPTER SIX: HUMANITARIAN, EMERGENCY AND REFUGEE PROGRAMS

Humanitarian and Emergency Programs	**$155.4 million**
International Refugee Fund	**$15.0 million**

Conflicts, crises and disasters significantly undermine the potential for long-term poverty reduction, sustainable development and security. Australia's humanitarian, emergency and refugee programs help address the impacts of conflicts, crises and disasters on vulnerable populations. They also complement and support the objectives of longer-term aid, and integrate with longer-term conflict prevention, conflict management and reduction, peacebuilding, and post-conflict recovery initiatives.

The 2004 OECD Development Assistance Committee review of Australia's aid program found that Australia had made significant achievements in developing its policy framework for humanitarian action, and that Australian experience gained from its regional involvements could provide useful references for the international donor community.

Australia will boost its funding for humanitarian and emergency programs by $24.4 million to a total of $155.4 million in 2005–06. Australia will focus its humanitarian and emergency efforts on the Asia–Pacific region, but retain the ability to respond flexibly, when required, to emergencies further afield. This flexibility was demonstrated in 2004 through Australia's response to the crisis in Sudan, the Bam earthquake in Iran, floods in Bangladesh, the Indian Ocean disaster, and in 2005 through Australia's response to the Sumatra earthquake.

Key priorities for 2005–06 will be developing closer integration between humanitarian and emergency responses and activities addressing peace, conflict and development, and the ongoing response to the Indian Ocean disaster and subsequent earthquake.

Australia will continue to provide core support to key humanitarian agencies. These will include the UN Office for the Coordination of Humanitarian Affairs, the UN High Commissioner for Refugees and the International Committee of the Red Cross (ICRC). Core funding for the ICRC will increase to $7 million in 2005–06. Australia will also continue to work with the World Food Programme (WFP) and United Nations Children's Fund (UNICEF) in partner countries.

Australia will provide continued funding to the International Refugee Fund to help address the needs of people displaced by conflict. The fund provides assistance to help improve conditions for refugees and the reintegration of returnees, and supports durable solutions to people movement, particularly in the Asia–Pacific region.

Sudan: Responding to the humanitarian crisis

The Darfur region of western Sudan is experiencing one of the worst humanitarian crises in the world today. Following more than twelve months of armed conflict, up to 2.3 million people have been forced from their homes in Darfur, fleeing violence, rape, and the deliberate destruction of livelihoods by militia. The crisis has been exacerbated by crop failure and drought, which have affected an additional 1.1 million people.

In response, Australia has committed $40 million in humanitarian assistance since May 2004. Australian assistance is helping protect vulnerable populations in the face of widespread violence and human rights abuse, and delivering emergency shelter, food supplies, clean water and improved sanitation. Australia is actively encouraging and supporting action by the United Nations and will continue to support international efforts to end the conflict and alleviate the suffering and gross human rights abuses in Sudan.

Australia's contribution has been channelled through multilateral humanitarian relief agencies. To date, this has included:

- $8 million to UNICEF for emergency relief needs of refugees in Chad and internally displaced people in Darfur, Sudan;

- $11.5 million to the WFP for emergency food supplies and nutritional needs of refugees in Chad and internally displaced people in Darfur, Sudan; for transportation of humanitarian workers; and for infrastructure support;

- $5 million to the ICRC for humanitarian assistance, protection of civilians and promotion of international humanitarian law;

- $1.5 million to CARE Australia for emergency relief needs of refugees in Chad and internally displaced people in Darfur, Sudan;

- $1.5 million to Oxfam for emergency relief needs of refugees in Chad and internally displaced people in Darfur, Sudan;

- $1.5 million to World Vision Australia, for emergency relief needs of refugees in Chad and internally displaced people in Darfur, Sudan; and

- $500,000 for the placement of Australian protection officers within UN agencies for up to one year.

CHAPTER SEVEN: MULTILATERAL REPLENISHMENTS

Multilateral development banks[4]

Asian Development Fund — Asian Development Bank	**$97.3 million**
Heavily Indebted Poor Countries Initiative	**$14.7 million**
International Development Association — World Bank	**$73.2 million**
International Fund for Agricultural Development	**$3.0 million**
Total Multilateral Development Banks	**$188.2 million**

Australia works closely with multilateral organisations that have demonstrated effectiveness, and whose activities complement our own bilateral programs and are consistent with our wider national interests.

The World Bank and Asian Development Bank (ADB) are key multilateral partners who are able to leverage very significant financial resources and expertise for sustainable development and poverty reduction. The ADB's regional focus makes it an important partner in promoting growth and stability in the Asia–Pacific. The World Bank is an unparalleled source of development analysis and specialist program implementation, and a leading forum for global development policy.

Australia's membership and financial contributions to the ADB and the World Bank provide an opportunity to influence their policies and priorities at the highest levels. A key ongoing objective of our relationship is to ensure that the activities of both banks recognise and effectively target key development priorities in our region.

Australia will continue to work closely with the ADB to implement its 2005–09 Pacific Strategy including through its recently opened Pacific Liaison and Coordination Office in Sydney. Other key priorities include actively encouraging the ADB to fund new ways to engage with fragile states. Australia will provide $97.3 million in 2005–06 to the ADB's concessional lending arm, the Asian Development Fund.

With the World Bank, Australia will work to ensure that the outcomes from the recently concluded negotiations to replenish the World Bank's concessional lending arm, the International Development Association, are implemented. Australia has committed $389.2 million over ten years to this replenishment and succeeded in gaining a Bank commitment to make stronger efforts to engage with small and fragile states, particularly those in the Asia–Pacific region. In 2005–06, Australia will provide $73.2 million to the International Development Association.

---

[4] Figures for the Multilateral Development Banks are calculated on a cash basis. Refer to Technical Notes for further details.

In 2005–06 Australia will provide $14.7 million to the World Bank's Heavily Indebted Poor Countries (HIPC) Initiative, which provides multilateral debt relief to the world's poorest and most heavily indebted countries. Of this figure, $11.5 million will be provided as part of an additional three-year $34.8 million contribution by the Australian Government to the HIPC Initiative. The remainder relates to previous commitments. Australia is also committed to providing 100 per cent bilateral debt forgiveness for those countries that qualify for debt relief under the HIPC Initiative.

International Fund for Agricultural Development

The Australian Government has formalised its withdrawal from the International Fund for Agricultural Development (IFAD), effective 31 July 2007. Australia's contribution to IFAD for 2005–06 comprises commitments made during earlier replenishments of IFAD's resources. Annual payments for these remaining commitments will continue until 2007–08.

International environment programs

Australia recognises the links between the environment and poverty, and that preventing environmental degradation is an essential element of alleviating poverty and ensuring sustainable development. Australia provides support to developing countries through the Global Environment Facility (GEF), to help them meet international environment agreements. The Facility funds projects in six focal areas of biodiversity, climate change, international waters, ozone, land degradation and persistent organic pollutants. In 2005–06, Australia will participate in negotiations for the fourth replenishment of the GEF. A total of $15.9 million will be provided to the GEF through the aid program in 2005–06.

The aid program will also continue its support for the Montreal Protocol Multilateral Fund to phase out ozone depleting substances, with the sixth replenishment due to be finalised in 2005–06. An estimated $4.3 million will be contributed to the fund in 2005–06.

CHAPTER EIGHT: UNITED NATIONS, COMMONWEALTH AND OTHER INTERNATIONAL ORGANISATIONS

United Nations development organisations

The United Nations (UN) system offers Australia the opportunity to cooperate with the widest possible range of other countries in pursuit of global development.

