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Australian aid in the medium-term after Covid-19:

Implications for the Indo-Pacific

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Australian aid in the medium-term after Covid-19: Implications for the Indo-Pacific

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1. Introduction and purpose

1.1 **In late May DFAT released 'Partnerships for Recovery: Australia's Covid-19 Development Response'[1].** The document summarises Australia's approach to supporting recovery in its sphere of interest in the Indo-Pacific. The document focuses on the next 12-24 months; how DFAT will amend Australia's aid program in the short-term to respond to the urgency of the pandemic. This working paper takes a different perspective: we take a five-year view: after considering the impact of Covid-19 on pre-existing international and national trends, we outline an aid program that may best serve Australia's strategic interests.

Purpose

1.2 **The purpose is to provoke debate on what the Australian aid program may look like in five years' time.** Most discussion in Australian development policy circles has necessarily been focused on the immediate impacts of Covid-19 in the Indo-Pacific, and the appropriateness, cost and timeliness of the Australian response. This approach is formalised by the 'Partnerships for Recovery' policy document. While this is necessary, we consider it a first step. By focusing on short-term 'recovery and resilience' – and not fully integrating this approach with the ambitions of 'Step Up' – we may be deflected from thinking about Australian aid in more relevant, strategic and transformational ways.

1.3 **We focus on four aspects of the aid program: policy, geography, modality and sector.** All are critical to why, how and where the aid program is designed and delivered:

- *policy* will articulate the strategic goals of the aid program from which all other decisions will flow;
- *geography* considers the regions and countries in which those strategic goals can best be prosecuted;
- *modality* determines the instruments and mechanisms for effective delivery; and
- *sectors* considers how strategic goals can be most appropriately pursued through interventions in different parts of the host economy.

1.4 **The paper is presented in eight further chapters.** Chapter 2 provides a summation with no detail. Chapter 3 describes the framing for the paper. Chapter 4 considers how Covid-19 will either accelerate or interrupt pre-Covid international and national trends. Chapter 5 identifies first, second and third order impacts of Covid-19. Chapter 6 presents high-level implications in terms of policies, geographies, sectors and modalities for the aid program. Chapter 7 considers how the aid program could respond in Australia's two key partners in south-east Asia (Indonesia and the Philippines), in Papua New Guinea (PNG) and in the other Pacific. Chapter 8 considers implications and risks. The paper ends with a conclusion.

1.5 **The proposals put forward in this paper should be taken for what they are – views at a particular point in time based on what is known now**. Covid-19 has demonstrated that it is impossible to predict how the trends in Australia, geopolitics in the region, and the unfolding trajectory of the pandemic will play out. Thus, the authors expect the proposals in this paper to be tested, contested, refined, and updated as new events, information and trends reveal themselves (including the October 2020 Australian budget).

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[1] May 29th, 2020. Department of Foreign Affairs, Canberra

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2.   Summary

2.1   **Figure 1 summarises the shape of a forward-looking Australian aid program** in five years' time. Details are to be found in chapter 6.

Figure Indonesia, the Philippines, PNG and the islands

|	Indonesia, Philippines	PNG	PICs
Strategic focus	• **Policy dialogue**, advice and 360-degree'wrap-around' support • **Long-term partnerships**. Replace four-year project cycles with fifteen-year partnerships on key policy issues and constraints • **Revised and more powerful 'whole of government' institutional twinning** arrangements • **General budget support**	• **A twenty year 'compact'** based on clearly articulated responsibilities and accountabilities (including increased access to Australian labour educational and trade markets) • **Reform-dependent budget support** • **'Full-cycle' support** for selected sectors • **Fewer but more strategic and high-level advisers**, with reach back to senior staff in Australian MDAs	• **Mix of co-production agreements for downstream service delivery** (the Australia – PIC social contract) • **Increased access** to Australian labour, educational, trade markets • **Sector budget support**[2] • **Step-change in reliance on local partners, local systems and local standards** • **Sustainability issues fall away** (administrative and / or financial)

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[2] See footnote 22

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3. Framing

3.1 **Contemporary analysis of the impact of Covid-19 falls into five categories:** impacts on the global contestation for power and influence; the performance of nation states in responding to the crisis; physical and mental health; national economies, unemployment, job losses and bankruptcies; and on women, the low skilled, the poor and those dependent on the gig-economy. There has been little consideration of the impact on development assistance in the medium term. The few papers that have been published focus on sequencing (recovery, resilience, reform[3]) or whether authoritarian or democratic states have responded more effectively[4].

3.2 **This paper takes a different approach, considering the extent to which Covid-19 will either accelerate or interrupt pre-Covid international and national trends, and with respect to what we are calling first, second and third order Covid-19 impacts.** The framing for this paper is shown in figure 2.

Figure 2: Accelerators and Interrupters, first, second and third order impacts

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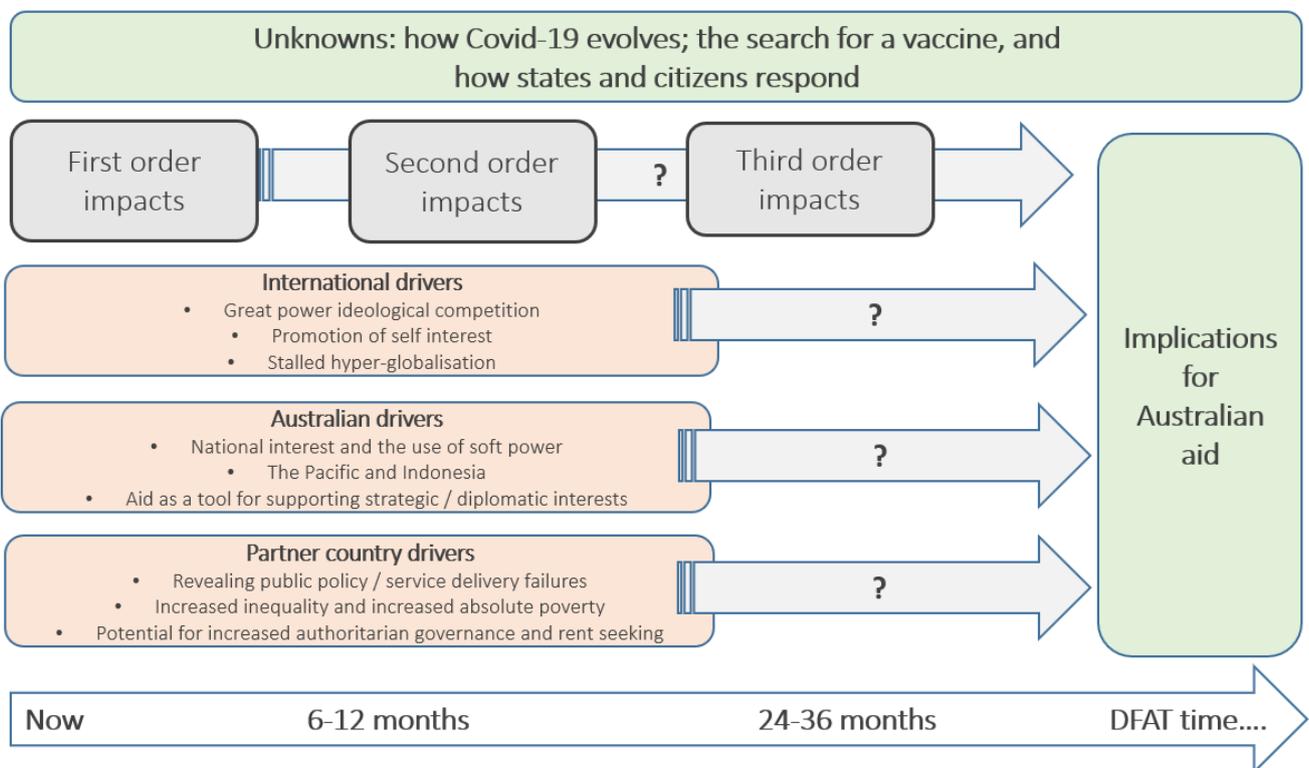
[3] See for example Clare Lockhart 'Confronting the Governance Gap - Before, After and Beyond Covid-19', Institute for State Effectiveness, May 2020 (on ISE website) and "Rapid Literature Review: Governance and State Capability". Stephen Akroyd, Peter Harrington and Alexandra Nastase, April 2020
[4] Rachel Kleinfeld 'Do Authoritarian or Democratic Countries Handle Pandemics Better? Carnegie Endowment. March 31, 2020 (on the website)

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4.   Accelerators and interrupters

4.1   Duncan Green suggests that Covid-19 will come to be seen as a critical juncture for development policy and practice[5]. It is too early to judge the extent to which this is true. But what is certain is that Covid-19 will interrupt and accelerate a range of pre-existing international and (Australian and partner country) national trends. The extent of these 'accelerators and interrupters will determine whether or not Covid-19 does indeed constitute a critical juncture.

