Part 3

ALLOCATING AUSTRALIAN AID
Chapter 6: VALUE FOR MONEY: ALLOCATING AUSTRALIAN AID

A. INTRODUCTION

The previous chapter proposes that the fundamental objective of the Australian aid program should be helping people to overcome poverty.

The Review Panel proposes that the fundamental operational principle should be value for money. That is, Australia should seek maximum impact from the resources which it devotes to the task.

The Report now turns to the question of how this is to be achieved.

The principle of achieving maximum impact from available resources applies from the highest level – the Four-Year Strategy which the Review Panel proposes in Chapter 13 – down to plans at country, program and project levels; and from plan to implementation; and from implementation to review and learning.

Chapters 6–12 of this Report consider where (geographically) Australia should put its efforts and resources, what (sectorally) Australia should focus on, and how Australia should deploy funds (the methods of delivery) in order to get the maximum impact. These chapters describe a methodology which can be used by ministers and senior officials to structure the aid program so as to achieve the best value for money at this big picture level.

To achieve an effective Australian aid program at 0.5 per cent of Gross National Income (GNI) by 2015–16, it will not be enough simply to move ahead incrementally from where it is now. It is not possible, or desirable, to start from a blank slate – the future program will need to build on the current one. Indeed, this growth will need to be managed smoothly, so that existing programs are not disrupted. But a clear picture of where Australia wishes its aid program to be in 2015–16 and beyond is essential. This will permit the government to track back from the 2015–16 goal and plan for the intervening years.

Such a plan must focus not on how ‘new’ aid money will be used, but on the whole program. Australians need to be confident that all aid money is being spent in the right areas and in the right ways, not only the additional money needed to reach the 0.5 per cent target.

B. APPROACH

Aid programs differ from country to country in size, in sectoral spread and how they operate. Some programs are large, others small. Some country programs will be spread across many sectors, others narrowly focused. And some country programs will work bilaterally while others will work mainly through partnerships. The aid program also provides large funding to global programs.

A sound methodology for making decisions about where Australia should put its aid effort needs to recognise that geographical, sectoral and method of delivery considerations are not separate but interact in a complex way.
This chapter sets out an approach for making decisions about these matters. Figure 6.1 summarises the methodology used.

The chapter first defines 12 countries and regions as Australian aid recipients. It then defines the different types of aid which can be provided. It groups the 12 countries and regions into five categories based on the three criteria used to define the program's overall objective: poverty, national interest and capacity to make a difference. These categories are then used to make recommendations on the expansion of the program, in relation to:

- where Australian aid should be increased (Chapter 7)
- the expanded program's sectoral spread (Chapter 8)
- the ways in which aid should be delivered (Chapters 9 to 11).

The geographical implications of all these issues, and the overall shape of the aid program which the Review Panel proposes Australia should aim for in 2015–16 are summarised in Chapter 12.

**Figure 6.1: Methodology for Maximising Value for Money Through Aid Allocation**
C. GEOGRAPHICAL REGIONS

In 2009–10, Australia delivered aid programs worth more than $200,000 in 88 countries.

The Review Panel is not in a position to say how much Australia should give and what sort of aid it should give to each of these countries. The Report considers a few of the largest aid programs individually, but otherwise groups countries together into regions. Altogether, it analyses 12 countries and regions, as indicated below.

The comments are not intended to be exhaustive but to give the basic rationale for the breakup:

- **Papua New Guinea.** Here Australia has a large aid program and has special connections. There are substantial development challenges and Australia is the dominant donor.

- **Solomon Islands and East Timor.** Both countries face substantial development challenges. History and Australia’s continued involvement make them special cases, and help explain their large aid programs.

- **South Pacific microstates.** Kiribati, Nauru and Tuvalu are small island states with a combined population of around 120,000, have few economic opportunities and experience disadvantage because of size and isolation.

- **Other Pacific countries.** This category consists of the larger remaining countries (Vanuatu, Fiji, Tonga and Samoa); the states in the northern Pacific where the United States has a particular role (Palau, Federated States of Micronesia and the Republic of the Marshall Islands); and Cook Islands and Niue, which have a special relationship with New Zealand.

- **Indonesia.** This is a large program and appropriately so, given continuing poverty, importance to our national interest and Australia’s ability to make a difference as a significant partner.

- **Other East Asia.** Particularly significant programs exist in Vietnam, the Philippines, Cambodia and Laos. Other recipients include Burma, China and Mongolia. Regional programs that support Asia, including through the Association of South East Asian Nations (ASEAN), and the Asia–Pacific Economic Cooperation forum (APEC), are also included here.

- **South Asia.** Including India, Bangladesh, Sri Lanka and Nepal, and the smaller economies of Bhutan and the Maldives. In general, South Asia experiences high poverty and Australia’s interests in the region are growing.

- **Afghanistan and Pakistan.** Both countries have high poverty and security challenges, and are of regional and global significance. The aid program has recently grown rapidly in both.

- **Sub–Saharan Africa.** Africa is the world’s poorest continent. Australian NGOs are active and it is of growing importance to Australia, including Australian businesses.

- **North Africa and Middle East.** In general, the region has low levels of poverty. It is of high geopolitical significance and has recently experienced dramatic change. Australia’s largest aid program in the region is in Iraq, which reflects Australia’s history of involvement there.

- **Latin America and the Caribbean.** The region has pockets of poverty and high inequality and, in the case of the Caribbean, high vulnerability to climate change and natural disasters. It is of limited Australian strategic interest.

- **Central Asia.** The region experiences moderate poverty by global standards, but has few links to Australia.
Table 6.1 gives some basic development indicators across these regions, excluding PNG, East Timor and the Pacific, which are covered in Table 6.2.

Table 6.1: Development Indicators in Selected Countries and Regions

<table>
<thead>
<tr>
<th>Region</th>
<th>GNI per Capita, PPP (current international $)</th>
<th>Life Expectancy at Birth, Female (years)</th>
<th>Literacy Rate, Adult Female (% of females aged 15 and over)</th>
<th>Population (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>3,620</td>
<td>73</td>
<td>89</td>
<td>227</td>
</tr>
<tr>
<td>Other East Asia</td>
<td>5,905</td>
<td>74</td>
<td>91</td>
<td>1,693</td>
</tr>
<tr>
<td>South Asia</td>
<td>2,838</td>
<td>66</td>
<td>51</td>
<td>1,350</td>
</tr>
<tr>
<td>Afghanistan and Pakistan</td>
<td>2,341</td>
<td>63</td>
<td>40</td>
<td>195</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>1,981</td>
<td>53</td>
<td>54</td>
<td>819</td>
</tr>
<tr>
<td>North Africa and Middle East</td>
<td>7,759</td>
<td>73</td>
<td>65</td>
<td>325</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>10,525</td>
<td>77</td>
<td>90</td>
<td>566</td>
</tr>
<tr>
<td>Central Asia</td>
<td>5,010</td>
<td>72</td>
<td>99</td>
<td>61</td>
</tr>
</tbody>
</table>