Support for UN organisations extends the reach of Australia's aid program. These organisations can mobilise and coordinate resources on a scale beyond the capacities of individual donors, and play a significant role in consensus building on key development issues. The UN system also provides specialist expertise in a number of areas. In 2005–06, Australia will provide $67.2 million in core contributions to the following UN development and humanitarian organisations:

World Food Programme (WFP)	**$32.5 million**
United Nations Children's Fund (UNICEF)	**$8.0 million**
United Nations High Commissioner for Refugees (UNHCR)	**$7.3 million**
United Nations Development Programme (UNDP)	**$7.0 million**
United Nations Relief and Works Agency (UNRWA)	**$4.2 million**
United Nations Population Fund (UNFPA)	**$4.0 million**
International Atomic Energy Agency (IAEA)	**$2.0 million**
United Nations Office on Drugs and Crime (UNODC)	**$1.0 million**
United Nations Development Fund for Women (UNIFEM)	**$0.6 million**
United Nations Environment Programme (UNEP)	**$0.6 million**

In 2005–06, Australia will continue to engage with key UN partners that focus on issues such as HIV/AIDS, basic education, child protection and food security. Greater policy dialogue, monitoring, and a growing trend in non-core contributions to UN agencies will encourage greater engagement of UN development and humanitarian agencies in the Asia–Pacific region. Given their proven track records in the field, UNICEF and the WFP will continue to be particularly important partners for Australia. Core contributions to UNICEF will increase by $2.5 million to $8.0 million in 2005–06, and contributions to WFP will increase to $32.5 million. Funding to UNFPA will also increase from $2.5 million to $4.0 million, including $0.5 million for work in the Pacific.

Commonwealth organisations

Australia's support for Commonwealth organisations is a reflection of our shared commitment to the core values of democracy and the rule of law, human rights, equity, access to education, the promotion of sustainable development, and poverty alleviation. Australia will provide $11.4 million to Commonwealth organisations in 2005–06, mostly through the Commonwealth Fund for Technical Cooperation (CFTC).

The CFTC is the principal means by which the Commonwealth delivers development assistance to developing country members.

International health programs

Australia's international health programs focus on working with effective multilateral organisations to address critical and emerging health issues in the Asia–Pacific. In 2005–06, Australia will provide $36 million to international health programs including those managed by WHO. Australian funding is targeted at regional health needs including maternal and child mortality, HIV/AIDS, and infectious diseases such as tuberculosis and malaria. The funding will include $20 million towards the Global Fund to Fight AIDS, Tuberculosis and Malaria, as part of a three-year, $50 million Australian contribution to the fund, and $4 million to UNAIDS, including $1 million to the Asia–Pacific Leadership Forum.

The United Nations Population Fund and International Planned Parenthood Federation are also important partners in the implementation of the *International Conference on Population and Development Program of Action*, the basis for most partner country policies on reproductive health and population issues.

Australia's contributions to international health programs will be complemented by regional and bilateral health initiatives aimed at fighting HIV/AIDS and other communicable diseases such as Avian Influenza. Australia's efforts in HIV/AIDS are overseen by a Special Representative on HIV/AIDS, who works closely with key partners to develop strong and practical approaches to HIV/AIDS in the Asia–Pacific region.

CHAPTER NINE: NGO, VOLUNTEER AND COMMUNITY PROGRAMS

Non Government Organisation (NGO), volunteer and community programs play an important role in delivering Australia's aid program. Through these programs, the Australian community can contribute to the aid program and engage with the Australian Government on development issues. Funding for NGO, volunteer and community programs will increase to $60.6 million in 2005–06.

Non Government Organisations

NGO program estimate   **$27.6 million**

NGOs play an important complementary role in delivering a high quality aid program. Besides mobilising Australian public support for development, NGOs are well placed to strengthen civil society in partner countries through their strong links with communities and partnerships with local organisations. They also provide specialist skills for community development, thereby enhancing sustainability.

The AusAID–NGO Cooperation Program (ANCP) supports accredited Australian NGOs to undertake cost-effective, practical and direct poverty reduction activities. Under this scheme, the Australian Government supplements funds provided by the Australian community. In 2005–06, funding for the ANCP will be $27.0 million, an increase of $1.4 million. The government will work cooperatively with NGOs on program delivery and enhancing administration and accountability, as well as supporting improvements in project design, management, implementation and evaluation.

Building on the NGO Cooperation Agreements established during 2004–05 will remain a priority. The Cooperation Agreements, funded through country programs, represent a fundamental shift in the nature of engagement between NGOs and AusAID country programs. Through these agreements, the government will maximise collaborative, strategic engagement by a range of Australian NGOs at the policy level, and within country strategies, through being able to draw on the delivery capacities of selected NGOs.

Volunteer program

Volunteer program estimate   **$26.5 million**

Volunteers foster Australian community involvement in the aid program, providing opportunities for Australians to help reduce poverty through skills transfer and institutional strengthening. Within the Australian community, volunteers are also able to share their experience and knowledge of other countries when they return home.

This has enriched Australian society and strengthened links between Australia and its neighbours.

The successful Australian Youth Ambassadors for Development Program will be expanded in 2005–06 by $3.5 million, in accordance with the Prime Minister's commitment to expand the program by $24.5 million over four years.

A competitive tender process for volunteers is underway. The process aims to ensure value-for-money and greater development effectiveness of the volunteer program. It is expected that new contracts will be in place by the beginning of the 2005–06 financial year, with minimal interruption to volunteer mobilisation.

Expanded Australian Youth Ambassadors for Development Program

The Australian Youth Ambassadors for Development Program was launched in 1998 by the Minister for Foreign Affairs, Alexander Downer, to strengthen mutual understanding between Australia and the countries of the Asia–Pacific and make a positive contribution to development. The program places skilled young Australians, aged 18 to 30, on short-term assignments of three to 12 months' duration in developing countries throughout the Asia–Pacific region.

Youth Ambassadors work with Australian organisations and their overseas counterparts in a broad range of areas that include health, environment, rural development, gender, governance, justice, education and infrastructure development. Youth Ambassadors use their skills and expertise to actively contribute to international development. They gain an increased understanding of the development needs of our neighbouring countries and broaden their experience by living and working in a cross-cultural environment.

In August 2004, the Prime Minister announced a funding increase of $24.5 million to the Youth Ambassadors for Development Program over the next four years. With this new funding, the number of placements will be increased from the current level of 230 to around 400 by 2006.

Over 1,000 Australians have become Youth Ambassadors since the program started in 1998.

Community engagement and development education

Informing Australians about international development issues and the activities of Australia's aid program in developing countries in our region is a high priority. Expenditure on media, community activities, publications, internet and global education activities will total $3.0 million in 2005–06.

Although the Australian Government's overseas aid program is delivered primarily through AusAID, other agencies and departments also play a role in international development. AusAID's Public Affairs Group will continue to work with other government agencies in developing communication programs and supporting a whole-of-government approach. In 2005–06, communication activities will implement the AusAID Public Affairs Strategy 2005–2007. Activities will seek to inform people in Australia and internationally in a variety of ways including through the media, publications, the AusAID Internet site, direct stakeholder engagement, community events, and the global education program for teachers and school students.

Speeches, media releases and publications produced by AusAID can be found on the AusAID Internet site http://www.ausaid.gov.au or by contacting the Public Affairs Group on (02) 6206 4840.

Development research program

The AusAID Development Research Program (ADRP), valued at $2.3 million, will continue to strengthen the analytical foundations of the aid program by funding high quality and targeted research activities delivered by national and international partners. Priority areas of research will include economic growth, fragile states, HIV/AIDS and water management.

