Part 1

CURRENT EFFECTIVENESS OF AUSTRALIAN AID
Chapter 1: CONTEMPORARY INTERNATIONAL THINKING ON DEVELOPMENT AND AID

A. INTRODUCTION

At its heart, development is about the world's poorest and most disadvantaged people living better lives. These are people whose quality of life is far below what is considered acceptable in Australia. Australia cannot fix all situations, certainly not alone. But aid is one way we can play our part.

To do so, Australian aid has to be more than well-intentioned; it has to be effective. The Australian taxpayer is entitled to demand this.

Aid has moved beyond large infrastructure projects, humanitarian assistance and handouts. Today it works across a broad front.

Development involves poor people acquiring opportunities to work, trade and save so they can one day lift themselves out of poverty. It means putting more children into quality schools. It includes saving lives by helping women, children and men access health care.

In many countries, development also means reducing violence and protecting human rights. Development is about giving poor people more choices and a greater say over their future. It is about transforming lives.

Aid is not the only tool for development. Most critical is the extent to which the policies of developing country governments are designed to help promote growth and development. Other important factors include: openness to trade and investment; effective government and a vibrant private sector; and a strong civil society.

Nevertheless, aid can play an important role. Aid can support and encourage government policies designed to promote growth and development, it can provide sustenance for the poor while long-term solutions are built, and it can be a source of resources and expertise for developing countries.

In this chapter, the Review Panel looks at how development has progressed over the past two decades. This chapter also examines recent international efforts to make aid as effective as possible. By learning from these efforts, Australia can ensure its aid delivers results and changes lives.

B. GLOBAL DEVELOPMENT PROGRESS

Much commentary about development focuses on failures. But by most measures, the world has seen unprecedented development in recent years. A smaller proportion of the world’s population now lives in poverty than at any time in history.
A large part of this success is due to fast-growing economies in Asia, most notably China and India. But this is not the whole story. Many countries in Africa, long considered a continent of development failure, have made strong gains over the past decade.

The most prominent measure of development progress is the Millennium Development Goals (MDGs). The MDGs are commitments for 2015 agreed to by the world’s nations following the 2000 Millennium Summit.

The MDG targets include halving extreme poverty, getting all children into school, closing the gap on gender inequality, saving lives lost to disease and lack of health care, and protecting the environment.

Many developing countries have made progress towards achieving these goals, though, as is clear from Table 1.1, progress has been variable.

### Table 1.1: Progress Against the Millennium Development Goals

<table>
<thead>
<tr>
<th>THE MILLENNIUM DEVELOPMENT GOALS</th>
<th>PROGRESS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Eradicate extreme hunger and poverty</td>
<td></td>
</tr>
<tr>
<td>2. Achieve universal primary education</td>
<td></td>
</tr>
<tr>
<td>3. Promote gender equality and empower women</td>
<td></td>
</tr>
<tr>
<td>4. Reduce child mortality</td>
<td></td>
</tr>
<tr>
<td>5. Improve maternal health</td>
<td></td>
</tr>
<tr>
<td>6. Combat HIV/AIDS, malaria and other diseases</td>
<td></td>
</tr>
<tr>
<td>7. Ensure environmental sustainability</td>
<td></td>
</tr>
<tr>
<td>8. Develop a global partnership for development</td>
<td></td>
</tr>
</tbody>
</table>

- **On track towards being achieved**
- **Substantial progress has been made**
- **Less progress has been made**


Despite some successes, there is a long way to go. More than one billion people live on less than US$1.25 a day, the most commonly used measure of poverty. This is a level of destitution almost unimaginable in Australia.

For example, the average annual income of an Indonesian is more than US$2,000, less than one-twentieth of an Australian’s average income. More than 35 million Indonesians live on less than US$1.25 a day.

Even in rapidly-growing India, more than 400 million people continue to live on less than US$1.25 a day.

Furthermore, there are many countries where development is stagnating or going backwards. Many of Australia’s Pacific neighbours are making little progress towards the MDGs.
Some countries, such as Zimbabwe, have seen previous development gains reversed. Some countries that were once stable and developing now seem precariously placed, such as Pakistan. The World Bank classifies 39 countries as ‘fragile states’, characterised by conflict or weak governance (World Bank 2009a). Six of these countries (PNG, Solomon Islands, East Timor, Kiribati, Cambodia and Laos) are in the Asia–Pacific region.

---

**Box 1.1: Poverty in Indonesia**

Margaret Reid AO read the following story in *The Jakarta Post* on the first day of the Review Panel’s visit to Indonesia. The story struck her as being indicative of the human cost of poverty, and also its persistence, even in middle–income countries such as Indonesia.

**The Death of an Indonesian Family Subsisting on Cassava**

Poverty left no options for six siblings but to consume a cheap traditional meal made of processed cassava mixed with palm sugar, called tiwul. This led to lethal food poisoning that claimed their lives over the weekend in Jebol village in Jepara, Central Java.

‘The first to die were Lutfiana, 22, and Abdul Amin, 3, who passed away at Kartini General Hospital in Jepara on Sunday morning and Sunday evening,’ Jamhamid, the children’s father, was quoted as saying by news portal *tribunnews.com*.

Lutfiana and Abdul Amin were buried along with Jamhamid’s other children who died eating the meal: Ahmad Kusrianto, 5, Saidatul Kusniah, 8, Ahmad Hisyam Ali, 13, and Faridatul Solihah, 15.

Jamhamid, who works as a tailor in nearby Semarang, said his family ate cassava because that was all they could afford on his paltry weekly income of Rp150,000 (US$16.60), which he stretched over four days.

Jamhamid’s income is higher than the official poverty line set by the Indonesian government between March 2009 and March 2010 at Rp211,726 a month to fulfil a 2,100–calorie daily intake.

‘Sometimes we can only buy 10 kilograms of rice instead of the usual 16 kilograms to feed eight members of the family,’ Jamhamid said.

His wife, Siti, added that the family had been subsisting on cassava for two weeks because of the financial restraints they suffered from.

Jamhamid and Siti’s six children died just days after Coordinating Public Welfare Minister Agung Laksono announced that the country experienced a decline in poverty, adding that the government aimed to further reduce poverty to 12 per cent or less in 2012.

Source: Grazella (2011).
Sustainable development is also threatened by cross-border and global challenges, such as climate change, communicable diseases and terrorism. Rising food and commodity prices pose a real threat to many countries and have particular implications for the poor.

C. FACTORS FOR SUCCESS

There is no single recipe for development progress. Commonly cited development success stories, such as South Korea, Botswana and Singapore, have used different policies and adopted different priorities.

But there are some basic principles that underlie development success. These include economic growth, investing in opportunities and building strong institutions.

i) Economic Growth

Economic growth is necessary, but not sufficient for sustained development. No country has significantly reduced poverty without sustained economic growth. Both the government and market have a role in promoting growth.

Put simply, developing countries that have put policies in place that help to develop the private sector and support integration into global markets, for example by providing infrastructure and reducing trade barriers, have done better. Those that have restricted the private sector and put up barriers against the external world have not done well.

ii) Investing in Opportunity

Investments in improving opportunities for people, such as in health, education and access to financial services, are critical for development. Improving education, in particular, has been important in many development success stories. Promoting the rights of disadvantaged groups, especially women, is also vital for successful development.

iii) Strong Institutions

Strong and effective institutions are essential for development success. This does not mean countries have to have perfectly-functioning institutions and systems to succeed. On the contrary, countries have succeeded even when they have major weaknesses. But the quality of domestic institutions makes more of a difference to development outcomes than anything else.
D. THE RAPIDLY CHANGING AID ENVIRONMENT

The total volume of aid has grown dramatically over the past decade. The most common measure of aid volume is Official Development Assistance (ODA). ODA is funds given to poor countries by government agencies. To be counted as ODA, funds must meet criteria set by the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD).

Box 1.2: Official Development Assistance

ODA is funding given to developing countries listed by the OECD. Net ODA refers to outgoings in assistance less repayment of loans. ODA funding is given by government agencies (including federal, state and local governments). It does not include funding from non-government organisations (NGOs) or other private charitable organisations.

The OECD DAC issues comprehensive guidelines on what does and does not count as ODA. To be counted as ODA, funding must be given for development purposes to countries with per capita Gross National Income (GNI) below a set threshold. The current threshold is per capita GNI (in 2007) of less than US$11,455. OECD government funding to support multilateral organisations and NGOs’ development activities counts as ODA. Concessional lending also counts as ODA, provided it includes a grant element of at least 25 per cent.

All OECD donors report annually on their ODA-eligible expenditure. For Australia, this reporting is coordinated by AusAID, with input from all Australian government departments involved in delivering ODA. Across the Australian government, any queries regarding whether expenditure is ODA-eligible are referred to AusAID in the first instance. If necessary, a ruling is sought from the OECD DAC.

ODA has grown from around US$50 billion to nearly US$130 billion over the past decade. This was driven mainly by increased attention to the linkages between development and security following the terrorist attacks of 11 September 2001. Major donors, including the United States, the United Kingdom, Germany and France, increased their aid programs by two to three fold between 2000 and 2009.

There is no clear trend of declining aid funding since the 2008–09 Global Financial Crisis. However, evidence obtained during the Review Panel’s consultations suggests the aid budgets of several major OECD donors are coming under pressure.

---


Donors are reacting differently to these changed circumstances but are continuing to stress the importance of aid, as Boxes 1.3 and 1.4 illustrate with the cases of the United Kingdom and the United States.

**Box 1.3: United Kingdom Aid Reforms**

The United Kingdom government has committed to increase its aid budget to 0.7 per cent of GNI by 2013, up from an estimated 0.56 per cent in 2010. This is despite significant cuts being made to the United Kingdom domestic budget.

Andrew Mitchell, United Kingdom Secretary of State for International Development, has argued in favour of the increase, despite these wider cuts, stating “we will not balance our books on the backs of the poor, whether in Britain or around the world.” (Mitchell 2011) Prime Minister David Cameron has argued similarly that the United Kingdom has “a moral responsibility, as one of the richest countries in the world, not to give up on them [poor countries] just because we are having a difficult time at home.” (Mungcal 2010)

The United Kingdom government has also announced a series of reforms to the aid program. These aim to ensure that it remains effective, offers value for money and will give British taxpayers confidence in it as it scales up.

Three parallel reviews of bilateral, multilateral and humanitarian aid have been undertaken and their findings, together with the United Kingdom government’s response, were released in March 2011.

The bilateral aid review examined the United Kingdom’s country and regional programs. It concluded that the United Kingdom could consolidate the number of countries it works in. As a result, the Department for International Development (DFID) will close 16 of its bilateral programs by 2016.

The multilateral aid review examined the performance of 43 international development organisations. DFID is using the review to direct an increased share of its multilateral funding to better–performing organisations.