Source: World Bank (2011b). 2008 data. PPPs (or Purchasing Power Parities) convert from local currencies to an international currency based on the cost of a standard bundle of goods, and so facilitate international comparisons.
### Table 6.2: Development Indicators in PNG, the Pacific Islands and East Timor

<table>
<thead>
<tr>
<th></th>
<th>GNI per Capita, PPP (current international $)</th>
<th>Life Expectancy at Birth, Female (years)</th>
<th>Literacy Rate, Adult Females (% of females aged 15 and over)</th>
<th>Population (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Papua New Guinea</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PNG</td>
<td>2,190</td>
<td>63.3</td>
<td>55.6</td>
<td>6.58</td>
</tr>
<tr>
<td><strong>Solomon Islands and East Timor</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>2,260</td>
<td>67.2</td>
<td>69</td>
<td>0.51</td>
</tr>
<tr>
<td>East Timor</td>
<td>808</td>
<td>62</td>
<td>–</td>
<td>1.13</td>
</tr>
<tr>
<td><strong>South Pacific Microstates</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kiribati</td>
<td>3,690</td>
<td>63.0</td>
<td>–</td>
<td>0.10</td>
</tr>
<tr>
<td>Nauru</td>
<td>–</td>
<td>–</td>
<td>95</td>
<td>0.01</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>0.01</td>
</tr>
<tr>
<td><strong>Other Pacific</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiji</td>
<td>4,620</td>
<td>71.2</td>
<td>–</td>
<td>0.84</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>3,880</td>
<td>72.0</td>
<td>80</td>
<td>0.23</td>
</tr>
<tr>
<td>Cook Islands</td>
<td>–</td>
<td>–</td>
<td>94 (all adults)</td>
<td>0.02</td>
</tr>
<tr>
<td>Niue</td>
<td>–</td>
<td>–</td>
<td>95</td>
<td>0.01</td>
</tr>
<tr>
<td>Samoa</td>
<td>4,480</td>
<td>75.0</td>
<td>98.5</td>
<td>0.18</td>
</tr>
<tr>
<td>Tonga</td>
<td>4,540</td>
<td>74.8</td>
<td>99</td>
<td>0.10</td>
</tr>
<tr>
<td>Marshall Islands</td>
<td>–</td>
<td>68.0</td>
<td>–</td>
<td>0.06</td>
</tr>
<tr>
<td>Micronesia, Fed. States of</td>
<td>3,240</td>
<td>69.0</td>
<td>–</td>
<td>0.11</td>
</tr>
<tr>
<td>Palau</td>
<td>–</td>
<td>72.0</td>
<td>91</td>
<td>0.02</td>
</tr>
</tbody>
</table>

Sources: World Bank (2011b) for 2008 data except for Niue and the Nauru and Palau literacy rates which are from AusAID (2007b) and for the early 2000s. For East Timor, (non–oil) GDP per capita (using PPP) is presented as is standard practice by international agencies to provide a more realistic picture of living standards.

### D. TAKING A TOTAL VIEW

Australia can distribute its aid geographically in the following three ways:

- **Bilateral channels.** Through AusAID to private contractors or partner governments, or through other Australian government departments.

- **Non–bilateral country program channels.** This funding comprises two main components. The first is funding of a partner, such as a multilateral organisation or international or Australian NGO, which is earmarked for use in a specific country. The second is core funding
to a partner which only operates in one country or region, for example an Indonesian NGO or a regional organisation such as ASEAN.

- **Global programs.** Here the money is provided through core funding to multilateral organisations or NGOs that operate globally. It is not counted as country or regional aid programs. Australia cannot directly determine the way international organisations and NGOs geographically distribute core funding.

This third category deserves further explanation.

By definition, core funding to global organisations is not earmarked for particular geographical regions. Decisions on how funding is allocated are up to the particular international organisation.

That said, most Australian funding to global organisations will end up benefitting one country or another (exceptions are funds for global public goods such as some types of agricultural or medical research).

It is clearly part of the overall Australian aid effort and deserves to be recognised as such.

There is good historical information on how multilateral and NGO spending is allocated geographically and reasonable predictions of future trends can be made. This point will be much more important in the future than it is now.

At the moment, Australia’s core funding for multilateral organisations is relatively low (one of the lowest among all Organisation for Economic Cooperation and Development [OECD] donors as a proportion of total aid). But there is much to be said for increasing core funding to effective multilateral organisations and NGOs as part of the program scale-up. This case is argued in detail in Chapter 10.

The Review Panel’s analysis of the current geographical allocation of Australian aid and the proposed future allocation, therefore, considers both country program aid and the appropriate geographical share of global programs. There is obviously some uncertainty about where core funding is used by multilateral agencies, but it is better to be approximately right than precisely wrong. It would be misleading to ignore the approximately $600 million dollars in core funding Australia provides each year to multilateral organisations and NGOs when considering the geographical allocation of the aid program.

This categorisation is summarised by Figure 6.2.
Table 6.3 below shows aid allocation using the above approach and the way the Review Panel has categorised countries and regions above.⁹

The need to include global programs if there is to be full understanding of where Australia is making its aid contribution is evident from Table 6.3. Excluding them, aid to Africa is seven per cent of the total and a medium-sized share of the aid program. Including it, however, its share of the program is 12 per cent, which is almost as much as PNG or Indonesia receives. This is because Africa is the main focus for most multilateral organisations and international NGOs.

Two things about Table 6.3 need to be noted. First, the way global programs are distributed geographically is only an estimate. Second, aid agencies rarely report their aid spending in this way. Typically, country program aid is equated with geographical allocations.

But Australia is in an unusual position. Most aid agencies focus their own aid programs in regions where global programs are also focused, namely Africa and, to a lesser extent, South Asia. Australia does not do this. Rather, Australia’s large country programs are mainly

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⁹ Central Asia is not included.
in the Asia–Pacific where there are fewer global organisations. It is therefore essential for Australia to include estimated geographical distribution of global programs when measuring aid allocations to different countries.