During 2005–06 the ADRP will fund a range of longer-term, institutional research partnerships with key development institutes. These research partnerships will allow the aid program to draw upon the significant pool of development research expertise available in Australia.

International Seminar Support Scheme

The International Seminar Support Scheme assists participants from developing countries in the Asia–Pacific region, so that they can attend significant development-oriented seminars in Australia and overseas. The scheme helps to develop knowledge and technical expertise in developing countries, and builds linkages between the government, academic and community sectors in Australia and our partner developing countries. An estimated $1.2 million will be provided for the scheme in 2005–06.

CHAPTER TEN: AUSTRALIAN CENTRE FOR INTERNATIONAL AGRICULTURAL RESEARCH

The Australian Centre for International Agricultural Research (ACIAR) links Australian scientists with their counterparts in developing countries, so that they can work in partnership to address agreed priorities. ACIAR's projects aim to improve livelihoods through more productive and sustainable agriculture, thereby supporting the aid program's objective of reducing poverty and achieving sustainable development. As with the aid program, ACIAR research and development projects focus on Papua New Guinea, the Pacific, and South–East Asia.

In 2005–06, ACIAR's appropriation will be $49.3 million. Three quarters of this budgeted expenditure will be directed to bilateral research that links Australian research institutions, both as project leaders and collaborators, with institutions in one or more developing countries. The remaining expenditure will be allocated to multilateral research, involving selected International Agricultural Research Centres (IARCs), through unrestricted grants and project-specific funding. IARCs will be selected on the basis of their comparative advantage in research activities targeting the Asia–Pacific region. Features of ACIAR's expenditure in 2005–06 include:

- increased funding to Indonesia of $5.2 million (compared to $4.3 million in 2004–05), including funding to develop projects and training activities aimed at restoring the livelihoods of farmers and fishers in parts of Indonesia affected by the December 2004 Indian Ocean disaster;

- an increased investment in bilateral research in Papua New Guinea to $4.5 million (compared to $3.4 million in 2004–05) and in the Pacific to $2.5 million ($2.1 million in 2004–05);

- reduced bilateral research expenditure in China, and increased co-investment by Chinese partners and other agencies in new projects;

- an increased number of projects targeting pilot-scale delivery of research outcomes to end users (farmers, natural resource managers and policymakers); and

- joint AusAID–ACIAR initiatives, including projects in Afghanistan, Cambodia, China, Papua New Guinea and the Philippines, accounting for $3.9 million of total research expenditure.

Bilateral programs

In 2005–06, ACIAR will support around 200 bilateral projects in developing countries across the Asia–Pacific region. Through close collaboration with partnering research institutions, the projects will promote capacity building, knowledge and technology

exchange, and policy initiatives. Increasingly, delivery of benefits to farmers, policy makers and natural resource managers will be achieved by utilising pilot delivery of research outcomes, through research partners and through appropriate NGOs and other dissemination agencies. Estimated bilateral research expenditure in 2005–06 will be $30.3 million.

ACIAR bilateral projects will be developed in line with agreed priorities with partner countries, identified through formal and informal consultations. Priorities will also be informed by the intersection of Australia's National Research Priorities, announced in December 2002, with Australian development priorities and those of partner countries. In 2005–06, expenditure relating to the National Research Priorities will be $14.85 million. Of these priorities, ACIAR projects will relate to two themes — 'An environmentally sustainable Australia', including water, soil loss, salinity and acidity, emissions from transport and energy generation, sustainable use of biodiversity, and responding to climate change; and 'Safeguarding Australia', with a focus on protecting Australia from invasive pests and diseases.

All ACIAR project development incorporates an assessment of potential environmental impacts under the *Environmental Protection and Biodiversity Conservation Act 1999* guidelines, including, where relevant, the involvement of the Department of Environment and Heritage.

Diagram 10: Estimated ACIAR research expenditure by region 2005–06

South-East Asia
49%

Southern Africa
2%

North Asia
13%

South Asia
12%

PNG & Pacific
24%
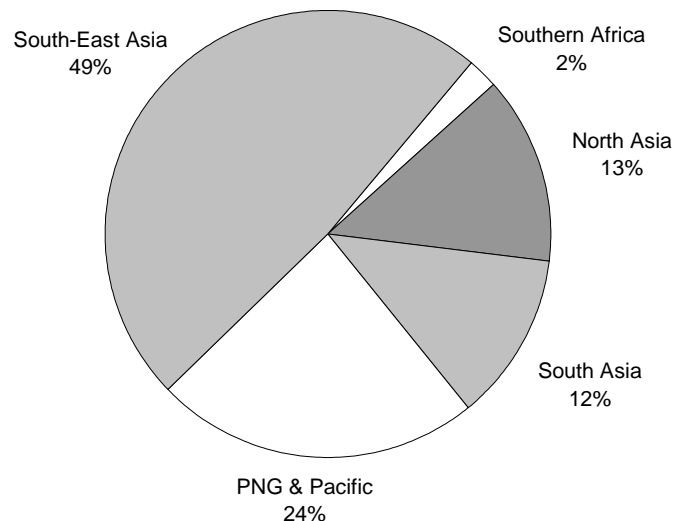
Bilateral projects are expected to be active in 26 countries. Major bilateral partners include PNG, Indonesia, Pacific Island countries, Vietnam, the Philippines, Cambodia, China and India. In 2005–06, projects will address agricultural and natural resource management areas including:

- crop improvement through incorporation of improved germplasm for greater yields, and protecting crops against weeds, pests and diseases;

- animal health including diagnosis and disease control, and increasing productivity through better feeding and breeding options;

- improving management of soil and water resources and their interactions in cropping and other agricultural systems;

- identifying higher-yielding and disease-resistant forest trees, and improving plantation management;

- developing aquaculture systems and improving the sustainable management of wild fish resources;

- improving institutional policy initiatives relating to agriculture and natural resource management; and

- improving the post-harvest handling of agricultural produce.

Multilateral programs

ACIAR administers the Australian Government's contributions to International Agricultural Research Centres — autonomous, internationally-funded organisations that conduct agricultural research and development activities to benefit developing countries. ACIAR's multilateral program provides both unrestricted grants (core funding) to IARCs and project-specific funding. In both cases, funding decisions consider each research centre's relevance to the Asia–Pacific region and comparative research advantage, taking into account their mandate and location. Projects are managed through ACIAR's discipline-based research programs. Estimated funding in 2005–06 is $9.9 million.

Training programs

ACIAR develops the skills of partner country research scientists through formal training courses, and informally through project activities. Formal training courses are designed to complement in-project training. ACIAR operates two fellowship schemes — one for up to 50 fellows to undertake postgraduate studies in Australia, and a second which supports up to six short-term placements on research management for outstanding research leaders, at Australian institutions. Under both schemes all

fellows have been or are involved in ACIAR-funded research projects. The ATSE Crawford Fund, which will receive $0.68 million of government funding through ACIAR, also finances some training activities. Training expenditure in 2005–06 is estimated at $2.6 million.

Communicating research

An estimated $0.7 million will be spent on research dissemination and communication activities, both in developing countries and Australia. Scientific publications and summaries are produced in electronic and hardcopy form, with some translated into a variety of languages. ACIAR will continue to contribute to relevant agricultural research and development activities under the Australian Government's Virtual Colombo Plan initiative, to improve the dissemination of educational material and knowledge using information and communication technologies.

