



AUSTRALIAN AMBASSADOR KATHY KLUGMAN OPENS NEWLY BUILT HOMES IN KALLARU VILLAGE, NORTH SRI LANKA.

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Peter Baxter

Australian aid in the Asian Century **GROWTH SPURS A NEW APPROACH**

As Asia is transformed through strong economic growth and rising incomes, AusAID is changing the way it does business. There are millions of poor people in Asia but many now live in fast-growing, middle-income countries. AusAID is finding ways to leverage the successes of these emerging economies to help the poor. We are moving away from direct service delivery in some developing countries to longer-term, strategic assistance that shapes policy-making, empowers the poor and spends Australian aid money more efficiently. This supports social cohesion and builds stronger foundations for continued economic development. Our governance and public financial management programs in Indonesia and the Philippines, for example, help countries to use their own resources more effectively. Australia is good at building sturdy institutions at home. It makes sense that we help our neighbours to strengthen their institutions – and this is an effective way to ensure Australia's future Asian relations and prosperity.

PETER BAXTER was appointed the Director General of AusAID in May 2010. He joined the Department of Foreign Affairs and Trade in 1988, has served in several overseas missions, and previously headed DFAT's Consular, Public Diplomacy and Parliamentary Affairs Division.

Aid is about reducing poverty and easing the plight of people who are suffering. But helping developing countries in Asia also serves our national interests. Australia benefits from having stable and secure neighbours. The most cost-effective way to manage cross-border and regional issues, from health to security, is working with our neighbours. Australian aid is also good for our own economy. We export \$120 billion worth of goods and services each year to countries where Australian aid is delivered. Our proximity to discerning customers with rising disposable incomes provides new markets for Australian producers, and over the long term this enhances our prosperity.

Australia is providing around \$5.2 billion in official development assistance through bilateral and multilateral channels in 2012-13. We are doing this because more than a billion people live in extreme poverty and two-thirds of them are in our own region. The largest share of our aid – around \$1.7 billion – will go to countries like Cambodia, Indonesia, Laos, Mongolia, Myanmar, the Philippines, Timor-Leste, and Vietnam.

Despite Asia's massive economic and social transformation, poverty remains pervasive. Even in fast-growing, middle-income countries such as Indonesia and Vietnam, poverty is alarmingly high. Recent surveys indicate that Indonesia has about 110 million people and Vietnam around 40 million people living on less than \$2 a day. This level of poverty and the associated inequality and vulnerability strain social cohesion and risk the continued economic growth and prosperity of our region. As well, having a large share of the labour force unused or used inefficiently limits a country's growth potential.

The new reality in Asia has ushered in a new phase for Australian aid in which Australia directs more of its strategic effort to leveraging local capabilities in partner countries, in both the public and private sectors.

Economic growth and poverty reduction

Asia's transformation has generated life-changing opportunities for poor people. By gaining access to the formal labour market – in many cases for the first time in their lives – millions have been able to free themselves from unemployment and poverty. People leave poverty when they get a job, or get a better job – and these opportunities are coming through strong private-sector growth.

Rapid economic growth has also increased governments' abilities to raise revenue, giving them larger budgets that are better able to meet the needs of their citizens. AusAID is adapting its programs in response to these trends.

Other conditions necessary for long-term social stability and economic prosperity include the rule of law, core infrastructure such as roads, electricity and telecommunications, a stable political environment, an educated and healthy workforce, access to finance, and integration with regional and global markets. Only when these positive factors exist together can economies, and in particular the private sector, expand sufficiently to create the job opportunities and productivity growth people need to work their way out of poverty. That is why AusAID is supporting a range of initiatives to make financial systems more inclusive, such as Nepal's Micro Enterprise Development Program (MEDEP) in partnership with the United Nations Development Program. MEDEP focuses on improving the livelihoods of the poor and the marginalised, with at least 60 per cent of beneficiaries required to be women. It helps to establish community enterprises or cooperatives and create innovative access to financial institutions. It also provides business training, financial literacy training, and start-up costs to the poor in rural communities to buy equipment that can be used as collateral to access a formal bank.

Despite Asia's massive economic and social transformation, poverty remains pervasive.

Middle-income does not mean middle-class

Average per capita incomes and jobs generated in middle-income countries conceal underlying poverty levels. The latest figures from the World Bank show that 75% of the world's poor live in middle-income countries.