International trends

4.2   At the international level it is arguable that Covid-19 will:

- *Accelerate global great power ideological competition.* States are making strident claims regarding the capability and responsiveness of their own systems in order to legitimate their domestic governance regimes. Political leaders the world over are manoeuvring to ensure that any blame for the Coronavirus epidemic lands elsewhere;
- *Accelerate trade wars.* Trade (and the claims made for and against it) has been a significant element of the global political economy since President Trump took office. This is continuing to play out in the war of words between Washington and Beijing, and between Australia and China over increased Chinese tariffs on Australian imports of meat and barley;
- *Accelerate the promotion of national self-interest and the rejection of multi-culturalism and diversity.* Over the past five years commentators have speculated that the world had reached a 'high-water mark' of internationalism. The UK's Brexit referendum in 2016 demonstrated the attraction of an imagined past based on anger, resentment and misplaced nostalgia. Despite all the evidence demonstrating the benefits of immigration, rich countries have tightened their borders in response to nationalist sentiment. As politicians seek to absolve themselves from blame, outsiders and foreigners "who brought us this virus" provide a convenient scapegoat;
- *Accelerate the trend to a more Hobbesian world.* This may be the most worrying medium-term fall-out of Covid-19. As countries retreat behind the barriers offered by the sovereign nation-state, and as states become more competitive and less cooperative, the incentive to shape the world in the state's own narrow interest through the projection (or use) of military force may intensify. Ideological competition may align with military force;
- *Interrupt the trend to hyper-globalisation.* The high point of neo-liberalism and hyper-globalisation may be behind us. The vulnerability and fragility of 'just in time' manufacturing systems have been laid bare. Global supply chains are being severely tested. Dependency on trade for significant slices of industry and food production are translating into political issues, and the idea of 'strategic' industry is being redefined;
- *Interrupt the populist wave.* Much has been written concerning the resurgence of reliance on the use of data, expertise and science during Covid-19. During the 2019 UK election, Michael Gove, now in the UK Cabinet, said the British people had "had enough of experts". Covid-19 has proved him wrong. It seems (some) governments have rediscovered their appetite for data and sober, reasoned analysis based on data. Will this succeed in restoring trust in institutions – most notably– the institution of the state? The 'clap for carers' movement seems to have brought people together in recognising the value and importance of public goods;
- *Interrupt international travel.* It will be months and possibly years before international travel and tourism recover (Australia has announced outbound tourism may not resume until 2021). This is likely to depend on the speed at which an effective and cheap vaccine is discovered; and
- *Interrupt the trend to 'Facebook friends' and the Instagram culture.* Parts of the UK and Australian press have noted that people discovered that they *really* did not like being isolated from their friends, the gym, the cafe etc. Many in lockdown discovered they did not like being alone for more than a few days. Intensified social solidarity may be one outcome, even if momentarily.

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[5] Duncan Green 'Covid-19 as a Critical Juncture', LSE and OxfamGB, 31 March 2020

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4.3   It is arguable that Covid-19 will:

- *Accelerate the promotion of Australia's self interest in all domains of foreign policy*. In common with other countries this decade, Australia has been pursuing its own national interests. This is legitimate; the first function of any state is to protect its citizens. In the current international moment, it is just not possible to imagine a values-based foreign policy replacing the current realist one;

- *Accelerate Australia's enthusiasm for promoting its soft power*. For a middle ranking economic power in this part of the world, soft power (sport, diversity, tolerance, the media, open institutions) matters. Thus while China may economically and militarily outstrip Australia, part of Australia's appeal lies in the attraction of the model: "mateship", "she'll be right" and "fair dinkum" may be hackneyed and even untrue, but projecting the idea and the values of an open, tolerant and compassionate country matter. Indeed, they matter a lot – especially in the islands of the Pacific;

- *Accelerate Australia's ambition and continue to recover any 'lost ground' in the Pacific.* In some respects, Australia is playing catch-up in the Pacific. This has been recognised with the 'Pacific Step-Up'. Covid-19 may require a couple more steps up;

- *Accelerate the narrowing of Australia's foreign policy agenda on diplomacy at the expense of development.* This has progressed apace since AusAID was taken over by DFAT in 2013. The primacy of Australia's self-interest quickly became formal policy, and poverty was largely dropped. Development assistance was downgraded to 'aid', and 'aid' was seen as an adjunct to broader diplomatic interests. This will not change as a result of Covid-19;

- *Accelerate the continued move away from multi-lateral funding in favour of bilateral programs*. Legitimate national self-interest, the pursuit of soft power, and the primacy of diplomacy will result in reduced funding for international bodies such as the UN, the World Bank and the Asian Development Bank;

- *Interrupt the trend whereby development policy was largely budget driven.* Since 2013 aid budgets have been 'salami-sliced' rather than restructured. The seriousness of Covid-19 offers Australia the chance to articulate a strategic, longer-term policy agenda, with coherent objectives that will not 'lurch' from sector to sector;

- *Interrupt the preference for a centralised aid program.* This will depend on the course of Covid-19 and the possibility for international travel. Canberra resistance to greater localisation of the aid program may be reduced. A trade-off may emerge between the desire to use the aid program as an instrument of diplomacy and the day-to-day pragmatic need for responsibility, authority and resources to be co-located in-country; and

- *Interrupt the reliance on a few Australia-based managing contractors* to deliver a full range of functions - the full project cycle from policy analysis through design, implementation and monitoring and on to learning and evaluation. If localisation is part of the response to any greater delegation of responsibility, authority and resources to Posts, this may enable greater use of local implementing agents in combination with Australian providers.

4.4   While the implications of covid-19 will vary *within* south-east Asia and the Pacific, it is arguable that the pandemic will:

- *Accelerate pressure on critical services in low income countries.* Gains - especially in education and health - are at risk of being set back by up to a decade. Schooling has been disrupted and health-care systems are overburdened in Indonesia and the Philippines. Resources, especially in health, are being redirected to emergency responses at the of reductions in other non-pandemic services (e.g. maternal and sexual reproductive health care). It is unlikely that the full implications of this will be known for some years;

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- *Accelerate existing patterns of inequality.* Inequality is being exacerbated. Social protection programs and the bolstering of health services are not occurring at sufficient quality and scale to reach those previously excluded from social services;
- *Accelerate competition among political elites in countries with exclusive political settlements.* As revenue declines, so too will the source of rents. In countries with highly personalised and exclusionary political settlements, this will increase competition among elite groups for reduced resources. This may lead to more blatant and wide scale pillaging of government budgets to service patronage networks;
- *Accelerate citizen engagement with the state in some places and test the strength of social institutions in others.* Citizens in many Pacific countries have limited engagement with the state and limited expectations of what it should provide. Yet the battle against Covid-19 has made the state more visible. For some citizens this may be the first time they have accessed or received state services. Covid-19 is also exposing gaps where governments have drained resources from public health (expertise, supplies, workforce development and health facilities management);
- *Accelerate drivers of sub-national conflict.* Increased youth unemployment, exacerbated social and religious grievances, disruption to education, and the potential for political scapegoating as a result of the pandemic, may create opportunities for the re-emergence of conflict;
- *Accelerate political narratives that justify authoritarian forms of government*: the 'emergency politics' of Covid-19 has legitimated greater government penetration into private life. In instances where political interference in the media, police, defence and judiciary was already high, the pandemic is providing political coverage to entrench authoritarian forms of government. Whether governments can maintain enhanced power and authority will depend on citizen perceptions regarding any continued threat to justify 'emergency' measures; and
- *Interrupt political and fiscal decentralisation.* Covid-19 has changed the calculus for fiscal and political decentralisation. The need to redeploy resources to address the pandemic and the need for a coherent state-wide response will strengthen the incentives for central policy and planning.

