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submissions@aidreview.gov.au

Independent Review of Aid Effectiveness (“The Review”)

We refer to the Terms of Reference for The Review and in particular to item 3a. Our comments are based on our experience in undertaking capacity building activities in South and South East Asia in recent years. These activities have been undertaken both with and without donor support and because we believe they are in the Australian public interest.

Our activities centre on economic governance especially in relation to enhancing the creditability of capital markets in South East Asia. We consider that non physical infrastructure such as the integrity of capital markets, judicial independence, sound bankruptcy laws and effective public sector financial management are just as important as physical infrastructure in reducing poverty.

A stable and predictable climate for business encourages local investors to retain funds within the country and reinvest rather than transferring them out to safe havens and also attracts foreign investment leading to reductions in the cost of capital and more employment opportunities with a consequent increase in economic growth.

Whilst we acknowledge that Ausaid programs cover economic governance we consider that greater benefits could arise both to the recipient country and the Australian taxpayer through an increased focus on economic governance both at a country and regional level.

At present the average Australian worker contributes 9% of their salary to superannuation. A growing portion of these retirement savings are likely in the future to be invested in the capital markets of South East Asia both directly and indirectly by virtue of Australian companies seeking growth opportunities in the region. Enhancing the creditability of these markets is in the best interest of Australian taxpayers, both to protect their retirement savings and to avoid contagion from failures in regional capital markets to Australia’s own market. In addition projects which enhance economic growth in the region provide a sound base for political stability within Australia’s neighbourhood.

It appears to us that the Ausaid program is essentially country based with different themes and priorities being attached to each country. However with the increasing integration of economic activity and regulatory supervision across the region we consider that some aspects of the program should be common across countries and that the plans by Asean countries to work towards greater economic integration by 2015 provides the platform for such an approach to be well regarded by recipient countries.

We also suggest that Ausaid would benefit from greater consultation or advice prior to finalising terms of reference for economic governance projects especially where these incorporate technical aspects outside the immediate expertise of Ausaid personnel. This would enhance the effectiveness of the projects. We also consider that the effectiveness of projects might be further improved by holding prior to commencement of a project a workshop with all stakeholders in the recipient country to ensure that the project receives the full support of all stakeholders rather than its effectiveness being eroded through competing interest or duplication through lack of awareness.

Customer Service Centre
1300 137 322

NSW

33 Erskine Street
Sydney NSW 2000
GPO Box 9985
Sydney NSW 2001
Phone 61 2 9290 1344
Fax 61 2 9262 1512

ACT

L10, 60 Marcus Clarke Street
Canberra ACT 2601
GPO Box 9985
Canberra ACT 2601
Phone 61 2 6122 6100
Fax 61 2 6122 6122

Qld

L32, 345 Queen Street,
Brisbane Qld 4000
GPO Box 9985
Brisbane Qld 4001
Phone 61 7 3233 6500
Fax 61 7 3233 6555

SA / NT

L11, 1 King William Street
Adelaide SA 5000
GPO Box 9985
Adelaide SA 5001
Phone 61 8 8113 5500
Fax 61 8 8231 1982

Vic / Tas

L3, 600 Bourke Street
Melbourne Vic 3000
GPO Box 9985
Melbourne Vic 3001
Phone 61 3 9641 7400
Fax 61 3 9670 3143

WA

Ground, 28 The Esplanade
Perth WA 6000
GPO Box 9985
Perth WA 6848
Phone 61 8 9420 0400
Fax 61 8 9321 5141



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We further recommend that such a workshop should also consider the ongoing resources and commitment required of the recipient country in order to facilitate sustainability at the conclusion of the Ausaid support. This is particularly important with non physical infrastructure projects where the conclusion of the project is not represented by a bridge across a river requiring little ongoing funding from the recipient country but rather knowhow which is resident in individuals and requires continuing expenditure such as salary and which may also require legislative change.

We would be pleased to meet with members of the panel undertaking The Review to discuss our observations in greater detail.

Yours faithfully

W J Palmer
Director, Asia

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Sydney NSW 2001

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