Finally, the humanitarian emergency response review recommends ways the United Kingdom can strengthen its response to natural disasters and humanitarian crises.
Box 1.4: US Quadrennial Diplomacy and Development Review

The first ever US Quadrennial Diplomacy and Development Review (QDDR), *Leading Through Civilian Power*, was released in December 2010. The QDDR assesses the work of the United States State Department and the United States Agency for International Development (USAID) in a global context of technological transformation, growing instability and rising threats.

The QDDR argues for the critical importance of international development, stating that it should be elevated to be on par with defence and diplomacy, and given equal attention and resources. Secretary of State Hillary Rodham Clinton terms this a ‘smart power’ approach to solving global problems.

In response to the QDDR, Secretary Clinton has said that she will rebuild USAID into a world-class development agency through innovation and a focus on results. USAID will also see increases in its human capital and improvements in its operational and budget oversight capacity.

The QDDR builds on President Barack Obama’s Presidential Policy Directive on Global Development, which recognises development as an essential component of the United States’ national security approach, describing it as a strategic, economic and moral imperative for the United States.

Traditional donors are doing business differently. There is less of a focus on the inputs of aid and more of a focus on the effectiveness of results. There is greater attention to collaboration between donors, and to transparency and public communication. Significant attention is also increasingly being paid to engagement with the private sector and civil society.

New multilateral global funds have emerged, mainly to tackle specific development challenges such as communicable diseases or climate change. These funds have had a significant and positive impact on major diseases. But they have also made the aid scene more complex. For example, 100 multilateral agencies operate in the health sector alone.

Though not captured by official data, growth in non-government aid has also expanded. As noted in the Study of the Future State of the World as it Relates to the Australian Program (the Lowy Study) commissioned by the Review Panel:

“Non-state donors are increasingly influencing international aid behaviour as their share of total aid flows to developing countries increases ... Aid from NGOs and private foundations amounted to $53 billion in 2008, compared to $121 billion from official sources. This ratio of almost one private dollar for every two dollars of official aid is significantly higher than a decade ago when the ratio was closer to one to five.”

Not only have well-known NGOs such as World Vision and Oxfam grown, but completely new non-government donors have also emerged such as the Bill and Melinda Gates and Clinton Foundations. These have brought with them new resources and ways of doing business,
including more attention to results. As can be seen from Figure 1.1, annual contributions from the Bill and Melinda Gates Foundation now match the bilateral aid of many donor governments.

**Figure 1.1: Government and Non–Government Aid**

![Graph showing government and non-government aid contributions](image)

Source: Roche (2011). Roche provides a range for China due to uncertainty about its aid volumes. (Note: This graph uses 2008 data; Australian ODA has since increased substantially.)

Growth in aid has also come from non–traditional donors such as Brazil and China, some of whom are also now substantial sources of aid. Their assistance is not included in statistics on ODA (because they do not report to the OECD) and so cannot be as accurately estimated. Their aid tends to be in the form of loans or technical cooperation (that is, providing experts and other ways to transfer knowledge to developing countries). The *Financial Times* recently estimated that China lent more to developing countries than the World Bank (Dyer and Anderlini 2011). While this figure includes non–concessional and concessional sources of financing, it reveals China’s growing impact in many developing countries.

A final important change in the aid environment over the past decade has been shifts in the mix of recipients.

Despite the fact that the majority of the world’s poorest people now reside in countries classified as ‘middle income’, donors are now reducing their support for middle–income countries, such as China, India and Indonesia. They are instead shifting their focus to the poorest countries, most of which are in Africa.
Since the poorest countries are also typically the worst governed, this trend means that donor resources are increasingly focused on ‘fragile states’ affected by conflict or weak governance. Aid effectiveness in fragile states is a particular challenge and this has significant implications for donors such as Australia, which direct a large proportion of their aid program to fragile states.

The shift in global aid away from Asia to Africa is a strategic challenge and opportunity for Australia, and an issue to which the Review Panel will return later in this Report.

**E. THE ROLE OF AID IN DEVELOPMENT**

It is important to be realistic about the role of aid in advancing development. The challenges and limitations of aid were highlighted in a submission to the Review from the Effective Development Group:

> “While we believe the aid program should aim at contributing to development and poverty reduction efforts overseas, we need to recognise its limited capacity to yield results, and even sometimes its potential counterproductive effect over the longer term, given the sheer complexity of the dynamics at play and the many factors/actors that contribute to them.”

The fact is that aid volumes are small and shrinking compared to the size of developing country economies. For most countries at most periods, aid is not what decides whether or not they succeed. Far more important is a country’s own policies and practices. To the extent that developed country policies affect prospects in developing countries, aid is by no means the most important factor. Advanced economies’ trade, migration and investment policies are also important for development prospects.

This does not mean aid is not important. Aid can play a unique role in advancing individuals’ and countries’ prospects:

- It can specifically target the poor.
- Aid can play a central role in fragile states and in times of crisis. Aid alone cannot propel fragile states into prosperity, but it can create a safety net of economic and social stability. This gives fragile states space to advance long–term development efforts. East Timor and Solomon Islands are examples of this, as is South Korea following the Korean conflict.
- It can be essential to maintaining basic services in small states. Some of Australia’s smallest Pacific Island neighbours are unlikely to be viable without aid.
- Aid is a critical avenue for sharing ideas internationally, promoting innovation and spreading the benefits of scientific discoveries. It can support and finance policy and technological changes that transform people’s lives. For example, aid helped to bring about the Green Revolution in agriculture in Asia, which resulted in millions of people being lifted out of poverty. Vaccination programs have helped dramatically reduce and/or eradicate diseases such as polio and smallpox. Aid has promoted economic reforms in areas such as telecommunications, thereby improving people’s access to information and financial services.
- Aid can help bring countries together to confront global challenges such as climate change, food security and cross–border diseases.
Aid can also have negative consequences, which donors need to recognise. Possible negative consequences include:

- **Fungibility.** Aid may displace government spending in a particular sector such as health or education. This becomes a problem when the funds this releases are spent on less productive purposes.
- **Disincentive to reform.** This can occur when aid achieves enough development for governments to delay politically-difficult decisions.
- **Making the economy less competitive.** This can arise through appreciation of the local currency, inflationary effects or harm to exports.
- **Donor burden.** Aid can become a burden on recipient governments who have to deal with many different donors who do not coordinate their efforts.

Analysts have struggled to come up with an overall assessment of the impact of aid. It is more realistic to accept that there is good aid and bad aid, and to develop strategies that promote the former.

**F. IMPROVING AID EFFECTIVENESS**

**i) What is Aid Effectiveness?**

Finding out if aid is effective is no easy task. It is complicated by the wide range of issues that aid attempts to tackle, from improving basic services to the functioning of government.

Further, some aid activities, such as improving the quality of government, are intrinsically difficult to measure.

Also, the timeframes over which success can be realistically expected are generally long-term. This poses difficulties for analysis and assessment.

Nevertheless, there are ways to unpack some of these issues. Below is an explanation of a few basic concepts relevant to aid effectiveness:

- **Outcomes.** These are what the aid program is ultimately aiming for. They include reductions in poverty levels and improvements in the MDG indicators. At a more local level, they also include results such as having more children at school or more farmers with access to markets.
- **Outputs.** These are the results of donor interventions designed to improve development outcomes. They include the building of schools, roads and health centres, and higher numbers of qualified nurses and teachers.
- **Inputs** are the activities that donors fund to achieve outputs. They include funding for textbooks or training programs for nurses or teachers.
- **Value for money.** Value for money for any activity is determined by the balance of economy, efficiency and effectiveness. The cheapest solution will not always be the best value for money. Value for money also depends on the quality of the outcome achieved and the efficiency with which it is achieved.
• Risk. This comprises financial or fiduciary risk, risk of not getting value for money, risk to
Australia’s reputation and risk of not achieving aid outcomes.

These concepts feature prominently throughout this Report.

Given the complexities of aid, a narrow focus on one of these factors is unwise. They are all
important and all linked.

**ii) What Matters for Aid Effectiveness?**

Many factors determine aid effectiveness. Broadly, these can be examined under three
categories: the aid recipient, the aid donor and the quality of interactions between the recipient
and donor (Howes 2011).

**(a) The Aid Recipient**

Theory and evidence both suggest the attributes of the aid recipient are the most important
factor that will determine the impact of aid. It is the same for development success. These
attributes relate to government, civil society, the private sector, local communities and people.

The context for aid and development in individual countries is fundamental. Country contexts
vary greatly. The need for donors to recognise country context was highlighted in the submission
from East Timor’s Ministry of Finance:

> “The Australian aid program must fully acknowledge that one cannot build a nation
upon the principles of another. There is no overarching model that can be applied
to solve the unique challenges that face each nation in which the Australian aid
program engages. In doing so, an appreciation of the importance of historical
context, culture, regional diversities, linguistic complexities, social differences,
ongoing political dissonance and the national mentality, all crucial elements in
state–building in post–conflict nations, must be taken into account.”

Many tools have been used to try to improve government policy and capacity. Many donors, most
notably the multilateral development banks through the 1980s and 1990s, gave aid on
condition of policy reforms (known in aid jargon as ‘conditionality’). Appropriate use of
conditionality, combined with support for improved governance, can provide both the incentive
and the means for progress if a government is committed. But there has to be the will.

Many bilateral donors, including Australia, have provided large amounts of ‘technical assistance’
including the provision of training and expertise. In the right circumstances, this has the
potential for significant benefits. Review Panel members have seen the impact high–quality
specialist advice can have, for example in telecommunications in Vanuatu and in the reform of
government financial management in Indonesia.

Despite some success stories, the results from technical assistance have often been
disappointing, especially when political will is lacking.

More recently, donors have started to focus on improving demand for good governance, for
example by supporting anti–corruption NGOs and civic education. This is an important goal, but
a long–term one with uncertain prospects for success.
While strong and effective governments are needed for successful development, promoting a commitment to good governance from recipient governments is typically beyond the ability of aid to influence, except at the margin. Promoting good governance now appears to be a matter of supporting reform efforts of committed governments rather than a broad-brush solution.

In the late 1990s and early 2000s, some donors responded to these challenges by directing aid to countries with governments with relatively good policy settings and capacity. This increased aid effectiveness, but it may have meant some aid went to countries less in need. With the push to focus aid on fragile states, this approach has become less relevant.

One new approach that indirectly tackles the performance of the aid recipient country is linking the disbursement of aid to results. Under this approach, donor funding is given only if results are achieved. This is only possible in areas of activity where results can be measured, such as the delivery of services like health or electricity. Linking aid to results helps protect against the misuse or wastage of funds, especially important in countries that tend to perform poorly. This approach has been successfully used under the Australian aid program to expand household water supply in Indonesia, as discussed in Chapter 8.