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5.   First, second and third order impacts

5.1   The distinction among first, second and third order impacts arise from time (immediacy) and measurability (recognition). This chapter summarises these impacts. The typology is neither precise, methodologically rigorous nor exhaustive; it is indicative only,

5.2   First order impacts

5.3   First order impacts are the best understood at the time of writing, and focus primarily on health and jobs. In terms of health, four factors are shaping the impact:

- reduced demand for certain health services due to fear of Covid-19 transmission at health facilities, distrust, physical distancing, ability to pay, and transport challenges;
- interrupted supply of health services due to health worker fears, illness, shortages of PPE, the reprioritisation to covid-19, transport disruption, broken medical supply chains, disruption of regular health outreach interventions, and budget or salary challenges;
- increase mental illness and malnutrition; and
- self-isolation of people when symptomatic or at-risk, leading to failure to treat other non-covid-19 medical conditions (e.g. malaria, HIV, malnutrition).

5.4   In terms of jobs, employment and income the World Bank estimates that an additional 60 million people have been pushed into poverty as a result of Covid-19. A recent internal DFID paper noted that the country level[6]:

- in Kenya, rural income is down 17%;
- 80% in informal settlements in Nairobi have reported partial or total income loss;
- in Nepal rural workers have reduced hours by 50% relative to low 'lean season';
- in India, formal employment rates have almost halved (see figure on the right);
- in Bangladesh, incomes of low-income consumers fell over 70% and spending is down ~33% vs. previous years, and remittances projected to fall 22% in 2020; and
- in Senegal 87% of pop. report loss of income (esp. poor/rural/poorly educated).
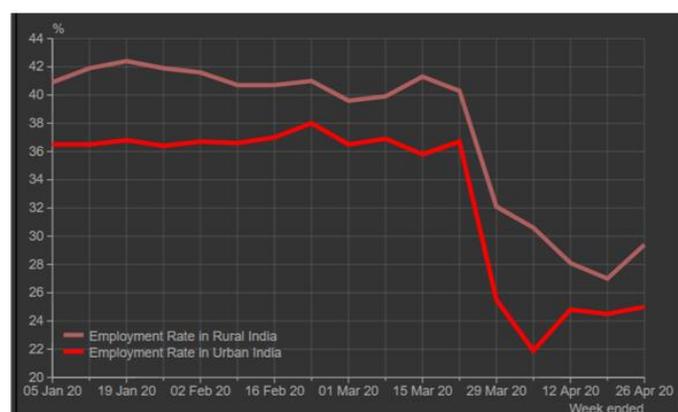
5.5   Despite many better-off in the rich world losing their jobs and incomes, the burden of Covid-19 is falling on the poor, the informal sector in developing countries and women. Covid-19 has caused a spike in gender-based violence, and it is clear that the brunt of the economic impact is falling on the less skilled, the service sector, and those living with a disability. Lockdown measures have hit hardest on urban poor informal workers, resulting in mass urban-rural migration (India, Bangladesh, Indonesia) which will be likely further to spread the disease. The elderly poor are vulnerable both medically and economically. These trends will continue as national macro-economies move into recession and generate a round of second order impacts.

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[6] DFID May 2020 power point. Personal exchange 'C19 indirect impacts: Is the data in line with predictions?'

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Second order impacts

5.6 **Second order impacts are those impacts that take weeks or months to work their way through complex socio-economic systems and country polities**:

- business failures – large and small as the lock-down persists;
- international travel ended in March, with most countries in the region showing no sign yet of any relaxation as yet (beyond the trans-Tasman bubble). This has the potential to wipe out the tourist sector in island states in the Caribbean and the Pacific;
- increases in government borrowing as rich world governments pay a share of wages and salaries, while in the poor world social protection programs massively are increased (now in 171 countries);
- increasing mental health issues; and
- inequalities increasingly laid bare for all to see (or more precisely for all those who want to see).

Third order impacts

5.7 **Third order impacts refer to medium (three year and beyond) impacts.** These are the most difficult impacts to predict. Five areas should be kept in view.

5.8 **The nature of the social contract**. Protecting citizens from harm is the first function of any state. Citizens tacitly agree to the deal: they agree to live by the laws, rules and regulations of the state in exchange for protection from the threat of violence and other hostile events. If states fail in this regard, the social contract and the legitimacy of the state is tested. Many states with *existing legislation* and powers have utilised that legislation and those powers in an active and intensive manner, while some states have enacted *new legislation* and awarded themselves new powers. What will happen once the crisis is passed? Will states with autocratic tendencies rescind those powers, or will the new power be addictive? Globally we have seen an unprecedented expansion in the role of the state – nothing has been seen like this since WW2. Some trends:

- more than 170 reported media freedom violations: notable in Africa[7];
- 52 countries / territories have postponed national and subnational elections[8];
- peace processes slowed down: as government, diplomatic and regional attention turns elsewhere (Afghanistan, Libya, South Sudan, Sudan);
- expertise seen to be needed again – could this drive a return to policy making on the basis of reason, data and evidence?
- states that have performed 'the best' appear to be the ones where citizens have a degree of trust[9]
- in the early stage of the crisis, polls in many countries recorded surges of support for the political leadership. For how long will this last?
- will Covid-19 undermine (interrupt) or reinforce (accelerate) the social contract?
- will the newly unemployed middle classes in rich countries demand a level of state intervention that has been out of favour since the 1970s when Keynes lost out to Friedman, and Reagan and Thatcher embraced supply side economics?
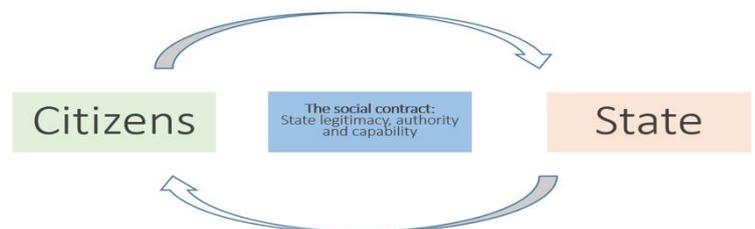
5.9 **The formation and reformation of social institutions**. In the heterogeneous Pacific, social institutions play a critical role in ordering life. In the Solomon Islands the social contract is barely a relevant construct

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[7] International Press Institute, May 2020

[8] Institute for Democracy and Electoral Assistance, April 2020

[9] This stands in contrast to the casual but erroneous claim that authoritarian states have performed better. States that have performed 'better' include South Korea, New Zealand, Australia, Vietnam, Denmark and Singapore. There's no clear one regime model here. What is common is that these states have higher levels of recorded trust in their governments. See Francis Fukuyama, 'The Thing That Determines a Country's Resistance to the Coronavirus". Atlantic Magazine, March 30 2020

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outside of Honiara and one or two provincial capitals. The presence of the state is minimal. This underscores the point that there needs to be *state contact (no r) before there can be a social contract (with an r)*. Daily life in villages is organised and structured by social institutions. How will these social institutions cope with the stresses introduced by Covid-19? While Covid-19 offers the potential for the generation of new, hybrid forms of governance and leadership to respond to the pandemic (as they did in some parts of Africa in response to Ebola), equally it has the potential to disrupt existing informal social safety nets.