**Table 6.3: How Australian Aid is Currently Geographically Allocated With and Without Global Programs (2010–11)**

<table>
<thead>
<tr>
<th></th>
<th>Excl. global programs</th>
<th>Incl. global programs</th>
<th>Excl. global programs</th>
<th>Incl. global programs</th>
<th>Share of global programs in allocation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PNG</td>
<td>460</td>
<td>460</td>
<td>16%</td>
<td>13%</td>
<td>0%</td>
</tr>
<tr>
<td>Solomon Islands and East Timor</td>
<td>330</td>
<td>340</td>
<td>12%</td>
<td>10%</td>
<td>3%</td>
</tr>
<tr>
<td>South Pacific Microstates</td>
<td>60</td>
<td>60</td>
<td>2%</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>Other Pacific</td>
<td>340</td>
<td>350</td>
<td>12%</td>
<td>10%</td>
<td>3%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>460</td>
<td>470</td>
<td>16%</td>
<td>14%</td>
<td>2%</td>
</tr>
<tr>
<td>Other East Asia</td>
<td>520</td>
<td>610</td>
<td>18%</td>
<td>18%</td>
<td>15%</td>
</tr>
<tr>
<td>South Asia</td>
<td>170</td>
<td>270</td>
<td>6%</td>
<td>8%</td>
<td>37%</td>
</tr>
<tr>
<td>Afghanistan and Pakistan</td>
<td>190</td>
<td>240</td>
<td>7%</td>
<td>7%</td>
<td>21%</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>200</td>
<td>450</td>
<td>7%</td>
<td>13%</td>
<td>56%</td>
</tr>
<tr>
<td>North Africa and Middle East</td>
<td>80</td>
<td>90</td>
<td>3%</td>
<td>3%</td>
<td>11%</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>40</td>
<td>80</td>
<td>1%</td>
<td>2%</td>
<td>50%</td>
</tr>
<tr>
<td>Total country allocations</td>
<td>2860</td>
<td>3420</td>
<td>100%</td>
<td>100%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Departmental costs, humanitarian spending, and other regionally unallocated funds are excluded from these figures. Global programs consist of core funding to multilateral organisations (broadly defined) and to Australian and international NGOs. Figures are rounded off to the nearest $10 million, and may not add up due to this.

**E. PRIORITISING COUNTRIES AND REGIONS**

This section rates the 12 geographic areas introduced in Section C using the three criteria embodied in the proposed objective of the aid program.

Table 6.5 rates each country or region as low, medium or high against the three criteria of:

- poverty
- national interest
- Australia’s capacity to make a significant difference.

For the poverty ratings, the Review Panel examined the extent of poverty in different countries, drawing on Tables 6.1 and 6.2, Figure 6.3 and the poverty data presented in Chapter 4. The national interest ratings reflect judgments about Australia’s broad economic, security and foreign policy interests. For the capacity–to–make–a–difference ratings, the Review Panel gave
particular emphasis to Australia’s weight as a donor, using the data in Table 6.4, but also qualitative judgements about the role Australian aid plays and will play in particular countries and regions.

**Figure 6.3: Percentage of World’s Poor by Country**

![Figure 6.3: Percentage of World’s Poor by Country](image)

The colours on the map indicate what percentage of the country’s population is considered to be poor. For example, more than 45 per cent of India’s population is considered to be poor, so it is coloured red on the map. Source: Alkire and Santos (2010).

**Table 6.4: Share of Australian in Total Country Program Aid**

<table>
<thead>
<tr>
<th>Country</th>
<th>Share of bilateral OECD ODA</th>
</tr>
</thead>
<tbody>
<tr>
<td>PNG</td>
<td>89%</td>
</tr>
<tr>
<td>Solomon Islands and East Timor</td>
<td>60%</td>
</tr>
<tr>
<td>South Pacific Microstates</td>
<td>46%</td>
</tr>
<tr>
<td>Other Pacific</td>
<td>31%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>12%</td>
</tr>
<tr>
<td>Other East Asia</td>
<td>6%</td>
</tr>
<tr>
<td>South Asia</td>
<td>5%</td>
</tr>
<tr>
<td>Afghanistan and Pakistan</td>
<td>3%</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>0.3%</td>
</tr>
<tr>
<td>North Africa and Middle East</td>
<td>1%</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>0.02%</td>
</tr>
<tr>
<td>Central Asia</td>
<td>0%</td>
</tr>
<tr>
<td>Share of Total ODA</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: OECD DAC. Gross ODA in 2009. Other East Asia excludes China and South Asia excludes India.
Table 6.5: Dividing Regions into Focus Categories Using the Three Criteria of Poverty, National Interest and Capacity to Make a Difference.

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Poverty</th>
<th>National Interest</th>
<th>Capacity to make a Difference</th>
<th>Focus Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>PNG</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>1</td>
</tr>
<tr>
<td>Solomon Islands and East Timor</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>1</td>
</tr>
<tr>
<td>South Pacific Microstates</td>
<td>Medium</td>
<td>Medium</td>
<td>High</td>
<td>2</td>
</tr>
<tr>
<td>Other Pacific</td>
<td>Medium</td>
<td>Medium</td>
<td>High</td>
<td>2</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Medium</td>
<td>High</td>
<td>High</td>
<td>1</td>
</tr>
<tr>
<td>Other East Asia</td>
<td>Medium</td>
<td>High</td>
<td>Medium</td>
<td>2</td>
</tr>
<tr>
<td>South Asia</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
<td>3</td>
</tr>
<tr>
<td>Afghanistan and Pakistan</td>
<td>High</td>
<td>High</td>
<td>Low</td>
<td>2</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
<td>3</td>
</tr>
<tr>
<td>North Africa and Middle East</td>
<td>Low</td>
<td>Medium</td>
<td>Low</td>
<td>4</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>5</td>
</tr>
<tr>
<td>Central Asia</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
<td>5</td>
</tr>
</tbody>
</table>

These ratings are then used to divide each country or region into five ‘focus’ categories, which form the basis of recommendations about the nature of Australian aid to these regions. A rating of one indicates that a country or region scores strongly overall on the criteria of poverty, national interest and capacity to make a difference. A rating of five indicates that a country or region does not score strongly overall on the criteria.

The outcomes of this exercise can be summarised as follows:

- **Category 1** includes countries with significant poverty and direct Australian interest. If countries in this category were to fail to develop, it would have an adverse impact on Australia’s interests. Achieving development in these countries would significantly enhance Australia’s interests. Australia also has the ability to make a substantial difference in these countries. This category includes Indonesia, PNG, Solomon Islands and East Timor.

- **Category 2** includes near neighbours facing serious constraints on their development. It also includes countries in which Australia has enduring interests (notably South Pacific countries) and countries of long-standing strategic importance with which Australia has close relations (other countries in East Asia). Again, these are countries and regions where there is significant poverty and where Australia has the ability to make a difference, even more so as other donors exit East Asia. It also includes Afghanistan and Pakistan, both of which have extensive poverty and are of high national interest to Australia.
• **Category 3** includes countries where needs are high. Success or failure in these countries would affect regional conditions and, in the long-term, benefit or harm Australia’s interests. Countries in this category include those where Australia has limited ability to make a difference or add significant value to the wider aid and development effort. This includes South Asia and Sub-Saharan Africa.

• **Category 4** includes North Africa and the Middle East. There is relatively low poverty there and Australia’s capacity to make a difference on its own is limited. This region affects Australia’s interests mainly because of its relevance to the global situation and aid will likely be part of a multinational effort.

• **Category 5** includes Latin America, the Caribbean, and Central Asia, where Australia has interests, but where there is less poverty than in Africa or South Asia and little scope for Australia to make a difference.

