

AID

WATCH

Action on Aid, Trade and Debt

***Fighting Poverty or
Fantasy Figures ?***

The Reality of Australian aid

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Executive Summary

This report takes a microscope to Australia's aid budget and reveals that upwards of a billion dollars in Australia's aid fails to contribute to meaningful poverty reduction in aid recipient countries.

International research has shown that the practice of inflating aid figures has become a serious problem amongst the international donor community. Many aid donor countries are not as generous as they first appear, inflating their official aid figures by including funding that does not provide material support to impoverished communities and instead funds the domestic institutions of the donor country.

In light of this tendency, AID/WATCH observed that there was an urgent need to understand the full picture of the on-the-ground contribution that Australia's aid provides.

In analysing the effectiveness of Australia's development contribution, this report finds widespread structural flaws in Australia's aid program revealing serious problems in terms of both the *quantity* and, more importantly, the *quality* of the aid Australia provides.

In terms of quantity, this financial year our aid program will exceed \$3 billion dollars for the first time. However in spending only 0.3% of our Gross National Income, Australia is far off making the internationally agreed target of 0.7% by 2015.

Furthermore, as noted above, nearly a billion dollars in aid is spent funding Iraqi debt cancellation, the Australia Federal Police, the Department of Immigration and other Australian agencies, as well as the expensive full fee costs of foreign scholarships to study in Australia. This is a billion dollars that is absorbed by spending that does not explicitly target the poverty alleviation objectives set out in the Millennium Development Goals. Instead it reflects Australia's broader national security and commercial interests, rather than the relief of poverty in the majority world.

Furthermore, once these extra items are deducted from the Australian aid program, other clear questions about aid expenditure emerge that suggest that the rest of the aid program is not as effective as it could be. For instance, the extent to which Australian aid privileges Australian commercial interests continues to severely diminish the value of our aid.

Private companies, consultants and advisors manage the bulk of the aid activities in recipient countries. They dominate to such an extent that it is more useful to describe an 'aid industry' rather than an aid program as aid pays top private sector premiums when it could be more effectively supporting local organisations. Even within AusAID, top positions have been contracted out to private consultants who demand a much higher price than a public servant's wage.

Furthermore, the move to formally untie Australian aid has not broken the monopoly of key Australian companies. More and more conflict of interest questions emerge as the big companies who receive aid, sit within large corporate structures which often have other mining, engineering, agriculture, media and gambling interests in the same countries where they deliver aid.

Moreover, in the face of direct criticism, Australia continues to excessively rely on Technical Assistance (TA) within the aid program, recruiting greater numbers of Australian public servants, private consultants and companies to work within recipient governments on 'capacity building' initiatives. Various international reports including the OECD-DAC's peer review of Australia have criticised the levels of TA in Australia's aid, however Australia continues to sidestep this criticism.

Finally, Australia continues to pursue a heavy-handed, carrot and stick approach to aid by instituting a performance incentives program that will tie additional aid to certain reform criteria. International evidence is forthright in stating this is an outdated and ineffective model that can infringe upon the sovereign decision-making processes in aid recipient countries.

The key findings of this report reveal donor interests, donor control of aid funds and donor leverage are still manifest in Australian aid.

This is a call to action to government to stop this insular approach to international aid, and to 'get real' with our aid program.

Equally as importantly, it is also a call to action to the Australian public to bring the much needed debate about aid to the fore and ask the questions: *Where is my aid money going? And how can it be better spent?*

Introduction

Making sense of the Australian aid program

At \$3.16 billion, Australian aid is supposedly the most generous it has ever been. However, rarely is there a focus on where indeed Australian aid is spent on the ground.

Many Australians will be familiar with the 'big ticket' items of Australian aid in recent years such as the \$1 billion package announced after the Boxing Day tsunami, or the RAMSI intervention into the Solomon Islands. However it is practically impossible to get a comprehensive picture of what kind of total development contribution Australia makes to low-income countries.

AID/WATCH is concerned that there is a need to understand the full picture of the on-the-ground contribution that Australian aid makes.

To encourage greater awareness and debate on aid, this report will take a microscope to the Australian aid program to assess how much of it makes a real, genuine commitment to the people and communities that need it most. It will ask the key questions:

- **Does the aid money that Australia gives provide a genuine commitment to relieving poverty in our region?**
- **How is Australian aid being distributed and on what basis?**
- **How could it be doing better?**

Back in 2000, the Prime Minister, John Howard signed onto the Millennium Development Goals – a global action plan to challenge extreme poverty. Since then many rich governments around the world have restructured their aid programs to closely reflect this international agenda.

It is now 2007 and unfortunately our research shows Australia is shying away from its responsibility to make these urgent changes.

Current aid spending appears to indicate that our aid program is skewed away from the poverty alleviation targets of the Millennium Development Goals.

Instead, Australia pursues an alternative program of promoting regional security and liberalised economic cooperation, without adequately targeting the source

of poverty and the real needs of communities.

Moreover the thinking behind the Australian aid program, as this report will show, flies in the face of key international aid-effectiveness criteria.

In the on-the-ground spending this financial year it has become patently clear that large quantities of aid funding are instead structurally geared to promote Australia's own interests.

Key Findings

Firstly, this report finds that roughly \$1 billion dollars – a full third of the Australian aid spent this year – is a significant inflation of real figures. All this funding stays here in Australia on programs that do not target poverty relief. This finding sits alongside similar international research that suggests this is of concern in several rich donor countries!

Of the remaining \$2 billion, this report finds major structural problems. It would seem that Australia has not responded to international trends to ensure that aid does not direct excessive profits back to the rich country, that aid is not currently building real in-country capacity, and that this funding is also operating as a leveraging tool.

- Aid money is being diverted to programs that benefit Australian regional security.
 - Despite the welcome move to untie the aid program, the problem of 'boomerang aid' is still evident, in the large proportion of the aid program still managed by Australian companies.
 - Aid is being spent on programs here in Australia, such as full-fee-paying scholarships for foreign students and debt cancellation.
 - The most serious misapplication of Australian aid has been its involvement with the funding of the detention of refugees under the mantle of 'assistance to refugees'.
 - New moves tie aid to performance measures, which allows Australia to withdraw funding if poor-countries don't fulfil Australia's demands.
 - Australia is undertaking a limited and makeshift response to climate change, when our region is seeing some of the world's first environmental refugees.
-

Australia's aid priorities

the rationale behind Australian aid

In 1997 an appraisal of the Australian aid program, now known as the Simons review, was commissioned by Foreign Minister Downer when he first came to his current portfolio. Entitled 'One Clear Objective: poverty alleviation through sustainable development,' it called for an aid program focused not on short term foreign policy agendas or commercial interests, but on the clear objective of alleviating poverty.

Unfortunately, almost a decade on the concept of 'one clear objective' remains mired by the continued and in many ways enhanced persistence of short-term, strategic and commercial interests.

The current thinking behind Australian aid is framed by a White Paper which was released in April 2006. The White Paper was the first major policy framework released in almost ten years.

On a positive note, the 2006 Aid White Paper did soften the rhetoric that described Australian aid explicitly as a tool to "advance the national interest". The White Paper also took the positive step to herald an increased desire to work in partnership with the countries who receive Australian aid as well as a desire to invest in health and education sectors. With some reservations, AID/WATCH applauded these moves.

On the other hand, the two key areas that the 2006 White Paper identified as central to the aid program, 'regional stability' and 'economic growth' seemed to

appear at odds with where international aid effectiveness dialogue is moving.

In foreign policy terms these two focus areas may well be acceptable, but as aid policy, they fail to support the Millennium Development Goal's specific focus on poverty alleviation, which 189 countries including Australia signed on to in 2000.

As demonstrated in the table below, there is considerable distance between the poverty alleviation objectives of the Millennium Development Goals, and those objectives outlined in the Australian White Paper. Furthermore, the objectives of the White Paper are in many ways anachronistic in relation to international dialogue that has re-evaluated what entails 'aid effectiveness'.

Aid Effectiveness

What underpins high quality aid?

Until the 1990s aid effectiveness was typically linked to economic growth indicators, with multilateral institutions such as the World Bank and the IMF promoting export led growth and privatisation as the panacea to poverty and underdevelopment. In the final decades of the twentieth century a growing chorus of majority world governments and considerable empirical evidence, convincingly demonstrated that economic growth alone does not always alleviate poverty. In fact, such a focus on economic growth alone, frequently serves to increase inequality and levels of extreme poverty.

Table 1 Aid objectives comparison – MDG's and Australian White Paper

Millennium Development Goals	Goals of the Australian aid program
<ol style="list-style-type: none"> 1. Eradicate extreme poverty and hunger 2. Achieve universal primary education 3. Promote gender equality and empower women 4. Reduce child mortality 5. Improve maternal health 6. Combat HIV/AIDS, malaria, and other diseases 7. Ensure environmental sustainability 8. Develop a global partnership for development 	<p>Overarching Aid Program objective: <i>'To assist developing countries to reduce poverty and achieve sustainable development, in line with Australia's national interest'</i></p> <p>2006 White Paper Priorities:</p> <ul style="list-style-type: none"> • Accelerating economic growth • Fostering functioning states • Investing in people • Promoting regional stability and cooperation.

Source: www.un.org/millenniumgoals/ and www.ausaid.gov.au

Even amongst economists, the link between 'growth' and poverty reduction has been increasingly challenged and questioned.² The World Bank itself has admitted that effective aid means a lot more than increasing a country's annual growth rate.³

Indeed, it was partly in response to the dismal failure of explicitly growth-focussed development assistance in alleviating poverty that governments came together in 2000 to devise strictly poverty-focussed development targets in the form of the Millennium Development Goals.

Subsequently, the focal point for international aid effectiveness in recent years has been the Paris Declaration on Aid Effectiveness jointly made by ninety one countries in 2005.

There are some flaws within the Paris Declaration, namely the low participation sought from southern countries and weak targets which fail to force appropriate levels of accountability within donor governments. Nonetheless, the consensus which emerged has largely sidelined growth as the foundation of aid effectiveness, highlighting instead the importance of aid that is targeted at the poorest groups, recipient-owned, aligned and harmonised, untied, predictable and inflicting the least possible burden on recipient countries' aid delivery and reporting mechanisms.⁴

While the Australian government has signed on to the Paris Declaration and implemented various harmonisation and alignment initiatives, economic growth retains a central place in both objectives of AusAID programs and subsequently the criteria by which their success is judged. Both AusAID's recent White Paper and *Pacific 2020* policy document argue that 'economic growth' is a paramount concern for the Australian aid program.⁵

Pacific 2020 goes so far as to posit growth as the *only* option for the Pacific as the introduction to the document outlines:

"Some commentators foresee a 'doomsday' scenario where the Pacific Islands region completely fails to meet its mounting challenges. Others foresee 'muddling on' where collapse is prevented by the continuation of aid and migration opportunities. Neither of these scenarios is comforting.

Pacific 2020 presents a third scenario, rapid growth, in which a range of reforms along the lines outlined in this report is undertaken and where as a result,

*economic growth accelerates. This scenario is the only one that enables the Pacific to meet its challenges"*⁶

A 2005 OECD-Development Assistance Committee Peer Review has questioned Australia's focus, reflecting that "Australian [aid] programming should give greater prominence to poverty reduction".⁷

Furthermore, as this report contends, the absence of a strong poverty focus is not the only aspect of the Australian aid program which prevents Australia's actual aid from being as effective as it could be. The prevalence of Australia's 'national interest' above recipient country concerns, the preference for Technical Assistance, the absence of predictability, the legacy of tied aid and a lack of consideration of the additional challenges presented by climate change, all act to reduce the effectiveness of Australian aid.