Evaluating impacts

ACIAR allocates funds to assess both the ex-post and ex-ante impacts of selected projects. Formal cost-benefit studies and ex-ante project impact studies are undertaken by independent consultants. To assess impacts, studies will be commissioned for all large projects (those greater than $0.4 million) that were completed in 2001–02, and will also be commissioned where no follow-up project will be undertaken. Estimated expenditure for evaluating project impacts in 2005–06 is $0.5 million.

Further information on ACIAR's programs is set out in its *Annual Operational Plan 2005–06*, available through http://www.aciar.gov.au.

CHAPTER ELEVEN: ADMINISTRATION AND MANAGEMENT

The September 2002 Ministerial Statement *Australian Aid: Investing in Growth, Stability and Prosperity* laid the groundwork for more effective delivery of the aid program. Through a stronger policy framework and a strategic planning process, the program has focused more sharply on Australia's immediate region and on governance, adopted a more robust whole-of-government approach, and enhanced its responsiveness to broader government priorities.

The program is now better placed to deliver practical, responsive, and effective assistance. Strategic partnerships between key Australian government agencies, and new methods of aid delivery, have enhanced the quality of hands-on engagement with partner country institutions. Technical assistance has been untied so that firms in partner countries can compete for business. Capacity in the field has been strengthened, as has research and analytical capacity in policy formulation and in program management.

The success of these reforms was evidenced by the 2004 OECD Development Assistance Committee review of Australia's aid program, which commended Australia on its leadership in addressing key development challenges in the Asia–Pacific, acknowledged the high level of coherence between Australia's aid and other policies such as trade, and recognised efforts to improve aid effectiveness.

As outlined in Chapter One, the March 2005 Ministerial Statement *Australian Aid: An Integrated Approach* builds on these reforms and outlines future directions for the aid program. These will be underpinned by ongoing efforts to strengthen administration of the program through an enhanced focus on aid effectiveness and quality, aid coordination, and integration with broader whole-of-government approaches. Capacity in the field will continue to be strengthened, and corporate resources and processes reoriented to enable more effective program delivery.

AusAID's role

The Australian Agency for International Development (AusAID) is an administratively autonomous agency within the Foreign Affairs and Trade portfolio. The agency is responsible for management of the Australian Government's overseas aid program.

The Director General reports directly to the Minister for Foreign Affairs on all aspects of development policy and operations. The Director General is responsible to the Secretary of the Department of Foreign Affairs and Trade for the administration of AusAID and is a member of the department's Executive.

AusAID has a central office in Canberra and is represented in 23 overseas diplomatic missions. Overseas representation, including Australian and locally-contracted staff, support the aid program's operations in developing countries and engagement with multilateral agencies.

AusAID outcomes and outputs

AusAID's core business is to serve the Australian Government by advising on development issues and delivering Australia's overseas aid program with excellence.

AusAID works to achieve two outcomes specified by the government. Outcome one is to advance Australia's national interest by assisting developing countries to reduce poverty and achieve sustainable development. Two agency outputs contribute to this outcome: policy advice and program management. In 2005–06, the government will purchase these two outputs from AusAID at agreed prices of $14.7 million and $59.8 million respectively. AusAID's people management and corporate systems support the delivery of these two outputs.

AusAID's role in administering the new $1 billion Australia–Indonesia Partnership for Reconstruction and Development (AIPRD) is reflected in a second outcome, to advance Australia's national interest by implementing a partnership between Australia and Indonesia for reconstruction and development. This outcome is supported by one output — AIPRD management — at a cost of $3.9 million in 2005–06.

POLICY ADVICE

AusAID provides advice and analysis to the Minister for Foreign Affairs, the Minister for Trade, and the Parliamentary Secretary to the Minister for Foreign Affairs, on aid policy, program directions and international development issues. The provision of timely, comprehensive and accurate policy advice and analysis allows the government to make informed decisions in Australia's national interest.

The agency also supports government communication with the Australian community and parliament through the provision of briefings, speeches, correspondence, media releases, replies to parliamentary questions and publications. These activities help to build community awareness of development issues and ensure that the aid program is accountable to the government, the parliament and the Australian public.

PROGRAM MANAGEMENT

AusAID manages Australia's overseas aid program on behalf of the Australian Government. AusAID's program management seeks to:

- ensure programs and projects correspond with government priorities and are defined in partnership with the people and governments of developing countries;

- ensure high quality projects and programs through effective identification and design, regular monitoring and evaluation, identification of lessons learned, and access to technical expertise and external advice; and

- establish and manage contracts with delivery partners including the private sector, public sector, international and regional development organisations, and community groups including NGOs.

AUSTRALIA–INDONESIA PARTNERSHIP FOR RECONSTRUCTION AND DEVELOPMENT — MANAGEMENT

AIPRD management encompasses administration of the AIPRD's grants and loans components, and administration of the AIPRD Secretariat. AIPRD management seeks to ensure:

- all major programs are carried out in partnership with relevant stakeholders;

- program management tools and processes ensure a high quality program reflecting the AIPRD's priorities; and

- accountable, open and transparent contracting and tendering processes.

Improving impact and effectiveness

In 2005–06 AusAID will pursue a number of measures to increase the impact and effectiveness of Australia's aid program. These will include:

- strengthening Australia's intellectual leadership role on development issues in the Asia–Pacific, through enhancing analytical capacity in Canberra and in the field, and establishing research linkages with key institutions and organisations;

- refining regional and country strategies to strengthen the analysis and targeting of Australia's aid;

- continuing efforts to harmonise aid delivery with other donors and partner governments;

- further strengthening the in-country management of the aid program;

- continued streamlining and improvement of contracting processes, and further implementation of the government's new policy of untying aid; and

- continuing to improve aid quality, through implementing the recent findings from a fundamental review of aid quality systems. This will focus particularly on improving knowledge management, and integrating quality principles into program delivery, monitoring and review.

Strategic Partnership Agreements

To provide a framework for the whole-of-government approach, since May 2004 AusAID has signed a number of Strategic Partnership Agreements (SPAs) with the following Australian government agencies:

- Department of the Treasury, 14 May 2004;

- Department of Agriculture, Fisheries and Forestry, 29 July 2004;

- Australian Federal Police, 29 September 2004;

- Department of Finance and Administration, 16 November 2004;

- Australian Public Service Commission, 19 November 2004; and

- Attorney–General's Department, 6 December 2004.

The SPAs facilitate better cooperation between AusAID and other government agencies as they operate side by side in the region. The SPAs recognise shared strategic goals, acknowledge the strengths that each agency brings to programs conducted under the partnership, and establish partnership principles and cooperation arrangements that will govern future cooperation. The SPAs also provide a discipline for regular dialogue to review the strategic partnership and set priorities for cooperation and joint work.

Corporate governance

AusAID's internal reform processes will continue in 2005–06, with a focus on streamlining and rationalising existing systems and implementing a principles-based approach to governance. Further strategic planning will be undertaken, to build on the significant reforms since 2002. New initiatives for people management, information technology and resource management will be pursued as part of a realignment of corporate services to more effectively enable and support AusAID's core business. A new activity information management system, Aidworks, will be operational by December 2005.

Effective people management remains a high priority for AusAID. The People Management Advisory Group is an important vehicle for ensuring that the skills of

staff in the organisation continue to support AusAID's core business. A priority for 2005–06 will be the implementation of more flexible recruitment and overseas deployment processes, and commencement of negotiations for a new certified agreement for AusAID staff.

AusAID will also remain an active participant in broader public sector reform. As part of a government-wide process, AusAID will undergo an assessment against the governance templates set out in the *Review of the Corporate Governance of Statutory Authorities and Office Holders* (the 'Uhrig Report'). The assessment will further highlight the Minister's role in setting policy, priorities and directions for the aid program and will see strengthened communication within the portfolio.