Many donors now recognise the limits of government-focused approaches, especially in weak environments. This has seen donors work more with the private sector, local communities, NGOs, local civil society, and national universities and think tanks.

(b) The Donor Country

Aid effectiveness also depends on the performance of the donor country. This means all agencies, NGOs and others who provide aid, but in particular government agencies charged with aid delivery.

Government agencies responsible for delivering aid face issues not typical for agencies that focus on domestic programs:

- The extremely challenging operating environment in many developing countries.
- Difficulty in getting feedback on performance. Aid results are often difficult to measure because the impacts are long-term in nature and the people who are best placed to give feedback, the recipient government and beneficiaries, may not have a powerful voice in donor countries.
- The broad coverage and mandate. Aid agencies have the wide-ranging and ambitious goal of poverty reduction. There are many good ways aid can be used. For example, even if it is agreed that aid should be used for education, should it be used to fund scholarships, technical and vocational education, secondary education or basic education? If the last, should it be used for building schools or training teachers? There are no easy answers to these questions. In the end, decisions at both the political and bureaucratic levels can risk fragmentation, with the program doing a lot of very little. In addition, unlike most government agencies which deal with just one sector (health, education, welfare), agencies responsible for delivering aid often work across many sectors and countries. This makes it hard to build and manage knowledge and skills.
The above analysis suggests several ways to improve effectiveness:

- Greater emphasis on transparency, results, monitoring and evaluation, including encouraging more systematic feedback from beneficiaries on performance to help promote learning about what works.
- Greater selectivity, with a focus on a smaller number of countries, sectors and programs to help reduce fragmentation of effort.
- Greater country and sectoral knowledge.

Effectiveness is not just an issue for an agency like AusAID. To be effective, there needs to be strong coordination across government, leading to greater consistency across all policies that impact on developing countries and mobilising skills from a range of agencies.

This is particularly important in Australia where ODA is delivered by AusAID, the Australian Federal Police, the Treasury, the Department of Finance and Deregulation, the Department of Foreign Affairs and Trade, the Australian Defence Force, the Australian Centre for International Agricultural Research and more than 80 other federal and state departments and agencies.

Donor countries also bring resources and skills from beyond government, through NGOs, contractors, businesses, researchers, community groups and individuals. In Australia’s case, this ranges from the community development activities of big mining companies through to the activities of NGOs (who receive up to $800 million in donations from the Australian public each year). It also includes community groups like the Rotary clubs that support local communities in neighbouring countries and individual volunteers who devote their time and skills to help people in developing countries.

(c) Donor–Recipient Interactions

Poor countries typically receive aid from many donors. In Vietnam, Australia is one of 51 multilateral and bilateral donors (Vietnam Ministry of Planning 2010).

Interactions between a large number of donors and a single recipient government can have a cumulative and damaging impact. For example in 2005, the Tanzanian government produced about 2,400 reports for the more than 50 donors operating in the country (TASOET 2005: 1). In the Pacific Islands, some senior government officials are so busy meeting donor–financed consultants and producing reports for donors that they have little time for the business of governing (AusAID 2008a: 21).

Two international agreements, the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action, try to address these issues by reducing transaction costs and the burden of aid.

The Paris Declaration, agreed in 2005, commits donor governments and developing countries to work together to make aid as effective as possible. It is an attempt to reform how aid is delivered and managed.
Box 1.6: Major Principles from the Paris Declaration on Aid Effectiveness

Ownership: Developing countries set their own strategies for poverty reduction, improving their institutions and tackling corruption.

Alignment: Donor countries align behind these objectives and use local systems.

Harmonisation: Donor countries coordinate, simplify procedures and share information to avoid duplication.

Results: Developing countries and donors shift focus to development results and results are measured.

Mutual accountability: Donors and partners are both accountable for development results.

The Accra Agenda for Action, agreed in 2008, builds on the commitments made in the Paris Declaration and aims to improve the delivery, management and use of aid.

Box 1.7: Major Principles from the Accra Agenda for Action

Predictability: Donors will provide three to five year forward information on their planned aid to developing countries.

Country systems: Developing country systems, rather than donor systems, will be used to deliver aid as the first option.

Conditionality: Donors will support policies based on a developing country’s own development objectives.

Untying: Donors will relax restrictions that prevent developing countries from buying goods and services from wherever they can get the best quality at the lowest price.

The Paris Declaration and Accra Agenda have strong support in many development circles. This was evident in submissions to the Review. The submission from Micah Challenge is a good example:

“The future direction of the aid program should continue to be directed by the principles of the Paris Declaration and Accra Agenda. Specifically, this should include greater use of effective multilateral channels where there is appropriate developing country representation, ... an increase in the share of bilateral aid provided through general budget support, and a move toward increased average project size.”
At the same time, there are widely differing views about how effective and relevant the Paris Declaration and Accra Agenda are. Progress towards their goals has been slow and patchy and in recent years the aid world has become more rather than less complex. Nevertheless, there is no doubt these agreements have led to a greater focus on important principles of aid effectiveness, such as transparency, selectivity and partnerships.

G. THE INTERNATIONAL AID EFFECTIVENESS AGENDA

The complex environment described above means that aid success will not come from a single or simple reform agenda.

Instead, by building on the analysis above and learning from other donors, a clear international agenda for aid effectiveness emerges as outlined below:

- The need to be **selective** by focusing resources on a limited number of countries and sectors.
- The need for effective **partnerships** with governments, NGOs, multilateral agencies, private sector organisations and community groups.
- The need to focus on **results** to ensure aid is delivering tangible benefits to those who need it.
- The need to promote **feedback**, including through independent evaluation.
- The need for **transparency** to help taxpayers in donor countries and beneficiaries in developing countries judge if aid is delivering results and value for money.
- The need for **coordination** across **whole-of-government** so that development and aid policies, and their management, are consistent.

These themes are at the centre of contemporary international thinking on aid effectiveness. They underpin the recommendations in this Report.
Chapter 2: AUSTRALIA’S AID PROGRAM

A. INTRODUCTION

This chapter provides an overview of Australia’s aid program. It discusses the program’s objectives, including the links with Australia’s national interests. It also looks at the planned scale-up of the program and how this is likely to position Australia as one of the world’s top 10 donors by 2015. It examines international development commitments and Australia’s membership of multilateral organisations, noting changes to geographic focus and to the way the program is being delivered.

B. AUSTRALIA’S INTERNATIONAL COMMITMENTS

Like most Organisation for Economic Cooperation and Development (OECD) donors, the Australian government is committed to the Millennium Development Goals (MDGs) as the internationally-agreed development targets.

As discussed in Chapter 1, Australia is a signatory to both the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action. Australia also led development of the Cairns Compact on Strengthening Development Coordination in the Pacific (see Box 2.1).

Box 2.1: The Cairns Compact on Strengthening Development Coordination in the Pacific

The Cairns Compact was established by Pacific leaders at the 2009 Pacific Islands Forum. It was a response to concerns that the Pacific region was not on track to achieving the MDGs by 2015. The Compact sets out actions designed to improve the coordination and use of development resources in the Pacific, in line with the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action.

Australia is also a signatory to the International Aid Transparency Initiative, which aims to make information about aid spending easier to access, understand and use.

Box 2.2: The International Aid Transparency Initiative

This initiative was launched in September 2008 in Accra. It helps those involved in aid programs better track what aid is being used for and what it is achieving. Increasing the transparency of aid spending benefits donor countries, developing country governments and NGOs.
C. AUSTRALIA’S MEMBERSHIP OF MULTILATERAL ORGANISATIONS

Australia is a member of a large number of multilateral organisations concerned with aid.

Australia was a founding member of the United Nations (UN) in 1945. The UN provides a forum for member countries to share experience in economic and social development and coordinate policies. The UN also plays an important role in delivering aid through specialised agencies. Australia was a founding member of some of the most important specialised agencies, including the United Nations Children’s Fund (UNICEF) in 1946, the United Nations Development Program (UNDP) in 1965, the World Health Organisation (WHO) in 1948, and the World Food Program (WFP) in 1961. Australia provides funding selectively to the better-performing UN agencies.

Australia has been a member of the World Bank since it was established in 1944. The World Bank is both the largest provider of official development finance and the leading forum for global development policy. It is a central multilateral partner for Australia. Indeed, Australia’s total funding to World Bank activities in 2009–10 was $466 million, almost as large as the PNG and Indonesia country programs.

Australia became a member of the International Monetary Fund (IMF) shortly after its creation in 1945. The IMF promotes macroeconomic stability and helps countries to minimise and mitigate the impacts of negative economic shocks such as debt or currency crises. The IMF has become an increasingly important partner for the Australian aid program over the past decade, mainly due to the IMF’s increasing focus on development.

Australia was a founding member of the Asian Development Bank (ADB) in 1966. The ADB is highly respected by regional governments and has a proven track record in promoting economic integration across Asia, especially through infrastructure investments. The ADB is a key partner for Australia, with $131.6 million in funding in 2009–10.

Australia is a member of the European Bank for Reconstruction and Development, but there is little engagement by Australia on aid-related issues given it has no concessional lending arm.

Australia is also a member of large organisations created to address specific development issues. These include: the Global Alliance for Vaccines and Immunisation; the Global Fund to Fight AIDS, Tuberculosis and Malaria; and the Education for All Fast Track Initiative. These organisations use innovative partnership arrangements, including joint oversight between public and private donors and mutual accountability arrangements between donors and recipients. Australia provided $154 million to these organisations in 2009–10.

Australia has been a member of the OECD since 1966. The OECD’s Development Assistance Committee (DAC), discussed in Chapter 1, is a forum of the world’s main donors and helps to define and monitor global standards in development. The DAC also helps donors share views and exchange lessons. Each committee member’s aid program is peer reviewed by other members every four years.

Australia’s membership of the Group of 20 Nations (G20), which has emerged as the premier international body for global economic affairs, means it is now better placed to influence international development efforts. The G20 has established a development work stream, although it is too early to judge the impact this will have.
Australia is a member of, or engages with, many other regional bodies with development mandates. These include the Asia–Pacific Economic Cooperation forum (APEC), the Pacific Islands Forum and the Association of South East Asian Nations (ASEAN).

The Commonwealth also undertakes various activities to improve governance and strengthen democracy.

There are important specialised bodies outside the UN or other frameworks of which Australia is a member, for example the International Organisation for Migration.

There are several notable multilateral organisations of which Australia is not a member. Australia is one of the few major OECD donors that is not a member of the African Development Bank, although some project–level engagement began recently. Australia is also not a member of the Inter–American Development Bank or the Caribbean Development Bank.

**D. OBJECTIVES**

There were no publicly available, explicit objectives for the Australian aid program before 1984.