5.10   **Widening inequality and the potential for intra-state conflict** The unequal manner in which first order impacts of Covid-19 are being felt exposes domestic cleavages: between income levels, men and women, citizens and stateless persons, those in the formal and informal sectors. What will happen once the crisis is passed? Will these cleavages have been widened? And will they exacerbate existing grievances and triggers for intra-state conflict in Mindanao, West Papua, Bougainville and Aceh?[10]

5.11   **The intersection of climate change and covid-19.** While the immediate impacts of the global response to the pandemic have had a positive (unintended) impact on carbon emissions and energy use[11], it is unclear how the pandemic and climate change will intersect over the medium term. How will governments fund simultaneous responses while the pandemic continues to play out?

5.12   **The viability of export-led growth strategies.** If the Chinese economy does not recover in the next 12-24 months, and if global consumer demand continues to stagnate, it will threaten the viability of export-led growth models upon which middle-income countries are relying to drive them to Advanced Middle Income Status (AMIC) status.

Summary: Impacts by region

5.13   **These first, second and third order impacts will play out differently in Australia's main partner countries.** For the MICs, the dominant impacts are likely to be economic and distributional. Economically, Covid-19 may set back the transition to AMIC status by up to ten years; distributionally, the brunt has been born by the urban poor, women, underrepresented groups, and those in the informal sector.

5.14   **For the PICs** the situation in the islands varies. At the time of writing, no cases of Covid-19 have been recorded in Vanuatu or the Solomon Islands. Most PICs acted early to close their borders, fearing the devastating impact of the pandemic on weak health systems. Economies dependent on tourism (Fiji, the Cooks and Vanuatu) have seen formal employment collapse. It is possible that the tourist industry in the Pacific will not reopen until 2021 – and then it may be dependent upon producing an effective vaccine. Figure 3 summarise these impacts

5.15   **The next chapter outlines possible high-level responses to these impacts, in terms of policy, geography, modality and sector.** Chapter 6 considers some implications for the aid program in more detail for the three critical Australian geographies: Indonesia and the Philippines. PNG, and the rest of the Pacific.

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[10] PRIO, 2018 "Trends in Armed Conflict, 1946-2017", Conflict Trends, 05: 2018
[11] The International Energy Agency estimates the world will use 6% less energy this year, equivalent to losing the entire energy demand of India. Leading to large drops in CO2 levels

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Figure 3: Covid-19 summary impacts; Indonesia, Philippines and the PICs

Indonesia, Philippines	Pacific Islands
• Set back transition to AMIC back by possibly a decade • Fundamentally challenge export-led growth strategies • Highly unequal impact of Covid-19 as urban or rural poor, women, marginalised (e.g. migrants, particular religious / ethnic groups) disproportionately affected • Welfare provision (safety nets) shown to be inadequate • Exposes fragility in political institutions that have carried both countries to higher levels of GDP; but which are not necessarily fit for transition in to AMIC status. • Increasing citizen disquiet at heavy-handed state action • Pressure to withdraw physical distancing in favour of opening economy • Possibility of second Covid-19 wave?	• Highlights issues of sustainability • Raises profound question of what it means to be a sovereign nation-state • Adds a second existential crisis to climate change • Demonstrates what it means to be a small, remote, fragile island polity • With some exceptions (Fiji, Samoa) health services inadequate if the pandemic arrives - despite decades of aid support • Economic impact most severe for tourism dependent countries (Fiji, Vanuatu, Cooks) • Greater reliance on subsistence economy as tourism, remittances, export earnings in steep decline • May challenge PIC growth strategies which are predicated on movement of people to / from region (tourism from Asia, labour mobility, remittances etc)

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6.   Policy, geography, modality and sector

6.1   **The purpose of this section is to consider how Australia may respond to the international and national accelerators and interrupters.** A lagged effect will play out; aid agencies the world over are now responding to first order Covid-19 impacts, less so to second order impacts and not at all to third order impacts. How may the Australian aid program respond to the pressures acting on it in advance of third order impacts happening?

6.2   **Figure 4 summarises what we see as** *likely* **high-level outcomes in three to five years' time.** Some we see as undesirable, but given current global and Australian political economies, we consider them likely.

<div align="center">Figure 4: High-level responses</div>

Policy	Geography
• Strategic goal of Australian aid to support broader foreign policy and trade objectives • Budget further reduced • Abandonment of alignment with DAC ODA definitions • Responsibility, authority and resources increasingly delegated to heads of missions • Reduced funding to multilaterals • Re-assessment of potential for co-production mechanisms • More partnerships between Australian and local private / public organisations in aid design and delivery (e.g. TVET and university providers)	• Programs exit from mainland south-east Asia, leaving only Indonesia, the Philippines, Vietnam and possibly Myanmar • Intensified Pacific focus • PNG inescapably and increasingly critical
Sectors	**Modality**
• Short-term rush to address Covid-19 – health sector support, but not health sector strengthening[12] • Reconsideration of infrastructure support in tighter fiscal climate • Priority swings back to 'basic' sectors; agriculture (for greater self-reliance) and education and health • Support for macro-economic reform and growth in sectors impacted by Covid (e.g. tourism, ICT connectivity) • Governance investments de-prioritised	• Search for in-country partners, often to partner with Australian public/ private organisations • Weakness of contractor-led, policy-lite dialogue clearly demonstrated when serious engagement on critical issues is required • Reduced addiction to 'innovation' - certainty and simplicity prized • Preference for short-term transactional investments that enable responsiveness, intensified • Increased interest in partnerships with local providers

Policy

6.3   **It is difficult to conclude other than aid being more firmly embraced as an adjunct to foreign policy objectives[13]**. In a more competitive world, the *realpolitik* of Australia's position in the world, where it has to balance its commercial and trade dependence on China with its security dependence on America, will leave little room for aid based on values and idealism. It seems clear that for the foreseeable future, the 'super-accelerator' of global great power competition will be determining.

6.4   **Further budget reductions in the aid program appear inevitable.** As the fiscal implications of bailing out the locked-down economy work their way through the system, there will be pressure to find savings. As the aid program is viewed increasingly through an overt national self-interest lens, poverty-reducing programs will give way to a preference for shorter-term transactional initiatives that boost Australia's credibility, standing and soft-power with partner countries. Alignment with DAC definitions of ODA may well be ditched as they do not adequately support Australian interests.

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[12] There is an importance difference here. It is best described by a metaphor: health sector support refers to initiatives that aim to force more water through a broken pipe, whereas health sector strengthening refers to initiatives that try to fix the pipe – mend the leaks, add connections etc
[13] This is underscored by the recent merger of DFID and the FCO in the UK

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Geography

6.5   **These policy shifts will have implications for the geography of the aid program.** Small programs in south Asia and mainland south-east Asia will come under greater scrutiny. It is probable that aid programs will end in these countries and be replaced by a larger- and non-developmental 'Head of Mission gift schemes. In contrast, maritime south-east Asia (Indonesia, the Philippines and possibly Vietnam and Myanmar) will be seen as strategically more important - ideologically, commercially and in terms of security. In the Pacific, PNG in particular and Melanesia in general will continue to dominate. Australia will continue to be the donor of first resort and unless there is some dramatic change, the ultimate security guarantor.

Modality

6.6   **Modalities and instruments will change.** There may well be a reduced reliance on large Australian managing contractors offering a full range of services across the project cycle. But equally. a declining aid budget is likely to increase dependence on external providers for technical advice. One thing seems certain – there will be an increased demand for local (in-country) partners for program design and delivery, and in linking these partners to Australia public / private providers (e.g. TVET providers, academic institutes, agricultural think tanks, business councils etc). This will not be without risks. Local partnerships will need prioritising – as indeed they are in section 7 of DFAT's 'Partnerships for Recovery' document. It is legitimate to ask whether DFAT will end its preferred 'Principal-Agent' model and put in place meaningful partnerships with mutual responsibilities and mutual accountabilities.