This Report, as it investigates Australia's current aid practices, argues that our aid has remained firmly stuck within last century's model of aid.

And Australia is not alone. In an international context, over the last two years other research from the international Reality of Aid network, ActionAid and EUROAD have variously shown that up to one third of international aid programs are not directing aid funds to the sources of poverty⁸. This body of research has similarly described 'misleading aid figures', 'phantom aid' or 'inflated aid' in international programs.

Internationally these pieces of research have sparked strong public debate that has led many governments to dramatically improve their aid. Unfortunately, the debate has not taken place here in Australia.

AID/WATCH pulls no punches in the report, insofar as we cite key Australian aid failings. This is because we see it as a debate that Australia must have – to get our aid program back on track to effectively work for the people in low-income nations who need the help that we as a wealthy and compassionate nation can provide.

We, as a nation are failing in our responsibility to commit to relieving global poverty in two important ways. Firstly in the small amount of aid that we give, in comparison to the size and health of our economy, and secondly in the *quality* of our aid program which currently is beholden to interests outside of poverty relief.

Quantity – Does Australia give enough?

Statistics show we trail most rich countries.

The generous tax cuts of Peter Costello's recent budget demonstrate that he was very keen to keep Australia in line with the international Organisation for Economic Cooperation and Development (OECD) on the level of tax Australians pay. However it seems the current Government is much less concerned about keeping up with the OECD in the amount of aid we give.

In this budget the Government handed out \$31 billion in tax cuts and delivered a \$13 billion surplus. However international development assistance stagnated at 0.3 % of Gross National Income (GNI) giving us an annual aid budget of \$3.16 billion. Meanwhile, the Netherlands, a country with a similar sized economy and standard of living to Australia, gives three times the quantity of aid that Australia does.

The 2007/08 aid budget, released on the 8th May did for the first time include forward allocations for the aid budget that locks Australia into spending \$4 billion on aid by 2010. Even if we reach the \$4 billion dollar figure, this only increases ODA to 0.36% of GNI, at a generous estimate. If our economy continues to improve the real figure may be as little as 0.33%.

Australia's aid to GNI ratio has improved on recent years, from its dramatic plunge to its lowest level ever of 0.25% in 1996, however it is still low by international standards. The majority of OECD countries have committed to 0.5% of GNI as aid by 2010, and increasing this to 0.7% by 2015. Currently the OECD donor average is 0.46% of GNI – more than half as much again on top of what Australia currently spends on aid.

Despite the internationally acclaimed strength of our economy UN Millennium Campaigner Salil Shetty, on a visit to Australia in 2006, referred to us as at 'the bottom of the pile' in terms of the aid that we give.⁹

What do we officially count as Aid?

Is our aid artificially inflated?

In formal terms, aid is referred to as Official Development Assistance (ODA), which is the

amount of money that any government spends that is eligible to be considered as 'official aid'. ODA is not just the funding spent within AusAID, the Australian Agency for International Assistance, but any form of expenditure that fits in to the international criteria set down by the OECD's Development Assistance Committee.

As it is the input from national governments that decides the OECD criteria, in recent years the scope of aid criteria has been expanded to include programs that impact directly on security and 'war on terror' agendas. As pressure mounts for the relief of the international debt crisis, the OECD has also authorized these figures to be counted as ODA, allowing debt cancellation to take the place of, rather than complement new aid funding.

These OECD criteria have been enthusiastically taken up by donor governments, including Australia, and consequently we have seen aid increases flow to these new focus areas like 'security', with limited new spending to poverty targeted programs. In 2006, the International Reality of Aid network's global aid review reported that of the \$27 billion in new international aid money spent in recent years, \$10 billion had been tied up in Iraq and Afghanistan as aid rebuilds infrastructure destroyed by military intervention¹⁰. Similarly, the diversion of aid to security related contexts has seen Australia recently spend up to a third of its aid on 'Governance' programs.

The OECD criteria allows government to follow the letter of the law on what it can count as aid, but it does not follow the spirit in which aid has evolved as a global tool for the long term alleviation of poverty and the sustainable development of poorer countries. The impact world-wide has been seemingly inflated aid figures.

In one example, highlighted later in the report, the most cynical abuse of the very loose OECD criteria by Australia is counting overseas detention of refugees - part of Australia's controversial 'Pacific Solution' - as aid money, because the OECD criteria allows it to be termed 'assistance to refugees'¹¹.

By contrast, many European nations have opted to only report genuine aid increases to the OECD. Responding to civil society concerns, countries such as Luxemburg and Ireland lead the way in both providing aid and reporting aid figures. According to a joint European NGO report on Aid accountability, only a tiny proportion of Irish

international aid is 'phantom aid' while 100% of Luxembourgian aid is real aid.¹²

The UK, Finland, Italy, Japan and Luxembourg do not include any spending on refugees in their ODA.¹³ Finland, Greece and the UK also exclude the cost of education foreign students through their universities from the aid budget, while Norway conducts its extensive debt cancellation initiative completely external to its aid program.

If Australia is to play a genuine role in alleviating poverty and fostering ecologically sustainable development through its aid program, it must follow the example of other aid providing nations by increasing its aid budget without including other expenditure in its aid figures.

What is real aid?

the key international criteria

This Report highlights areas in current aid spending and questions whether they are a genuine aid commitment. Isolating these figures illustrates how little of the aid program specifically targets the hundreds of millions of people living in poverty in our region.

In stating some program areas are not 'real' aid, such as funding for the Australian Federal Police, scholarships for foreign students, or debt cancellation, it is not the case that there is no benefit at all. Rather, these often large expenditures of Australian aid fly directly in the face of criteria such as the Millennium Development Goals and other key international development research noted above. In particular, they fail to direct funding at the source of poverty.

So what is real aid? Where should aid be directed that actually responds to the needs of the poorest people in the world. The table below sketches the current thinking behind international aid as well as areas where AID/WATCH believes Australia is not making a genuine contribution.

Table 2 What is real aid?

Throughout this report AID/WATCH will draw on a specific set of principles about how aid can make a genuine contribution to alleviating global poverty. They are broadly endorsed at the Paris Declaration in 2005, by the OECD DAC committee and advocated by international groups and networks such as Action AID, Concord Europe, and Make Poverty History.

To determine whether Australian aid is making a genuine contribution, we will ask:

- Is it directly aimed at poverty alleviation?
- Is there ownership of the aid by recipient countries?
- Is it aligned with a nationally identified development priorities?
- Is it delivered through effective institutions, organisations and agencies?
- Is there harmonisation between donors to enhance co-operation and avoid duplication?
- Is a id predictable and genuinely untied?
- Is there an appropriate use of aid instruments such as technical assistance?

Source: adapted from Aid Effectiveness principles utilised by DIFD, the UK Government Aid Agency www.dfid.gov.uk/mdg/aid-effectiveness/default.asp

In this context, the following report will argue Australian aid contributions do not make a genuine contribution if they:

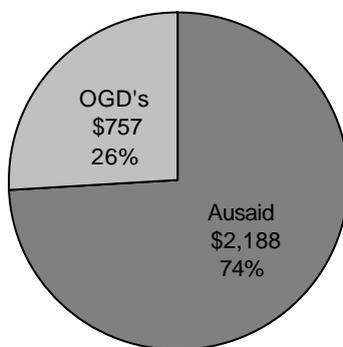
- Explicitly benefit Australia's own national interests to the detriment of a poverty focus.
- Overly privilege the sourcing of Australian goods and services and Australian companies to the extent that aid becomes over valued, inappropriate and unpredictable.
- Fail to provide genuine on-the-ground aid increases – particularly when aid that is spent here in Australia instead of providing new funds for development in recipient countries.
- Direct aid principally to pursue 'economic' growth, where poverty alleviation is not a direct consequence.

Section I: Where is our aid money really going?

By scratching the surface of Australia's \$3 billion dollar aid pie, one certainly finds a few surprises.

The first of which is that this financial year one quarter of our aid money is actually spent through Australian Government Departments including the Department of Immigration, the Department of Defence, the Attorney Generals Department, the Department of Education, the Department of Foreign Affairs and Treasury. This funding includes expenditure items such as refugee detention and debt cancellation.

Figure 1 Proportion of Aid spent through Other Government Departments (OGDs) Source: 06/07 Budget Estimates (millions)



The chief problem here is that much of this money is not programmed as aid money but, because it fits the OECD criteria, it can be counted as international aid. This gives the perception that our aid budget is rising but without any new aid expenditure on the ground in recipient countries.

Fortunately, in the estimated aid budget for the year ahead (2007/2008), the figure for Other Government Departments (OGDs) is smaller because Australia will undertake no Iraq debt cancellation this year. However at an estimated \$378 million, this year's budget has maintained the same level of funding to government departments other than AusAID.

OGD expenditure constitutes a large piece of the aid pie that is not directing funding specifically at poverty alleviation programs.

As demonstrated in Table 3, of the \$2.6 billion in ODA in 2005/06, AusAID, the Australian Agency responsible for international development administered only \$1,664 million¹⁴. The new aid money that constitutes apparent increases over the last couple of years has been bypassing the Australian aid agency that has the responsibility to

manage overseas aid funds, instead being directed at 'whole-of-government' prerogatives.

Table 3 Total Departmental spending within AusAID

Expenditure: AusAID 05/06	\$ millions
Policy and departmental costs	\$79
Administered expenses	\$1,585
Total AusAID allocation	\$1664
Total ODA 05/06	\$2640

Source: AusAID Annual Report 05/06

So what about the funding managed directly by AusAID? AusAID, in the main, does not deliver aid, but instead administers funding in the form of country specific projects or global and regional programs. AusAID itself spends only a small proportion of this funding, the majority of which it administers by contracting it out to Australian companies, international agencies and NGOs.

Again, in the budget estimates for the financial year ahead, there is some improvement, as it appears that AusAID will be managing more of the current aid increases by expanding its operations in-country. AID/WATCH can only reiterate how important this is, to continue to give a greater poverty alleviation focus on aid expenditure.

The funding that does not go through AusAID gives us our first partial picture of where Australian aid is really going. The second part of the picture is the companies, organisations and consultants engaged to spend this, rather much smaller, sum in our key priority aid areas such as Indonesia, PNG and the Pacific. Section II of this report will explore how this element of the picture operates.

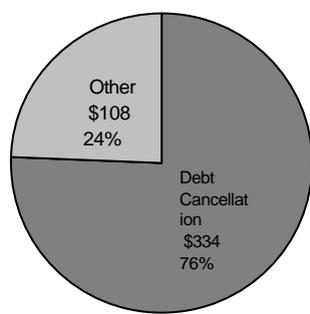
Going to the heart of the aid program we can pull out some key expenditure items that are inflating our aid contribution to appear far greater than it actually is. The first and most extravagant is counting the cancellation of the sovereign debt of Iraq to Australia as part of our Australian aid budget.

Debt Cancellation

why does it inflate our aid?