The logic of this exercise leads to the conclusion that in general countries and regions in the top two categories should be the main focus of the Australian aid program. The ratings are used in the chapters which follow to inform detailed recommendations about allocations, sectoral spread and modes of delivery for different countries and regions.

**Recommendation 2:** Aid allocations to countries and regions should be defined to include the geographic distribution of global programs supported by Australia, as well as country program aid.
Chapter 7: GEOGRAPHIC FOCUS

A. INTRODUCTION

This chapter considers the best way for Australian aid to be distributed geographically, based on the program’s objective. In short, it provides an indication of where Australia should direct its effort.

B. BASELINE

In addition to the factors considered in Chapter 6, when thinking about expanding the program, the baseline needs to be considered from two points of view:

- the effectiveness of the current aid program
- the scale of current support.

i) Effectiveness of Current Program

Australia should contemplate a major expansion of aid to regions or countries only where the existing program is performing strongly or where there is a credible path to transitioning to high performance.

In the view of the Review Panel, the former would, for example, apply to Indonesia and the latter to Africa.

The proposed approach captures the important principle that the best way to ensure the effectiveness of the Australian aid program is to expand good programs, ones which have proven that they are working, and to scale up other programs only as and when they are reformed.

Judgements about the effectiveness of the current program are based on assessments commissioned by the Review, other recent assessments and evaluations, and the Review Panel’s consultations. They are summarised in Table 7.2.

ii) Current Scale of Support

The scale of current support has already been summarised in Table 6.3. A comparison with other donors is provided in Table 7.1, which looks at the way Australian aid is distributed geographically compared to all Official Development Assistance (ODA). This makes Australian aid’s focus clear. It shows the Asia–Pacific region receives 16 per cent of all ODA, but 75 per cent of Australian country program aid. It also shows the relatively low share of global ODA received by the South Asia region, despite the number of poor in that region.
Table 7.1: Geographical Focus of Australian Aid Country Program Aid Compared with OECD ODA in 2009

<table>
<thead>
<tr>
<th></th>
<th>Australian</th>
<th>OECD</th>
</tr>
</thead>
<tbody>
<tr>
<td>PNG</td>
<td>13%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Solomon Islands and East Timor</td>
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<td>South Pacific Microstates</td>
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<td>Other Pacific</td>
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<tr>
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<tr>
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<tr>
<td>Sub-Saharan Africa</td>
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<tr>
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<tr>
<td>Latin America and Caribbean</td>
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<td>Other</td>
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<td>Total</td>
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Source: OECD DAC (2011a). Gross ODA for both Australia and OECD. Figures exclude global programs.

C THE CASE FOR EXPANDING AID ALLOCATIONS TO VARIOUS COUNTRIES AND REGIONS

Table 7.2 combines the three factors of focus category, current scale and current effectiveness, to determine the case for scaling up (high, medium or low) in different countries and regions.

The Review Panel rejects the idea that there is an obvious way to allocate aid geographically. In general, simple targets, such as reserving a certain amount of aid for countries in particular income categories, may be counterproductive. Table 7.2 below reflects the Review Panel’s judgments.

Individual ratings are explained in the final column of Table 7.2 and more detailed comments on each country and region follow in the next section. The basic approach can be summarised as follows.

i) Only countries and regions in the top four focus categories are considered to be candidates for expansion.

This does not include Latin America and the Caribbean or Central Asia. Hence no expansion is recommended for these programs.
ii) For the remaining countries and regions, decisions about expansion were largely performance-based, but were also informed by information concerning the current scale of support.

Countries and regions with programs that are already performing well (that is, rated to be highly effective) are candidates for a high expansion. This includes Indonesia, other East Asia and South Asia.

Countries and regions with aid programs that are rated to have low effectiveness are candidates for only a low expansion. This includes PNG, Solomon Islands and East Timor. To be clear, this does not reflect on the effort of the Australians in charge of the program and on the ground. These are difficult operating environments, where aid effectiveness is undermined by instability and/or poor governance. Efforts are under way in both countries to improve effectiveness, and, if these succeed, this judgement could be revisited.

It is also important to clarify that the effectiveness ratings apply to the marginal dollar in the aid program. For example, the aid program to Solomon Islands is critical for the stability of that country, but it is not clear that an additional dollar to that country in aid would have a high return.

iii) This leaves five countries and regions where current effectiveness is rated to be medium. Each of these warrants comment:

- Other Pacific Islands: Performance is variable, and any increase should be linked to demonstrated aid effectiveness. The Review Panel recommends a medium expansion overall.
- Afghanistan and Pakistan; North Africa and Middle East: There is uncertainty about future aid demand. The Review Panel recommends medium expansion to these regions, but this will hinge on future circumstances.
- The South Pacific microstates: The Review Panel recommends a high expansion conditional on changing the approach to the aid program to these countries to one founded on mutual accountability and shared oversight.
- Sub-Saharan Africa: The Review Panel recommends a high expansion on the condition that this is delivered in an effective way through partners.
<table>
<thead>
<tr>
<th>Criterion</th>
<th>A. Focus category</th>
<th>B. Current scale of support</th>
<th>C. Effectiveness of the current aid program</th>
<th>Case for Expansion</th>
<th>Comments</th>
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<td></td>
<td>a) Share of current Australian aid</td>
<td>b) Australian focus relative to other donors</td>
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<td>PNG</td>
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Notes: Focus category from Table 6.5. Share of current Australian aid from Table 6.4. Australian focus relative to other donors from Table 7.1. Effectiveness of the aid program reflects Review Panel’s judgements. See text for details.
D REGIONAL ALLOCATIONS AND STRATEGIES

There is a strong case for the Asia–Pacific region to remain at the heart of Australia’s aid program.

Pressing development needs remain in the region. Several countries, particularly in the Pacific, continue to have poor development indicators. Many other donors are leaving the region to focus on Africa. As the submission from Cardno Emerging Markets states:

“It is appropriate Australia’s development commitment focus on countries within our region, primarily PNG, the Pacific and Asia. Long–term development support in the region provides the opportunity for AusAID to consolidate decades of engagement, and complement other regional donors.”

Australia is well placed to play a leadership role across most of the Asia–Pacific region. Indeed, Australia is already internationally recognised for this. In Chapter 8, the Report considers various flagship sectors for the aid program. The Asia–Pacific should be the flagship region.

The role played by Australia in different parts of the Asia–Pacific will vary.

i) Pacific Islands

The Pacific is one of the world’s most aid–dependent regions. (Aid is much less important to PNG.)

Development in the Pacific Islands has been patchy. This has resulted in part from some inherently difficult circumstances such as remoteness and scale, but there has also been a history of poor governance. This has not only undermined the effectiveness of Australian aid, but also held back development.

At the same time, there are some aid success stories and there is a basis for building on these successes in deciding on future country allocations. There is also a strong argument for persevering throughout the region with programs designed to improve the lives of our neighbours.

The Review Panel has considered the potential for new measures in both quantitative and qualitative terms, which could have a broader effect in promoting development.