Sector

6.7   **The choice of sectors will be increasingly determined by context.** It is not difficult to foresee greater focus within the aid program. Education and health services have always had their appeal – not primarily because they are critical to any nation's welfare and development prospects, but because they appeal intuitively to politicians and taxpayers. Agriculture may be accorded greater priority as country's seek food security. Livelihood support will be important as Australia looks to help trade and export partners bounce back. There may also be increased focus on macro-economic reform and sources of growth for sectors impacted by Covid-19 (e.g. tourism, ICT connectivity, remittances). Law and justice and governance programs may well be dropped altogether as they are slow to deliver 'results' and difficult for outsiders to understand and influence.

6.8   **The Australian Infrastructure Financing Facility for the Pacific (AIFFP)** is highlighted in 'Partnerships for Recovery' . The AIFFP has been established to provide grants and loans for infrastructure projects in Timor-Leste and the Pacific, and "it will form an important part of Australia's COVID-19 recovery efforts in the region by funding climate resilient infrastructure projects that support sustainable economic growth and local employment" (page 14). It remains to be seen whether such a program will retain its pre-eminence in a tightening fiscal climate in Australia. Questions may be asked regarding Australia's comparative – financial – advantage.

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7.   A new aid program for Australia

7.1   It is impossible to know how Covid-19 will play out, and how governments (and citizens) will react. The authors of this paper err on the side of caution (even pessimism) in identifying trends. Foreign policies will become more important as citizens realise that 'what happens over there matters over here'. If, as Duncan Green suggests, Covid-19 constitutes a critical juncture, the question becomes just how much change will there be? The authors of this paper judge that the trend to aid in the national interest will be deepened and accelerated. The global political economy is being re-ordered around competitive nation-states as China (and to less extent Russia) compete for global hegemony with a (globally retiring) US.[14]

7.2   The authors are also of the view that 'aid world' is now inextricably linked with 'diplomatic world'. It is naïve to imagine any unravelling of these trends. Australia must therefore take advantage of Covid-19 to shape a foreign policy and an aid program that seeks increasingly to align Australia's long-term interests with those of Indonesia, the Philippines, PNG and the smaller island states of the Pacific. To do so successfully will require reform of the way it undertakes its business, the way it interprets partnership, what it means by mutual accountability, and its approach to risk.

7.3   The 'Partnerships for Recovery' document is welcome in as much as it hints at shifts in these directions. While not explicitly endorsing the mutuality of strategic interests, page 7 notes that Australia's "interests, influence and capabilities are concentrated in our immediate neighbourhood" and says that "we will be investing in Australia's relationships with our region for the long-term". While welcomed, the real test will be how those laudable objectives are prosecuted.

7.4   The starting point has to be clarity of strategic intent country by country. The 'Partnerships for Recovery' document prioritises stability, prosperity and resilience. Three challenges follow. First, different country contexts will mean different interpretations. While there is evidence to show that stability and prosperity can be related, this is not always the case. If prosperity depends on stability, is the latter Australia's priority? What does resilience mean in the context of the smaller, remote and isolated Pacific atolls? Does it mean autarky and subsistence in perpetuity? Second, will DFAT have the capacity to program effectively to achieve diverse strategic goals? And third tensions are likely to remain between overtly developmental goals and foreign policy goals. As was seen in 2019, while it may be in a country's developmental interest to accept a Chinese offer to lay undersea cables for high-speed internet, such an investment may not be in Australia's strategic and security interests.

7.5   It is encouraging that 'Partnerships for Recovery' notes "we will take a whole-of-government approach to addressing the impacts in our region. We will use all levers of government—diplomacy, trade, economic, and security partnerships—to ensure our development efforts can have greatest impact and are aligned with our strategic, foreign policy and economic objectives"[15]. It may (finally) be the time for the defence, diplomacy and development to become more integrated. Lip service has been played to this agenda for years, but it has proved difficult to achieve in practice. Where intra-governmental coordination works best, it is driven (or at least overseen) by central agencies. This provides the strategic and material incentive for departments to overcome competition and coordinate activities towards a common goal. A shrinking aid budget and an increasingly competitive world of nation-states may also be the 'critical juncture' for more systematic coordination at policy and program level.

High-level response

7.6   How should the aid program respond? Figure 5 presents high level implications for the three geographies. Four points justify emphasis.

7.7   (i) The strategic thrust and direction of the aid program in the Pacific will be the opposite of that in Indonesia and the Philippines. In the Pacific the primary driver will be to enhance the quality of basic public services at the point of delivery; and a judicious mix of investments that support closer economic and people-

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[14] Alexander Cooley and Daniel H. Nexon. 'How Hegemony Ends: The Unravelling of American Power'. Foreign Affairs, July / August 2020
[15] Section 6 page 18

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to-people integration between Australia and the country in question. In the two MICs it will be to improve the effectiveness, efficiency and equity of domestic resources.

Figure 5: Implications for the three key geographies

Highest level Australian strategic objectives	• Coherence around Australia's high-level world view: a stable, prosperous and resilient region based on the rule of international law, free trade, and open and competitive political systems • Intensified diplomatic, defence and development cooperation with countries with shared interests • Reliance on Australia as first / co-equal choice international partner where it matters most		
	Indonesia and the Philippines	**PNG**	**PICs**
Priority objectives for Australia:	• continued growth and integration into the rules-based international system • resisting return to authoritarian and undemocratic rule • promoting negotiation, compromise and consensus in Papua, West Papua, Aceh and Mindanao • Philippines and Indonesia manage trade with China alongside security with the US / Australia	• maintaining basic state functionality and support transformative drivers of growth • maintaining unity and coherence of PNG state • constructive and deeper diplomatic, trade, education and social relations that bind Australia and PNG • Australia the indispensable donor • institutional distance from China	• maintaining minimally acceptable quality of service delivery • link country's economic and social opportunities with those offered by Australia (education, labour mobility etc) • Australia always and everywhere the preferred partner • institutional distance from China
Approach: aid program and modalities based on:	• ten to fifteen-year institutional partnerships with 'world class' public and private sector agencies in Australia • policy dialogue, including on peace and stability • policy-based general budget support • intense and sustained upstream engagement • no slavish replication of international so-called 'best practice' ways of working or institutional systems	• twenty year 'compact' • mutual responsibility and mutual accountability of GoPNG and GoA • shared commitments with shared consequences • reform-dependent budget support • fewer sectors • fewer advisers but at higher policy levels with reach back to Australian MDAs • 'full-cycle' design: policy analysis and design through to front-line for selected sectors • GESI the overarching *and* underpinning force in all programs	• co-production of basic services: the Australia-PIC social contract • reinforced with sector budget support • increased access to Australian labour, educational and trade markets • transactional rather than transformational objectives • step-change in reliance on local implementing partners delivering front-line services • administrative / organisational / technical sustainability issues dropped
Sectors	• none to be specified • public service performance and accountability	• education, health and agriculture • support drivers of growth that relate to opportunities in the Australian labour, educational and trade markets	• to be country driven, but presumed focus on education, health and natural resource-based livelihoods • Institutional reform de-prioritised • support drivers of growth that relate to opportunities in the Australian labour, educational and trade markets

7.8 **(ii) In the two MICs, the primary driver will be to support upstream policy making**: the laws, rules, regulations, prescriptions and frameworks that influence if not determine national provision. In the PICs the opposite will be the case. Australia has been working upstream in the health sector for decades, but when Covid-19 hit nobody considered systems would be able to cope (Fiji and Samoa may be exceptions here). In the PICs Australia is likely to reduce its inputs at the upstream national policy making level and focus support

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on downstream service delivery – the front line where citizens encounter the state and receive the services to which they are entitled.

7.9 **(iii) The third point follows from the first two and is the most contentious**. Given that the PICs are small in terms of population, remote from global markets, have high cost bases, and fragile and vulnerable, Covid-19 provides the opportunity for a re-alignment of the foreign policy relationship between Australian and some of the islands. Australia has two options: to open up its borders and embrace Pacific Islanders within the Australian economy and labour market or make a longer-term commitment to the joint provision of services in Pacific Island nations. A mix of the two may be possible. Both have their costs (especially when considering cost of jointly funding basic services) as well as benefits. But the authors believe these options are probably more viable now than ever before, given the unique confluence of the pandemic *and* geopolitical competition in the region, which is forcing Australia to find new and different ways of making itself the first or co-equal international partner of choice.