The cancellation of Iraq's sovereign debt to Australia has absorbed \$668 million dollars in Australian ODA over two years in the Australian aid budget. In last financial year, when the first slice of \$334 million dollar debt was paid through the Australian aid program, it accounted for three quarters of all the available aid increases for that year alone. This left a remaining 108.8 million in new funding available for any other programs in that whole year.

Figure 2 Proportion of the 'new' Australia aid available in 2005/06 allocated to Debt Cancellation (millions)



Australia's decision to cancel this debt was part of an agreement in 2004 by the international group of rich nations called the Paris Club and was based on the premise that it would increase Iraq's economic prospects.

Unquestionably, debt relief is hugely important for impoverished nations and their citizens. However it does not follow that debt cancellation should be counted as 'aid' because it does not provide a cent of new aid money. Officially, the Iraqi debt cancellation is counted as an expense within the Department of Foreign Affairs.

Recent information released by AusAID has revealed that 95% of the debt of Iraq to Australia was related to sales of Australian wheat dating back to the Hawke government in the 80s and funded through EFIC¹⁵. This paper trail indicates that the sale of Iraqi bound wheat bolstered the coffers of Australia's wheat producers with little long term developmental benefit to the people of Iraq.

Incredibly, 57% or \$381 million of the debt is in fact the interest accrued on the principal sum. Since UN sanctions prevented Australia from pursuing

repayment, the interest simply increased over the intervening period.

You wouldn't consider the interest that you pay on a home loan as aid so why does it form such a large proportion of our current aid budget?

Additionally, Australia counts its contribution to global debt relief, under the Multilateral Debt Relief Initiative (MDRI) agreed upon at the G8 as part of its official aid program, adding a further \$136 million dollars in debt cancellation to Australian aid figures.

Although the official OECD DAC criteria allows donors to include debt cancellation as part of the ODA figures, this flies in the face of internationally recognised best practice. In 2002 at the United Nations Monterrey agreement, 170 countries including Australia formally agreed that debt cancellation should be funded additionally to Official Development Assistance (ODA) lest it take the place of real increases in program aid¹⁶. Despite this, Australia persists in inflating its aid figures by double counting debt cancellation as aid.

How should Australia get real on debt cancellation?

Majority world debt continues to be one of the most significant inhibitors to poverty alleviation in the global south. With total debt of the majority world sitting at over \$3 trillion, much of which is never going to be paid back, it is clear that cancelling these debts is a fundamental necessity in improving the lives of the world's poor.¹⁷

Australia should follow international best practice demonstrated by donors such as Norway. When Norway unconditionally cancelled US\$80m worth of debt last year it not only excluded this cancellation from the aid budget, but also acknowledged its shared responsibility in creating the debt through inappropriate lending.¹⁸ Moreover Australia needs to direct any future debt cancellation to the least developed countries, who need it most.

Immigration aid

genuine assistance to refugees?

In the current financial year the Australian government estimates it will spend \$155 million of the aid program through the Department of Immigration for humanitarian work and assistance to refugees¹⁹.

“Assistance to refugees” in an Australian context includes funding the mandatory detention of asylum seekers in detention centres in Australia and offshore in Nauru and Christmas Island. The funds Australia spends to repatriate asylum seekers back to countries like Afghanistan and Iraq is also counted as ODA. This area of funding received much media coverage in recent years when the enticement of \$3000 was offered to asylum seekers in detention if they ‘volunteered’ to return home.

The figures below, released by AusAID in May 2006, show the estimated levels of Department of Immigration and Multicultural Affairs (DIMA) funding that are counted as ODA.

Table 4 DIMA ODA spending 06/07 estimate.

Allocation	\$millions
Support to refugees first 12 months in Australia	112.8
Offshore management of unauthorised arrivals	21.0
Governance Capacity Building	5.8
DIMA for PNG & Pacific & East Timor	3.1
DIMA for Indonesia	2.3
DIMA for Iraq and Afghanistan	6.0
DIMA – Other	4.0
Total	155.0

Source: Answers to questions taken on notice at Senate Estimates Hearings, May 2006

Australia’s treatment of asylum seekers, particularly through the Pacific Solution, is one of the most shamefully self-interested policies of the current government. The Australian policy has been criticised internationally as a contravention of human rights and our responsibilities under various international treaties²⁰.

Deciding to fund refugee associated programs through the Australian aid program has raised an interesting predicament for the Government. Having spent \$2.08 million in 2001 on Operation Gabardine, the so- called ‘children overboard’ affair, the government then claimed this as refugee funding under OECD criteria, and yet the asylum seekers involved were refused refugee status²¹.

The fact that this allocation is counted as part of the Australian aid program pushes the phrase “assistance to refugees” a step too far. Furthermore it adds approximately \$150 million to the aid budget figures that contributes nothing to poverty reduction.

How should Australia get real on Refugee aid?

It is not the place of AID/WATCH to make recommendations to improve the Australian Immigration system. The expertise is elsewhere. However until Australia can demonstrate a compassionate and hardship-relief focussed refugee policy, it should follow the example of the UK, Italy Japan and Luxembourg who do not count their expenditure on refugee programs as aid.

Aid and Regional Security

security for whom?

Presently, half the total aid that Australia allocates to the Solomon Islands pays the salaries and logistics of the Australian Federal Police, constituting funds of \$112 million dollars under the Regional Assistance Mission to the Solomon Islands, RAMSI, in this financial year alone. Over half of the remaining funding in 2006 went to the James Packer owned company GRM International, to provide the logistical, project and procurement support to RAMSI in the areas of Law and Justice and Economic Governance and ‘Machinery of Government’. This funding includes ‘advising’ the Solomon Islands public service and ombudsman, procuring and employing magistrates and other legal services and running the Solomon Islands prison system²². RAMSI exemplifies the enhanced security focus of the Australian aid program.

This focus on securing the region has therefore seen a large increase in the sectoral focus of ‘Governance’ spending. When the Howard Government was elected in 1996, ‘Governance’ funding equated to \$68 million of the Australian aid program. By the 2001 budget this figure had leapt to \$295 million or 17% of the total aid program. In 2006/07 \$700 million was allocated to Governance programs. Table 5 below, developed from data available on the AusAID website, compares expenditure on education (\$2 million) to that of ‘governance’ (\$61 million) in the Solomon Islands in this financial year.

Table 5 Sectoral comparison in Solomon Islands 06/07

Aid by Sector in the Solomon Islands	Allocation 06/07 (\$millions)
Economy and Governance	15
Law and Justice	31
Machinery of Government	15
Education and Training	2

Source: www.ausaid.com.au ‘Aid Activities in the Solomon Islands’

The nexus between aid and security is complex. There are certain elements of a 'security' approach to aid that are vital - such as disarmament programs, reconciliation, promoting human and food security and very importantly securing livelihoods against the impacts of climate change. RAMSI had indeed been initially successful in the disarmament of civilians in the Solomon Islands.

Unfortunately, Australia has conceptualised the aid approach in the region very much in terms of a 'big brother' civilising mission. This has involved implanting regional concerns of illegal migration, terrorism and failing states within aid objectives, which have been enthusiastically promoted by Australian right-wing think tanks, and then developing our interventions around these concerns. Australian interventions in the name of 'security' then pave the way for an increased imposition of 'pro-growth' economic reforms that threatens to dismantle traditional systems.

In so doing, Australia has also 'secured' the resentment of the leaders of both PNG and the Solomon Islands, particularly as Australia funds its own public servants or private contractors to work within the arms of state of these two aid recipients.

This quote from Bruce Davis, the Director General of AusAID, outlines just how embedded the current 'security' approach is within the aid program as he made the links between Australia's strategic thinking and our Tsunami Assistance:

"It was not too long ago that aid and development lay firmly on the periphery of serious considerations of Australia's security and strategic interests. Aid was often regarded as a somewhat ill-defined process of 'doing-good', a process which had little tangible impact on the strategic environment faced by Australia and its policy makers. These times are now over."

He then went on to outline the *"important role it [aid] would continue to play in building a strategic environment that favours Australia's interests"*²³

Few would see the direct link between the devastation created by the 2004 Boxing Day Tsunami and Australia's national security, however Davis clearly reveals how aid can be used to sweeten a tricky international relationship with Indonesia, rather than directly benefit the people who need it most. This became clear when only a small proportion of Australia's billion dollar

tsunami package was actually targeted at the devastated Aceh region.

The extent of the 'Regional Security' approach is difficult to explicitly quantify but some of the controversial expenditure items bound up in this security agenda clearly indicate a 'national interest' rather than 'poverty alleviation' focus, including:

- Significant aid carrots to Nauru and Papua New Guinea to pave the way for our 'Pacific Solution'.
- Aid used to fund Island detention.
- Multi-million dollar Counter-terrorism initiatives in the Philippines and Indonesia.
- Border security initiatives in PNG and Indonesia
- \$20 million in unspecified 'Defence' spending counted as aid²⁴
- The 2006 announcement of an additional \$493 million in funding for another 400 Australian Police Officers to work in the Pacific region.

In each case the human security of the communities most impacted by civil unrest, unstable governments, ethnic conflict or other struggles in majority world countries, comes distinctly second to Australia's own key concerns within the region. This was particularly outlined in a 2006 Oxfam report on the RAMSI mission entitled *Bridging the Gap* which highlighted a perception amongst many Solomon Islanders of the distance between the AusAID policing initiative and their own human security needs²⁵.

How should Australia get real on Security aid?

Getting real on aid for security not only entails refocussing security spending on issues of concern for recipient countries, rather than Australia. It requires a fundamental redefinition of 'security' as more than just law and order. This would entail embracing the wider concepts of human security – security over food, culture and livelihoods. In many Asia/Pacific countries this also includes security of land and land ownership.

Crucially, the concept of security must also be expanded to take into consideration the impact of climate change on regional security. As a recent report for the Lowy Institute makes clear "for a handful of small, low lying Pacific nations, climate change is the ultimate security threat, since rising sea-levels will eventually make their countries uninhabitable."²⁶ The importance of integrating climate change concerns are discussed in detail in part II of this report.

Australia's Scholarships

poverty alleviation or aiding the brain drain?

Recent international research has illustrated that a significant factor in the inflation of aid figures is the level of funding that remains in rich countries supporting students from developing nations to complete tertiary study²⁷. As these criticisms were arising in Europe, Australia, as a part of its 2006 Aid White Paper, announced a major new scholarships initiative of \$1.4 billion over five years where it is estimated that 19,000 aid-funded scholarships will be provided.

By contrast, Australia will spend just a third of this funding, \$540 million in its five year *Delivering Better Education* program, which actually directs its spending to national education within recipient countries²⁸.

Australian universities and TAFE's, struggling financially under recent re-structuring of the tertiary sector, benefit significantly from the various AusAID scholarship programs. These scholarship funds provide a steady stream of secure income in a tight market, where foreign students pay much higher fees.

Australia currently provides Scholarships under 3 categories: Australian Development Scholarships, Australian Leadership Scholarships and Australian Partnership Scholarships specifically formulated for Indonesian students under the AIPRD Tsunami aid package. According to the fact sheets released by AusAID in April 2006, the total Scholarships program accounts for approximately \$150 million this financial year²⁹

The fundamental problem with using aid in this way is that there exists little evidence to suggest that the billions of dollars the Australian Government outlays to allow students from aid recipient countries to study in Australia, delivers any significant benefits (in terms of poverty alleviation or otherwise) to the countries from which these students come.

