INDEPENDENT REVIEW OF AID EFFECTIVENESS

Jubilee Australia Submission

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Independent Review of Aid Effectiveness Secretariat

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INTRODUCTION

Jubilee Australia is an Australian non-government organisation seeking to highlight and challenge the economic policies and structures that perpetuate poverty, particularly in the Asia-Pacific, through academic-based research and policy engagement.

Many organisations in Australia work to alleviate global poverty. What makes Jubilee Australia different is our commitment to exposing the underlying causes and challenging the policies and structures that keep people, communities and countries in long term poverty.

Jubilee Australia is grateful for the opportunity to submit its views to the panel of the Independent review of aid effectiveness. Our comments relate most directly to the following Terms of Reference of the Independent Review:

The structure of the program, in particular:

- The appropriate sectoral focus of the program, taking into account Australia's area of comparative advantage and measured development effectiveness results;

- The relative costs and benefits of the different forms of aid, including the role of non-government organisations and the appropriate balance between multilateral and bilateral aid funding arrangements.

SECTORAL FOCUS OF AUSTRALIA'S AID PROGRAM

Jubilee Australia acknowledges that the focus of Australia's bilateral aid program should be driven by its comparative advantage and the overall measured development effectiveness of programs. However, there are other drivers of the sectoral focus of Australia's aid program beyond these identified criteria. Other national interest agendas such as trade and investment policy and energy security directly and indirectly shape the sectoral focus of Australia's aid program. Dominance of these agendas in Australia's aid program has the potential to shift the institutional objectives of Australia's aid program to one of 'donor defined 'economic modernisation' as opposed to one principally focused on achieved Millennium Development Goals (MDGs).

The Australian government's financial involvement in the Papua New Guinea Liquefied Natural Gas (PNG LNG) project is an interesting case study in how Australia's aid agenda, interests and effectiveness work alongside our trade and energy policy agendas. We refer to the case study of Australian involvement in the PNG LNG project in Jubilee Australia's report 'Risky Business'.[1]

With Australia's competitive advantage and expertise in extractive industries, Australian companies and the Commonwealth Government have a strong regional and international presence in the resource

[1] Jubilee Australia (2009), "Risky Business: Shining a spotlight on Australia's export credit agency, http://www.jubileeaustralia.org/risky-business-download

sector. Philosophically our trade agenda embodies the ideal that extractive industry projects in developing countries are an effective leverage for economic development. While a critical review of extractive industry development in less-developed countries of the Pacific and South East Asia may challenge this idea, more importantly there appears a tendency of aid program priorities to be recalibrated to 'mitigate or offset' the adverse social and environmental costs of extractive industry projects. Whether publicly financed by the Commonwealth, as in the case in PNG LNG or privately financed by an Australian company, deficiency in project design and a failure to fully address social and environmental externalities, are inevitably salvaged and mitigated by AusAID projects.

Commercial interests and bilateral aid:

For at least 40 years the practice of 'tied aid' has been condemned by the international community, beginning with the Pearson Commission on International Development which questioned the practice as early as 1969.[2] More recently, the Paris Declaration on Aid Effectiveness of 2005 committed participating donor countries and institutions to work towards fully untying their aid. According to the Declaration:

> "Untying aid generally increases aid effectiveness by reducing transaction costs for partner countries and improving country ownership and alignment." [3]

Given that Australia is a signatory of the Paris Declaration and participates in the accompanying Accra Agenda for Action, it is concerning to see recent proposals put to the Australian government considering possibilities of mixing aid and commercial interests in Africa.

We draw the panel's attention to the submission to the DFAT Joint Standing Committee Inquiry into Australia's relationship with the countries of Africa, by the Australia-Africa Mining Industry group, proposing the creation of:

> "Private-public partnerships in delivering social development assistance, with the Australian Government providing supplementary funding for approved programmes" that would be "branded as AusAID" and co-funded by the Australian mining industry.[4]

In addition, we have strong concern that the EFIC Chief Economist, Mr Roger Donnelly, is supporting the proposal of:

> "Supplying bilateral aid to targeted SSA [Sub-Saharan Africa] countries to win goodwill that would support Australian commercial interests".[5]

We remind the Panel of Australia's Development Import Finance Facility (DIFF) scheme. A policy of the Australian Department of Foreign Affairs and Trade, DIFF was intended to open up new foreign markets for Australian exporters while at the same time assisting the 'development needs' of importing countries. Recipient governments were offered concessional loans (EFIC) partially supported by aid grants to fund the import of goods and services from Australian companies.