APPENDIX

Official Development Assistance

Table 3: Australia's ODA 1971–72 to 2005–06

Year	Current prices ($m)	Constant 2004-05 prices ($m)[1]	Real change over previous year (%)	ODA/GNI ratio (%)[2]
1971-72	200.5	1,496.6	4.0	0.48
1972-73	219.2	1,538.8	2.8	0.47
1973-74	264.9	1,622.9	5.5	0.47
1974-75	334.6	1,680.7	3.6	0.50
1975-76	356.0	1,552.6	-7.6	0.45
1976-77	386.2	1,499.3	-3.4	0.43
1977-78	426.1	1,520.6	1.4	0.43
1978-79	468.4	1,575.9	3.6	0.42
1979-80	508.7	1,562.6	-0.8	0.40
1980-81	568.0	1,580.0	1.1	0.40
1981-82	657.8	1,621.3	2.6	0.40
1982-83	744.6	1,647.6	1.6	0.42
1983-84[3]	931.8	1,932.6	17.3	0.47
1984-85	1,011.4	1,992.4	3.1	0.46
1985-86	1,031.0	1,913.6	-4.0	0.43
1986-87	975.6	1,689.6	-11.7	0.37
1987-88	1,019.6	1,642.2	-2.8	0.34
1988-89[4]	1,194.6	1,773.3	8.0	0.35
1989-90	1,173.8	1,639.1	-7.6	0.32
1990-91	1,261.0	1,679.0	2.4	0.33
1991-92	1,330.3	1,732.1	3.2	0.34
1992-93	1,386.1	1,785.0	3.1	0.34
1993-94	1,410.8	1,803.7	1.0	0.33
1994-95	1,483.7	1,881.0	4.3	0.33
1995-96	1,556.5	1,927.2	2.5	0.32
1996-97	1,432.0	1,738.5	-9.8	0.28
1997-98	1,443.0	1,728.1	-0.6	0.27
1998-99	1,528.6	1,822.4	5.5	0.27
1999-2000	1,748.7	2,043.4	12.1	0.29
2000-01	1,623.1	1,814.6	-11.2	0.25
2001-02	1,755.1	1,919.7	5.8	0.25
2002-03	1,830.8	1,940.4	1.1	0.25
2003-04	1,973.1	2,022.4	4.2	0.25
2004-05 (est)	2,252.9	2,252.9	11.4	0.27
2005-06 (est)	2,490.8	2,383.6	5.8 [5]	0.28

Diagram 11: DAC member countries' ODA/GNI ratios 2004

Per cent of GNI

Per cent of GNI

Norway	0.87
Luxembourg	0.85
Denmark	0.84
Sweden	0.77
Netherlands	0.74
Portugal	0.63
France	0.42
Belgium	0.41
Ireland	0.39
Switzerland	0.37
United Kingdom	0.36
Finland	0.35
Germany	0.28
Canada	0.26
Spain	0.26
Australia	0.25
Austria	0.24
New Zealand	0.23
Greece	0.23
Japan	0.19
United States	0.16
Italy	0.15

ODA/GNI ▬▬▬ UN Target - - - - DAC Total ─── Average Country Effort

Source: OECD Development Assistance Committee (DAC) provisional figures for members' 2004 ODA.

Diagram 12: DAC member countries' net ODA 2004

$ billion

$ billion

United States	25.8
Japan	12.0
France	11.5
United Kingdom	10.7
Germany	10.2
Netherlands	5.8
Sweden	3.7
Spain	3.5
Canada	3.4
Italy	3.4
Norway	3.0
Denmark	2.8
Australia	2.0
Belgium	2.0
Switzerland	1.9
Portugal	1.4
Austria	0.9
Finland	0.9
Ireland	0.8
Greece	0.6
Luxembourg	0.3
New Zealand	0.3
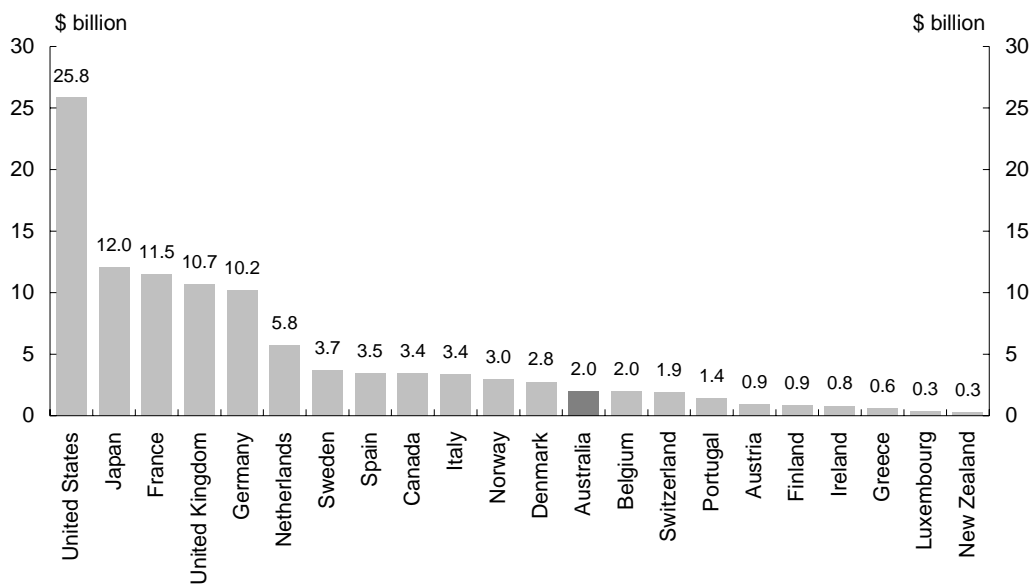
Source: DAC provisional figures for members' 2004 ODA.

Diagram 13: Total net resource flows to developing countries
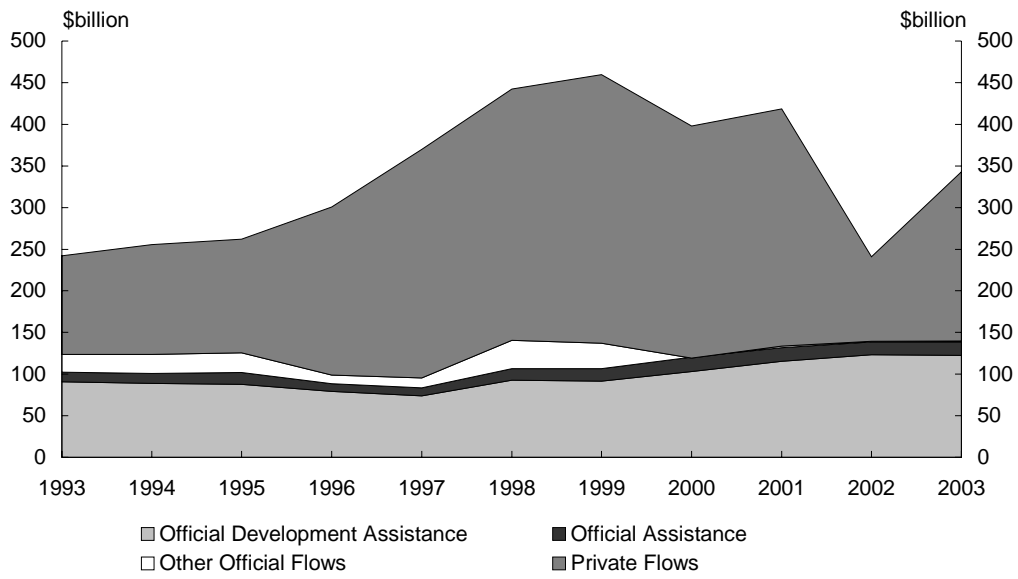
Source: DAC on-line database.