From an aid perspective, a number of different approaches could have such an effect, such as significant infrastructure investments (e.g. roads, airports and ports), direct budget support, or recurrent funding for basic services. The Review Panel has concluded that Pacific aid funding should be increased.

While the Review Panel does not call for very large increases in aid to the Pacific, the one sub–region where a compelling case can be made is the Pacific microstates of Tuvalu, Nauru and Kiribati. These three countries, with a combined population of around 120,000, have few economic opportunities and experience disadvantages because of size and geographic isolation. They will, most likely, always be aid dependent. Other sources of revenue include the ocean (fish), labour migration (discussed below) and possibly tourism (at least for Kiribati).
The challenge facing Australia is whether it can provide increased aid to these countries in an effective manner. Project aid is not appropriate. Core funding for recurrent services, with shared oversight, is the direction to go. The question is how to get there and whether risks can be contained. To put it bluntly, if Australia funds more, will the governments of these countries fund less?

Lessons can be derived from various trust fund and budget support models. The Pacific Partnerships for Development are a useful starting point, though tighter accountability and oversight would be needed if they were to be scaled up in these three countries. However, delivery mechanisms should not be the starting point for the discussion. The focus should be on first principles.

### Box 7.1: The Pacific Partnerships for Development

The Pacific Partnerships for Development were initiated through the Port Moresby Declaration of 6 March 2008. Since then, Australia has signed 11 Pacific Partnerships for Development with the governments of PNG, Samoa, Solomon Islands, Kiribati, Vanuatu, Tuvalu, Tonga, Nauru, Federated States of Micronesia, Palau and Marshall Islands.

The Partnerships for Development usefully focus on country-level outcomes (in relation to the Millennium Development Goals) as well as the contribution Australian aid can make.

While the principle of mutual accountability on which the partnerships are based is a sound one, it is too early to make a judgment on the success of the partnership approach. Much will depend on the willingness of Australia, and especially Australian ministers, to back up the partnerships with robust dialogue if benchmarks are not achieved.

The Review Panel’s recommendation is that ministerial-level engagement with Nauru, Kiribati and Tuvalu take place and that an offer of significantly increased and more flexible aid funding (say, a doubling) is made, conditional on agreement being reached on, consistent with those countries’ sovereignty.

In relation to the other Pacific Island countries – in particular, PNG, Solomon Islands, Vanuatu, Fiji, Samoa and Tonga – the Review Panel considers that the amount and trajectory of the increase in Australian aid should be subject to performance. The increase could be considerable and could be reasonably rapid, but only if experience demonstrates that the aid is being effectively used. At the current time, only Vanuatu and Samoa would qualify under this approach for a significant increase.

In the case of PNG, the beneficiary of Australia’s second largest aid program, the Review Panel notes that the independent PNG–Australia Development Cooperation Treaty Review recommendations have been accepted by the Australian government. The aid program is being re-orientated to focus on fewer sectors, on service delivery and, most importantly, on delivering results.

The Review Panel commends these efforts and was able to see their early shape during its field visit to PNG. Yet PNG remains a difficult environment, with poor governance and growing
corruption, all of which hamper aid effectiveness. Moreover, PNG revenue is growing rapidly as a result of the resources boom. This will not necessarily bring large development benefits to the people of PNG under current policy settings, but will make it difficult for the aid program to leverage positive outcomes.

Australia’s large aid program to Solomon Islands will remain central to the country’s stability and development, but again, weak governance is a constraint on effectiveness and limits the scope for scaling up.

The Pacific is a region in which country circumstances can change rapidly, in which crises can be quick to develop, but also in which opportunities for reform can suddenly emerge. Flexibility will have to be maintained to be able to respond to the sudden changes which might emerge, say in Fiji, if there is a resolution of the current stand-off.

It is clear that aid is not the only way of promoting development. While the remit of the Review is restricted to the aid program, it is impossible to write about aid to the Pacific without addressing broader policy issues. Policy coherence is a common theme arising from submissions, the Australian National University *Doubling Aid* conference and the development literature.

In all the Pacific Island countries and PNG, but especially the smaller ones, the development relationship with Australia must go well beyond aid. Development success for these economies, especially the smaller ones, requires greater integration with the larger economies of the region.

Labour mobility between Pacific Island countries and Australia and New Zealand is an issue of great significance for the development of the Pacific. As numerous studies have shown, labour mobility creates a sustained flow of remittances, and those island nations with access to major labour markets do much better than those without. Many Pacific Island countries have limited economic opportunities, and the export of labour is often their best opportunity for private sector development.

Every Australian aid review since the Jackson Review of 1984 has recommended Australia increase opportunities for labour mobility in the Pacific.

The Australian government did introduce a pilot seasonal workers’ scheme for the Pacific in 2008. Unfortunately, and in contrast to the New Zealand scheme, progress has been slow. New Zealand also has a number of Pacific permanent migration quotas.

Whatever the modality, the Australian policy agenda for the region should include increasing labour mobility for the Pacific.

Reducing the cost of sending remittances home from Australia (which are among the highest in the world) is a related priority. The Review Panel welcomes efforts made by the government to pursue this goal.

A submission put to the Review Panel from Greg Cutbush, from the Australian National University, claimed Australian quarantine trade restrictions were too restrictive and unfairly prevented Pacific Island businesses from exporting agricultural produce to Australia. This submission argued that, rather than helping farmers to meet Australian quarantine standards, these standards should be lowered. The Review Panel is not in a position to endorse or disagree
with this position, but agrees that quarantine restrictions should be based on firm science and not place undue restrictions on agricultural imports from Australia’s neighbours.

It has been put to the Review Panel that, beyond these individual policies and measures, the Australian government’s aim for the region should be deep integration. This was emphasised at the Australian National University conference.

The diversity of the region means multilateral integration will achieve little. This is illustrated by the lack of progress in the proposed new free trade agreement between Australia and the region (PACER Plus).

A more radical proposal would be to invite Pacific countries to join the Closer Economic Relationship between Australia and New Zealand. Membership would bring with it both privileges (such as increased labour mobility) and obligations (such as free trade and sound macroeconomic policies). Obviously this would require detailed consideration by the Australian and New Zealand governments in the first instance.

**ii) East Asia**

Most South East Asian countries are of middle–income status. Only Laos, Burma and Cambodia still qualify as low–income countries.

**Figure 7.1: Per Capita Income for Selected East Asian countries (US$, 2008)**

![Figure 7.1: Per Capita Income for Selected East Asian countries (US$, 2008)](image)

But, as noted in Chapter 4, middle-income does not mean poverty-free. The Oxfam submission to the Review stated:

“Engagement with middle-income countries will be particularly strategic for Australia given the enormous number of people living in poverty in middle-income countries in the Asia-Pacific region.”