The 1984 Jackson Report on the program proposed three main objectives: humanitarian, diplomatic and commercial. These formed the basis of aid policy until 1997.

In 1997, the Simons Review recommended the objective be:

“To assist developing countries to reduce poverty through sustainable economic and social development.”

In response to the Simons Review, the government adopted the following objective:

“Advancing Australia’s national interest by assisting developing countries to reduce poverty and achieve sustainable development.”

Consistent with the removal of the commercial objective, the Development Import Finance Facility, a program designed to encourage Australian firms to invest in developing countries, was cancelled in 1996.

Through the late 1990s and early 2000s, the aid program was gradually ‘untied’, meaning non–Australian firms could bid for tenders.

Following the 2006 White Paper, *Australian Aid: Promoting Growth and Stability*, the objective was changed to its current formulation:

“To assist developing countries to reduce poverty and achieve sustainable development in line with Australia’s national interest.”
**E. NATIONAL INTEREST**

There is much debate on how appropriate it is to link the aid program to the national interest. Many submissions to the Review suggested deleting ‘national interest’ from the aid program’s objective and adopting poverty reduction as its sole focus.

The Review Panel disagrees. Poverty reduction should indeed be the foundation objective of Australia’s aid program, but, in the first place, this in itself is in Australia’s national interest and, in the second place, national interest is an obvious and legitimate factor focusing Australia’s aid effort. It is simplistic to argue that there is an inherent incompatibility between national interest and poverty reduction. The Report discusses this issue in Chapter 5.

For this chapter, it is worth remembering that the aid program has always been seen by Australian governments as part of the range of resources available to advance the national interest.

There are many examples of how, since World War II, the aid program has been linked with the pursuit of Australia’s national interests:

- The Colombo Plan sponsored thousands of Asian students to study at Australian institutions from the 1950s to promote greater Australian engagement with Asia.
- The aid program in PNG was considered an indispensable part of that country’s move towards independence.
- The $1 billion of Australian aid to Indonesia following the 2004 tsunami, and the Indonesian country program’s subsequent growth to become Australia’s largest, reflects how central a prosperous and stable Indonesia is to Australia’s national interests.
- Over the past 15 years, the aid program has been part of a comprehensive whole-of-government approach to a series of crises, which have involved core Australian national interests. AusAID has teamed with many other Australian government departments and agencies to respond to conflict or instability in Bougainville, East Timor, Solomon Islands, Iraq and Afghanistan (see Box 2.3 on the Regional Assistance Mission to Solomon Islands).
- National interest has guided other aid-related decisions during recent years. For example, the sharp increase in aid to Nauru in the early 2000s came after an Australian immigration processing centre was established there.
Box 2.3: The Regional Assistance Mission to Solomon Islands

Australia's national interest dictates that it must remain responsive to the security and development needs of its Pacific Island neighbours. The Regional Assistance Mission to Solomon Islands (RAMSI), a partnership between Solomon Islands and 15 contributing countries from the region, is a prominent example.

Australia is RAMSI's major funding partner and contributes significant numbers of personnel. Australia's total Official Development Assistance (ODA) for RAMSI for 2010–11 is an estimated $159.2 million. RAMSI's work is done within the Solomon Islands government's RAMSI Partnership Framework. This framework outlines the key areas where both RAMSI and the Solomon Islands government work together to achieve agreed goals.

Since it began in 2003 following a period of unrest in Solomon Islands, RAMSI has made significant progress in bringing stability and growth, and improving the lives of Solomon Islands people. Law and order has been restored and maintained, and free and fair elections have been held. Key institutions are stronger and capacity-building strategies are in place.

Stability in Solomon Islands has led to a more positive development environment, including renewed private sector activity and greater confidence in the future. The Solomon Islands government has improved its budget processes, is now meeting its debt obligations and has increased revenue collection from SB$589 million in 2007 to more than SB$1 billion in 2010. This is a notable milestone in the history of the nation. Significant improvements in key services such as health and education are beginning to flow from these efforts.

RAMSI was always intended to be a time-limited intervention that would be withdrawn when its mandate was completed. Although there has been notable progress, significant challenges remain for governance and the achievement of economic and social development. The ultimate test of the success of RAMSI will be whether withdrawal can be achieved with confidence that development gains can be sustained.

F. SCALE-UP

A major feature of Australia's aid program is its rapid growth.

At the UN World Summit in September 2005, then Prime Minister John Howard announced plans to double the aid program by 2010 to $4 billion. In 2010–11, the Australian aid budget is approximately $4.3 billion, or 0.33 per cent of Gross National Income (GNI). This represents more than a doubling of Australian aid over the past five years in absolute dollar terms and is a marked break with earlier trends (see Figure 2.1).

Before the 2007 election, the Australian Labor Party promised to increase Australia's overseas aid to 0.5 per cent of GNI by 2015. The commitment has gained bipartisan support.
The government’s commitment to reach 0.5 per cent of GNI by 2015–16 will, subject to future levels of economic growth, see the aid budget almost double again, to about $8 billion.

**Box 2.4: Gross National Income**

Gross Domestic Product (GDP) and GNI are two measures of economic performance. GDP measures economic performance in terms of a country’s production, and GNI in terms of a country’s income. GNI starts with GDP, subtracts incomes payable to non-residents and adds incomes receivable from non-residents. GDP and GNI are very similar for Australia.

The aid program should be seen in the broader Australian budget context. ODA accounts for only 1.2 per cent of the Federal Government Budget in 2010–11, although it is the fastest-growing part (Australian Government 2010). By 2015–16, ODA will account for about two per cent of Commonwealth spending.
Box 2.5: History of the ODA/GNI Target

In October 1970, Australia voted in favour of a UN General Assembly resolution for
developed countries to aim to deliver 0.7 per cent of GDP as ODA: “Each economically
advanced country will progressively increase its ODA to the developing countries and will
exert its best efforts to reach a minimum net amount of 0.7 per cent of its GDP at market
prices by the middle of the decade.” This target has subsequently been redefined in terms
of GNI.

This target has been endorsed repeatedly at international conferences on aid and
development, including the 2002 Monterrey Consensus, the 2005 G8 Gleneagles Summit
and the 2002 UN World Summit on Sustainable Development.

In terms of the size of the aid program as a proportion of GNI, Australia is ranked 15 of the
23 OECD DAC donors according to the latest available figures (see Figure 2.2). In terms of the
size of the aid program by dollar amount, Australia is the 11th largest donor.

This will change over the next five years. This is due to Australia’s economic growth, the move to
0.5 per cent of GNI and other donors’ ODA flattening as a result of the budgetary implications of
the global financial crisis.

If amounts given by other donors remain constant, and the Australian aid program reaches
$8 billion in 2015–16, Australia will become the sixth-largest OECD donor after the United
States, Germany, the United Kingdom, Japan and France.

Clearly, Australian aid is becoming much more important. Yet even after scaling up, Australian
aid will be small relative to the size of the economies it is assisting. Australian aid to
Indonesia, at around $450 million in 2010–11, makes up less than 0.5 per cent of total
Indonesian government expenditure.
G. CHANGING GEOGRAPHIC AND SECTORAL FOCUS

i) Geographic Allocation

Notwithstanding the fast growth taking place in Asia, 18 of Australia’s 20 closest neighbours remain developing countries (New Zealand and Singapore are the exceptions). This means geography has a significant bearing on Australia’s aid program.

Its geographic focus has been recognised as a major strength. The 2008 OECD DAC Peer Review of Australia noted:

“The Australian bilateral program focuses on the Asia and Pacific regions, which received 76 per cent of its bilateral aid volume in 2006. This focus is consistent with the government’s stronger emphasis on the MDGs, since many countries in the Pacific are performing poorly in this respect. It also fits with the international donor commitment to the division of labour, as few donors have long-term aid programs in this region.”

Australia’s two closest neighbours, Indonesia and PNG, are the two largest recipients of Australian aid. They are critical to Australia’s foreign policy and security interests, and matter to Australia in a range of fields extending from quarantine and health, to business and trade.
Since the 1970s, Australia has had substantial aid programs in Pacific Island countries, some of which are not economically viable without development assistance.

Australia has been a long–term partner of several countries in South East Asia. Countries such as Thailand and Malaysia were significant Australian aid beneficiaries in the past, but have now reached a level of development where they do not require Australian ODA and are seen as global development success stories. Both are now significant export markets for Australia.

The doubling of the aid budget over the past five years has seen substantial increases in some Asia–Pacific countries, as well as significant geographic expansion. The Indonesia program has more than doubled. Programs in PNG, the Pacific and East Asia have increased in dollar terms, but not relative to the overall growth. New programs have been established in Iraq, Latin America and the Caribbean, although these remain relatively small. There have been significant expansions of programs in Afghanistan, Pakistan, Africa and South Asia.

The changing geographic allocation of Australian aid is shown in Figure 2.3 using the classification of countries adopted throughout the Report.

Figure 2.3: Changing Geographic Allocation of Australian Aid Excluding Global Programs 2005–06 to 2010–11 ($ millions)

Source: AusAID. 2005–06 expenditure for Middle East and North Africa reflects debt relief to Iraq of $334 million.

The following chart shows the current proportions of the aid program by geography.
A large proportion of Australia’s aid program is delivered in countries classified by the World Bank as ‘fragile states’. In 2010–11, more than 50 per cent of country program aid will be spent in fragile states. Based on the latest available data, Australia has the second highest proportion of its aid delivered in fragile states of all OECD donors, only the United States having a higher proportion.

The OECD DAC said in its 2008 Peer Review that the Australian program was in a “unique external context”. It described Australia as one of the committee’s members “most surrounded by developing countries, including a number of fragile states”. The review noted this gave Australia “special responsibilities and specific challenges”. The Review Panel supports this assessment.

**ii) Sectoral Composition**

There have been changes in the sectoral composition of the program. From 1997 to 2005, there was significant growth in funding for governance. There was a heavy focus on supporting the post–conflict development of governments in Solomon Islands and East Timor and also support for the post–Suharto reforms in Indonesia.

Since 2005, there has been a reduction in the proportion of the program spent on governance, although it remains the largest sector. There have also been significant increases in the proportion of the program spent on health, education, infrastructure, rural development and the environment.

Overall, governance, education, health and infrastructure are the four largest sectors.
The changes in sectors by dollar value are shown in Figure 2.5 (‘multi–sector’ refers to aid that cannot be apportioned to a particular sector, for example debt relief, some trust funds and general budget support).

**Figure 2.5: Sectoral Allocation of Australian Aid Excluding Global Programs (2005–06 and 2010–11, $ millions)**

Source: AusAID.

The current sectoral division of the program is shown in Figure 2.6.

