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New Directions in Australian Aid:

The South Pacific Perspective

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Context of aid

The aid debate typically operates on the level that Australia, as one of the world's wealthy nations, has an obligation to provide aid to poorer countries. Too little consideration is given to the effectiveness of official development assistance (ODA) in achieving aid objectives, or indeed, whether continuation of existing aid patterns is appropriate.

Effective aid programs are responsive to international trends. The 1990s have brought dramatic political, social and economic changes, both within Australia and in the global arena, which affect our development assistance policies. Global integration of trade, investment, technology and communication has been tying economies together, while dramatic political and economic changes have swept across Eastern Europe and the former Soviet Union. Rapid changes in technology and innovation, politics and deregulation, and domestic economies have brought a freeing up of international finance and trade in the 1990s. These forces, more so than ODA, are creating new opportunities for developing nations.

At the same time, governments face new development challenges. Population pressure and rapid economic growth have led to indiscriminate exploitation of natural resources, inappropriate land management practices and policies, reduced forest areas and marginalised agricultural land. Increased pressure on water resources has generated conflict between countries over watershed management and water use. In addition, new development concerns have emerged which are not constrained by national boundaries and are already too big for countries to solve individually. They include threats to the global environment, health problems like AIDS, and the illicit narcotic trade. These non-military threats to security require regional or global action.

Changes in the global environment are matched at the domestic level. Australia's new foreign policies seek to pursue her political and economic interests with maximum effectiveness, but in a way that makes as positive a contribution as possible to a more peaceful and prosperous world (Evans and Grant, 1991:321). The policies focus on two potential assets; namely Australia's status as a middle power and its location in the Asia-Pacific region. Priority is given to stronger Australian engagement in Asia through a more deliberate multi-cultural approach. Australia's cultural diversity has

emerged as a strength with the potential to become one of the world's first successful post-nationalist societies with the capacity to cope with the diversity of the global environment. Central to the new initiatives in foreign policy is a recognition that diplomacy, defence policy, economic strategies, development assistance, immigration policy, cultural relations, information activities and human contacts all interact with one another (*ibid*, 328).

These trends should set the framework for future aid policies and strategies. New demands for assistance from the Commonwealth of Independent States and Eastern Europe is drawing aid funds away from Africa, Asia and the South Pacific. Accordingly, the aid resources available to countries in these regions need to be used more effectively than they have been in the past.

As a middle level power, Australia cannot expect to influence development issues outside its immediate regions of interest. The humanitarian needs of North Africa, the Horn of Africa, Southern Africa, and even Central America may be great (ACFOA, 1992:69), but these problems lie outside Australia's sphere of interest. Effective use of Australia's scarce aid resources requires a tight focus toward our regional partners in Asia and the South Pacific. Australia is moving from the donor-recipient relationship of aid, to partnership with our Asian neighbours through economic cooperation and cultural exchange, though Indo-China will have a special case for aid over the next decade. A continuing challenge for Australia's future aid policies lies in the South Pacific region, including Papua New Guinea, where historical ties have generated expectations of continuing ODA support. The response of South Pacific states to Australian aid, is unpredictable, while past performance of projects has generally been unsatisfactory.

The South Pacific dilemma

Aid experience

Throughout the 1980s, South Pacific countries received massive flows of aid, enabling them to cover domestic resource gaps and maintain high investment levels relative to GDP (World Bank, 1991). However, the investment rates did not mean economic growth, and these countries had a significant decline in per capita income over the decade. Overall, South Pacific countries have followed inward-orientated development

policies, investment in infrastructure has not been productive, state enterprises have been a burden on public finances and the growth of the private sector has been stifled by over-regulation.

The evaluation of development assistance projects to draw out lessons for future activities is rarely practiced in the South Pacific. Nevertheless, the author recently located 35 evaluation reports in Papua New Guinea (McKillop and Cook, 1991:5-10) and four evaluations of Australian projects in the South Pacific (McKillop, 1991:35). Development performance has been most unsatisfactory, and a significant proportion of aid resources have been wasted on unsuccessful projects.