This extract from the submission of the Government of Vietnam shows the challenges that need to be addressed to achieve sustainable economic and social development:

“Although Viet Nam has made impressive achievements in poverty reduction, there are a large number of families that live just above the poverty line and are vulnerable to any type of shocks, including economic shocks. Income, life expectancy and other measures of living standards of ethnic minorities are much lower compared with other population groups. Quality and distribution of basic social services have not met the demand of the people. Fees and charges of social services are not affordable for the poor or even middle-income families.”

Several donors are disengaging from the East Asia region because of its rapid growth. In March 2011, the United Kingdom announced it would end aid to Indonesia, Vietnam and Cambodia. As several submissions urged, there is a strong case for Australia to buck the trend. The Overseas Development Institute also explained in their meeting with the Review Panel that:

“Aid can play a more effective role in middle-income countries than low-income countries given it is (and always has been) just a catalyst for promoting better development outcomes. Given this, the shift by donors out of middle-income countries makes no sense. Australia can play a leadership role in questioning the donor stampede out of middle-income countries.”

Evidence, including from the Study of Australia’s Approach to Aid in Indonesia commissioned by the Review, suggests that Australia’s aid programs to Indonesia and other South East Asian countries are effective. These are countries that generally have the ability to absorb more aid effectively.

These considerations make a strong case for expansion. In particular, a further major increase in the aid program to Indonesia would consolidate Australia’s status as the main bilateral donor for this close and still poor and vulnerable neighbour. Significant increases for other South East Asian countries would also have high returns.

Strong growth and social progress in East Asia cannot be taken for granted. Countries progress in fits and spurts, and it is possible for them to regress as well as progress. Instability is already in the region (for example, southern Philippines) and could spread easily. After another decade of growth, many of the countries in this region could start to graduate from aid after 2020. Over this decade, however, they are good candidates for significant expansion.

There is little case for an aid program to China, given the country’s major power status, economic success and resources, and the fact that it has itself become a major donor. Australia should look for opportunities to partner with China as equals on development-related activities in the region or beyond. This would give Australia an opportunity to engage at a strategic level with one of the most important donors of the 21st century. Such activities would not, however,
require an aid program to China. The Review Panel recommends that the current program to China, about $40 million a year and falling, should be permitted to wind down.

Burma and North Korea are special cases. There is currently no bilateral country program through the government in either country. Australia does have a substantial program in Burma through NGOs and multilateral organisations.

Yet, the needs of the poor in these countries are significant. In North Korea, it is estimated that up to five million low-income earners will need food assistance in 2011 (FAO and WFP 2010: 4). Burma is the poorest country in South East Asia, with almost one-third of its 50 million people living in poverty.

Australia should continue to engage in low-key ways through non-government channels, given that the development needs are vast but that working through government would be ineffective and politically unpalatable. Were political or other circumstances to change, the aid program may grow.

**iv) Sub-Saharan Africa**

There is a strong case for more of the aid program to be devoted to Africa:

- Despite better progress over the past decade, Africa remains the continent with the most acute development challenges. Almost 400 million people in Sub-Saharan Africa, almost half the population, live below the poverty line of US$1.25 a day.
- The Australian community shows a strong interest in Africa’s development challenges. More than 40 per cent of public donations to Australian NGOs are for activities in Africa.
- Australia has growing strategic interests in Africa, including Australian mining companies’ rapidly expanding interests. Investment by Australia into the resources and related sectors in Sub-Saharan Africa topped $20 billion in 2008. On the other hand, failing states, which can be breeding grounds for terrorism, piracy and transnational crime, challenge Australia’s national interests.
Box: 7.2: Supporting Communities Affected by HIV/AIDS Through CARE in Malawi

While visiting Malawi, the Review Panel had an opportunity to hear from people involved in the Supporting and Mitigating the Impact of HIV and AIDS for Livelihood Enhancement Program. The Australian aid program has provided funding to CARE Australia for this program since 2004.

The program works with communities who face chronic food insecurity due to poor access to land, low agricultural productivity and poor yields, the impact of HIV/AIDS, weak farmer and community organisations and limited income–earning opportunities. The program has helped communities to establish village savings and loans schemes, to establish seed–banks, and to gain better access to markets. At the same time, linkages between communities, government, community organisations and the private sector have been strengthened.

The Review Panel was impressed by the extent to which women were involved in community decision–making and, in many cases, spearheading their community's development. Men in the community emphasised that their own attitudes had been transformed through their participation in the program. The Review Panel heard from many women who proudly displayed the clothing and household amenities they were able to buy with their cash savings. The Review Panel was also struck by how much support local government representatives showed for this program and how critical this support was to implementation of the program in the communities.

While the case for increasing assistance to Africa is clear, the region will be a particularly challenging one for the Australian aid program.

According to the Study of Australia’s Approach to Aid in Africa (the Africa Study) commissioned by the Review, Australia’s aid program to Zimbabwe has been effective. However, the Africa Study expressed concern that the Africa program suffered from high levels of fragmentation in terms of geographic spread and with regard to delivery modalities. The Review Panel agrees with this general analysis of the situation and has taken these views and its own observations into account in forming recommendations on future approaches.

Members of the Review Panel visited three African countries, Malawi, South Africa and Zimbabwe. The following were among their observations:

- There was evidence of good AusAID partnerships with NGOs, the World Bank, African Development Bank (AfDB), United Nations Children’s Fund (UNICEF) and other donor governments.
- There was scope for building further on successful partnerships (for example on water and sanitation).
- Australian Heads of Mission argued for a broad–based aid program as part of Australia’s engagement with Africa.
• Some elements of the program are very dispersed, with 46 countries benefiting from Australian bilateral and/or regional assistance\(^{10}\) and scholarships programs planned for 53 countries. This presents significant management issues and raises fundamental questions about effectiveness.

• Other donors are reducing the number of their country programs. The United Kingdom, for example, now concentrates on 16 African countries among its 27 partner countries globally, a figure reduced from 43 earlier, even though it is substantially increasing its aid budget.

The Review Panel’s view is that, because of the incidence of poverty in Africa, the Australian aid program should have a significant focus on the region. Deciding what that role should be and where it should be focused needs to be based on a range of factors, all bearing on the central issue of aid effectiveness:

• Australia will maintain country programs in some 20 countries in South East Asia, the South Pacific, Afghanistan and Pakistan. There are strong arguments of policy (avoiding fragmentation of effort, small-scale programs and less than critical mass) and practice (need for development of AusAID skills and country experience), which mitigate against a sizeable number of country programs elsewhere, including in Africa.

• Australia is a small player (currently accounting for 0.3 per cent of bilateral aid to Africa). Assuming the levels of aid to Africa by other donors remain the same, even if Australia doubles its aid to Africa, it will still comprise only 0.6 per cent of bilateral aid to Africa. Multilateral organisations, the development banks, other donor governments and NGOs have wide representation in Africa and there is evidence of effective Australian partnerships with them.

• There is a broad range of options for partnerships, for example, providing core funding to multilateral organisations or banks, earmarked funding or contributions to trust funds (under, for example, World Bank auspices).