**Figure 2.6: ODA Expenditure by AusAID Sector 2010–11**

Source: AusAID.
H. CHANGES IN METHODS OF DELIVERY

In 2009–10, about 88 per cent of Australia’s aid program was managed by AusAID. The remaining 12 per cent was managed by other Australian government departments and agencies. This amount fluctuates from year to year, as Figure 2.7 shows.

Figure 2.7: ODA Managed by Departments other than AusAID

Source: Budget data.

The largest departments and agencies involved in managing ODA outside AusAID are the Australian Federal Police (AFP) (with expenditure of $213 million in 2009–10), the Australian Centre for International Agricultural Research (ACIAR) ($63 million), the Department of Defence ($45 million) and the Department of Immigration and Citizenship ($45 million).

In total, 55 federal departments and agencies and 37 state departments and agencies are involved in the delivery of ODA (a full list of federal departments and agencies is provided in Chapter 14).
As shown in Figure 2.8, over the past five years, there have been major shifts in the way AusAID has delivered its proportion of ODA. The amount delivered through:

- managing contractors (i.e. private companies hired to deliver specific inputs or outputs under contract) has dropped from 41 to 22 per cent
- NGOs has increased from eight to 13 per cent
- multilateral organisations has increased from 32 to 40 per cent
- partner governments has increased from two to eight per cent
- universities and other channels has increased from 13 to 14 per cent
- funding by AusAID to other government departments from the AusAID appropriation has remained steady at four per cent. These funds are in addition to the funds directly managed by other government departments

Overall, much more of the aid program is delivered through various partners and much less through projects managed by contractors.

**Figure 2.8: AusAID Expenditure by Mode of Delivery**

![Bar chart showing expenditure by mode of delivery for AusAID in 2005-06 and 2009-10]

Source: AusAID.

These trends and their implications will be discussed in later chapters. But it is worth noting here two areas where the Australian aid program differs from the programs of other donors: funding to multilateral organisations and use of partner government systems.

**i) Multilateral Organisations**

The overall proportion of Australia’s aid program delivered through multilateral institutions is close to the OECD average. But Australia’s core funding to multilateral organisations (that is, funding that is not earmarked and can be used by organisations for any purpose in their mandate) is one of the lowest in the OECD.
Relative to other donors therefore, Australia assigns a large amount of its multilateral funding as earmarked funding (funding for specific purposes), rather than providing it as core funding. A major reason for this has been Australia’s desire to encourage multilateral organisations to work in the Asia-Pacific region, usually not their main focus.

**ii) Partner Government Systems**

The amount of the Australian program given as general budget support to recipient governments is very low by most OECD donors’ standards, largely reflecting the high proportion of funding to fragile states. Australia has provided virtually no general budget support since the phase–out of budget support to PNG in the mid–1990s.

But as indicated above, spending through partner government systems (largely through earmarked support to recipient government agencies) has increased from two to eight per cent of the program over the past five years.

Indonesia has been a major beneficiary of the increase in spending through partner government systems. There has also been greater use of partner government systems in countries with relatively good operating environments such as Vanuatu, Vietnam and Samoa.

More surprisingly, use of partner systems also features heavily in difficult environments such as Afghanistan. In Afghanistan, budget support is provided with very rigorous monitoring through a multi–donor trust fund managed by the World Bank.

The OECD DAC does not collect comprehensive data on aid given through partner government systems so accurate information on where Australia stands relative to other donors is not available. The Review Panel consulted with several European donors who have a much higher proportion of their aid program flowing through partner government systems. The United States is also planning to increase use of partner government systems.
Chapter 3: THE EFFECTIVENESS OF THE CURRENT AUSTRALIAN AID PROGRAM

A. INTRODUCTION

This chapter contains the Review Panel’s overall assessment of how effective the current Australian aid program is. Subsequent chapters examine what is needed to maintain or improve effectiveness and value for money in the future, especially in the context of the increase in the program to 0.5 per cent of Gross National Income (GNI) over the next five years.

B. THE EVIDENCE BASE

The Review Panel drew on considerable evidence to reach the conclusions made in this chapter. This included consultations with stakeholders, site visits to major partner countries, discussions with other donors and multilateral organisations, analysis of public submissions, seven independent commissioned studies, the 2009 Australian National Audit Office (ANAO) Report and the 2008 Organisation for Economic Cooperation and Development (OECD) Peer Review of Australia.

C. OVERALL ASSESSMENT

Those responsible for managing the program have been, and are, doing so at a time of considerable movement. They must manage change within change within change. At the broadest level, the international development scene is changing, with poverty in decline overall and shifting in its geography. Within this, the international aid scene is changing with more donors contributing more resources, in different places and in different ways. And within this, Australia is seeking to find a way of dramatically escalating its aid expenditure in a fashion that is effective and relevant for the times.

Australia already has a good aid program – improvable, of course, but good. It is, however, a program under administrative stress and this will increase as it moves up the steep trajectory to 0.5 per cent of GNI by 2015–16.

It is not hard to throw money at development problems: there is certainly enough poverty and under-development in the world. What is hard to achieve is maximum impact for the resources deployed, that is value for money in terms of effectiveness, efficiency and economy. This will require that the Australian aid program be well conceived, well led, well administered and well resourced.

AusAID itself monitors the effectiveness of its aid program by rating project and program performance annually. Each AusAID project is rated on a scale of one to six, with a rating of
three or below indicating less than adequate quality. In 2009–10, 83 per cent of projects had a rating of four or higher and 17 per cent a rating of three or less.

The best way to think of this 17 per cent score for unsatisfactory projects is as projects at risk. Obtaining an unsatisfactory rating does not necessarily mean that a project is doomed to fail. The entire point of such a rating system is to draw management attention to problem projects so that remedial action can be taken. AusAID has an independent completion reporting system, but, as documented in Chapter 16, it is not working well so it is not possible to say to what extent problems are rectified along the way. Very few projects are rated unsatisfactory at completion, but the compliance with completion reporting is low.

The percentage of unsatisfactory projects has varied since AusAID started publishing these figures for 2006–07. It was 11 per cent in 2006–07, 14 per cent in 2007–08, 12 per cent in 2008–09 and 17 per cent in 2009–10.

AusAID suggests three possible reasons for the increase in 2009–10:

• First, tougher scrutiny was applied to projects. Essentially, the agency became more willing to be self-critical. This is, of course, good.

• Second, the increase may have indicated a decline in project quality. The agency may have experienced teething problems as it moved away from traditional contractor-implemented projects towards projects with other partners, in particular through more earmarked funding arrangements with multilateral organisations.

• Third, new policy proposals and the complexity around the budget (discussed in Chapter 14) may have also contributed to a decline in project quality.

Having a significant portion of the aid portfolio rated unsatisfactory is not unusual. In 2007–08 (the most recent year for which such data is available) the World Bank self-rated 12 per cent of projects to be unsatisfactory (IEG World Bank 2009: 37).

AusAID also reports annually on the proportion of objectives in its various country and other aid programs, which are fully, partially and not achieved. Very few objectives, 10 per cent or less, are not achieved. But a large number of program objectives are only partially achieved. As reported in its latest Annual Report, in 2009–10:

• in PNG and the Pacific, 62 per cent of program objectives were partially achieved (31 per cent were fully achieved)

• in East Asia, 47 per cent were partially achieved (43 per cent were fully achieved)

• in South Asia and Africa, 64 per cent of program objectives were partially achieved (36 per cent were fully achieved).

Clearly, Australia would be getting better value for money from its aid program if it was more fully achieving its objectives.

Sometimes the problem is that objectives are set unrealistically and so could never be achieved no matter how good the aid. In other cases, the problem is that the interventions are not working well. In others, poor performance by the recipient government undermines project success.
Again, Australia is not alone in having mixed success in achieving its aid objectives. The World Bank's Independent Evaluation Group assesses the extent to which World Bank country strategies achieve their objectives. On a six-point scale, the average rating for the performance of country strategies is around 3.7 (IEG World Bank 2009: 18).

In summary, this aggregate analysis suggests that the Australian aid program shows significant success, but faces considerable challenges.

The Review Panel has itself seen substantial evidence of the positive impact the program is making in many countries and sectors.

Of the countries visited by the Review Panel, the assessment is that Australia's aid efforts in Indonesia, Zimbabwe, Vanuatu and Bangladesh are effective overall. With respect to the program in Indonesia, this positive impression was verified by the Study of Australia's Approach to Aid in Indonesia (the Indonesia Study), commissioned by the Review Panel. The Indonesia Study found:

“The scaling up of the aid program (from $120 million per year in 2003 to $450 million per year in 2010) has for the most part been achieved successfully, both in terms of overall effectiveness and efficiency.... The Government of Indonesia’s view of the Australian aid program is very positive at all levels.”

Even in Afghanistan, a difficult operating environment, the Review Panel was impressed with the positive impact that parts of the aid program were having.

Examples of effectiveness at the country, sector and global levels of the program are discussed in subsequent chapters.

**Box 3.1: Visit to Vanuatu: Personal Observations**

Vanuatu is a country of a quarter of a million people, only three hours flying time from Sydney and known to many Australians who have taken their holidays there. It is a beautiful country, but problems remain. There is poverty, poor health, inadequate education, unemployment and poor living conditions in the fringe urban communities where more and more people are settling.

The Australian aid program is making a real contribution and there is a lot the Australian people can be proud of. Many children in Vanuatu have not been able to go to primary school because their parents could not afford to pay the fees. Australian grants to schools have helped them get rid of fees. Australia has also helped to create a professional police force, which can maintain law and order, and address issues like domestic violence.

The Governance for Growth program has been particularly innovative and this model could be replicated in other countries where Australia gives aid. It involves a small group of Australians and ni-Vanuatu working closely with key people in government to help move along reforms in key areas like telecommunications, ports and other infrastructure. This has produced big improvements.

I came away from Vanuatu with a strong impression that Australia has achieved the kind of close, frank and friendly partnership that is needed to get results.
However, there is a good way to go before Vanuatu achieves the sustainable development that will allow Australia and other donors to pull back. When you visit the hospital in Vanuatu’s capital, Port Vila, and see dedicated doctors working in overcrowded and dilapidated conditions, you know there remains a crying need. Likewise, when you visit urban shanty communities with inadequate water, sanitation and other basic services, and more people moving in from rural areas, you know there are still serious problems to tackle. These examples could be multiplied.

So here we have a country that has made good strides in its development, which has real potential for economic growth and social improvement, but still needs help. There are excellent people Australia can work with, both in government and outside it, and some strong financial management systems that provide confidence about the use of Australian funds.

But we also have to be alert to the human resource and other constraints on how much we can provide and how quickly. It is not a matter of just throwing more money at problems, but working in partnership with Vanuatu to build its abilities so the solutions are sustainable. This will be the fundamental challenge in shaping an increased Australian aid program in Vanuatu.