7.10 **The technical term in the literature for the second option is 'co-production':** the sharing of long-term responsibility for the design, delivery and monitoring of basic public services, notably education and health. Most of the PICs have been independent for 50 years or so (Vanuatu is the youngest, achieving independence in 1980). In terms of state-building this is the mere blink of an eye. But given the structural characteristics of the islands – their location, demography, resources, environmental fragility – which no amount of aid will ever change, is it not time to reconsider their place in the world and Australia's place in their world, and their place in Australia's?

7.11 **Political scientists call this pooled sovereignty**. Even raising the issues can be seen as anathema and 'colonial'. Why would Pacific islands wish to cede even the smallest degree of sovereignty, which was so long in coming? These is a fair point, but an equally fair response lies in the experience of the countries in 'free association' with New Zealand – the Cook Islands and Niue. They are not territories of the parent state like New Caledonia or French Polynesia. New Zealand is responsible for the defence and foreign affairs of the two countries, but these responsibilities confer New Zealand no rights of control and can only be exercised at the request of the two countries. Both have been recognised as sovereign by many countries internationally. They maintain diplomatic relations under their own name. Neither Niue nor the Cooks are members of the United Nations, but UN organisations have accepted their status as freely associated states as equivalent to independence for the purposes of international law. The authors recognise how contested any such negotiation may be. But continuing providing traditional 'aid' to the smaller PICs ignores all that we have learned in the last twenty years. Some form of high-level institutional innovation between Australia and the islands is needed. And now may be the time.

7.12 **Others have called for this.** John Blaxland writing in Australian Foreign Affairs notes that "the South Pacific has long been treated as a policy backwater by Canberra"[16]. Blaxland argues for a 'Compact of Association' that offers residency should the circumstances in home islands become untenable, and "involve closer partnership arrangements over territorial and maritime domains, assisting with administration and management, security and governance"[17]. Blaxland suggests a two-tier system with the smaller islands of Kiribati, Tuvalu, Nauru and Tonga in the first tier and Vanuatu, Fiji and the Solomons in the second tier.

7.13 **On the first option, embracing the Pacific, there are numerous ways this can be enabled.** For example: developing special access visa categories for Pacific migrants (especially for employment in areas where the Australian market is experiencing skills shortages), more open and cheaper access to Australian TVET and tertiary institutes for Pacific students (ideally coupled with preferential residency options for students after study), preferential access on particular export / import trade deals, incentives for Australian businesses to offshore particular services to Pacific companies as internet connectivity improves. Elements of some of these options are already in place; but most stop short of *fully* embracing Pacific Islanders are part of the Australian economy and society. Much of this stems from competing Australian domestic political, cultural and

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[16] Australian Foreign Affairs 'Developing a Grand Compact for the Pacific'. February 2020 page 91
[17] Ibid page 94

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commercial interests. Such factors would need to be overcome or appeased. We do not under-estimate the challenge here.

7.14 (iv) Modalities of support - the instruments used to deliver aid - will differ across the two geographies. If the purpose is to deliver what we are calling '360-degree wrap-around' support[18] at the highest levels of MIC policy making, then Australia must be able to deliver the world's best advisers, technical experts and policy analysts to Jakarta and Manila. The result would be fewer and more ambitious projects addressing binding constraints on economic development and public service delivery. In the PICs the opposite would be the case. Australia would seek the best technicians for implementation; doers rather than thinkers. People who want to work at the front line in operational positions. Two regions, two strategies.

The two MICs: Indonesia and the Philippines

7.15 Australia's strategic objectives for Indonesia and the Philippines are relatively clear: to resist any return to authoritarian rule, deeper integration into the world economy, the prevention of conflict in Papua and West Papua, and continued peace and stability in Mindanao and Aceh. Figure 6 elaborates directions for an aid program in the medium term.

Figure 6: Implications for Indonesia and the Philippines

Issue	Responses and options
Policy	• Indonesia relationship as important as the US • Design and provide 360-degree wrap-around support on critical issues of GoI, GoP public policy issues • Prioritise know-how, access to markets and partnerships • Forge long-term institutional relationships with key high-level bodies. DFAT / PM&C to demand high-level Federal / State government involvement • Be demanding int terms of host government commitment, input and results
Sector	• Prioritise work in those areas that are the binding constraints to equitable growth and service delivery • Prioritise further policy reform on the basis of the Philippines 'Coalitions for Change' model • Exit public service (education and health) front-line service delivery. Focus on institutions and institutional reform that deliver these services – the hard, upstream policy reform agenda
Modalities, instruments	• Fewer but more influential 'impossible to ignore' world class advisers and technical experts • Fewer but longer-term, more ambitious initiatives • Partnerships with key GoI / GoP departments and influential reforming bodies

The aid program

7.16 The aid program will contribute through four inter-dependent modalities:

I. *Policy dialogue, advice and 'wrap-around' support*. It will be increasingly important to commit to engaging substantively (analysing, brokering, facilitating, enabling) on critical and contentious policy issues. Support would require a critical mass of technical experts (national or international is irrelevant) working on selected issues, advising ministers at the highest level, and supported by teams of policy analysts, data scientists and administrators as required. These could constitute full policy

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[18] By this we mean the full range of analytical and data services to support any specific policy initiative: initial cost-benefit analysis, design, testing, implementation support, assessment, review and revision

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secretariats, such as was the case of TNP2K in Indonesia.[19] It must be recognised that such support is not cheap, but its impact can be profound;

II. *Long-term partnerships*. The commitment to end four-year project cycles and replace them with fifteen-year partnerships on key policy issues and constraints, as mutually identified and agreed;

III. *Revised and more powerful institutional twinning arrangements*. Institutional twinning arrangements have a poor record in international development. All too often they degenerate into study tours to rich countries by mid-level officials selected by patronage, and who have little influence on organisational performance on their return home. Alternatives do exist. There are examples of senior officials (and possibly even ministers) valuing access to, and interaction with, their peers in countries with institutional depth and functionality[20]. The condition for success is the willingness of senior officers in donor governments (First Assistance Secretaries, Deputy Secretaries and Secretaries) to participate and commit departmental resources. Whole of government partnerships should be considered; and

IV. *Budget support arrangements*. Long-term partnerships, institutional twinning and the deployment of world-class technical advice must be supported with general budget support. Budget support is the ultimate stamp of approval for any donor or external provider. Budget support is highly symbolic and the first-choice modality for partner countries. It creates trust, political good will, policy access and influence. Financial safeguards must be in place and external audit is often the price to be paid.

7.17   **These four strands of a MIC program stand or fall as one.** Budget support and long-term commitment enable the deployment of world class TA and would provide access and influence for senior Australian public servants. This constitutes a compelling vision for a whole of government approach based on partnership – precisely what 'Partnerships for Recovery' proposes. These four linked instruments form a coherent approach and represent a different sort of aid program. Current programs in Indonesia and the Philippines are predominantly short-term; 'projectised'; have four-year life spans (with possibility of extension[21]); are downstream service delivery oriented; have few interconnections, and have little relationship with Australian ministries, departments or agencies.

Pacific island countries

7.18   **In five years, the strategic objectives for the PICs, and the instruments to be used, will bear little resemblance to those in place in the MICs**. In the smaller polities of the Pacific, self-sufficiency (what USAID calls 'The Journey to Self-Reliance') can be challenging. Strategic objectives would be twofold: Australia underwriting an agreed (country by country negotiated) package of basic services and / or embracing PICs fully within Australian economic, cultural and political life, and in so doing Australia becomes the donor of first, second and last resort.