Geoff Forrester, an Australian Government aid worker in Indonesia, criticised Australia's development scholarship program as being unfocused and little concerned with long term benefit to the recipient countries. Forrester suggested Australia's focus is about "getting students to Australia without regard to their

potential future impact on good governance, growth and welfare".³⁰

Certainly scholarships benefit the people who are fortunate to receive them. However this capacity building does not necessarily translate into development and poverty alleviation in-country. In fact, various studies, including a 2003 Australian Senate inquiry, have noted that scholarships can contribute to the 'brain drain' phenomena, in effect decreasing capacity as promising students are lured away from their home country to pursue careers in developed countries.³¹

The elitist nature of the Scholarships program fails to target the people who need the 'lift-up' that education can provide. It is also evident that significant constraints on the scholarship program ensures individuals can only study in areas deemed priorities by the Australian aid program. The Australian Leadership Scholarships program, in particular, is aimed at those already in leadership roles to empower and promote the future movers and shakers of economic and social development within the government of their home country.

Despite the Australian government's stated focus on the poorest nations in the region such as PNG, recently released data by AusAID reveal that these countries receive far less than the comparatively stronger economies such as Indonesia or Vietnam. AusAID revealed last year that of the 2,863 students studying on Australian Development Scholarships, 40 are from East Timor, 390 from PNG, and 35 Solomon Islands. Of the 179 Scholarships for Australian Leadership Awards offered commencing in 2007 only 14 are for PNG, 5 for the Solomon Islands and 2 for East Timor.³²

The Australian Government scholarship program may have some benefits in terms of building the capacity of individuals. Further it may advance relations between aid recipient country government or private sectors if the scholarship recipients return to work in that country. However the key problem here is not that these scholarship programs exist but the sheer extent to which they occupy education spending without providing any direct contribution in country.

In light of the lack of their lack of demonstrated effectiveness, the high cost of education scholarships leads AID/WATCH to question whether the money could be better spent on MDG focussed primary education or building the capacity of tertiary

institutions in-country. As Guthrie notes “In effect, the opportunity cost of 375 Australian Development Scholarships in Papua New Guinea is to deprive another 2,135 students a year of the chance to study at university [in PNG].³³

How should Australia get real education Aid?

Genuine education aid needs to be focused firmly on the Millennium Development Goals. Goal 2 is to achieve universal primary education - an obvious area that requires an increased focus within Australian aid. This must be done in a way that supports locally identified priorities and has the explicit objective to improve *equity* and *access* to locally and nationally appropriate education.

In its *Delivering Better Education* program Australia commits to improving the management and governance of national education systems, providing material resources and training, and improving technical skills in a targeted way with a strong commitment to gender equality. However it does not explicitly acknowledge a commitment to promoting universally *accessible* education for those who need it most.

In the tertiary sector, rather than giving scholarships, Australia would be better advised to support successful educational institutions in aid recipient countries. The University of the South Pacific (USP) is a great example of how Australian aid has been used to support and sustain local expertise. Established with the support of Australian aid, USP trains young professionals in a local and appropriate context, by many local and international staff. The results from this institution have been exceptional with many graduates going on to senior positions in Government, the private and academic sectors throughout the Pacific. The USP model is sustainable, home-grown and a strong example of

Table 6. What is Real aid?

ODA total estimate 2006/07 (mil)	2,946.3
Debt Cancellation	334
DFAT	15.9
MDRI Debt relief	136
Australian Federal Police	133.9
Department of Immigration	155.8
Foreign Student Scholarships	150
Defence Department	21.2
Others (DEST, Attorney Generals, Health, Treasury)	46.3
Total aid with no direct spending on poverty alleviation programs	993.1
Remaining ‘Actual’ Aid	1953.2

the impact aid can make when it is used most efficiently and effectively.

Australia is making welcome new steps to boost education spending in recent years but they are seriously overshadowed by the enormous spending through the scholarships program. If Australia is to persist in providing education scholarships then it should follow the lead of European donors such as Finland, Greece and the UK by excluding the cost of educating foreign students through their universities from the aid budget.

The Real Aid Map

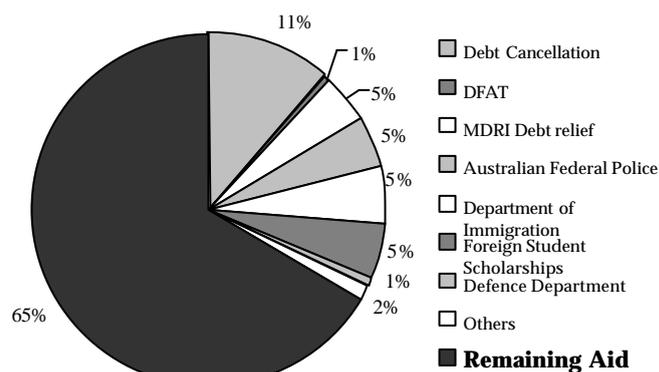
How do we shape up?

It is clear from the above explanations that whilst some of these areas of aid allocations have benefit to individuals or to Australian interests, they have little measurable benefit for aid recipient countries. Whilst aid levels in dollar terms are rising, new aid funds are overwhelmingly being directed away from programs that provide poverty alleviation, to be swallowed up by expenditures that overwhelmingly remains in Australia.

As the figures below demonstrate, excluding these areas reveals \$1 billion of Australian Aid that gives no material support to poverty alleviation programs. This is money that AID/WATCH argues, should be made additional to – not included in our aid budget.

This billion dollars is however only the tip of the iceberg. As the following section demonstrates, if we consider the implications tied aid, technical assistance, the continued reliance on commercial aid providers and refusal to account for climatic change, the percentage of Australian aid which is not real aid is likely to be considerably greater than the \$1 billion which is immediately apparent.

Table 7: The Real Aid Map



Section II – Cross-cutting issues affecting Australia’s aid

In addition to the specific proportions of inflated aid expenditure raised above, a number of issues cut across the remaining ‘actual’ or more conventional aid that Australia provides.

- Despite the government’s acknowledgement of the threats of climate change upon the Pacific, the reluctance to include mainstream climate considerations into the Aid program, and provide sufficient climate-related spending to adequately respond to the impact climate change, will drastically reduce the overall effectiveness of Australian aid.
- Despite the welcome step to officially untie Australian aid, the progress so far is cosmetic at best. Aid is still ‘tied up’ in a system that benefits Australian national interests. Aid is being used by Australia as a leveraging tool, a method that is at odds with concepts of ‘predictability’ and ‘local ownership’ as well as infringing recipient government sovereignty.
- The Commercial interests in Australian aid are still manifest, both in attitudes and in expenditure. Commercial interests dominate to such an extent that it is more useful to describe an ‘aid industry’ rather than an aid program as aid pays top Australian private sector premiums when it could be more effectively supporting local organisations.
- The continued preference for Technical Assistance both inhibits the ability of the Australian aid program to deliver the maximum benefits to the poor, particularly as it can be linked to a clear push for economic reform in recipient governments.
- The aid program needs a greater level of accountability and transparency if it is to achieve significant quality improvements.

Climate Change and Aid

our region’s greatest challenge

There is possibly no greater issue likely to affect the future effectiveness of the Australian aid program than its failure to adequately address the global climate crisis. The struggle to prevent climate change is by no means over (in some parts of the

world it arguably yet to begin) and the imperative to make the necessary lifestyle and institutional changes necessary to prevent catastrophic climate change remains a primary priority, particularly for the rich industrialised world which produces 80% of greenhouse gases.³⁴ However, it is clear that the global north’s addiction to fossil fuels has already committed the world to an inescapable degree of climatic change. Australia’s continued reluctance to take the issue of climate change seriously will dramatically impact upon the future success of its aid and potentially undermine the progress of developing countries to date.

Numerous studies have highlighted the disastrous impact that climate change can have on development progress and poverty reduction in developing countries.³⁵ In a report forewarning the ‘End of Development’ unless global aid initiatives deal with climate change, the New Economic Foundation notes that “In 1998, hurricane Mitch destroyed three quarters of Honduras’s GDP in a matter of days... According to the prime minister, Mitch set back Honduras’s development by two decades.”³⁶ In the Pacific region, the number of people affected by weather related disasters increased by 65 times between the 1970s and the 1990s with global warming and it is clear that unless drastic action is taken soon, these figures will only increase.³⁷

Nor is it only large scale disasters which threaten to undermine development priorities. In Bangladesh loss of coastal land due to rising sea levels are estimated to affect one quarter of the population, some 35 million people.³⁸ In addition, the impact of rising sea and air temperatures will also increase the spread of diseases and threaten food security, with catastrophic consequences for the world’s poor. A joint report into *Poverty and Climate Change* by several international development agencies revealed that ‘unless concrete and urgent steps are undertaken to reduce the vulnerability and enhance adaptive capacity of poor people’ climate change has the potential to reverse progress in meeting all seven of the development-related MDGs by 2015.³⁹

The good news, as far as climate change is concerned, is that there is strong evidence which suggests providing the appropriate adaptive and preparatory assistance can significantly reduce the impact of climatic disasters on the poor. Following a devastating cyclone in Bangladesh for instance the

Bangladeshi government instigated a disaster preparedness plan which is estimated to have saved 2.5 million lives during the 1990s at around US\$6 per life saved.⁴⁰

Despite the severity of the crisis and the demonstrated effectiveness of preparatory adaptive measures, over the past decade Australian aid for climate change adaptation has remained dismally low.

Since 1999 AusAID claims it has supported three major bilateral climate adaptation projects at an estimated current cost of around \$20m.⁴¹ Two of these initiatives, accounting for 85% of this funding went directly to the Australian Bureau of Meteorology and an Australian company for climate monitoring and prediction services.⁴² This leaves one major AusAID funded bilateral aid project directly engaged in climate adaptation in the past 7 years – currently estimated to have cost \$3m.⁴³ In addition, late last year AusAID revealed that “Given the enormous scale of the resources needed to mitigate the causes of climate change [it] has not funded mitigation through individual bilateral programs.”⁴⁴

Australia’s weak bilateral engagement in climate adaptation and mitigation projects is frequently played down by emphasizing its involvement in multilateral initiatives, particularly the Global Environment Fund (GEF). Since 1999, Australia has contributed an average of \$9.8m per year to the GEF of which only one third is dedicated to climate change initiatives (\$3.25m per year).⁴⁵ Moreover, despite its obligations under the the UNFCCC Australia is still yet to contribute to the UNFCCC Adaptation Funds designed to assist LDC’s and Small Island Developing States cope with climate change.

This year’s budget statement suggests a gradual, if reluctant, recognition of the need to increase aid funding for adaptation to climate change noting that ‘to achieve and sustain adequate rates of economic growth, developing countries in the Asia-Pacific region need to confront a number of environmental challenges including climate change.’ However, in light of the threat posed by climate change in undermining the success of the aid program as a whole the \$32.5m earmarked for ‘climate change partnerships’ in 2007-08 still falls well short of a genuine commitment commensurate with the scale of the crisis.