The dominant lesson is that problems of organising work and people (administrative and management factors) are major constraints to the effective implementation of development projects. Project evaluations point to designs being over-optimistic in their assumptions about how well organisations will perform (institutional capability). This is especially true for integrated rural development (IRD) projects; while over-reliance on expatriate contract officers to carry out key functions is also a common problem. Specialists provided under projects have been placed in positions where pressure to undertake high priority management tasks takes over from expected training roles. High staff turnover, poor selection and lack of motivation are noted in other evaluations.

A second institutional lesson is that many project designs increase the role of public sector institutions rather than the private sector. Where this involves marketing, the public sector has not performed well. The experience of trying to corporatise public sector activities has also been disappointing. Statutory authorities frequently lose money then call for government assistance, while the management capability for effective implementation has been lacking.

A general problem with South Pacific development projects is an inadequate financial and economic analysis of how farmers or entrepreneurs might benefit from proposed activities. There is also a general lack of market analysis at project preparation. Livestock projects, cash-crop development, horticulture, fishing and reforestation activities have been designed and implemented with little attention to where, how and at what price the products will be marketed. Rural communities who experience failure of their development efforts through poor marketing arrangements or low prices quickly become disillusioned.

Sustainability of infrastructure investments, such as roads, water supplies and power generation, depends on adequate institutional capability to collect fees (cost recovery) and implement effective maintenance programs. For such projects, there needs to be adequate

cost recovery or acceptance of cross-subsidisation to ensure that the infrastructure is maintained. This requires that a sound economic base is generated to enable sufficient funds to be collected for maintenance. Evaluations also point to 'limited cost-consciousness and a lack of prudence in spending' within public sector agencies.

Assessment of aid in the South Pacific at the macro level has led some to the conclusion that the high levels of aid and remittance flows have inhibited development (Bauer *et al*, 1991). Aid has enabled expansion of the public sector, driven up rural wages, depressed agricultural performance and boosted currencies, thereby eroding export competitiveness. Benefits have gone primarily to the urban elite, while rural dwellers have had to cope with a decline in their living standards. The outcome is that the elite have come to demand aid from the Pacific rim countries as a right rather than a temporary gift.

The social framework

The social dimension to development assistance appears to be more significant in the South Pacific than elsewhere. The highly personalised and metaphysical features of local cultures are notable characteristics. At one level, the relationship of rural communities to their land (land tenure) poses difficulties for agencies and politicians seeking to implement rapid change. Project designs which do not reflect an adequate understanding of these land tenure issues can seriously disadvantage intended target groups or result in major implementation delays and disputes.

At a more fundamental level, development programs are impeded by communication barriers. These derive from different perspectives of knowledge. In Melanesian cultures, traditional or true knowledge of ritual and custom is handed from ancestors and its cosmic origins to men of authority: it is personalised and owned by powerful individuals. The value of the ritual knowledge rises and falls with its bearer's fortune. In Western societies, the power of scientific knowledge is now generally dominant. The history of science involves a gradual challenge to traditional forms of knowledge through the systematic observation of nature, the hypothesising of causes, and their vigorous testing under controlled conditions to arrive at theories and laws which explain causes in a rational manner. To the scientist, no knowledge is sacred: it is continually questioned, tested, and the results are made available to all through scientific literature.

These two traditions interact in an unpredictable manner in the South Pacific. The intrusion of foreign influences brought a dramatic threat to traditional knowledge systems. Local institutions were challenged by a new order of deacons, teachers and elders, with their sources of knowledge about the world. In the new order, the highest positions were occupied by outsiders and the

flow of knowledge about the world now came from a more powerful source outside the community. In the face of this intrusion the knowledge of custom has become disorientated and traditional order (eg with respect to land tenure) is often disregarded.

The response of individual societies to outside intervention has varied. In most instances, however, outside rites, rituals, beliefs and practices have been selectively appropriated into local cultures, but the old has been retained alongside the new. When colonial administrations established schools as a vehicle for the transmission of skills and knowledge, for instance, these were initially welcomed by villagers, who saw the schools as the road to the knowledge necessary to achieve the material benefits of an affluent life style. These expectations have been found wanting. Fundamental gaps between village concepts of knowledge and those of the school system inhibited the process: teachers were usually unconvincing spokesmen for the new knowledge and value system; the practical relevance of school knowledge is difficult to demonstrate in village society; and expectations that schools would provide the true knowledge of Western power were not fulfilled.