7.19   **Figure 7 summarises the approach for the PICs**. Three points should be noted. First there are major variations across the islands - the challenges facing Vanuatu are different in degree and in kind to those facing Kiribati and Tuvalu. Second, a *sine qua non*: long-term commitment and partnerships must form the bedrock. Third, the strategic risk to Australia is probably higher in the islands than it is in the two MICs. Indonesia's size, location and economic strength provide it with the political, economic and diplomatic clout to protect its own interests and (to the extent any nation can) shape the outside world in its own interests. This is not the case with the islands. They are often 'takers' on the international stage, with little influence, even when acting collectively. The islands will need to forge alliances with more influential countries, and if Australia does not step up, others will. This provides Australia with the opportunity to forge 'compacts of association' and begin serious policy discussions with its island neighbours regarding institutional innovations and preferential access to Australian labour, economic and educational markets. We do not underestimate the challenges or risks

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[19] The National Team for the Acceleration of Poverty Reduction (Tim Nasional Percepatan Penanggulangan Kemiskinan or TNP2K) was created to promote coordination across ministries / agencies to improve the implementation of poverty reduction programmes, improve the living standards of the poor and vulnerable, as well as reduce inequality among income groups

[20] Based on DFID and World Bank initiatives

[21] Even programs independently assessed as successful, such as KOMPAK in Indonesia, will *automatically* be closed at the end of a second four year cycle

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involved in such institutional change, or in opening up Australia to the Pacific. But looking further ahead, in fifteen to twenty years, when China is in the global ascendancy in this, the 'Asian Century', in the absence of any institutional innovation, in which direction will the islands look for security, commerce and funding?

Figure 7: Implications for PICs

Issue	Responses and options
Policy	• Recognise extreme variation: Australia's program in Kiribati will not be the same as in Solomons • Policy challenge is to manage the tension between maintaining perceptions of PICs sovereignty with the need to provide continuing support to service delivery and much more open access to Australian labour, educational and economic markets. And to realise this is probably for ever…. • Accept that in some countries Australia taking responsibility for direct service delivery (possibly by-passing the state altogether), is perfectly legitimate. This could be couched as demonstrating our commitment to the people of the Pacific and wrapped up in 'co-production' language • An effective Australia-PIC social contract
Sector	• Key sectors chosen by country. Agriculture and fisheries may be important in more remote island atolls • Education and health services the most widely experienced functions of the state in the islands – probably inescapable • Solomon islands and Fiji both *sui generis* – will need their own specific programs
Modalities, instruments	• Long-term is the key – the relationship is everything • Greater use of budget support to recognise high cost of running 'a state' in remote and fragile polities

The aid program

7.20   **As with instruments and strategies for the MICs, delivering this agenda will require upending contemporary programs**. Australian aid programs in the PICs are currently designed to seek transformational rather than transactional change. This results in an emphasis on governance and institutions – trying to change the informal and formal 'rules of the game' in order to encourage the emergence of a public sector and a political class that are accountable, performance oriented, responsive to public demands and which display integrity and competence. As one author has demonstrated, in small island states formal relationships are personalised, making Weberian bureaucracy all but impossible.[22]

7.21   **The previous Australian Minister for Foreign Affairs announced that aid for service delivery should end, judging that this was well within the competence and resources of PICs**. Evidence would suggest that this is not the case: for a primary health centre (for example) to operate effectively, a whole host of institutions[23] have to be in place and working: nurses have to be trained in sufficient numbers, nurses must willing and able to be posted to where they are needed; drugs must be delivered on time and put in cold storage; staff have to be incentivised to turn up and work a full day; remuneration must be adequate to prevent drugs being sold privately; regular electricity supplies must keep refrigerators and other equipment working; clean water has to be available on tap; hygienic practices must be followed etc. Front-line service delivery is complicated and challenging to deliver especially in countries where skills are in short supply, finance is scarce, and systems are barely functional.

7.22   **The strategic question for Australia is the extent to which we judge that aid will ever overcome these institutional frailties and make up the skill gaps.** The authors of this paper think that while both are desirable neither are likely.

7.23   **The aid program will contribute through four inter-dependent modalities**:

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[22] Max Everest-Philips 'Country Size, Governance Quality and Institutional Capacity: Public Service Excellence in Very Small States' United Nations Global Centre for Public Service Excellence. 2018
[23] In the Northian sense

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I. *Negotiate agreements with PIC governments that stipulate either co-production agreements and / or the arrangements for more open access to Australian labour, educational and economic markets*. This is politically demanding for both partners. For the host government it involves admitting (even tacitly) that it does not have the capacity (individual skills and competencies, organisational structures and systems, and institutional rules and values) to deliver an acceptable level of service. For Australia it will mean long-term budgetary and political commitments to the joint delivery of the agreed range of basic services – most likely in primary health and primary and secondary education and / or preferential access agreements to Australian markets;

II. *The use of sector budget support.*[24] Australian supports the host government through the provision not only of individuals to assist in the planning, design and implementation of front-line service delivery, but also with financial resources. This is 'what is in it' for the host. This modality represents a sector-wide approach, where Australia and the host co-design the policy framework and mutually commit to delivery. Such support could also be used to increase the country's capacity to benefit fully from any preferential access deals put in place to the Australian market;

III. *Step-change in reliance on local partners, local systems and local standards*. Australia will have to reduce its preference for relying on international good practice – let alone best practice – and prioritise what fits the local context and what is affordable; and

IV. *Considerations of sustainability (administrative or financial) in the long-term will fall off the agenda.* Neither are feasible if services are to be delivered at some minimum standard consistently and continuously.

7.24 **As with the MICs, these four elements come as a package.** They are mutually reinforcing.

Papua New Guinea

7.25 **The challenge of PNG cannot be underestimated**. If there were an easy answer to the question of PNG, Australia would have found it by now, even if we know what the question was in the first place. Is it one of ineffective and unaccountable governance? Is it the toothless-ness of check and balance institutions? Is it the lack of programmatic political parties? Is it the diversion of public funds into Constituency Development Funds? Is it that PNG has a Westminster system of government but that it does now work like one? Or is it less about governance and more about poor development outcomes – citizens get a poor return from the cost of running the state? Indeed, can the two be separated?

7.26 **We can say four things about the challenge of PNG.** First it will necessitate a step-change in political dialogue and the broader diplomatic relationship. This is easy to say and hard to do, but it must involve at least three things, some of which have been put in place under the Step-Up: (i) a cohort of senior and deeply policy-literate staff in the Port Moresby High Commission combined with frequent Ministerial and Secretary level visits; (ii) delegated authority and responsibility at Post; and (iii) regular, tough, consequential issue-based dialogue with PNG senior officials.

7.27 **Second, the aid program must shift beyond the assumption that the answer to every problem is more technical assistance**. There is an increasing literature about the importance of capturing local capabilities, knowledge and networks. We may need to explore whether the aid program can be increasingly modest and with a higher tolerance for failure. It may be preferable for PNG to learn from its own failures than from Australian successes.

7.28 **Third, post-Covid may be the appropriate time for a rationalisation of the aid program, while at the same time opening up opportunities for growth through greater access to Australian educational, labour market and trade opportunities**. Australia cannot afford to support every sector. A case can be made for focusing on two or three key sectors (education, health and agriculture?) and – in the spirit of co-production – the two governments commit to providing the resources, incentives and accountabilities for end-to-end service delivery. Complementing this with lower cost 'non-traditional' aid options – such as preferential

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[24] The authors are aware that sector budget support is an economic nonsense due to fungibility. Once donor funds enter the consolidated fund of the host, they are co-mingled and therefore untraceable to any sector. However, with some accounting trickery, budget support additionality can be demonstrated. Hence the reference to sector budget support

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market access, special category visa schemes for work and study in sectors where Australia experiences skills shortages – would not only open opportunities for growth, but also increasingly tie the economic and cultural trajectories of the two countries closer together.

7.29   **Finally, PNG will always be the exceptional country for Australia's aid program**. Its location, shared history, close social and cultural ties, size and sheer geographic proximity mean that it will forever be *sui generis* for Australian diplomacy and aid. The tangled relationship maybe is to be expected between friends, but that should not prevent putting in place a more respectful, mutually co-dependent relationship, based on more senior level engagement and hard policy discussions with consequences. Figure 8 summarises the implications.