Sandy Hollway

The Review Panel also found parts of the program are not as effective as they could be. Through this Report there are examples of aspects of the program where the Review Panel identified substantial room for improvement.

The Review Panel’s visit to PNG confirmed the findings of the 2010 Review of the PNG–Australia Development Cooperation Treaty, commissioned by the Australian and PNG governments in April 2008, that there had been “widespread dissatisfaction with the aid program … a perceived lack of impact, and failure to obtain value for money” (Independent Review Team 2010: 1).

The Australian government has endorsed the findings of the Treaty Review and the Review Panel saw efforts being made to improve the effectiveness of the PNG program. This includes efforts to narrow the focus of Australian assistance, reduce adviser use, increase the focus on service delivery and better demonstrate results. PNG officials and politicians told the Review Panel they were pleased with these developments. This is work in progress.

The Review Panel is also concerned with the way the aid program is scaling up in Africa. As stated in the Review Panel’s commissioned Study of Australia’s Approach to Aid in Africa (the Africa Study):

“There was very vigorous debate on the issue of geographic scope with informants stating ‘it doesn’t make sense to be continent-wide’, ‘funding is limited, capacity is limited and it’s incredibly complex’ and ‘in order to have impact on poverty reduction, [the program needs] to focus on a limited set of countries’. The main
argument is one of focus, with a number of informants recommending that AusAID focus on a smaller set of countries where it can invest the time and resources needed to be a significant and effective aid partner as it has done in Zimbabwe.”

Australia plays a uniquely important role in the Pacific, but Millennium Development Goal (MDG) progress for Pacific Island countries has been among the slowest of any region in the world. Clearly this is not solely or even largely attributable to shortcomings in the Australian aid program, but it does indicate that development in some parts of the Pacific is an uphill struggle and that new approaches may be warranted.

Box 3.2: Achieving the MDGs in the Pacific

Approximately nine Pacific Island countries are either off track or slightly off track to achieving at least half of the MDGs by 2015.

Generally speaking, Polynesian countries have been performing relatively well, Micronesian countries of the North Pacific have been struggling to maintain earlier gains, and in PNG, Solomon Islands and Fiji, some earlier achievements are reversing.

While no Pacific Island country is on track to achieve all the MDGs by 2015, some are progressing well against particular indicators. For example, Kiribati, Palau and all the Polynesian countries are on track to achieving universal primary education.

Source: AusAID (2009a).

In a $4.3 billion aid program operating in complex environments, evidence that parts of the program are more effective than others is not surprising.

Moreover, what is regarded as a satisfactory level of effectiveness will vary. This is because the realistic expectations for different parts of the program, in different countries and in different circumstances, will not be uniform. What Australian aid can accomplish in a situation like the Uruzgan Province in Afghanistan is very different, for example, from what it can accomplish in Indonesia or Vietnam.

By way of an overall assessment, the Review Panel draws two broad conclusions:

i) the aid program is having a positive impact in many areas
ii) there is significant scope to further improve its effectiveness.

Both these conclusions regarding the Australian aid program would apply to virtually all other OECD donors.

Aid donors generally struggle to give a single rating for overall effectiveness. The most credible recent effort is the Quality of Official Development Assistance Assessment, a ranking of donor governments and multilateral organisations developed by the Centre for Global Development and the Brookings Institution.
Box 3.3: Quality of Official Development Assistance (QuODA) Index

The QuODA is an assessment undertaken by the Centre for Global Development and the Brookings Institution. The most recent QuODA assessment is based on 2008 data and provides comparative rankings for 31 countries and multilateral institutions. Aid quality is assessed using 30 indicators grouped in four dimensions that reflect the international consensus of what constitutes high-quality aid: maximising efficiency, fostering local institutions, reducing burden and transparency and learning.

Maximising efficiency emphasises the effect of development assistance on poverty reduction. Against this dimension, donors are rewarded for working in both poorer and better governed countries; for reducing administrative costs; for allocating funds to programs over which control is exercised by the recipient country, rather than the donor; for specialising in particular countries and sectors; for contributing to global public goods; and for not tying aid. Among the bilateral donors, the United Kingdom does best against this criterion, with its highest score in allocation share to poor countries and performing well above the average score in low administrative costs. Australia ranks relatively low, 21st of 31 donors. This reflects limited specialisation and low contributions toward the supply of global public goods.

Fostering local institutions assesses the impact of aid on local institutions. In this dimension, donors are assessed on the share of aid that is allocated to development priorities of the recipient, as well as on their commitment to promoting recipient countries’ national development priorities and strategies. Ireland, the International Development Association and the Asian Development Fund stand out as the best performers against this criterion as they tend not to be over-reliant on separate project implementation units, score well in helping their partners develop good operational strategies and coordinate their technical assistance. Australia is ranked slightly below the average, 19th, against this dimension.

Reducing burden recognises that the administrative burdens placed on recipient countries make aid less effective. This dimension rewards donors who decrease fragmentation, increase project size, contribute to multilateral organisations, coordinate their missions and analytical work, and use higher shares of program-based aid. Most multilateral agencies do well on this index (except some UN agencies). This is due to their relatively large project size and the fact that they provide more of their aid in general budget support or sector-wide programs. Australia is ranked 14th against this dimension.

Transparency and learning reflects the importance of providing timely and comparable information about aid spending. Donors are assessed on their membership in the International Aid Transparency Initiative (IATI), quality and frequency of project reporting, how closely reporting data matches commitments and the extent to which donors support recipient countries with good monitoring and evaluation frameworks. Australia is ranked the highest against this dimension due in large part to the quality and completeness of its project level reporting to the OECD Development Assistance Committee (DAC).

Source: Birdsall and Kharas (2010).
Naturally it is always possible to question analyses of this kind, not least because the relative standing of different countries will depend upon the weighting given to the various criteria. Basing itself not just on QuODA, but on the totality of evidence which it has considered, including the DAC Peer Reviews, the Review Panel would say that the Australian aid program at least holds its own with the programs of other donors generally.

D. SPECIFIC FINDINGS

Moving beyond this general assessment, the Review Panel sets out below findings on 10 key issues that determine effectiveness. Recommendations on each of these matters are made in Parts II, III and IV of the Report.

It is important to note at the outset that AusAID is alert to many of these issues and is acting on them. The most senior committee of officials with oversight of the total Australian government aid program – the Development Effectiveness Steering Committee (DESC) – is also focused on the need for improvements in the management of Australian aid.

But the Review Panel believes reform must be taken further and continue to be driven hard. Continued ministerial interest in and leadership of reforms to improve the effectiveness of the Australian aid program is indispensable.

This is essential if the program is to achieve maximum value for money and is in the interests of both the people in poverty whom the program is seeking to help, and the Australian public whose resources are being deployed.

i) Strategic Clarity

The 2006 White Paper is the most recent comprehensive articulation of aid policy. It lost its relevance with the change of government at the end of 2007 as the incoming government distanced itself from the previous government’s policy.

Since the White Paper, the only major aid policy statement made has been a nine–page statement by former Minister for Foreign Affairs Stephen Smith in May 2009. This explained the Australian aid program’s broad priorities, but did not provide sufficient clarity to guide decision–making.

Having no comprehensive policy statement creates problems. It risks a scattered effort. And it makes assessing the overall effectiveness of Australia’s aid program more difficult. This gap must be closed.

The program needs a clear and comprehensive statement of policy incorporating at least the following three essential elements.

The first is a clear objective for the program as a whole. The current objective is ambiguous and not capable of being well understood by everyone involved throughout the Australian aid system.

Second, there is not a well considered and articulated vision for the aid program in 2015–16 when it is at 0.5 per cent of GNI. The program lacks a vision of how it should be shaped in terms of such fundamentally important considerations as geographical priorities and allocations of money, sectoral priorities and methods of delivery.
Third, the program lacks a four-year strategy for moving to this vision for 2015–16 – a plan that specifies the steps which must be taken, the hurdles which must be met if the upward trajectory is to be achieved, and rigorous methods for measuring progress and effectiveness along the way.

**ii) Fragmentation and Need for Consolidation**

Fragmentation refers to small interventions scattered over a large number of countries and sectors where the potential development benefits are low given the resources needed to manage them.

More than 3,700 individual activities are now managed by AusAID. A further 800 are managed by major Australian government departments including the Department of Foreign Affairs and Trade, Department of Defence, Australian Federal Police and the Treasury, as well as numerous other federal and state agencies. Meanwhile, the average project size ($3.5 million) has remained about the same over the past five years, so with the doubling of the program since 2005, the number of activities has also doubled.

Fragmentation can lead to investment in activities that do not represent good value for money relative to other options. Fragmentation:

- gives rise to projects which are below the critical mass needed to get a sustained result
- increases administrative costs
- increases risks arising from aid activities exceeding the effective span of control
- makes monitoring and evaluating for effectiveness more difficult
- leads to multiple donors with small projects complicating the administrative task for recipient countries
- makes it more difficult for the aid program to build knowledge and skills
- clouds the sense of purpose and focus on the part of those administrating the program
- can reduce Australia's ability to lead in high priority areas.

It is worth emphasising that fragmentation is not just a problem for the donor country. A large management burden can divert the attention of key policy makers in recipient countries away from managing their economies to managing donors. This is a particular problem in small and fragile countries.

These dangers of fragmentation are key drivers of the emphasis in the Paris Declaration and the Accra Agenda on consolidation, selectivity and coordination of aid. The Review Panel believes that the principle of consolidation is important to an effective aid program and that Australia should be seen to be an example of best practice.

As discussed in Chapter 1, many OECD donors are conscious of the risk of fragmentation and are taking steps to be more targeted. In essence, the trend is to do fewer things and do them well.

For example, Finland now works in only eight countries. Germany is reducing its number of partner countries from 80 to 50. The United Kingdom has announced it will reduce partner countries from 43 to 27. Donors are also reducing the number of sectors in which they work. Germany, the United Kingdom and several other European donors now aim to work in three
sectors at most in each priority country. These efforts have successfully reduced fragmentation. In Germany, the average project size has increased over the past decade from US$8 million to US$14 million.

By contrast, the number of countries in which Australia has aid programs is growing and the average project size is not increasing.

A fragmented aid program at the country level was evident in all programs examined by the Review Panel. Fragmentation was a strong theme in the Indonesia Study and the Africa Study, as well as the review into the PNG–Australia Development Cooperation Treaty. The 2009 ANAO Report also identified fragmentation as a major issue. Fragmentation is not a new phenomenon, but it has worsened with the increases in the volume of the program since 2005.

Indonesia is a classic example. The AusAID program has 154 projects. In addition, a further 114 activities are carried out by other Australian government departments and agencies.