Table 4: Australian ODA to partner countries not detailed in Table 1

Countries / Regions	Outcome ($m) Expenses[1]			Estimate ($m) Expenses[1]	
	2001-02	2002-03	2003-04	2004-05 Expected Outcome	2005-06 Budget Estimate
Tuvalu	3.4	4.0	3.9	4.5	5.0
Nauru	3.4	3.5	3.8	4.5	4.9
Micronesia	2.3	3.3	2.9	3.2	6.3
Cook Islands	2.4	2.3	2.3	3.1	3.3
Niue and Tokelau	1.0	1.3	6.3	2.0	2.4
Burma	5.6	6.8	9.8	11.3	11.9
Mongolia	3.4	3.4	3.1	3.0	3.3
Nepal	7.2	7.9	6.4	4.8	5.0
Pakistan	3.8	6.3	6.9	5.2	5.4
Maldives	2.2	2.3	1.5	7.0	1.8
Bhutan	2.1	1.2	1.0	1.2	1.2
Iraq		58.2	44.1	26.0	22.6
Afghanistan	26.6	21.5	23.7	19.7	26.0
Individual countries/regions identified in Table 1	1102.2	1131.8	1238.6	1509.7	1743.7
Other Government Departments[2] *(not attributed to country/region)*	128.0	145.6	144.2	204.1	173.2
Core contributions to multilateral organisations, other ODA[3]	495.2	449.0	506.5	446.4	486.2
Reconciliation of expenses to cash[1]	-33.7	-17.4	-31.9	-2.9	-11.1
TOTAL ODA *(cash)*	**1755.1**	**1830.8**	**1973.1**	**2252.9**	**2490.8**

Aid program expenditure

Table 5: AusAID country program expenditure estimates and outcomes

Country	Outcome ($m) Expenses[1]			Estimate ($m) Expenses[1]	
	2001-02	2002-03	2003-04	2004-05 Expected Outcome	2005-06 Budget Estimate
PAPUA NEW GUINEA & PACIFIC					
Papua New Guinea	311.8	310.4	305.9	313.8	313.6
Solomon Islands	19.1	24.0	79.2	92.8	98.0
Vanuatu	13.0	13.4	14.7	20.0	24.0
Fiji	12.3	13.9	14.4	17.6	19.5
Samoa	11.2	11.8	12.1	12.5	13.0
Tonga	8.8	9.6	9.0	9.0	9.2
Kiribati	8.2	8.3	7.9	8.0	9.0
Tuvalu	2.6	2.8	2.7	2.9	3.3
Micronesia[2]	1.4	1.9	1.5	1.9	1.9
Cook Islands	1.3	1.0	1.2	1.5	1.7
Niue and Tokelau	0.8	0.9	5.0	1.0	1.2
Nauru	0.2	0.2	0.3	0.6	0.6
Nauru Additional[3]	18.8	21.3	15.5	13.5	12.0
Peace & Security Fund			7.5	10.0	10.0
Policy and Management Reform	20.0	20.0	15.0	22.0	23.0
Pacific Regional	34.5	38.8	31.7	40.4	61.0
Subtotal PNG & Pacific	**464.0**	**478.2**	**523.8**	**567.6**	**601.0**
EAST ASIA					
Indonesia (Ongoing program)	97.3	104.1	125.2	125.0	125.0
Vietnam	59.7	61.3	61.3	59.4	60.4
Philippines	56.0	55.7	41.6	55.4	55.5
China	40.5	42.5	40.8	40.0	38.0
East Timor	28.6	33.6	26.2	30.0	30.0
Cambodia	24.4	24.6	23.6	24.5	25.0
Laos	14.4	13.5	12.9	13.0	12.0
Burma	1.6	2.2	2.9	3.1	3.0
Mongolia	2.7	2.6	2.1	2.2	2.2
Thailand	11.0	10.6	6.1	3.4	2.0
East Asia Regional	23.7	20.9	27.0	30.0	39.8
Subtotal East Asia	**359.9**	**371.6**	**369.8**	**386.0**	**392.9**
SOUTH ASIA, AFRICA & OTHER					
Bangladesh	23.7	20.2	18.8	20.4	21.2
Sri Lanka	4.1	5.7	5.9	7.0	11.0
India	12.8	10.3	11.8	12.0	9.0
Nepal	5.1	5.2	4.8	4.0	4.0
Pakistan	3.0	4.5	4.2	3.3	3.3
Maldives	2.0	2.0	1.5	1.2	1.2
Bhutan	0.8	0.9	0.9	1.0	1.0
South Asia Regional	3.9	7.3	6.7	5.5	7.0
Africa	35.4	35.0	32.6	32.5	34.5
Palestinian Territories	2.1	3.2	3.2	3.0	4.0
Cross Regional Programs	21.6	19.5	15.2	22.8	28.5
Subtotal South Asia, Africa & Other	**114.4**	**113.9**	**105.6**	**112.6**	**124.7**
TOTAL COUNTRY PROGRAMS	**938.3**	**963.6**	**999.2**	**1066.2**	**1118.7**

Table 6: AusAID global program expenditure estimates and outcomes

	Outcome ($m) Expenses[1]			Estimate ($m) Expenses[1]	
	2001-02	2002-03	2003-04	2004-05[2] Expected Outcome	2005-06 Budget Estimate
HUMANITARIAN, EMERGENCY AND REFUGEE PROGRAMS					
Humanitarian and Emergency Programs	91.2	136.6	139.7	176.6	155.4
of which:					
International Committee of the Red Cross	*2.2*	*2.3*	*3.0*	*5.0*	*7.0*
International Refugee Fund		15.0	15.0	15.0	15.0
Subtotal	**91.2**	**151.6**	**154.7**	**191.6**	**170.4**
MULTILATERAL REPLENISHMENTS[3]					
IDA	0.0	342.0	0.0	389.2	0.0
ADF	0.0	0.0	0.0	295.4	0.0
Heavily Indebted Poor Countries Initiative	13.7	18.0	0.0	34.8	0.0
IFAD	0.0	0.0	0.0	0.0	0.0
GEF	0.0	68.2	0.0	0.0	71.7
MPMF	0.0	14.2	0.0	0.0	13.0
Subtotal	**13.7**	**442.4**	**0.0**	**719.3**	**84.7**
UN, COMMONWEALTH AND OTHER INTERNATIONAL ORGANISATIONS					
United Nations Agencies	85.9	69.2	56.3	61.9	67.2
of which:					
WFP	*50.4*	*40.5*	*26.0*	*31.0*	*32.5*
UNICEF	*4.9*	*5.0*	*5.5*	*5.5*	*8.0*
UNHCR	*14.3*	*7.3*	*7.3*	*7.3*	*7.3*
UNRWA	*3.8*	*4.0*	*4.2*	*4.2*	*4.2*
UNFPA	*2.2*	*2.2*	*2.5*	*3.0*	*4.0*
Other UN Agencies	*10.4*	*10.2*	*10.8*	*10.9*	*11.2*
Commonwealth Organisations	11.6	12.2	12.1	12.1	11.4
Other International Programs[4]	12.6	20.2	29.0	23.3	39.2
Subtotal	**110.1**	**101.7**	**97.4**	**97.4**	**117.7**
NGO, VOLUNTEER & COMMUNITY PROGRAMS					
Non Government Organisations	25.8	26.6	29.4	26.4	27.6
Volunteer Programs	13.8	14.9	12.8	12.6	16.0
AYAD	5.3	6.2	6.7	8.0	10.5
Public Information / Development Education	2.3	2.7	2.7	2.8	3.0
Development Research	0.6	1.0	1.4	1.4	2.3
Seminar Support	0.9	0.9	0.8	1.1	1.2
Subtotal	**48.7**	**52.3**	**53.9**	**52.4**	**60.6**
TOTAL GLOBAL PROGRAMS	**263.7**	**748.0**	**305.9**	**1060.7**	**433.5**