DIFF was contentious and heavily criticised for misusing the overseas development assistance program to promote Australian exports. In 1996 the policy was discontinued following a change of government and a subsequent Senate Inquiry into the scheme's effectiveness. At the time, the new Treasurer, Peter Costello, described DIFF as a 'subsidy paid to domestic business'.

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[2] Pearson Commission for International Development, *Partners in Development,* 1969

[3] Paris Declaration on Aid Effectiveness, Clause 31, available at http://www.oecd.org/dataoecd/30/63/43911948.pdf

[4] Australia-Africa Mining Industry Group Submission to the Joint Standing Committee on Foreign Affairs Defence and Trade's Inquiry into Australia's Relations with Africa, May 2010

[5] Roger Donnelly & Benjamin Ford, *Into Africa: How the Resource Boom is Making Sub-Saharan Africa more important to Australia,* Lowy Institute, 2008.

As such there has been a continuing policy reluctance to merge bilateral aid and commercial development programs in the way the DIFF program co-opted aid and commercial objectives.

While Australia may have moved away from formally untying aid, there are many ways that Australia continues to place its "National Interest" before the goal of effective and transformational aid to developing countries. In 2009 the Australian National Audit Office published a report that showed that Australian companies were directly responsible for delivering 70 per cent of Australia's bilateral aid programme budget.[6] The Center for Global Development, a think-tank based in Washington DC, maintains an international ranking of OECD countries according to their Quality of Development Assistance. Australia currently ranks below the global average in terms of its aid efficiency, which includes factors such as ensuring low operating costs, aligning aid with partner countries' priorities, as well as untying aid.[7]

RELATIVE COSTS AND BENEFITS OF DIFFERENT FORMS OF AID: MULTILATERAL DEVELOPMENT BANKS

As acknowledged by the terms of reference, there are relative costs and benefits of different forms of aid. We believe that the debate about aid funding mechanisms is broader than multilateral versus bilateral and the relative cost effectiveness of each. We believe there should be greater sophistication in evaluating the relative governance, transparency and accountability structures of different aid funding models.

The Australian government needs a clear framework and strategy to guide its engagement with the World Bank Group (WB) the Asian Development Bank (ADB). The institutional and bureaucratic flaws of both reduce the effectiveness of Australian aid. We believe there should be greater analysis by AusAID and other government agencies of the extent to which these institutions deliver tangible and measurable progression to achieving specific MDGs in less-developed countries.

The WB and ADB are mandated to provide financial and technical assistance to less-developed countries to help them improve the lives and livelihoods of the world's poorest. Yet vast literature on WB and ADB policies and programs highlights the primacy of export oriented industry development, and shows in country after country, the way in which GDP growth that may result from export oriented programs and projects is subsumed by sovereign debt obligations, thereby reducing the nation's economic development. Evidence also highlights the underperformance of large-scale infrastructure projects in alleviating poverty and enhancing attainment of human rights.

Failure of 'development lending' by multilateral development banks to stimulate to domestic growth:

Jubilee Australia is critical of what may be called the 'debt-dependent development model.' This is not the simplistic belief that debt is always bad: many countries, such as Australian in the late 19th/early 20th century, and, more recently, South Korea, have become development success stories despite borrowing heavily in key periods. Rather, it is the more nuanced position that borrowing to facilitate development should be done selectively and with great caution, lest it lock one into a subordinate relationship to richer countries and financial institutions; and that unless the borrowing regime is a mature democracy (or an extremely enlightened autocracy) with a functioning development model, the borrowing will almost certainly produce more problems than solutions.

Notwithstanding its membership of international lending agencies, including the World Bank and International Monetary Fund (IMF), Australia is a relatively minor creditor with little outstanding

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[6] Australian National Audit Office (2009) *AusAID's Management of the Expanding Australian Aid Program*, ANAO Audit Report No. 15 2009-10, p.87.