Today, the paradox of Melanesian countries is that while leaders seek equality with outsiders and the wealth symbols of developed nations, their people remain poorly equipped to master technology and manage modern institutions. Despite massive aid inflows since Independence, teaching standards in schools have deteriorated, the delivery of health services in many rural areas has collapsed, business assets have been wasted away through mismanagement or pilfering, and research institutions have been starved of funds and resources.

Australia in the South Pacific

In contrast to its role in Asia, Australia is a dominant power in the South Pacific. Australia was the colonial power in Papua New Guinea and Nauru, Australian corporations have been prominent in Fiji, Vanuatu and the Solomon Islands and Australia is the main trading partner for most Pacific Island states. This dominance provides a focus for political frustration and nationalist fervour within South Pacific states. Thus, Australia has recently become the target of such political anger in Vanuatu and the Solomon Islands, although anti-colonialist sentiment appears to be declining in Papua New Guinea.

Until recently, Australia's development assistance program followed a reactive response to South Pacific requests. Proposals for assistance were processed with little consideration for the sector or macro-policy implications of individual activities. The result has been that Australian aid has contributed to the maintenance of isolationist perspectives and public sector dominance

which hinders the development of South Pacific countries. On the other hand, a more positive approach for policy reform has the potential to reinforce xenophobic elements in the recipient countries, possibly generating the opposite response to that intended.

The danger is that Australian development policies (for example, the role of women in development) may exhibit ethnocentric ideas about economic and institutional development. This tendency has been reinforced by the rhetoric of NGO lobby groups who promote ideological perspectives. For instance, the approach adopted by some NGOs for 'community participation' in development seeks to empower target communities to tackle development problems independently of government. Outside support for such activities is seen by many governments as interference in their proper role.

Clearly then, Australia's development assistance role in the region needs to be handled with care. On the one hand, there is a need for better analysis of the socio-economic and environmental elements of South Pacific development; on the other, this needs to be done with adequate appreciation and understanding of local cultural dimensions and sensitivities. Moreover, the development assistance program needs to build stronger linkages to regional and multilateral organisations which have the leverage to bring about appropriate changes in macro-economic policies.

Regional organisations

Australia's foreign policy recognises that the increasing interdependence of regional economies requires effective consultation to help strengthen the multilateral trading system, particularly trade and investment flows within the Asia Pacific region. For ODA activities, there is a need to respond to new development challenges which are not confined to national boundaries, while regional programs provide opportunity for more innovative approaches to aid delivery outside the constraints of bilateral relations.

The achilles heel of regional and multilateral aid programs has been the ineffectiveness of institutions operating at this level. United Nations agencies in particular have become corrupted bureaucracies serving the interests of entrenched officials. In this system, ritual conferences have become the excuse for development action.

Nevertheless, the need for regional action is real and some agencies have demonstrated potential for effective development action. The multilateral development banks (MDBs) have been to the forefront in promoting structural adjustment policies which improve the competitiveness of developing countries. While the MDBs still tend to be dominated by economic fundamentalist theorists of the 1980s, they have

substantial leverage in funding, and greater relative capacity to handle, regional and global issues not readily addressed bilaterally. Overall, MDB activities accord with Australia's overseas development cooperation objectives, particularly through generation of a greater potential for trade and investment through increased economic growth and policy reforms.

Future directions

Overview

Australian development assistance policies for the South Pacific need to respond to the dramatic changes of the international economy on the one hand and the poor performance of past development effort on the other. Physical isolation from markets, and smallness, restricts the development options available to Pacific Islands nations. Isolationist policies have further constrained these opportunities.

The continued provision of social services to the people of the South Pacific at the level to which they have become accustomed requires a stronger and more dynamic economic base. Future development assistance programs should therefore give priority to economic development over social services. There is a need to focus on those areas where Pacific nations have a comparative advantage, and promote strategies for the development of these resources in a viable and sustainable manner. This includes a macro-policy environment which provides incentives for such development activity.

South Pacific countries have high-cost economies with few prospects for manufacturing industries. Isolation, sun and sand offers scope for tourism, but the flow-on effects to the majority of the population remain problematic. Mineral wealth may bring capital-intensive investment which generates prosperous enclaves, but the limited flow-on has brought significant social problems.