Table 7: Total ODA by subprograms

	Outcome ($m) Expenses[1]			Estimate ($m) Expenses[1]	
	2001-02	2002-03	2003-04	2004-05 Expected Outcome	2005-06 Budget Estimate
AusAID Country Programs	938.3	963.6	999.2	1066.2	1118.7
AusAID Global Programs	263.7	748.0	305.9	1060.7	433.5
AusAID Departmental Expenses	68.7	70.6	71.2	75.4	78.7
AIPRD[2]				10.8	132.1
ACIAR[3]	46.3	46.5	46.8	46.6	48.1
OGD[4]	207.3	219.0	275.1	491.9	563.9
Adjustments					
Administered[5]	*-29.9*	*-13.8*	*-29.7*	*-8.1*	*-10.5*
Departmental[6]	*-3.8*	*-3.7*	*-2.2*	*5.2*	*-0.6*
Less new multi-year expenses[7]	*0.0*	*-442.4*	*0.0*	*-719.3*	*-84.7*
Plus cash paid to multi-year liabilities	*264.6*	*242.9*	*306.7*	*223.5*	*211.6*
TOTAL ODA (cash)	**1755.1**	**1830.8**	**1973.1**	**2252.9**	**2490.8**

Table 8: Volunteer and Non Government Organisation expenditure

	Outcome ($m) Expenses			Estimate ($m) Expenses	
	2001-02	2002-03	2003-04	2004-05 Expected Outcome	2005-06 Budget Estimate
Country Programs	39.0	31.3	26.0	27.4	30.9
Regional and Cross Regional Programs	10.3	6.0	2.2	2.8	3.7
Humanitarian and Emergency	34.5	41.6	38.2	48.3	42.5
Volunteer Programs (including AYAD)	19.1	21.0	19.4	20.6	26.5
ANCP	24.8	25.5	28.5	25.5	27.0
Other funding through NGOs	2.8	5.8	5.1	5.3	5.3
TOTAL	**130.5**	**131.2**	**119.3**	**130.0**	**135.8**

Diagram 14: Estimated Australian ODA in the health sector 2005–06

Basic health care
& infrastructure
36%

Medical services,
education &
training
4%

Health
governance &
sector-wide
activities
16%

STD control
including
HIV/AIDS
32%

Reproductive
health care,
family planning &
population policy
6%

Infectious
disease control
6%
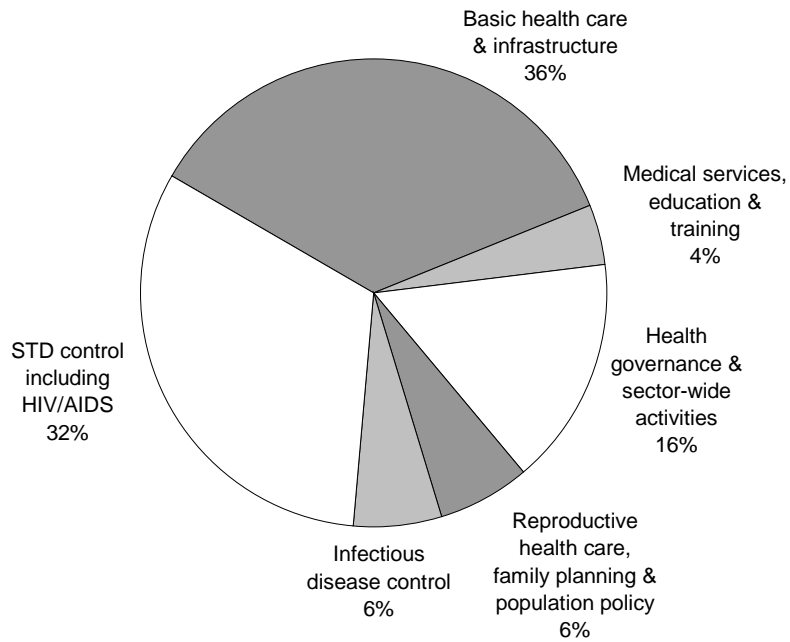
Diagram 15: Estimated Australian ODA in the education sector 2005–06

Technical/
vocational
education
18%

Secondary
education
4%

Education
governance and
sector-wide
activities
25%

Higher education
25%

Basic education
28%
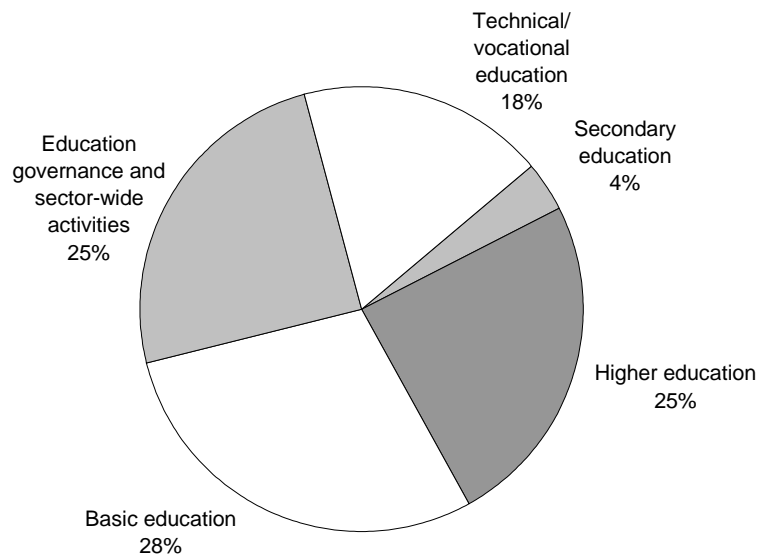
Technical notes

GENERAL

- Normal rounding rules apply where the end digit is less than five. In accordance with Department of Finance and Administration guidelines, where the end digit equals five the numbers are rounded up to the next digit. Totals and percentages are calculated on un-rounded totals. Columns may not add due to rounding.

- This budget paper details total ODA which includes expenditure by Other Government Departments (OGDs) that is classifiable as ODA as outlined by the Development Assistance Committee (DAC) of the OECD.

- Where real figures are presented the Non-Farm Gross Domestic Product (GDP) Implicit Price Deflator has been used.

- All estimates are exclusive of recoverable GST.

- All amounts are in Australian dollars (AUD) unless otherwise indicated.

- 'Current prices' express values in terms of the prices in the year of expenditure. 'Constant prices' express values adjusted for inflation in terms of a chosen year, which is the financial year 2004–05 in this publication. A 'real' increase or decrease refers to the change in figures adjusted for inflation (that is based on constant prices). A 'nominal' increase or decrease refers to the face value change between figures that have not been adjusted for inflation (that is based on current prices).

- Unless stated the source of data is AusAID.

- Unless stated, increases quoted are based on a comparison of 2004–05 and 2005–06 budget figures.