In Indonesia, for example, estimates of the “middle class” range from 50 million to 75 million people. However, the standard of living experienced by most “middle class” Indonesians is well below the standard of living of most Australians.

Indonesia's middle class can meet their ongoing basic expenses and build modest savings or buy some durable consumer goods such as refrigerators or motor scooters. But this is not middle class in the way it is understood in Australia, where average incomes are eight-times higher than in Indonesia. In countries like Indonesia and the Philippines, most people who comprise the middle class remain highly susceptible to slipping back into poverty. The absence of a universal and comprehensive welfare state – Indonesia does not yet have equivalents to Medicare or Centrelink – means that even people on relatively good incomes are often just one unfortunate event away from becoming poor again. Sickness, injury, the loss of an income-earner, unemployment, rapid food inflation or fuel price spikes can financially devastate families in a single stroke.

So what are we doing differently?

AusAID is responding to the changes in Asia by working differently. Our programs help poor people share in the economic dynamism of their countries. We work within the region to develop financial systems and investments that support the poor. This empowers the poor, supports social cohesion and builds stronger foundations for continued economic growth.

For example, AusAID contributes to the Indonesian Government's social assistance program – the National Program for Community Empowerment – to support the poor and the disadvantaged. AusAID is trialling innovative approaches of assistance that make it possible to take the successful innovations to scale, thus reaching more and more people.

Our Private Sector Development Strategy outlines a range of specific actions we are taking to encourage business growth, including supporting economic reform, strengthening economic institutions, making investments in education, health or infrastructure, and giving women access to capital and labour markets. In health, for example, AusAID helps build the capacity of governments in our region to effectively manage the provision and financing of health care, through public and private sectors, to ensure it is good quality, affordable and accessible to everyone. Australia also works through multilateral organisations such as the GAVI Alliance and the Global Fund to Fight AIDS, Tuberculosis and Malaria, to encourage private-sector engagement in delivering essential medicines and services for the poorest and most vulnerable.

AusAID is focusing more on:

1. Addressing the challenges of urban growth and problems faced by the urban poor. Urbanisation creates new economic opportunities, and internal migrants to developing cities should benefit from urban intensification – not be marginalised by it.
2. Making use of the growing local private sector as a delivery partner. Private-sector distribution networks in middle-income countries can be used by AusAID to catalyse economic growth, and the evolving financial system provides a structure to offer bank accounts, loans and other financial services to the poor.

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3. Targeting hard-to-reach groups of society, including geographic pockets of multiple and entrenched disadvantage that keep people in poverty. This is where AusAID can build on its cutting-edge work on disability-inclusive development.
4. Supporting developing countries to establish affordable, universal social safety nets that are critical to maintaining social cohesion and reducing the economic vulnerability of households.
5. Collaborating with new international aid donors from Asia to deepen our regional engagement, such as through our agreement with Malaysia – no longer a recipient of Australian aid – to support Malaysian educators to build the capability of teachers in Afghanistan.

Aid effectiveness and value-for-money

AusAID's responsibility to Australian taxpayers is to ensure that development assistance reduces poverty with maximum impact for every dollar invested. We concentrate our efforts where we can make a difference and where our resources can be deployed most effectively.

Our programs adhere to international development effectiveness principles, rigorous analysis, strategic planning, and robust quality assurance at every stage. An increasing drive for transparency, including AusAID's new Independent Evaluation Committee (chaired by former World Bank Vice President Jim Adams) seeks to continually improve the value-for-money of our programs.

To this end we need to leverage the capabilities of middle-income countries. Simply transferring resources does not generate enough value from our aid. That is why we are moving away from direct service delivery in some developing countries to longer-term, strategic assistance. In middle-income countries in particular, our effectiveness should be assessed according to how we support and shape the spending and policy decisions of the host governments, and whether our programs leverage additional investment by the private sector.

The rise of Asia presents new economic opportunities for Australia, but we also share the risks. The number of people remaining in poverty, the extent of inequality and the level of vulnerability could all jeopardise Asia's continued growth and prosperity. Effective development assistance can support countries in our region to sustainably help people out of poverty. This is the fundamental purpose of our aid program, and it serves the national interests of the countries we assist, as well as our own.

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