The Review Panel has identified four factors driving fragmentation:

- Lack of strategic clarity, as discussed above.
- A wider geographical footprint, especially with new programs established across Africa and parts of Latin America and the Caribbean. An AusAID in–country presence has been established in recent years in Accra, Port Louis, Santiago, Addis Ababa and Nairobi. Australia has aid programs of more than $200,000 a year in 88 countries, compared to 69 countries five years ago. This is largely driven by an expansion of the scholarship program, which requires considerable management effort in developing countries; it cannot simply be managed centrally from Australia.
- The budget process, which allocates funds along sectoral lines and often in quite small chunks. This limits the size of activities and their duration. It also makes it hard to deliver sustainable, large–scale programs that have maximum impact.
- Lack of a coherent whole–of–government approach to managing the Official Development Assistance (ODA) budget and coordinating the aid activities of different government agencies.

To some extent, fragmentation has come from the aid program being flexible and responsive to country needs. One of the advantages of the Australian program relative to other donors’, particularly multilateral donors like the World Bank, is that it is able to respond quickly to partner government requests. Unlike many donors, the Australian program is solely grants–based and does not have the heavy levels of bureaucracy of some donors.

This is why Australia is the ‘donor of choice’ in some countries. For example, the Indonesian government praised the Australian government’s fast and effective response to the 2004 tsunami in Aceh because of its readiness to adapt and respond to emerging priorities.

So the challenge for Australia in the future will be to retain the benefits of flexibility while, at the same time, reducing fragmentation and consolidating the effort.

The Australian government is aware of the risk of fragmentation. As AusAID’s Director General made clear in his address to the Australian National University’s Doubling Aid Conference on 7 February 2011, “Business as usual is not an option for AusAID if it is to manage this expansion successfully”.

74 Independent Review of Aid Effectiveness
Evidence of the problems of fragmentation, and recommendations to help reduce it, are a recurring theme through this Report. It needs a sustained effort to consolidate and tighten political and bureaucratic discipline in the future.

iii) Focusing on Results
Achieving value for money requires a focus on results. Aid effectiveness does not consist only of the efficient use of inputs, important though that is.

Australia has been part of the general shift among aid agencies over the last decade towards a focus on results and outcomes rather than inputs. This is to be commended. AusAID has greatly strengthened its performance management system in recent years.

But more strengthening is needed as the program scales up to ensure it remains accountable and promotes good decision–making.

AusAID already faces significant scrutiny. In addition to the ANAO and Parliamentary oversight experienced by all departments, the aid program is peer reviewed every four years by the OECD DAC. It is also subject to annual reviews by AusAID’s own Office of Development Effectiveness (ODE).

AusAID measures and reports on effectiveness through three systems. The effectiveness of these systems is discussed in detail in Chapter 15, but a summary is outlined below:

- The self–rating of projects and country programs (known as the Quality Reporting System) is labour–intensive but generally working well. It involves easily understood ‘traffic light’ and one to six rating systems.
- The system of Independent Completion and Progress Reports (ICRs/IPRs) is generally not working well.
- Reporting through the Annual Review of Development Effectiveness (ARDE), prepared by ODE, has had some success. The government’s commitment to release an annual review of development effectiveness was a significant innovation, but the ARDE has been subject to increasing delays. It is sometimes released up to 18 months after the period it reports on.
- There is no single, easily comprehensible scorecard on the effectiveness of the Australian aid program as a whole.

Scaling up has to be accompanied by more changes to the internal and external scrutiny of the program. The aim should be to simplify and to reduce the quantity while improving the quality of performance management and reporting.

iv) Partnerships
One of the most striking changes over the past five years has been the dramatic rise in the proportion of the program going through government, multilateral and NGO partners.

In several respects this shift has been highly successful.

In general, using partner government systems more has delivered results, especially in Indonesia where it has been most heavily used.
The Review Panel was impressed with how the Bangladesh country program used strong partnerships to achieve results in a crowded donor environment.

**Box 3.3: Bangladesh – Use of Partnerships**

Australia’s aid to Bangladesh focuses on helping the poorest and most vulnerable. It does this by: improving service delivery in education, maternal and child health, and water and sanitation; improving rural livelihoods; and giving humanitarian assistance.

The program is carried out through partnerships with:

i) reputable local NGOs, mainly BRAC (see Box 7.4) and the International Centre for Diarrhoeal Disease Research

ii) UN agencies, including the United Nations Children’s Fund (UNICEF) and the United Nations Development Program (UNDP)

iii) other bilateral donors, including the United Kingdom and Denmark

iv) other Australian government agencies such as the Australian Centre for International Agricultural Research (ACIAR) and the Commonwealth Scientific and Industrial Research Organisation (CSIRO) on climate change.

A significant step has been partnership agreements with major Australian NGOs. These have improved program outcomes, including through guaranteed multi-year funding. They have also led to greater engagement between AusAID and NGOs on policy issues.

**Box 3.4: AusAID–NGO Partnership Agreements**

Through AusAID–NGO Cooperation Program (ANCP) partnerships, AusAID has forged closer links with six of Australia’s largest NGOs: World Vision Australia, Oxfam Australia, Caritas Australia, Plan Australia, ChildFund Australia and CBM Australia.

The six partnerships build on previous cooperation to take the relationships beyond the conventional ‘donor–supplier’ relationship. NGOs are given the opportunity to provide their input into AusAID’s planning and decision-making processes through regular high-level and working-level meetings. AusAID and ANCP partners are also harmonising monitoring and evaluation processes to generate more useful and relevant information for better program management. The partners have also formed cross-agency working groups.

A major feature of the partnerships is the way that they allow each organisation’s strengths to influence the delivery of the Australian government aid program. For example, Plan Australia is particularly experienced at child-centred community development so it is working with other child-focused partners, including ChildFund and AusAID, to achieve MDG 2, universal primary education. Under their ANCP partnership, Plan Australia is expanding its early childhood care and development program into South and East Africa and the Mekong. The program will help children aged up to eight in these regions regularly attend good quality schools.
These more strategic and flexible partnerships provide a solid platform to build on. Australia is also channelling more funding through NGOs in the countries receiving its aid. The effectiveness and capacity of NGOs and civil society groups vary and Australia needs to be selective in determining the NGOs it works with. But overall, the trend towards greater engagement with NGOs is positive, and one whose full potential is far from being realised.

Overall, the partnerships with the World Bank and the Asian Development Bank (ADB) are a success and there is scope to make more of these. These partnerships, along with some of the partnerships signed with UN agencies (particularly the World Food Program and UNICEF), have helped promote Australia’s interests and deliver more effective aid. Each agreement includes clauses on means of promoting greater visibility over the achievements of the partnership and Australia’s contributions.

**Box 3.5: Partnership with World Food Program (WFP)**

WFP is the largest international food aid organisation working to overcome world hunger. WFP is a key partner with Australia in tackling food insecurity in developing countries. Australia has supported WFP since 1963 and is consistently one of the top 10 donors supporting its essential humanitarian work.

In 2009, Australia (through AusAID) signed a $180 million four–year Strategic Partnership Agreement with WFP. For the WFP, this was the first agreement of its kind with any donor.

Australia’s four–year contribution includes funding to support WFP school–feeding programs in Asia, Africa and Latin America. These programs aim to reduce the number of school children who suffer from hunger. In addition, Australia provides funding for specific emergency appeals on a case–by–case basis as emergencies arise.

The agreement includes details on how Australia’s contributions will be appropriately recognised.

One of the benefits of this agreement is that it provides a minimum predictable level of support for food aid operations over a number of years, which helps WFP plan its operations.

The Review Panel found that AusAID was already developing an engagement strategy to help Australia work more effectively with major multilateral organisations. This is worthwhile.

A striking feature of the aid program’s engagement with both NGO and multilateral partners is that most of the funding provided is earmarked for specific activities, rather than core programs. There are good historical reasons for this, but with an evolving program, a strong case can be made for more core funding to be given to trusted partners (core funding is explained in Chapters 9 and 10). Efforts to engage the smaller NGOs with the Australian program can be taken further.

Links with Australian and international research organisations and think tanks have strengthened over the past five years. But as discussed in Chapter 11, more can be done.
Overall, Australia’s aid program is headed in the right direction through greater use of partnerships. Those managing the program can be credited for moving in the right direction, but efforts need to be accelerated.

There is scope to make better use of the existing partnerships, both to improve development effectiveness and to advance Australia’s broader interests. There is also scope to include new domestic partners, especially the private sector and community groups. Across the aid program there are good examples of business and private sector engagement, but the approach has been ad hoc rather than systematic.

A greater focus on partnerships raises important management issues. As Australia works more with multilateral organisations, Australia’s interest will lie in becoming closer to them and more influential with them in order to ensure that the Australian aid dollar is used effectively. The small amount of AusAID resources currently devoted to managing partnerships has increased over the past 12 months, but remains strikingly low. This needs to grow; indeed it will become critical as the aid program expands, and this will require extra resources and new kinds of skills in policy, partnership management and advocacy. Greater predictability of funding for partners is needed and micromanagement should be avoided.

v) Whole–of–Government Management Issues

With over 90 agencies involved in the aid program, the Review Panel of necessity focused principally upon by far the most important agency, AusAID. It sought and received comments from some other agencies about effectiveness, but has not subjected them to the same level of scrutiny. Indeed, it is a fault of the system that there is no consolidated performance information on aid delivered by government agencies other than AusAID, ACIAR and AFP. This needs to be rectified.

That said, over the past five years, initiatives have been introduced to promote better coordination on aid and development issues across the Australian government. The 2009 OECD DAC Peer Review praised Australia’s performance in this regard, noting it was ahead of most other donors.

Clearly Australia has had special and successful experience of whole–of–government coordination in a number of crisis situations such as East Timor, Solomon Islands and Afghanistan.

In 2006, the DESC was established to oversee the strategic direction and effectiveness of the aid program across government. DESC includes AusAID’s Director General, the Deputy National Security Adviser and Deputy Secretaries from the Department of Foreign Affairs and Trade, the Department of Finance and Deregulation and the Treasury. While useful in some respects, this committee is currently falling short of its potential.

In recent years, AusAID has also been more involved in bureaucratic coordination mechanisms such as the Secretaries’ Committee on National Security.

This increased focus on coordination has not yet gone sufficiently far.
As discussed above in relation to strategic clarity, ministers must be able to have a view across the entire government of the aid program to ensure that there is a coherent effort and a sound plan for moving ahead in a synchronised way towards the 0.5 per cent target. The Minister for Foreign Affairs should have the lead role in this and AusAID should have the lead role at agency level, with the DESC more empowered than it is at present to oversee the task.

It would also be useful for DESC to consider how it might be possible to bring greater consolidation and less risk of fragmentation to the activities of the many government agencies that are delivering aid. One approach might be to develop clusters of agencies with closely related activities. For example, there are a number of strands involved in governance including capacity building for economic policy, financial management and law and justice.