- In 2001, the DAC officially converted from publishing ratios in terms of ODA/Gross National Product (GNP) to ODA/Gross National Income (GNI). In line with this conversion, all information published on the aid budget uses the concept of GNI.

ACCRUAL EXPENSES AND CASH

The Australian Government moved to an accrual budgeting framework in 1999–2000 and subsequently budget estimates, for example Tables 5 and 6, are presented in terms of expenses. Multi-year liabilities, such as payments to the ADF, IDA and IFAD are recorded as an expense at the time of signing the Instrument of Commitment, not

when the cash is paid. This accounting treatment is used in AusAID's financial statements, available in the *Foreign Affairs and Trade Portfolio Budget Statement* on the Internet at http://www.dfat.gov.au/dept/budget.

Total ODA estimates (for example, Table 1) are adjusted from an expense by excluding the total expense commitment for new multi-year liabilities but including the cash paid to those commitments. Adjustments are also made for items such as movements in creditors and depreciation.

Estimates of sectoral expenditure are in cash terms throughout as they relate to total ODA which is reported in cash. A number of tables in this Budget Statement include an 'adjustment' figure prior to calculating ODA. This figure includes adjustments for depreciation, investment, and expected net change in creditors. Table 7 also details the adjustments to multi-year liabilities, such as the multilateral development banks, to convert expenses to cash.

Apart from those individual estimates affected by multi-year liabilities, the difference between cash and expenses is minimal. The differences can be summarised as follows:

- The Pacific expense estimate is less than cash as the Nauru Settlement Treaty ($3.17 million in 2005–06) was recorded as an expense in 1993–94. In Table 1 and Table 4, the $3.17 million cash for the Nauru Settlement is included with the flows to Nauru to give a more comprehensive picture of Australia's estimated contribution in 2005–06.

- The Multilateral Replenishment expense estimates (see Table 6) are $84.7 million in 2005–06 representing the estimated total value of new multi-year contributions Australia expects to enter next financial year. Figures in Chapter 7 reflect the ongoing cash contributions Australia is making to these international institutions ($208.4 million), to give a more accurate picture of the flows to these organisations within the budget year. With the exception of Multilateral Replenishments all other global program expense estimates are equal to cash.

- AusAID received the $1 billion appropriation for the Australia–Indonesia Partnership for Reconstruction and Development (AIPRD) through the 2004–05 Portfolio Supplementary Additional Estimates. In addition, AusAID has received supplementary funding to implement the AIPRD through the 2004–05 Portfolio Supplementary Additional Estimates and the 2005–06 Portfolio Budget Statements. On current estimates, cash disbursements of this funding will be $10.8 million in 2004–05 and $132.1 million in 2005–06. Figures (in Tables 1, 2 and 7) reflect the estimated total cash disbursements each year rather than amounts appropriated or expected to be expensed.

ESTIMATED TOTAL ODA

In estimating total ODA flows, AusAID begins with budget estimates for particular countries. To these are added estimates of expenditure from regional and global programs that do not have country allocations specified at the time of the budget. These estimates reflect previous expenditure patterns, and are subject to change throughout the year. Estimated total ODA flows (Table 1) also include ODA-eligible expenditure by OGDs.

ESTIMATED SECTORAL EXPENDITURE

While the key sectors of Governance, Education, Health, Rural Development and Infrastructure remain high priorities for the Australian aid program, centralised allocations are not made for expenditure in these sectors. Programming decisions are made on the basis of individual country strategies that are developed in consultation with partner governments, addressing their priority needs.

Expenditure in any particular sector is thus the result of programming decisions, made in accordance with government policy but not determined at budget time. Estimates published in this Budget Statement are qualified and are subject to programming decisions throughout the year.

Sectoral expenditure estimates reflect past trends in expenditure recorded in AusAID's Activity Management System (AMS) for 2002–03, 2003–04 and 2004–05. The AMS tracks actual and estimated expenditure on individual projects. Each project is allocated sector codes, in accordance with DAC guidelines, which reflect the primary focus of the project, as well as attributing secondary codes to track indirect expenditure. The 2004–05 estimated expenditure extracted from the AMS in February 2005 includes planned expenditure to the end of the year, which is adjusted to account for over-programming. Estimates are then added to this for sectoral flows from multilateral organisations, based on these organisations' reports, and OGD expenditure estimates that are ODA-eligible. Further information relating to the value of imputed flows from multilateral organisations can be obtained from the Information and Research Services Unit, AusAID (ph 02 6206 4000).

Notes to tables

Table 3

1. Based on Non-Farm GDP Implicit Price Deflators provided by the Australian Bureau of Statistics, which have been rebased to 2002–03.

2. See Technical notes for an explanation of the change in terminology from GNP to GNI.

3. Australian Government contributions towards costs of educating private students from developing countries in Australian tertiary and secondary educational institutions were included in ODA for the first time in 1983-84.

4. In 1988–89 there was a one–off bringing forward of MDB payments, increasing 1988–89 but decreasing 1989–90 ODA expenditure.

5. This represents a real per cent increase over the 2004–05 expected outcome figure of $2,252.9 million (at 2004–05 constant prices) as detailed in Table 1. Budget-to-budget the real increase is 11.7 per cent.

Table 4

1. See Technical notes for an explanation of the relationship between expenses and cash.

2. OGD not attributed to country/region includes ODA-eligible expenditure by OGDs that has not been allocated to a specific geographic area.

3. Core contributions to multilateral organisations, other ODA expenditure includes, for example, expense payments which cannot be attributed to a particular country such as payments to some UN and Commonwealth organisations, and departmental expenditure. The ODA-eligible components of cash payments to IDA, ADF, IFAD, GEF, HIPC and the MPMF are included in this line item.

Table 5

1. See Technical notes for an explanation of the relationship between expenses and cash.

2. For the purposes of this table, Micronesia includes the Federated States of Micronesia, Palau and the Republic of the Marshall Islands.

3. Nauru Additional represents additional funding appropriated to AusAID through new budget measures agreed by the government.

Table 6

1. See Technical notes for an explanation of the relationship between expenses and cash.

2. Total ODA estimates for 2004–05 represent expected outcomes as estimated at May 2005.

3. New commitments to the MDBs, MPMF and GEF are recorded as expenses at the time of commitment.

4. Other international programs include the ITTO, international health programs and the Global Crop Diversity Trust.

Table 7

1. See Technical notes for an explanation of the relationship between expenses and cash.

2. The ODA figure for AIPRD in Table 7 includes expected expenses from the supplementary funding received by AusAID to implement the AIPRD through the 2004–05 Portfolio Supplementary Additional Estimates and the 2005–06 Portfolio Budget Statements, expected expenses under the AIPRD grants program, and expected cash disbursements under the AIPRD loans program.

3. ACIAR figures equal their total cash expenditure per year. ACIAR's full financial statements are available in the Foreign Affairs and Trade Portfolio Budget Statement at http://www.dfat.gov.au/dept/budget.

4. OGD includes ODA-eligible activities by State governments and Commonwealth agencies other than AusAID and ACIAR. Included, for example, are capital contributions to multilateral development banks funded by Treasury appropriations, and Department of Health and Ageing contributions to the WHO.

5. Includes accrual adjustments and adjustments for non ODA-eligible Administered expenditure such as miscellaneous receipts, GST payments and other non ODA-eligible expenditure.

6. Includes accrual adjustments and adjustments for non ODA-eligible departmental expenditure such as receipts under section 31 of the *Financial Management and Accountability Act 1997*, interest earned on bank deposits, GST payments and Fringe Benefits Tax.

7. Refer to the explanation of multi-year liabilities in the Technical notes.

INDEX

82