The Review Panel’s conclusions, in the broad, are that Australia can have a positive aid program for Africa, and one which will have its own distinctive elements:

• Aid to Africa should be **large**, befitting the continent-wide levels of poverty.

• It should be based primarily on **partnerships**. Because of the strong NGO presence and emphasis by multilateral organisations and banks on Africa, these partnerships (especially through core funding) will in effect deliver Australian ODA in a wide range of African countries.

• **Core funding** to Australian NGOs and to selected multilateral institutions and banks operating effectively in Africa should increase substantially. This will maximise spread and ensure a high profile.

• **Earmarked funding** to partners should be decided using a range of criteria. Australia should ensure that, in earmarking funds, it does so in areas where it can make a real difference, where there is overall sufficient critical donor mass to be effective and where recipient governments are not being unnecessarily burdened.

\(^{10}\) As at February 2011.
• The government should limit the range of sectors in which Australia gives earmarked funds, so that some distinctive Australian strengths and interests (for example, in water and sanitation, agriculture and food security, maternal and child health, and assistance to governments in constructing regulatory guidelines for extractive industries) can be reflected.

• Country as well as sector focus is important. Australia should not aim to have a project or program in every country.

• The scholarship program has had positive impact. Australia has been involved with the delivery of scholarships to African students since 1960. Around 4,000 Africans have received scholarships to Australian universities, at Masters level or above. The bulk of Australian scholarships have been provided to Kenya, Mozambique, Tanzania, Uganda and Zambia. Recently, however, the scholarship program has become too diffuse and needs to be more focused (though on a broader range of countries than those in which Australia will have significant country programs).

• AusAID will need resources, including people in the region, to continue liaising with partners. These need not be stationed in a wide range of countries.

There are some specific elements which flow from these conclusions.

As shown in Table 12.3, the Review Panel proposes an approximate doubling of the African aid allocation to some $900 million.

The Review Panel has suggested above an approach towards how this might be allocated between core funding of multilateral organisations and NGOs, and earmarked funding (which could be earmarked for a particular sector or activity but without any particular country restriction, or could be earmarked for an activity in a particular country).

The Review Panel has also suggested that country focus is also important in Australia’s strategy on aid to Africa. The total program, and the mix of the various elements listed above, needs to be such that country-specific activities undertaken by Australia do not expand beyond a relatively small and manageable number of countries and partners. Australia should restrict itself to a small number of resource–effective, high–impact programs like that in Zimbabwe, where the choice of such countries reflects Australian government decisions on poverty alleviation, foreign policy and other grounds.

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**Box 7.3: Protracted Relief Program (PRP) – Zimbabwe**

PRP is a multi–donor program in Zimbabwe, which supports improved food production, livelihoods, water and sanitation and home–based care for the chronically ill. Since 2004, Australia’s support has focused mostly on food security through the distribution of seeds and fertiliser, but has been expanded to support for water and sanitation.

One of the districts within Zimbabwe where PRP is being run is Makoni, which possesses the country’s highest incidence of HIV/AIDS in recent years. Virtually everyone within the district has been affected by the epidemic in some way, even if they have escaped infection. In Makoni district, PRP is being implemented by Farm Community Trust Zimbabwe, a local NGO.
The Review Panel had a chance to meet two beneficiaries under the PRP. One of them was a 51-year-old grandmother of two. She is currently a secondary care giver under the Community and Home-Based Care Program, who has received training as a village health worker. As part of her palliative care work under PRP, she visits clients, many of whom are infected with chronic diseases, to provide health support and advice. She administers basic medicines and disinfectants, and refers patients to health clinics where necessary. The Review Panel heard from one of her clients, a widowed mother of four children, who is HIV-positive and infected with tuberculosis. It was plain that the support and advice of the health worker had transformed this woman’s life.

Another beneficiary under PRP was a 40-year-old mother of three children who was involved with conservation farming. The Review Panel saw firsthand the difference in yields that her crop of maize had generated since she adopted conservation farming techniques. This woman was also one of four members of an internal savings and lending group, which had managed to save US$390 the previous year through income-generating projects such as buying and selling fish. The Review Panel was struck by the leadership and focus of this woman, and her determination and vision for a better life for her family.

In Table 12.4, the Review Panel proposes that country programs could comprise approximately $220 million (as at present) of the total of some $900 million. That is, the expansion would be entirely through core funding to multilateral organisations, including the AfDB (on which see below), and NGOs, most of whom focus on Africa.

It is important to note that Africa would also be a major beneficiary of the $900 million which the Review Panel is proposing be set aside by 2015–16 for humanitarian emergencies. A portion of the $900 million allocation for Africa will also, of course, be used to deal with humanitarian needs.

The Review Panel also recommends that Australia join the AfDB.

The AfDB is undergoing a reform process. Support for the AfDB will give Australia both influence and impact. Australian membership would be a high-level indication of Australia’s commitment to the development of the continent. Like the Asian Development Bank, the AfDB is highly respected by governments in its region and, in recent years, has begun to focus heavily on what it does well, namely infrastructure and promoting regional integration. It has also embarked on an extensive reform agenda over the past five years under President Donald Kaberuka.

Australia is the only major Organisation for Economic Cooperation and Development (OECD) donor that is not a member of the AfDB. Australia has begun to partner with the AfDB on a range of earmarked activities over the past year. It is too early to judge the success of these activities.

The United Kingdom’s multilateral review rated the AfDB’s concessional lending arm, the African Development Fund, highly for its organisational effectiveness and value for money.

Contributions to the Fund would represent a very efficient and effective way of scaling up assistance in Africa. If well managed and presented, the contribution could be a highly visible way of demonstrating commitment to the development of Africa, without adding to the problems of donor proliferation.
The Africa program should be planned and reported against as an integrated whole. (The South Asia model presents a good example in this regard.)

v) South Asia

With the expanding Africa country program, Australian country program aid to Africa is now higher than that to South Asia, and a greater share of global funding reaches Africa than South Asia.

Yet South Asian development needs also remain acute. Links with Australia are growing and there are fewer worries in South Asia than in Africa around aid effectiveness. Also, as noted earlier, the region receives little aid from the global community.

From the Review Panel’s consultations, and its own visit to Bangladesh, Australia’s aid program to South Asia appears to be effective, delivering results through a range of partnerships.

**Box 7.4: Results From Aid to Bangladesh**

Australian aid has achieved impressive development results in Bangladesh working through other development partners in health, education and reducing extreme poverty in rural areas.

Some of the key achievements through Australian–funded BRAC (previously known as the Bangladesh Rehabilitation Assistance Committee) and UNICEF programs include:

- reduced maternal mortality rates of 15 per cent across 11 target districts, by improving skills and support for 16,200 community workers and volunteers to care for women during childbirth
- better access to primary and pre–primary school for 1.5 million children who would otherwise not have attended school – 65 per cent of these were girls
- 2.4 million people (mainly women and children) lifted out of extreme poverty through complementary health skills training and livelihoods support activities.