[7] Center for Global Development, "Quality of Official Development Assistance", http://www.cgdev.org/section/topics/aid_effectiveness/quoda accessed 23 November 2010

bilateral debt. This is in part because of the way that Australian development assistance has been delivered. With a couple of notable exceptions, the Australian aid program has turned away from using loans in its bilateral aid programs, instead providing assistance only as grants (although, through EFIC, Australia still uses trade credits as a de facto form of development lending).

There is much evidence that the supposed connection between overseas investment and sustainable development is both tenuous and self-serving. Very, very few countries have developed after incurring international debts in a foreign currency that they then had to repay. Countries that have taken on foreign debts and developed successfully either consistently defaulted on them (the US) or instead shared a common currency with their creditors (the British Dominions). Other successful developers have used their own savings to drive their economic growth (most East Asian industrialised countries - the one exception is South Korea).

Both the IMF and the Multilateral Development Banks rely on lending, on policy conditionality and on repayment of all their loans no matter how beneficial; they have been the driving forces towards the opening up of domestic markets to foreign capital and (in many cases at least) against the use of domestic resource mobilisation.

An entire new source of loan-based development financing is potentially opening up, with some multilateral institutions manouvering to make much-needed climate change adaptation financing available to vulnerable countries in the form of loans. Needless to say Jubilee Australia wholly rejects the use of loans to confront the climate crisis.

Accompanying our call for less lending is an accompanying recommendation that rigorous and enforceable criteria be adopted for the development loans that are used. Local elites in recipient countries have manipulated the system in a number of ways. First, many have been adept at skimming a proportion of the aid funds flowing into the country for their own uses. Second, they have also profited from setting up joint business ventures with foreign businesses attempting to penetrate their country with new products and services. Local elites have been able to manipulate both the aid sector and the business sector to serve their own ends rather than the needs of the country at large.

Australia should support in international fora the arguments for 'development loans' to be subjected to a much higher level of transparency and accountability than has historically occurred. This would enable populations in countries who are supposed to be the beneficiaries of such projects to be able to track whether the supposed economic benefit has taken place, that would justify the public debt that their government has taken on. A concrete list of such criteria has been provided by EURODAD with its Responsible Financing Charter.[8]

Conflict between MDB financing of large-scale projects and sustainable development:

We draw the panel's attention to a recent example. In the 2000 World Commission on Dams report, the World Bank's push for building large dams across the developing world was heavily criticised for leaving a trail of social and environmental woes. The World Bank's decision to endorse the massive US$ 1.5 billion private sector hydropower project in Laos, Nam Theun Two, marked its return to the big dam industry and was billed by the Bank as a showpiece of its ability to support sustainable hydropower ventures.

Yet in December 2010 a letter signed by 34 civil society groups and individuals from 18 countries was sent to the World Bank and Asian Development Bank Presidents, drawing attention to more than 6,200 ethnic minority people relocated by the project, who are still struggling to achieve sustainable livelihoods three years after they lost access to their natural resources such as paddy fields, swidden fields, forest and grazing lands. The letter also drew attention to the plight of over 110,000 people

[8] European Network on Debt and Development (2008), "Responsible Financing Charter" http://www.eurodad.org/whatsnew/reports.aspx?id=2060

living in 71 riverside villages who face the impacts of the dam project including flooding, decline of fisheries, riverbank erosion, flooding of riverbank gardens and poor water quality.

World Bank's increased investment in carbon-intensive energy projects:

World Bank funding for coal-fired power stations, which produce massive carbon emissions that contribute to climate change, has increased 40 times over the past five years to hit a record US$ 4.4 billion in 2010. If the World Bank and Asian Development Bank are serious about alleviating poverty and promoting sustainable development, they should be investing their billions of dollars into carbon-safe, clean ways of generating energy, such as solar and small-scale hydroelectric, and biomass projects which can help avert climate chaos and deliver clean energy directly to vulnerable people to help lift communities out of long-term poverty.

In the face of the World Bank emerging as front runner to administer the Green Climate Fund to provide climate finance to the poorest countries by 2020, reform is urgent. The Australian government should be using its membership of the World Bank Group and ADB to urge a fundamental rethink of World Bank energy policies.

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