<h3 style="text-align:center">Figure 8: Implications for PNG</h3>

Issue	Responses and options
Policy	• Accept co-dependence – 'pooled sovereignty' in critical areas of public policy • Stop defaulting to Australian TA as response to every problem • Re-calibrate political relationship: end 'contractor–led policy-lite' dialogue • Have serious discussions on policy issues and be willing to contest hard issues such as corruption • More senior DFAT staff in PoM with delegated authority • Aim for 'super-trustworthy' long-term dialogue • End see-sawing of what Australia will fund and what it won't
Sector	• Serious rationalisation. Covid offers the change to recalibrate. Basics? Health, education, agriculture ('end to end' i.e. policy through to delivery) and core state functionality (finance, domestic resource management, debt management, planning and implementation follow up) • Complement with increased access to Australian labour market, educational and trade opportunities to promote growth and tie the economic and cultural trajectory of both countries together
Modalities, instruments	• Chosen in response to sector / issue / need • More budget support but with clear accountabilities (higher risk but higher rewards)

The aid program

7.30   **Australia's strategic objectives for PNG must be bespoke.** PNG is so close and important to Australia that it deserves a diplomatic, defence and developmental category all of its own. Three objectives for the medium to long-term stand out: the need to maintain first the basic state functionality, second, the unity and coherence of the state; and third, constructive diplomatic and trade relations. Many events can spark tension and conflict, ranging from the recent Bougainville referendum to the arrest of the former Prime Minister. Bio-security threats to Australia loom large, as do skirmishes along PNG's western border with Indonesia. Given their location and relationship, it is clear why that PNG and Indonesia are two of the most important countries for Australia foreign policy – and thus also for developmental policy and aid.

7.31   **The aid program will contribute through four inter-dependent modalities**:

I.   *A twenty year 'compact'* based on clearly articulated responsibilities and accountabilities for both governments. Such a compact would identify a limited number of sectors for collaboration as well as access arrangements to Australian labour, educational or import/ export markets. It would articulate shared commitments and shared consequences. This would be the two governments institutionalising a 'Whole of Government' approach on both sides;

II.   *Reform-dependent budget support.* Budget support would underpin the long-term commitment. It would be triggered by the implementation of reforms agreed in the twenty-year compact. A jointly nominated and independent external panel would assess progress in order to trigger payments;

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III. *'Full-cycle' design*. Australian aid for selected sectors will provide 'full-cycle' support, from policy, planning and analysis upstream, through design and implementation, and on to monitoring and evaluation downstream for all selected sectors; and

IV. *Fewer but more strategic and high-level advisers, with reach back to senior staff in Australian MDAs and enabled by high-level Secretary and Ministerial visits from across Government.* The advisers would not only advise on policy issues but have that critical direct bridge to Australia to cement the Whole of Government partnership.

7.32 **Such a program cannot be added on to existing arrangements**. The four elements will need to be implemented collectively. Project-based support would be eliminated. The four initiatives would be underscored by a fifth priority: gender and social inclusion as a key design principle.

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8.   Implications and risks

8.1   There are implications and risks in moving in the directions outlined in this paper. Implications for the Australian Government are institutional, financial, programmatic and organisational, and would be manifest in the next five years. Risks are primarily strategic and would not be manifest until possibly ten years from now.

Implications

8.2   Institutional. The directions for the aid program for the smaller islands of the Pacific would require changes in perceptions regarding the practice and meaning of sovereignty, and the role and place of Pacific Islanders in Australian political, economic and social life. The authors of this paper admit that any dilution of sovereignty is going against the contemporary grain, and that the notion of 'embracing' Pacific Islanders in Australia raises challenges and tensions. But with Covid-19 and the growing impact of climate change, the vulnerabilities and the frailties of the islands are being exposed, even in the larger, wealthier and more populated states such as Fiji. Whether this will translate into the diplomatic appetite for institutional innovation is unknown. But the issues should be put on the table.

8.3   It is not only in the PICs that high level institutional change will be required. If the aid program in Indonesia and the Philippines is to move in the direction suggested, then the way it is delivered must be redesigned. Whole of Government, coherent, policy-based support cannot be contracted out. Deeper strategic engagement and alignment with the two MIC governments will require innovations in the way Australia plans and delivers its aid.

8.4   Programmatic. Foregoing chapters have demonstrated the potential implications for aid modalities. Time-limited projects will give way to longer-term programmatic support; 360-degree wrap-around policy support in the MICs will require long-term commitments and the procurement of world-class expertise with a full range of technical and administrative support in place; and the commitment to service delivery in the PICs will demand less nervousness regarding capacity substitution.

8.5   Financial. The shifts will have financial implications. Although the authors of this paper judge that some country aid programs will be cut and aid budgets will decline, it is hoped that cuts will be re-allocated and not banked by the Treasury. If this is the case there may be scope for funding the changes proposed. It is clear the costs of the visions expressed above are high. Wrap-around policy support – providing the full intellectual underpinnings for policy reform and policy implementation – is expensive. We know this from TNP2K. But we also know the nationwide benefits that ensued. It will be costly to guarantee even some minimum standard of service delivery in the islands; but possibly cheaper if this is combined with options to open access to particular parts of the Australian education, labour and import / export market for some PICs.

8.6   Organisational - the resourcing of DFAT itself. What we have called the 'contractor-led policy-lite' dialogue must be replaced by more senior in-country staff with delegated authority for policy discussions. More staff, more technically literate senior staff, more specialist staff, greater delegation.

Risks

8.7   The risks are the failure to respond imaginatively and presciently. It is easy to imagine a future for Australian aid based on disjointed incrementalism (the science of muddling through[25]). Carrying on as before carries risks and opportunity costs. The biggest risk lies in the growing irrelevance of aid, as programs continue to focus on pockets of transactional service delivery in the MICs on the one hand and continue to pursue unattainable transformational institutional reform in the PICs on the other. With such program, the attraction of large chunks of other, more unconditional, sources of foreign support will only grow.

8.8   China's more assertive stance in the region requires Australia to face these strategic choices and policy dilemmas. The question for Australia is whether it is willing to up its game on aid and development and take a more strategic approach – with all that it entails in terms of costs, staffing and whole-of-government

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[25] Charles E. Lindblom 'The Science of Muddling Through'. Public Administration Review, Vol. 19, No. 2 (Spring, 1959), pp. 79-88, and 'Still Muddling, Not Yet Through'. Public Administration Review Vol. 39, No. 6 (Nov. - Dec., 1979), pp. 517-526

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coherence and collaboration. Or will Australia continue to focus on responsiveness - funding projects here and there to achieve important short-term foreign policy or aid outputs, but which do not respond to the emerging and growing challenges in the region?

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9.   Conclusion

9.1   **As a result of its location on the planet, its size, wealth and resources. Australia faces two primary foreign policy challenges, one of which is global, the other Pacific.** First, how can the country's commercial and trading dependence on China be aligned with the country's security and military dependence on the United States? Second, what should Australia's diplomatic engagement strategy be when it is too small for the world yet too large for the Pacific?

9.2   **The global challenge.** Australia cannot hope to influence, let alone control, international events. Yet it has forged effective international alliances with like-minded countries and free-trade agreements with trading partners. It has shown flexibility, imagination, patience and commitment in putting these long-term arrangements in place. It has recognised the mutuality of national interests. These are worthy lessons for a revised aid program.

9.3   **The Pacific challenge.** Within the Pacific the country's size and clout will always need careful handling; regardless of what it actually says or does, it is easy (and often convenient) for Australia to be portrayed as dominating. While Australia will never be able to replicate New Zealand's approach (its geography and economy discount that option) a more modest, more sympathetic and longer-term commitment based on real partnership could go a long way in effecting a policy 're-set' as well as a 'step-up'.

9.4   **Responding to the challenges and opportunities** of Covid-19 will require imagination and bravery to adopt approaches which come with greater risk but potentially greater reward. It is clear that the world is becoming increasingly dangerous. The Australian aid program needs to rediscover its cutting edge.

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