Although the Review Panel has formed a generally positive impression of coordination between different agencies at overseas posts, this must be reinforced and entrenched as a key feature of the management of the aid program in the future. This is in accordance with the strong view of the Review Panel that well conceived and coordinated country programs should be the engine room of the program. A coordinated approach at the country level is crucial for the disciplined and effective use of Australian whole-of-government resources.

Such coordination should be about not just a collective approach towards what is in the aid program, but sensible collective decision-making about what should not be included.

**vi) Budget Process**

There are significant shortcomings with the current whole-of-government budget process. The system was designed with the right motives: to make long-term funding for core programs predictable, but still have flexibility to adjust to changing circumstances.

But the current system fails to deliver and in fact creates a number of problems:

- It does not have a whole-of-ODA approach. This means government and the Australian people do not get a full picture of the entire program.
- The distinction made between old and new money is misleading, leading to inadequate overall scrutiny.
- Funds have been allocated by sector, undermining country-based decisions.
- Money is allocated in small amounts, creating management headaches, such as in Indonesia where there are 13 different budget measures in the program.
- Too much money is held back for contingencies, leading to a rush of last-minute decision-making to spend money before the end of each financial year.

The Review Panel found that some attention was already being given to improvements in the budget process and that some sensible moves were under way. However, it believes that these should be built upon and taken further, requiring changes being agreed by the Department of Finance and Deregulation and the Treasury, and has made recommendations in relation to budget reform in Chapter 14.
vii) AusAID Management Issues

The three top challenges for managers of the Australian aid program are as follows: first, the challenge of managing rapid growth combined with significant geographical spread; second, the need to work in new ways, including expanding working through partnerships; and third, tightening and streamlining the management systems.

The conclusion of the 2009 ANAO Report was: “Since 2005, AusAID has managed the expansion of the aid program in a way that supports delivery of effective aid.” (2009: 15)

The same Report also found that:

“The program is likely to double in size between 2008–09 and 2015–16, and AusAID faces considerable management challenges amidst ongoing program growth. AusAID staff are concerned about workloads and stress levels at many overseas posts and there is a shortfall of expertise in some areas: many country programs have operated without an agreed development assistance strategy, the number of aid activities under management has grown strongly contributing to aid proliferation, and reducing reliance on traditional forms of aid is proving difficult. Resolving these issues requires a particular focus on AusAID’s internal capacity and the composition of Australian assistance to make the delivery of aid more manageable and effective.” (2009: 16)

The Review Panel shares the ANAO’s broad assessment.

AusAID was established as an Executive Agency in July 2010. As a result of this increased status, its Director General is now directly accountable to the Minister for Foreign Affairs for the administration and outcomes of the aid program.

When the Review Panel started its work, a process was already underway to strengthen the management of Australian aid. Senior AusAID leadership has been active in driving a change agenda. This is heading in the right direction.

The Director General has strengthened the aid program’s senior management. This has included:

- the appointment of two deputies
- upgrading the Chief Finance Officer and Chief Auditor positions to improve strategic budget planning and fraud management
- creating a new Program Effectiveness and Performance Division to strengthen the agency’s contracting and procurement systems and processes, including legal, contract management, and quality assurance and performance evaluation issues.

These changes have considerably strengthened senior leadership and policy capacity, critical to exerting influence in the Australian government and internationally.

AusAID has also made progress in responding to the 2009 ANAO recommendations. For example, country strategies are now publicly available for AusAID’s 20 largest country programs. Measures have also been introduced to reduce internal staff turnover, which was repeatedly emphasised to the Review Panel as a barrier to aid effectiveness. These measures include extending standard postings overseas from two to three years and introducing a new rule requiring staff to stay in positions for at least two years.
The Review Panel supports these initiatives.

Despite positive progress in many areas, significant management challenges remain.

As noted at the beginning of this Chapter, the Review Panel found that AusAID is stretched.

Clearly AusAID, like any other organisation, needs to continuously bear down on costs and seek to identify savings, but this is not the totality of enhancing productivity. To achieve the scale–up of the aid program in a way which retains or improves its effectiveness will require both that AusAID work smarter and in different ways, and that it gets the injection of resources it will need.

One example of where greater efficiencies could be achieved is in streamlining processes and reducing paperwork. The Review Panel believes there is too much paperwork at AusAID, leading to lengthy processing times. The Indonesia Study illustrates both problems. It finds that:

“There is far too much paperwork, reports and processes in AusAID. On a very subjective assessment of the Indonesia program, somewhere between 50–70 per cent of reports, documents, processes and briefs do not lead to any decisions or actions… This is strangling the agency at all levels.”

And

“…the current health sector design has already taken over four years at a cost of close to $2 million and is still incomplete…. There are many other examples. A lack of senior management engagement in the early concept stages is one of the causes....”

AusAID staff numbers have risen in recent years and will need to continue to rise. This poses major recruitment and management challenges. Already, almost half of AusAID’s staff have been employed for less than three years. Providing these staff with the necessary learning and development programs is critical.

Recruitment is also affected by about eight per cent of staff leaving the agency every year (slightly above the public service average) and strict and time–consuming security clearance procedures. In 2010, the number of AusAID staff actually fell because of the time taken to fill the growing number of vacancies.

These challenges may already be affecting AusAID’s ability to manage its core business.

AusAID’s management challenges need to be seen in the context of the broader aid effectiveness challenges, which are the main focus of this Report. The challenges are closely inter–related and so too must be the solutions.

It will only be possible to promote staff stability and adequate sectoral and country knowledge with a more selective and focused aid program. Greater reliance on skilled and trusted partners will help instil confidence that the rapidly–growing funds at AusAID’s disposal are being used productively. AusAID, the government and the broader public can only be confident that aid funds are spent well once there is more emphasis on results, evaluation and transparency.
viii) Management of Risk and Fraud

The aid program clearly cannot be effective on the basis of total or near–total risk aversion. To get results, the inevitability needs to be frankly recognised that the risks involved in the aid program are greater than for most businesses in many respects. Funds are disbursed through multiple programs, through many channels in many cultural, political, economic and social contexts. The program aims to achieve outcomes which are sometimes intangible (for example improving governance) and in circumstances where Australia cannot dictate results.

The key to effectiveness is therefore risk management rather than risk aversion.

Systems within AusAID for identification, weighing and responding to risk are, in the view of the Review Panel, sound. The challenge as the program grows is less likely to be with systems than with ensuring that they are widely known, understood and properly applied.

A culture of risk aversion is driven particularly by the risk which has the highest public profile, namely the risk of fraud. Of course, scrutiny of the incidence of fraud is important and, as the Director General of AusAID has said, the policy is rightly one of zero tolerance.

AusAID has strong systems for the prevention and detection of fraud and these have recently been upgraded, including through the appointment of a new independent chair of the Audit Committee.

Detected fraud constitutes a tiny percentage of the overall aid program (0.017 per cent in the period 2004–10).

A second risk relates to attaining economy and efficiency. The adviser review and a new procurement review are positive steps in improving the economy and efficiency of the aid program.

Risks around fraud and economy and efficiency are important, but a third risk to value for money is development ineffectiveness. This is the risk that inputs will be delivered but no outputs and/or outcomes achieved. For example, schools may be built but not used or advisers hired but their advice ignored. Development ineffectiveness carries a lower political cost than fraud, but is actually the greatest risk for the taxpayer. Many of the core recommendations of the Report are addressed to this challenge of improving development effectiveness.

The existence of risk does not mean Australia should trim the aid program, although it should be prepared to do so where the program is not delivering results or where the risks cross an unacceptable threshold. It means the program needs risk management systems to deal effectively and transparently with these problems when they arise, learn the lessons and absorb them into future programs.

ix) Transparency

The aid program has taken significant steps to improve transparency in recent years. This is reflected in Australia’s ranking as the most transparent bilateral donor in the Quality of ODA Assessment referred to earlier in the chapter.

Australia is a foundation signatory to the International Aid Transparency Initiative (IATI) and provides high quality reporting to the OECD DAC.
Despite this positive progress, there is scope for increased transparency in the program. Transparency must be ‘warts and all’. Releasing easy-to-understand program documents and information to both the public and partner governments should become standard practice. As illustrated in the earlier discussion of ICRs, this is not the case at the moment.

x) Communication and Community Engagement

Public opinion surveys show that Australians are generally sympathetic towards the aid program, but this support is shallow and not necessarily based on good understanding.

**Box 3.7: Australian Public Perceptions of Aid**

According to the 2010 Lowy Institute poll titled *Australia and the World*, 54 per cent of Australians agreed ‘helping countries in our region to reduce poverty’ was a very important goal (Hanson 2010: 22).

When asked about the aid program’s current size, a majority (55 per cent) agreed ‘about the right amount’ was being given. When presented with four possible objectives for the program, the highest level of support was for ‘reducing poverty’ (58 per cent) followed by ‘improving the quality of government’ (53 per cent) and ‘promoting economic development’ (49 per cent). The least-supported option was ‘promoting Australian interests’ (42 per cent).

When asked about Australia’s aid program in PNG, almost half (48 per cent) agreed it should be doing more, while 42 per cent agreed ‘about the same’ (Hanson 2010: 29).

According to a 2009 AusAID survey of community attitudes on the program, 82 per cent of those surveyed approved of Australia giving aid to developing countries. Some 77 per cent agreed that Australia was a lucky country and should share its wealth with others less fortunate.

The top three reasons given for why an aid program was important were: it helped maintain and build relationships with neighbours, it led to Australia being respected for the aid it provided, and it built more stable governments, making the region safer.

According to a World Vision 2010 survey on Australian aid, most people overestimated how much the government spends on aid and four out of 10 had no idea how much was being spent (World Vision Australia 2010).

The government does not have an effective communications strategy for the aid program. This contrasts for example with the proactive communications practices of the Australian Defence Force. The contrast was particularly stark following the Padang earthquake in Indonesia when the ADF actively promoted publicly the work it had done, whereas there was very limited coverage of the AusAID effort. A generally ad hoc and reactive approach may have been viable for a small program, but it will not work given the increased scrutiny the program will face as it grows. AusAID’s leadership has been more forthcoming and more publicly available than in the past, and this is a welcome development.
The Review Panel does not advocate a public relations strategy which is merely self-congratulatory. The issue is, rather, ensuring that the Australian public are able to obtain an accurate and full account of the resources which are being devoted to aid, both the accomplishments and the difficulties.

Fostering more informed public debate about the program is healthy and appropriate. The Australian people have a right to know why Australia gives aid and what is being achieved with their money.

But the requirement goes beyond public information. It is also desirable that there should be a greater sense of public engagement with the aid program. The Review Panel makes a number of recommendations in this regard.