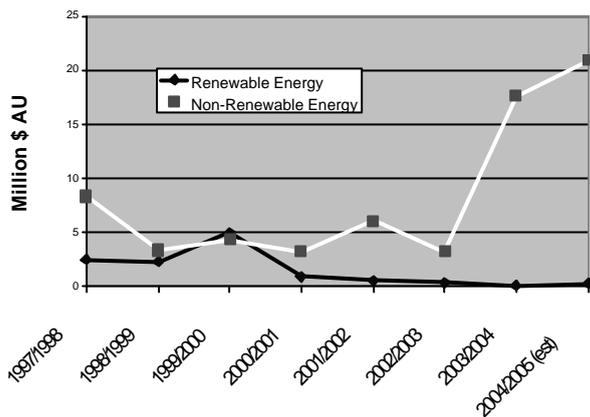
Particularly concerning is the demonstrated preference within the aid program for reactionary aid, rather than investments in climate adaptation and disaster preparedness.

When we compare the meagre offerings available for climate adaptation and disaster preparedness to the one billion dollars in aid flamboyantly promised to Indonesia in the wake of the Asian tsunami, it is clear that Australia’s strategy in dealing with the impact of climate change on development firmly rests on the side of reactive, rather than proactive policies.

Not only is reactionary aid vastly more susceptible to the whims of political expediency, it is demonstrably less effective than aid spent preparing communities for potential disasters. Evidence suggests that preparing for disasters is between 7 and 13 times more cost effective than funding post-disaster recovery (not to mention the obvious benefits to the people affected).⁴⁶

In terms of the effectiveness of Australia’s overall aid program, more concerning than the low quantity of aid allocated for climate change initiatives is the way in which climate considerations are treated as a separate issue to core development activities. As a joint study by several multilateral and bilateral aid providers demonstrated in 2003, the potential threats of climate change to development programs “is best achieved through mainstreaming and integrating climate responses into development and poverty eradication processes, rather than by identifying and treating them separately.”⁴⁷ Not only does separation run the risk of climatic shifts undermining ill-considered development initiatives, it also allows for development activities which increase susceptibility to climatic factors, or contribute to the climate crisis.

This is exemplified most starkly when considering the Australian aid program’s track record on energy provision which demonstrates a history of promoting fossil fuel dependence in the energy hungry developing world. In 2004-5 \$22.2m was spent on fossil fuel energy projects through the aid program while only 238,000 was spent on renewable energy projects.⁴⁸ As Figure 3 demonstrates, over the past decade there has been a steady movement away from renewable energy projects towards climate intensive energy sources.

Figure 3: Aid energy expenditure 1997-2005

When it comes to funding climate intensive development activities the exploits of Australia's Export Credit Agency, EFIC, are even more concerning. AID/WATCH research has shown that during the decade to 2004 EFIC funded over \$7.6bn worth of fossil fuel related investments, while only \$67m in support was provided for renewable industries – a ratio of over 100 to 1.⁴⁹

Despite the weight of evidence emphasizing the need for climate considerations to be mainstreamed into development initiatives more generally, Australia persists in seeing climate as a separate, predominantly environmental, issue. Nowhere is this more apparent than around the issue of regional security, which occupies a substantial proportion of Australia's aid budget.

A greater Security risk than the 'war on terror'

A number of studies overwhelmingly demonstrate that climate change presents one of the greatest threats to global security, far greater than global terrorist groups. In a report produced by the Oxford Research Group, climate change was identified as the primary immediate challenge to international security, with two of the remaining four main threats ('competition over resources' and 'marginalization of the majority world') also likely to be exacerbated by the climate crisis.⁵⁰

A recent report by Christian Aid suggests that unless strong preventative action is taken, by 2050 climate change will increase the number of displaced people globally to at least 1 billion.⁵¹ The stresses placed by this displacement alone (let alone the heightened conflict over diminishing food and resources, and the exacerbated spread of disease) will almost certainly be felt most severely in poor island states.

However, as an article published by the Lowy Institute last year reveals, in Australia "the wider security implications of climate change have been largely ignored and seriously underestimated in public policy, academia and the media".⁵² Despite the considerable focus on security within the aid program, climate considerations remain conspicuously absent from Australia's security agenda. Speaking on the topic of 'Aid and Security after the Tsunami' in 2005, the director general of AusAID, Bruce Davis, did not even mention the term 'climate change'.⁵³

How significant is the climate impact likely to be on Australia's aid?

The World Bank estimates that one quarter of its projects are at risk from climate change.⁵⁴ While AusAID has so far refused civil society requests to conduct a climate audit of the aid program, there is no reason to expect Australia's aid would be any less affected. Indeed, given that low lying Pacific states are expected to be some of the worst effected by climate change, it is very possible that Australia's aid projects are at greater risk. All of Australia's aid program to Tuvalu, for instance, will be significantly compromised if the entire country is forced to relocate due to rising sea levels.

It must also be noted that the future impact of climate change on majority world development will be directly influenced by the extent to which the global community acts to reverse the causes of climate change. The United Nations Framework Convention on Climate Change (UNFCCC) makes it clear that rich, industrialised countries must take the first steps to tackle global climate change.⁵⁵ This is not the place to discuss the exact methods by which this should occur, suffice to say that the climate crisis is so dire that we cannot afford to be held back from what is practically necessary by what is politically palatable.

Getting Real on Climate Aid

From the point of view of the planet and the world's poor, there is a pressing need to immediately mainstream climate considerations into every aspect of Australia's aid program.

The first step must be to ensure that Australia ceases all support (both bilaterally and multilaterally) for all non-renewable energy projects and actively assists developing countries to shift towards renewable energy solutions appropriate to their environments and needs. Energy provision has been repeatedly shown to play a vital role in alleviating

poverty, however energy projects which promote fossil fuel dependence lock developed countries into a destructive, dead-end model of development.

Similarly, while the \$200m Australia has dedicated to reducing deforestation in the Asia Pacific is a contribution to an undeniably destructive process, the need to facilitate a shift towards renewable energy production is of equal if not greater necessity. Deforestation accounts for around 18% of global emissions. Fossil fuels combustion accounts for around 75-80% and the majority world's demand for energy is set to overtake the industrialised north's usage within 5-10 years.

Alongside this need to end climate intensive development is the corresponding imperative to facilitate adaptation and disaster preparedness, particularly within low lying pacific states. Numerous reports echo the UNEP in highlighting that it "is the poor, in Africa and developing small island states and elsewhere, who will suffer the most, even though they are the least responsible for global warming."⁵⁶ There is both a practical and an ethical imperative for the developed nations who have created the climate crisis to provide assistance to those developing states who will be worst affected by it. In light of this, several commentators have noted the need for adaptation funding to be provided in addition to existing aid budgets through global adaptation funds financed by the majority world.⁵⁷

Whether enacted bilaterally or multilaterally the message is clear: unless Australia's aid actively assists poorer states to adapt to climate change both past and potential development achievements will be severely threatened.

Finally, and most importantly, efforts to prepare the developing world for the impact of climate change must be conducted in parallel with the equally pressing need to mitigate catastrophic climate change in every way possible. In the case of the climate crisis, prevention is unquestionably the best form of cure and it must occur at both a domestic and international level.

Tied Aid

a systemic problem

One of the most consistent recommendations to come out of the recent push for more aid effectiveness has been the importance of 'untying' aid. Aid is tied in three ways: aid which must be used exclusively to purchase goods and services from suppliers based in the donor country (nationally-tied), aid which must be spent on a particular project designated by the donor (project or program-tied) and aid which is tied to some sort of criteria (performance or condition-tied). All three, in some way diminish the effectiveness of Australian aid.

Nationally-tied Aid

Research has shown that tying aid to national procurement results in vastly less effective aid overall and has little impact on public approval rates for aid as its proponents claim. Studies by the OECD and the UN reveal that nationally-tied aid is up to 30% less efficient than untied aid.⁵⁸ In the case of food aid, OECD reports show tying aid can produce aid which is 50% more expensive than it would be if purchased in country.⁵⁹ The result is that the overall value of tied aid is considerably less than officially stated amounts. Tied aid also reduces competition in contract procurement resulting in less transparency and increasing the risk of corruption⁶⁰.

Because nationally-tied aid promotes national interests in aid provision, it is antithetical to donor harmonisation. Programs tend to be aligned vertically along national lines, rather than across sectors, favouring international co-operation.

Moreover, as it precludes organisations in recipient countries bidding for contracts, nationally-tied aid reduces local capacity by not investing in local enterprises and forgoes the local knowledge which organisations in recipient countries provide. It also reduces the potential effect such aid could have, if spent locally, on stimulating local economies.

Following sustained pressure from civil society groups, countries such as Ireland, Norway and UK have officially untied their aid programs from national procurement. Australia also made this welcome step in April 2006.

Informally tied aid

However, the legacy of tied aid appears difficult to shake. One year on from the official untying of

Australian aid AusAID revealed that only two major contracts had been awarded to a non-Australian or New Zealand company.⁶¹

Despite its formal untying, it is clear that the Australian aid program informally privileges Australian companies and national priorities. The reason for this, as Catrinus Jepma, noted in his landmark study is that ‘tying is not only determined by formal arrangements, but also informal understanding, or even as a secondary consequence of an arrangement already in effect.’⁶²

Australian companies have the domestic connections and knowledge of the tendering process necessary to give them a substantial edge over organisations in recipient countries. The commercial ‘aid industry’ in Australia maintains very close links with AusAID through a range of connections including Australia’s Aid Advisory Board.

Current procurement guidelines do not require tendering for AusAID contracts under \$500,000 (under \$6m for construction contracts) nor do they require advertising within the country (or language) in which the service will be used.⁶³ Moreover, as the section below on project-tied aid demonstrates, the continued practice of tying aid to specific projects allows donor countries to select aid sectors which favour domestic suppliers’ strategic advantages.

Australia’s White Paper on aid explicitly acknowledges that ‘allowing organisations based [in recipient countries] to bid for contracts to supply goods and services to the aid program is widely accepted as a way of improving aid effectiveness and efficiency.’⁶⁴ However, the continuing low involvement of local organisations in aid delivery demonstrates that the formal process of ‘allowing’ recipient country organisations to bid for contracts is not enough. It is clear that additional steps must be taken to deal with the informal barriers which prevent organisations in recipient countries from playing a more active role in their countries’ development.

“Investing in people” was one of the four key themes identified in the Australian Aid *White Paper*; however until the Australian aid program begins actively facilitating the provision of aid through local organisations, Australian aid will continue to ‘invest’ primarily in Australians, not people in recipient countries.

Project-tied aid – in whose national interest?

Since 2000 nearly all Australian aid became ‘project-tied’ in that it must be spent on specific projects identified by Australia. Project-tied aid is at odds with a wealth of aid effectiveness literature which reiterates the need for ownership of the development process by aid recipients. Aid tied in this way reduces the role of recipient countries in identifying development priorities and decreases the involvement of local organisations and government departments in the provision of foreign aid.

A common justification for the preference of project-tied aid over more general budgetary support, which was a past focus of Australian aid, is that the latter is more prone to corruption in countries which lack capacity in public financial management. However, a recent joint OECD DAC report revealed “no clear evidence that budget support funds were, in practice, more affected by corruption than other forms of aid”.⁶⁵ In fact, the report found that delivering aid through recipient countries financial management systems tends to enhance the quality of these institutions whilst reducing transaction costs, increasing local ownership and facilitating harmonisation between donors.⁶⁶

PNG Prime Minister Michael Somare perhaps best describes the on-the-ground manifestation of project-tied aid:

*[Australia’s] aid money is totally controlled by them. They decide how much money they want to spend on PNG and on what projects. They keep the money in Australia. They manage it through AusAID. They appoint their own companies in Australia to manage the projects. They decide on who carries out the projects.*⁶⁷

Program-tied aid – The future of Australian aid

Since the 2006 White Paper, Australia has entered a new phase of aid provision where most aid program expenditure looks to be encompassed by broad sectoral initiatives which are tied to the four White Paper objectives.