For the majority of people in the South Pacific, participation in economic development will continue to be related to agricultural pursuits and the sustainable exploitation of marine and forest resources. For a number of the micro-states of the South Pacific, however, there may be no prospects for a sustainable economic base. In these cases, the future approach will require a balance between continued financial 'hand-outs' and migration initiatives.

Bilateral programs

Australia's capability in tropical agriculture and forestry are commonly seen as a significant positive factor in our development assistance role in the region. It also means that Australia can be a direct competitor with South Pacific nations. The establishment of tropical fruit, coffee, tea and pyrethrum industries in Australia has reduced the market opportunities for South Pacific

producers, and these moves are viewed with apprehension in these countries.

As markets become more open the attractiveness of such import-substitution investments will diminish. Moreover, the benefits of research and development investment in Australian industries (for example, mechanical harvesting and improved processing technology) will flow-on to industries in the Pacific region. Increasingly, complementarity of interests between South Pacific producers and Australian researchers, processors, marketing organisations and consumers, should become the criterion for investment decisions in agriculture, forestry and fishing initiatives. For instance, Australia is a significant manufacturer of chocolate and confectionery, and has recently developed new export markets in Southeast Asia. A number of South Pacific countries have infant cocoa industries which are constrained by unreliable market outlets and fluctuating prices. Joint-ventures between Australian manufacturers and South Pacific exporters may have the potential to build the fledgling cocoa industries on a more sustainable basis. Similar opportunities appear to exist for root crops and starch manufacture, seasonal horticultural products, ecotimber from tropical rainforests, non-timber forest products (for example, pharmaceuticals), and marine products.

The response of Australian policies should be a closer linking of aid and trade. The current aid program has an objective of promoting trade through promoting growth in developing countries; helping develop new export markets; and by generating purchases of Australian goods and services. In practice, however, support for Australian trade and commercial interests through the aid program has been limited. In the South Pacific, passive support for expanding public sector agencies has tended to hinder the private sector and trade expansion.

Future aid programs need to give more support to the development of private sector capability in regional countries and to establishing links with Australian industry. This includes increased emphasis to private sector involvement in development project design, mechanisms to help conservative Australian business to gain a 'foot-hold' in the region and twinning arrangements between Australian research institutions and recipient country agencies to work on promising commercial prospects. There is also scope for development activities which raise awareness of the impact of trade barriers and the benefits of economic reform and trade liberalisation.

Rethinking the role of government is central to development assistance policies and strategies for the 1990s. With the generous flow of aid from developed countries and international financial institutions over the past two decades, governments undertook more than they could effectively manage. However, governments

everywhere now face revenue shortfalls and budget blowouts which challenge their ability to maintain existing services. Governments now face a dilemma: on the one hand, they are still engaged in activities which can be more efficiently provided by the private sector; on the other, they face new development challenges which demand action. These require policies for the proper pricing of resources, clearer property rights and resource ownership, taxes and controls on pollution, and greater cooperation between countries to tackle emerging problems which transcend national boundaries.

A realistic response requires less government involvement in those areas where markets work, or can be made to work reasonably well; and more in those areas where markets cannot be relied on. This requires new approaches to the design and implementation of development activities. In the South Pacific, new strategies are required to ensure that any future support is linked to sustainable institutions and services. On the one hand, there needs to be a careful assessment of how aid activities can be designed to operate through the private sector and community organisations, rather than government organisations. On the other, public sector reform is required for those government agencies which will continue to perform key functions in the 1990s. This may involve a basic review of government functions, including identification of activities which can be privatised, delegated to the local community or stopped altogether. There is also a need to eliminate subsidies and transfers, which distort pricing mechanisms and force many public agencies to operate at a loss.

Multilateral agencies

Pressure to reform macro-economic policies is an important aspect of future development options in the South Pacific. Continued support for MDBs should therefore be a priority for Australian development assistance. However, there is a need for this support to be more closely linked to Australia's humanitarian, strategic and trade interests. To date, the World Bank has received the majority of Australian contributions to MDBs. The opportunity for Australia to influence World Bank policies and activities is minor.

Australian interests for engagement in the Asia Pacific region are more readily served by the Asian Development Bank, which both identifies with the region and offers greater scope for Australia, as a middle power engaged in the region, to play a significant role in forging Bank policies and strategies. Our performance to date in taking up this opportunity has been unsatisfactory.

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