Whilst aid is still project-tied, it is situated within more comprehensive whole-of-sector approaches which have been crafted in what seems to be an increasingly ideologically motivated way, with even less room for recipient countries to articulate their own developmental needs, particularly if they diverge on questions of economic management – as has been the case in the past between the Fretilin-lead government of East Timor, and Australia⁶⁸.

In many ways the new initiatives resembles the structural adjustment approaches of last century, albeit with a more human face, as they are encased in a discourse of working in 'partnership' with 'mutually agreed' goals and objectives.

The recent Aid budget announced \$2.4 billion in supposedly 'new' aid initiatives, most of which were essentially a re-configuration of the way Australia undertakes its key health, infrastructure and education programs in more whole-of-sector, harmonised ways. We now have half-billion dollar, multi-year programs in health, education and infrastructure, which replace the more *ad hoc* approaches of the past.

While on the surface this harmonisation may seem sensible, closer examination suggests that these new programs are configured to specifically benefit the promotion of 'economic growth' to the possible detriment of a poverty alleviation or needs-based focus. Below is an example of how this new, harmonised approach works.

Infrastructure for Growth is a new aid package of \$505 million over five years. *Infrastructure for Growth* will, according to 2007/08 budget statements, 'help partner countries address critical infrastructure constraints to economic growth' so as to:

- strengthen market access
- promote regional trade and integration
- increase productivity
- maintain better economic infrastructure, and
- remove impediments to private investment in infrastructure

The program also implies a strong role for Australian assistance to work within recipient countries' own public service, particularly in financial management, budgeting, procurement and infrastructure contracting.

Whilst intuitively, one would view the need for 'infrastructure' in sectors such as transport, water and sanitation or utilities, where aid can specifically address gaps in recipient country capacities in a way that is locally owned. This infrastructure program develops a much different picture. This half billion dollar package appears to:

- be specifically aimed at ensuring the economic levers of a recipient country are geared towards private interest and liberalised regional trade

- embed Australian assistance in the key financial decision making areas of the recipient governments
- put the need for critical poverty focussed infrastructure a distant second to the huge financial contribution that Australia will make to promoting economic reform.

On a more positive note, the similarly large packages in Health and Education look to be geared towards basic service provision at present and appear to provide a redoubled commitment to these crucial needs. It is hoped that they will support and enhance national health and education strategies on the basis of need, and not be similarly ideologically motivated.

Performance-based aid

...the thick edge of the aid wedge

Arguably the most heavy-handed form of tied aid is the conditions which can be placed on the recipient countries, in order to receive aid. In an Australian context this can be observed with the recent emergence of a 'performance initiative' program.

Whilst current rhetoric on aid is encased in language such as 'partnership' and 'mutually agreed needs', the recent Budget announcement of \$115 million in 'performance initiatives' suggests that these are perhaps not the agendas that recipient countries themselves have identified.

Performance initiatives paradoxically seem to be a way of speeding up the acceptance of economic reform in-country by dangling aid carrots as an additional, leveraging approach. Performance incentives, as it is argued in the recent aid budget statement, will promote improved governance by providing additional resources when countries reform.

According to recent Budget statements the performance incentives scheme will provide 'reform advocates' with 'meaningful incentives that can elevate the profile of debate about reform, and influence the adoption, consolidation and spread of reform'⁶⁹. In this context, incentive payments are made on agreed performance milestones.

However whilst the milestones are essentially in political and economic reform and management such as "education management, improved budget management, utility regulation, private sector

development and sub-national government administration”, the incentive payments will be for high priority areas such as “roads, health and education”. A cleverly designed approach.

New country strategies for the key recipients of Australian aid are now being redrawn that are supposedly based on ‘mutually agreed’ needs – however since it is the demands of the 2006 Australian White Paper, not the countries themselves, that has initiated a redrawing of country strategies, this is completely contradictory to the concept of nationally owned capacity building and poverty reduction strategies.

ActionAid’s 2006 *Real Aid* report unpicks this mentality. It describes a prominent belief amongst donor governments that aid works better in sound policy environments, which suggest an easy answer in aid programs, to “use technical advisors to try and shift government priorities in ways that *seem* sensible” [emphasis added]⁷⁰. The ActionAid report goes on to describe the way donors try to use technical assistance to create domestic ownership of the reform process, leading to the contradictory situation where consultants have supposedly drafted country-owned strategies for poverty reduction. The parallels with what appears to be happening at the moment in Australia are stark. We have the paradoxical situation whereby it is only Australia who seems to be talking about developing these ‘mutually agreed’ goals.

Minh Nguyen’s recent paper on the rise of a re-badged form of conditionality is prescient here.⁷¹ He writes “while few would oppose donor or lender conditions to ensure that funds are well spent, current practices have gone beyond what is necessary for basic fiduciary accountability. Conditions are now so intrusive that they can cover recipients’ trade and investment policies and even the structure of government”. He adds “Conditionality that is intended to accelerate externally designed policy reforms in recipient states – as opposed to local solutions to local problems – will be little different from past practices”.

How much tied aid is real aid?

Estimating the impacts of the many manifestations of tied aid on overall aid effectiveness is a difficult and a somewhat speculative task, particularly as they occur at many different levels of the aid delivery process. In their analysis of global aid flows, ActionAid UK suggests that using a

conservative estimate of mark-up costs, around 20% of tied aid is ‘phantom’ aid.⁷²

The persistence of informally tied aid in the Australian aid program has meant that more than 90% of Australian aid contracts are still provided by Australian companies.⁷³ Even if we suppose that only half of this is due to informally tied aid, using ActionAid’s figures that still leaves around 9% or \$216 m of the Australian aid budget which could potentially be considered ‘Phantom Aid’.

Commercial interests in Aid

...the boomerang continues

A 2006 survey of the Federal parliament by AID/WATCH revealed that 64% of Parliamentarians currently support promoting Australia’s domestic industry through our aid program⁷⁴. This finding seems to hark back to a time when it was widely thought that the Australian public would only accept federal aid expenditure, if it could be seen to be promoting Australian industry.

Whilst public attitudes have overwhelmingly shifted in favour of supporting a more ‘international’, poverty focussed approach to aid, it is clear the promotion of commercial interests in aid still have implicit political support if not the explicit promotion that once existed.⁷⁵

In a number of reports and analyses over the last 3 years AID/WATCH demonstrated that this constitutes ‘Boomerang aid’ – where aid bypasses the people that need it most and winds up funding Australian companies, consultants, advisers and goods and services⁷⁶.

This critique must have struck a chord. Until recently AusAID openly revealed on its website that Australians deliver upwards of 80% of the Australian Aid program with unofficial evidence suggesting it could be much higher⁷⁷. The AusAID website also, until recently, enthusiastically promoted the participation of Australian business interests in the Aid program. These more explicit references have now been removed.

Two years on from AID/WATCH’s 2005 *Boomerang Aid* report, there have been some significant changes in the way aid benefits Australian interests. Australian Government Departments are receiving more aid, reducing the percentage managed by Australian Companies. In addition, Global

Initiatives or Multilateral Agencies seem to be receiving more funding, particularly in areas that have previously not met with much success when funded bilaterally through Australian Companies.

This can be observed in Australian food aid, previously contracted to the AWB and now more recently managed through the UN World Food Program. Or in HIV/AIDS programs in PNG, once managed by Australian Companies and now funded through initiatives such as the Global Fund and the Clinton Foundation.

These interesting shifts aside, the dominant role of private companies remains clear. For instance it is still the case that the top ten companies who manage Australian aid manage roughly half of all aid contracts. AusAID has just revealed that 45% of the Aid program, or \$1.35 billion is available for tender to private Australian companies⁷⁸.

So where is this \$1.35 billion in contracted aid going? The Tables 8 and 9 reveal the companies who received largest amounts of Australian aid up to and in 2006. As it can be observed, these are not 'branded' companies and most would be relatively unknown in the wider Australian public. So what do we know about how they work?

Some companies in the list above have a specific area of specialisation - JTA International for instance manages its \$127 million dollar stock of contracts in the Health sector throughout the Pacific. Similarly, Land Equity International, a company with historical ties to mining giant BHP and with a consequent interest in resources, is focussed in its repertoire of contracts on the delicate issues of land registration and land management⁷⁹.

However most of the companies above prove adept at tendering for most projects in just about any sector. Cardno ACIL, GRM international, Coffey International and others all easily fit the description of an aid 'body shop'. They commonly started life as engineering and/or agricultural companies, and have styled themselves as 'project management firms'. The key to the success of these companies has been in their ability to diversify into sectors as broad as health, education, governance and capacity building by moulding to fit project tenders when they become available by keeping large databases of private consultants who can then service the various contracts that are tendered for. Short-term and expensive contracted expertise rather than an

embedded knowledge of a specific development context is a big weakness of this model.

Table 8 Total Ausaid contracts under management- to end 2006

Top ten Companies	Total Contracts
Cardno ACIL Pty Ltd	\$366m
Coffey International Development	\$337m
Hassall & Associates Pty Ltd	\$231m
GRM International Pty Ltd	\$196m
JTA International Pty Ltd	\$127m
URS Australia Pty Ltd	\$107m
IDP Education Australia Ltd	\$100m
GHD Pty Ltd	\$85m
Sinclair Knight Merz Pty Ltd	\$69m
Austraining International Pty Ltd	\$51m
➤ Total top ten companies	\$1,670m
➤ Total of all contracts	\$ 2,991m
➤ Percentage of top ten	%56

Source: AusAID Senate Order List for 2006 Calendar year

Table 9 Total of AusAID contracts tendered in 2006 (Calendar year)

Top ten Companies	2006 Contracts
Cardno ACIL Pty Ltd	\$164m
GRM International Pty Ltd	\$81m
Austraining International Pty Ltd	\$43m
GHD Pty Ltd	\$42m
Land Equity International Pty Ltd	\$29m
Sinclair Knight Merz Pty Ltd	\$24m
Hassall & Associates Pty Ltd	\$22m
Coffey International Development	\$16m
Kellogg Brown & Root Pty Ltd	\$15m
URS Australia Pty Ltd	\$14m
➤ Total top ten	\$449m
➤ Total 2006 contracts	\$999m
➤ Percentage of top ten	45%

Source: AusAID Senate Order List for 2006 Calendar year

ACIL (now owned by Cardno), SAGRIC (recently purchased by Coffey International) and GRM have been around the longest. All have been involved in corporate take-overs and buyouts, so that the 'aid' company sits within corporate portfolios with diverse commercial interests. Any one company could be running a whole array of vastly different projects. Here is a hint of the diversity of contracts that are managed by these companies.

Cardno ACIL

- Roads Regravelling – PNG
- Education – Fiji
- Technical Assistance – Aceh
- Law and Justice and Electoral Support – PNG

The attractiveness of purchasing key Australian aid provider ACIL, is revealed in the Cardno prospectus of 2004.

“AusAID is currently ACIL’s major client, representing 75% of current projects and accounting for over 90% of ACIL’s revenue in 2004FY.... The objective of the [acquisition] strategy has been to look for opportunities to add revenue through cross selling ... There is potential for Cardno to use ACIL’s client relationships in the development aid sector, to help secure more engineering and management work.”⁸⁰

With an ex-AusAID executive now at the helm, Cardno ACIL looks set to continue its good fortune in securing aid contracts.

GRM International

- Agriculture – Cambodia
- Public Sector Capacity Development – East Timor
- Law and Justice – Solomon Islands
- Targeted Training Facility – PNG

Of the top ten companies highlighted above several have an affiliation with the commercial portfolio of James Packer. Both GRM and 11th ranked company MDI are wholly owned subsidiaries of Packer’s Consolidated Pastoral Company, one of Australia’s biggest beef exporters. Furthermore, 50% of IDP Education, also on the list above, was sold in 2006 to SEEK Ltd – part of Packers PBL media group⁸¹.

With the rest of the Packer empire holding livestock, media and gambling interests in the Asia Pacific region, the potential for conflict of interest can only be mitigated by thorough-going transparency, particularly insofar as GRM and others work closely within the legislative environment in several Pacific nations.

Coffey International Development

- Economic Governance – Philippines
- Regional policing – Pacific
- Basic Education – PNG
- Criminal Justice assistance – Cambodia
- Grains Processing - Iraq

Coffey International Development has in recent years purchased one of the largest private recipients of Australian aid, SAGRIC. Now the development arm of Coffey, SAGRIC sits within an impressive

suite of mining, engineering and consultancy subsidiaries.

There are enormous structural flaws in subjecting such large quantities of Australian aid to large private companies, not the least to those companies who often sit within large corporate structures with diverse commercial interests. Kellogg Brown and Root, perhaps the most widely known example, is a subsidiary of US giant, Halliburton.

It is absolutely not the intention of this report to allege wrongdoing – however the potential for conflict of interest is manifest unless the current lack of scrutiny of Australian aid projects is redressed.

Commercial-in-confidence agreements protect the details of all private companies who manage Australian aid, and rarely if ever is the performance of these companies in the sectors they manage available for public scrutiny. If public evaluations exist they are diplomatically worded, do not mention the role of the private companies managing the project or their profit margins and they present descriptive rather than analytical reports of project outputs.

An audit of the \$1 billion dollar Tsunami Package conducted by the Australian National Audit Office (ANAO) provided a rare glimpse of some key issues with private contractors, a concern that contracts were being awarded without competitive tendering despite being advertised as such, and the lack of mechanisms to adequately report project delays or concerns about allocations of funds.

One Australian construction management firm, it was revealed in the ANAO audit, received an initial reconstruction contract of \$2 million and despite an AusAID investigation of the disbursement of this funding, the company went on to receive \$20 million in additional funds without going to any open source tendering⁸².

The continued reliance on private companies in the Australian aid program also reveals a flaw in the process to fully untie Australian aid – suggesting that this welcome move has not structurally changed the very basis of contracting processes, which is geared to promote Australia’s own national interests.

Furthermore, as this contracting process remains murky and many of the companies do not give accurate breakdowns for how they account for the

money to the public, it is impossible to decipher exactly how much can be considered 'Real Aid'. A conservative estimate would suggest 10% of the total aid program would be subsumed by profit margins, though some contractors anecdotally suggest the real figure would be much, much higher.

Technical Assistance

an aid anachronism

A major influence on the contracting of Australian aid is the significant reliance on 'technical assistance' (TA) also known as Technical Co-operation (TC). Principally invoked as a mechanism for 'capacity development', many of the AusAID projects managed by Australian companies fall into this category, which also includes research, advisory or consultancy services funded through the aid program.

Internationally, TA has been the source of considerable criticism for over 40 years, principally due to its high cost and demonstrated lack of effectiveness in developing capacity.

Expatriate consultants being paid upwards of \$1,000 a day to work in environments where people barely have enough food to eat is one of the most criticised aspects of international development assistance. Not only do the high wages of foreign technical consultants frequently create resentment amongst local staff, they have also been shown to increase the cost of aid by at least 25%.⁸³

Even more concerning is that despite its excessive cost, there is little evidence to suggest TA actually works as a means of increasing capacity in developing countries. According to the OECD, "There is little data based analysis of the overall effectiveness of technical assistance as an aid instrument."⁸⁴ Rather than any direct correlation with capacity building, TA has been identified as fostering a culture dependency on foreign aid. What is often a continuous influx of foreign 'experts' tends to displace local knowledge, in fact reducing capacity in the long term. In a report in 2000, the World Bank concluded that the 100,000 Technical consultants in Africa each year had "precisely the opposite [effect] of the capacity-building intentions of donors and recipients" and in fact "probably weakened capacity in Africa"⁸⁵. It is perhaps hardly surprising then that OECD-DAC studies have found

no positive correlation between TA and economic growth or poverty reduction.⁸⁶ Moreover, TA has almost universally been shown to undermine ownership of the development process by recipient countries, a fundamental principle of the Paris declaration. As UNDP noted in 2003: "Almost everyone acknowledges the ineffectiveness of technical co-operation in what is or what should be its major objective: achievement of greater self reliance in the recipient countries by building institutions and strengthening local capacities."⁸⁷

It is for this reason that TA has been described by the Dutch Ministry for Foreign affairs as "an aid anachronism – no longer viable in the form it has taken for many years."⁸⁸

Despite these damning findings, TA continues to play a prominent role in the Australian aid program. The OECD DAC peer review of Australian aid released in early 2005 revealed that 46% of Australian aid was dispersed as technical assistance, more than twice the OECD average of 22%.⁸⁹ More recent data on TA in the Australian aid program has been difficult to ascertain, however the continued prevalence of TA in a number of focus areas suggests it is more likely to have increased than decreased since then.

The \$23 million rejuvenated Enhanced Cooperation Package (ECP) in PNG is reliant almost entirely on technical assistance. Whilst the intent to spend the vast proportion of this package through the Australian Federal Police absorbed most media attention when this program was disbanded in 2005, another element of ECP was the secondment of Australian public servants to various arms of the PNG State. The key focus was Finance, Treasury, Law and Justice and Border Security. Rumours also spread within PNG that ECP officials were engaging in intelligence gathering operations as part of their technical assistance work under ECP.⁹⁰

Evidence suggests that some technical assistance contractors have been occupying in-line positions, defeating the purpose of skills transfer and more concerning, potentially undermining sovereign decision making in recipient countries.⁹¹ As at 20 November 2006, there were 42 Australian public servants working in a variety of non-policing 'advisory' positions in the PNG bureaucracy, this included 27 in economic and public sector administration agencies, 7 in law and justice agencies and 8 in border and transport security agencies at a total cost of \$23 million.⁹² This is

despite specific cautioning by the OECD-DAC review that “In PNG, the significant volume and scope of technical assistance [provided by Australia] could contribute to undermining capacity building and inhibiting local ownership”.⁹³

This trend is also apparent in the Solomon Islands where the non-policing component of RAMSI is overwhelmingly reliant on the procurement of Australian technical contractors. Magistrates, prosecutors, solicitors, court officers, legal policy advisors, and advisors to the ombudsmen and a range of financial and economic advisors all on large private contractor salaries comprise the RAMSI technical assistance package.⁹⁴

Given the body of evidence challenging the overall effectiveness of TA in enhancing capacity, its suitability in the Solomon Islands must be questioned. There is also a need to clarify which of these positions in the Solomon Islands are in-line positions as opposed to those working on capacity development. As noted in the OECD-DAC review, “AusAID should consider examining whether the more hands-on approach recently adopted in countries in difficult situations such as the Solomon Islands or PNG - notably resulting in Australian civil servants placed in in-line positions within the partner country government – works against the long-term objective of capacity development and ownership.”⁹⁵

Nor do these consultants come cheap. In reviewing the listed contracts on AusAID’s senate order list it is clear that rarely does a consultant’s short term contract fall below \$100,000, however remuneration can be as high as \$500,000 for a six month stint overseas⁹⁶.

The issue of private consultants receiving vast sums of money needs to be seriously addressed. Particularly in light of the information uncovered around the AWB oil-for-food scandal when it was revealed that three AWB executives, Trevor Flugge, Michael Long and Darryl Hocky were awarded AusAID salaries of up to \$1 million dollars for temporary stays in Iraq as Agriculture and Trade advisors. The broader interests at play were revealed when John Howard was uncharacteristically upfront in Parliamentary Question Time stating that Flugge received a contract to order to “stop American wheat growers from getting our markets”.⁹⁷ In 2003, AusAID became a hive of activity for the recruitment and procurement of private consultants and public

servants to participate in the grand scale reconstruction and recovery process devised by the USA, months before the final decision to invade Iraq was made.

Getting real on technical assistance

The 2006 White Paper suggests it will rectify the pitfalls of technical assistance by placing Australian civil servants, rather than private consultants, in important positions as well as being more explicit as to whether projects provide capacity (work in-line) or build capacity (develop skills transfer). This is a necessary and timely move, however it is doubtful that the use of the Australian public service in place of private consultants will rectify the broad problems with technical assistance.

Technical Assistance can work only where there is a genuine effort to encourage recipient-driven capacity building using local knowledge. Recipient countries must be allowed to take ownership of their own capacity development, identify their own needs and determine whether these are best served with local or foreign technical assistants. As UNDP has pointed out, “when new knowledge is not integrated into indigenous knowledge or production systems, it fails to be useful, despite its potential.”⁹⁸

There needs to be a fundamental rethink of the assumption that Australian ‘experts’ are inherently more knowledgeable than those with local experience. Australian officials are not uniquely skilled simply because of their work within Australia’s high-growth economy, but can be effective only when there is a demonstrated understanding of and responsiveness to local need. An imposition of a purely ‘Australian’ way will only lead to allegations of heavy handedness and unreflective self interest.

A new framework on Performance and accountability, released this February suggests that AusAID will regularly report on levels of technical assistance in the future⁹⁹. This is welcome step, as the value of technical assistance must be proven if it is to be relied on so heavily in the Aid program.

There is the need for greater mutual accountability between Australia and recipient country government’s to ensure TA is used in a way which is not merely perpetuating Australian national interests, but rather, respects recipient countries’ rights to determine their own development.

Transparency & Accountability

'good governance' at home

Cutting across the entirety of the aid program are the issues of accountability and transparency.

High levels of both should ensure a more informed and engaged public, as well as a thoroughgoing check and balance on the effectiveness of key areas of aid expenditure. Furthermore, if Australia is so concerned with 'good governance' in aid recipient countries, those principles must also apply to the aid program itself. Australia could be doing much more to improve in this area, through the contracting system, public reporting mechanisms, and improved evaluation criteria.

The contracting system

Until recently foreign development assistance was excluded from the Commonwealth Procurement Guidelines, designed to ensure the 'efficient, effective and ethical' procurement of all government contracts.¹⁰⁰ This effectively allowed AusAID to individually select contractors for Aid projects without having to go through the meticulous procurement process mandatory in other government departments.

In July 2005 AusAID voluntarily adopted the majority of the mandatory procedures, whilst reserving the right to exempt certain aspects of aid procurement. As previously noted, contracts under \$500,000 (or under \$6m for construction purposes) remain exempt from the procurement guidelines which are also waived for 'other extraordinary aid program procurements' at the agency's discretion.¹⁰¹

While the remainder of contracts theoretically should be advertised through an 'open tendering' process, AusAID also has the option of using 'select tendering' allowing them to 'issue an invitation to tender to... potential suppliers.' In addition they have the option of 'directly sourcing' suppliers when it can be claimed there is 'absence of competition for technical reasons'.¹⁰²

As an example as to how directly sourced contracts can be less transparent, the ANAO Audit found that AusAID did not go to tender for the \$78 million dollar Australian Development Scholarships program announced as part of the Tsunami package, and rather extended the contract for an existing Scholarships provider, IDP Education Australia Ltd.

According to the ANAO, AusAID officials argued to the delegate approving the expenditure that the 'extreme urgency' of delivering the scholarships program justified the extension of the contract¹⁰³.

The Audit argued, "transparent and accountable decisions for expenditure under the FMA (Financial Management Act) are consistent with a more explicit and formal process for approvals for direct sourcing than occurred in this case".

The ANAO Audit also reflected that AusAID is not currently accurately reporting which method it used to procure contractors.¹⁰⁴ That AusAID has acknowledged and committed to dealing with this issue is a welcome step.

Outsourcing procurement

More concerning than direct sourcing of aid contracts is the recent phenomena of outsourcing the contracting process to corporate aid providers. Under RAMSI, unlike other areas of the Australian aid program where the secondment and tendering of consultancy and advisory services is undertaken within the tendering system of AusAID, the James Packer company GRM has been engaged as the de-facto recruitment firm, procuring 'advisors' to work within the Solomon Islands public service in various financial and economic advisory roles.

Publicly available contract information reveals that in the Law and Justice sector, GRM hires magistrates, court officers, legal policy advisers, whilst it manages the Solomon Islands Prison system and assists in investigations within the Ombudsmen's office¹⁰⁵. With a private company working so closely within in the various arms of government it is incumbent on AusAID to ensure a high level of transparency is promoted throughout its operations. A clarification of how GRM functions in these roles is necessary to prevent any questions of conflict of interest of GRM's simultaneous involvement in these sectors.

In many ways it is now more accurate to describe an 'aid industry' rather than a development program. And those in demand within this industry can then demand a very high price. Websites such as the AusAID funded 'Development Gateway' and the websites of key aid recipient companies such as GRM have databases of consultants that they can procure for AusAID programs. They act essentially as job agencies for the aid program.

The appeal of the 'aid industry' was demonstrated most clearly in 2005 when one senior AusAID executive resigned his public service position and one month later became employed as an AusAID private contractor. He was until recently the recipient of two contracts totalling \$467,000 per annum, double the highest executive salaries available within AusAID.¹⁰⁶ This former public servant has now accepted the role as the manager of one of Australia's largest aid management companies.¹⁰⁷

Public Accountability

Access to better information on the details of aid contracts is also essential if the Australian aid program is to ensure the highest levels of transparency in its operations.

Currently all contracts, even those valued at tens of millions of dollars are covered by commercial-in-confidence agreements, and therefore the exact nature of many of Australia's largest aid initiatives are unknown, even as they are completed.

At a minimum AusAID is required to report every recipient of Aid contracts over an annual period in a Contracts List, available on the AusAID website and provide details of all contracts on the Government Gazettal website.

Neither resource provides clear information as to which country a particular contracted project is operating in or in what sector.

As an improvement, contracts listings should include the country, sector and annual disbursements – so they match budget estimates. Annual Contractor performance evaluations of the top ten recipients should also be publicly available documents.

Office of Development Effectiveness

A welcome announcement in last year's White Paper was the creation of a new Office of Development Effectiveness, responsible for an annual review of development spending. This has also constituted an overhaul of AusAID's performance review system which has been outlined in a Performance Assessment Framework released in February. Both certainly have some promise – particularly in committing to better reporting on the quality of all Australian aid initiatives. It is hoped that this will go some way to creating a new level of accountability in the Australian Aid program.

Unfortunately as this new office is answerable to the Director of AusAID, rather than the parliament, its ability to deliver significant breakthroughs in transparency may be compromised. There are fears it may prove to be a further expensive effort in upward accountability. It is hoped that they prove unfounded.

The new Performance Assessment Framework maintains that AusAID is designing a new and less simplistic quality assessment framework that will capture data at the beginning, implementation and conclusion of all aid activities that speaks to the quality of these outputs.

This is a welcome step as there is an urgent need to improve the current system, which provides very limited information. Over the last couple of years the reporting requirements within the AusAID Annual reports on the quality of outputs was that AusAID had to achieve a target of more than 75% of activities receiving an overall quality rating of 'satisfactory or higher'. AusAID duly reports every year that it achieves this benchmark and rarely complements this with further details.

Public Reports

Current public reporting by AusAID is handled by the public affairs unit – which produces glossy brochures with beautiful pictures, but little substance on the quality and effectiveness on current aid programs. The Australian National Audit Office in its audit of the billion dollar Australia Indonesia Partnership for Reconstruction and Development (AIPRD) package recently made this reflection on AusAID public tsunami reports, which contained little information on the timing and progress of expenditure¹⁰⁸. Information on timeframes, benchmarks and whether outputs are met would be an excellent future step.

Government Departments

Finally, with a full quarter of Australian aid being dispersed by government departments other than AusAID, it is important that a greater level of detail on these allocations currently be provided. Currently, this expenditure is not recorded in the annual reports of the relevant departments – such as DIMA or the Attorney Generals Department.

At a minimum whole of government expenditure of aid outside of AusAID, should be wholly transparent, and include information on the projects, programs and contracts that it is allocated to.

All these steps both demonstrably improve Australia's commitment to public accountability, and allow for a far more comprehensive picture of the effective developmental contribution that Australia makes.

Conclusion

a call to action

The fight to end global poverty is an international challenge that no one person or national government can turn their back on. When this challenge is compounded by the additional threat posed by irreversible climate change, humanity is presented with an unquestionable urgency to change its attitudes, behaviours, policies and priorities if we are to ensure an equitable and sustainable future for this planet and its people.

Internationally, the movement for change is well underway. From grassroots civil society movements across the majority world to larger campaigns such as Make Poverty History and the Global Call to Action against Poverty, millions of people around the globe are calling for genuine solutions to the global poverty crisis.

The 2005 Paris Declaration and internationally agreed targets such as the Millennium Development Goals have laid down focused principles to underpin aid and development programs. Whilst they are far from perfect, these international agreements stand alongside an emerging body of aid effectiveness literature which seeks to guide the increasing quantities of aid that are required to end extreme poverty. It is now up to all nations to incorporate this work into their own international aid programs.

However in this context, Australia, a nation that has enjoyed such great prosperity, particularly in the last decade, is not making the development contribution it can and must make.

This report has found Australia's aid program critically inadequate, in terms of both the *quality* and *quantity* of the Australian aid program.

Australian aid, in this year alone, is being inflated by a billion dollars in funding that does not provide any new aid resources directed at poverty alleviation programs in recipient countries.

This billion dollars, accounted for by debt cancellation, full-fee scholarships, and other expenses such as the 'pacific solution' have made Australia appear to be vastly more generous than it actually is.

When considered as a percentage of Gross National Income, Australia's official aid contribution of 0.3% GNI already trails far behind similarly rich OECD nations and is less than half of the internationally agreed target of 0.7%. However, if we exclude the billion dollars of inflated aid, Australia's real aid contribution is at most 0.2% of our GNI, probably lower when considered alongside the raft of problems which continue to impede the overall effectiveness of Australia's aid.

The continued effect of tied-aid, an over reliance on expensive, Australia-based technical assistance including Australian companies, consultants and contractors, and a common perception that aid can be legitimately deployed to serve Australia's own strategic and commercial interests are all factors that fundamentally handicap Australia's \$3 billion aid program. A demonstrable blindness to the additional challenges of global warming is also likely to severely impact upon the future effectiveness of Australian aid.

These key findings of the AID/WATCH report reveal donor interests, donor control of aid funds and donor leverage are still manifest in Australian aid. This is despite a wealth of international analysis that highlights the need for aid recipients to regain ownership of their own development process and priorities if aid is to truly work for the world's poor.

Whilst the findings of this report reveal the immediate necessity of reform in the way Australian aid is delivered and accounted for, it also highlights the urgent need for a broad public debate into not just the quantity, but crucially, the *quality* of Australian aid.

This is a call to action to government to stop this insular approach to international aid, and get real with our aid program.

But significantly, it is call to action to the Australian public to have this urgent debate about aid and to dare to ask – Where is my aid money going? And how can it be done better?

Recommendations

Aid Budget Allocations

- Australia must cease artificially inflating the aid budget by including funding for debt cancellation, processing of asylum seekers, scholarship schemes, national security concerns and government departments. These should be funded in addition to the Australian aid budget.
- Direct support for national health and education systems, promoting the dual principles *equity* and *access*, should account for the majority of sectoral aid funding.

Overall Aid Program Objectives

- The four aid program objectives of the 2006 White Paper should be revised to better respond to international aid effectiveness criteria (See page 9).
- AusAID's core objective should be changed by removing reference to Australia's national interest and specifying a clear focus on poverty alleviation.
- Greater independence in the direction of AusAID from broader 'national interests' would be served by its separation from the portfolio of the Department of Foreign Affairs, and the creation of a cabinet level minister responsible for International Development. This would be in line with the successful United Kingdom model.

Tied Aid

- Australia should set a timeframe for the reduction of the proportion of Australian sourced companies and contractors until 80% of the Australian aid program is managed by organisations and agencies in recipient countries.
- AusAID decision-making is being decentralised to AusAID's in-country offices. For this to be successful, aid programming should occur through aid funds and procurement systems that are managed in recipient countries.

Technical Assistance (TA)

- TA should only be used when appropriately led by aid recipients who must be able to define their own capacity development needs and identify what support, if any, is required from foreign advisors.
- TA should make use of recipient country systems of accounting and procurement.
- Mutual accountability between Australia and recipient country government's is required to

ensure TA is used in a way which is not merely perpetuating Australian national interests.

- In sectors where Australian TA seeks to guide legislation, fiscal choices or government policy, a range of policy views must be provided, not just those identified as priorities by the Australian government.

Climate Change

- Australia must cease all support (both bilaterally and multilaterally) for all non-renewable energy projects and actively assist developing countries to shift towards renewable energy solutions appropriate to their environments and needs, in line with Australia's commitments under the UNFCCC.
- Direct funding for climate adaptation in the majority world must be dramatically increased *additional* to aid disbursements in partial compensation for the disproportionate role of wealthy industrialised countries in causing the climate crisis.
- Climate change considerations should be mainstreamed into all aspects of the aid program to prevent climatic change undermining development progress.

Transparency and Accountability

- Higher quality public reports need to be produced on all aid initiatives, including reporting on key benchmarks and time-frames as well as any changes to initial contracts or levels of funding.
- Annual evaluations of the top ten companies who receive Australian aid should be released, utilising the quality criteria published in AusAID's recent Performance Assessment Framework.
- AusAID should include the location, sector, and financial year disbursements when compiling the AusAID Senate Order lists and accurately report tendering mechanisms on the government gazettal website, including contract increases.
- AusAID should improve responsiveness to requests for information, by empowering AusAID Public Relations employees to respond to public enquiries on aid programs.
- Further information should be made publicly available on contracts, projects and allocations that constitute Other Government Department (OGD) funding.

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