Given the small current base, effective performance and limited global support for South Asia, there is a strong case to increase the aid program to South Asia.

India, though an emerging major power, is still a very poor country. Per capita incomes in India are only one–third of China’s and India is home to some 35 per cent of the world’s poor. Australia currently has a very small program in India, at about $20 million. India also benefits from the global programs which Australia supports. There is a case for a much larger aid program there, one focused on the hundreds of millions of poor. But Australia also needs to be mindful that it will have many demands on its funds, that India has sought to reduce how many donors work there, and is itself becoming an aid donor. The Review Panel does not recommend a country program for India.
vi) Pakistan and Afghanistan

Pakistan and Afghanistan are both very difficult operating environments. Even in Pakistan’s capital, staff are unable to move around except in armoured vehicles. The Review Panel was impressed by some of the Australian aid program’s achievements in Afghanistan, which deserve wider recognition.

That said, Afghanistan is an aid-dependent country, rife with corruption and conflict. Pakistan also faces growing development and security challenges. Given Australia’s existing military commitments and the importance which the Australian government attaches to these two countries, Australia needs to continue to support stability and development as part of a broad international effort.

The scale of these programs in 2015 will hinge on the context at the time, around which there is considerable uncertainty, but the Review Panel recommends that the government plan on the basis of a medium expansion.

Two additional points need to be made.

First, in any scaling up there needs to be a strong emphasis on both the safety of Australians and their ability to get the job done. In Uruzgan, there would clearly need to be close synchronisation between Australia’s military presence (including how long it will last) and aid personnel being there.

Second, although the role of aid personnel is not publicised as much as that of Australia’s soldiers, they deserve to be recognised and commended publicly.

vii) North Africa and the Middle East

Recent events highlight both the strategic importance and the uncertainties that surround this region. Several countries, if not the whole region, may be at a unique historical point. Progress over the next few years, or lack of it, may be critical for the region’s long-term prospects, and for whether this is a region in which development and democracy can flourish. This is not a region that has received much aid from Australia (except for Iraq).

There is a high level of uncertainty about the aid demands of this region. But there is also a case for more aid, especially as part of a wider effort by other Western donors. The fluid situation leads the Review Panel to suggest that the government make provision for a medium increase in aid for this region.

viii) Latin America and the Caribbean

In December 2010, the Australian government announced its plan to increase links with Latin America, including development cooperation through a $100 million program over four years. The Australian government has an obligation to honour this commitment.

Beyond that, the Review Panel sees little case for further country program aid to Latin America and the Caribbean. This is a relatively prosperous region, not of great strategic importance for Australia. The region will benefit from Australia’s support of global programs and expanded core funding to multilateral organisations and NGOs. Australia should seek to better highlight these
contributions in engagement with Latin American countries. A submission from ChildFund summarises the Review Panel’s view succinctly:

“[The] development need is less severe and the strategic connection with Australia is particularly tenuous.”

ix) Central Asia
Central Asia has not been and should not become a focus for Australia’s aid program.

E. DIRECT AID PROGRAM

Even in regions where there are no country programs, the ability to respond flexibly to requests will remain important.

The Review Panel supports an increase in the Direct Aid Program, a flexible fund to support development activities managed by Australia’s Ambassadors and High Commissioners. In 2010–11 the total value of the Direct Aid Program is around $8.5 million. The average size of the Direct Aid Program for posts is around $150,000, with most posts having an allocation between $50,000 and $350,000. The Review Panel recommends the total size of the Direct Aid Program be increased by double or more, with a highest level of growth in countries in which there is no Australian country program.

Recommendation 3: Decisions about country allocations should be based on poverty, national interest, capacity to make a difference and current scale and effectiveness. Decisions about country programs should also reflect the need to consolidate the aid program.

Recommendation 4: In scaling up the aid program, country allocations and programs should be adjusted in line with the Review Panel’s specific recommendations based on these criteria.

Recommendation 5: Australia should join the African Development Bank.

Recommendation 6: The Direct Aid Program should at least double in countries with no country program to enable a flexible response to requests.
Chapter 8: SECTORAL ISSUES

A. INTRODUCTION

Just as there needs to be a rigorous approach to where Australia provides its aid, so we need to do the same in relation to what we spend our budget on.

Australia has abilities in many fields important to developing countries ranging from basic services like health and education, through business and industry, to technology and science, effective government, the private sector and civil society.

As noted earlier, multiple government agencies are involved in the Australian aid program and they work in specialised fields, for example, the Australian Centre for International Agricultural Research (ACIAR) in agricultural research and development, Australian Federal Police (AFP) in policing, and the Treasury and the Department of Finance and Deregulation in economic policy and public sector finance.

Australian NGOs and the private sector have many specialist abilities.

All this adds up to a capacity for 'team Australia' to contribute to international development across a broad front.

That said, it would be damaging to the effectiveness of Australia's aid program if it tried to be all things to all people, directly or even through partners. Indeed, being selective and focused will help the program to have a real impact.

This chapter addresses how Australia, and especially AusAID, should distribute its aid across sectors.

B. THE PRIMACY OF COUNTRY PROGRAMS

The aid program should be driven by country programs, rather than by any predetermined global sectoral targets. To do otherwise would lead to country programs being artificially configured to a sectoral pattern which did not make sense – or which was not optimal for a particular country.

The draft Office of Development Effectiveness (ODE) Philippines country evaluation notes the danger of not having country programs in the driver’s seat:

“... it could be argued that the availability of funds for infrastructure through the budget influenced AusAID’s decision to move into support for national roads in the Philippines. While the agency’s support in this area is relatively modest, it is difficult to justify national roads being a priority when there are already major donors in the sector such as the World Bank, Asian Development Bank and Japan who, it could be argued, have a comparative advantage in the sector.”

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Oxfam also noted in its submission how important a country-driven model is:

“Two key principles should guide the establishment of sector focus for individual country programs. First, developing countries should set their own development agenda and priorities, where applicable through locally devised, national development plans that involve their citizens in meaningful ways. Second, the process of determining sector focus should be consistent with the aid effectiveness principles set out in the Paris Declaration and Accra Agenda for Action, in particular those that emphasise country ownership and leadership.”

Rather than the Australian government prescribing which sectors the aid program concentrates on, its preferences should be used as guidance when country programs are developed. There should not, in general, be predetermined sectoral targets in areas like health and education. What the aid program does in areas such as these will depend upon country needs and circumstances.

There will be some exceptions. Funding is identified in the aid program for humanitarian needs and the use of such funds is not driven by country programs but by the location of humanitarian crises. Another area where a global provision needs to be made in advance of knowing how it will be deployed to particular countries is climate change, where Australia has committed, as part of the international climate change response, to deliver particular climate change funding levels.

C. SECTORAL SELECTIVITY

To ensure it is effective, a bigger aid program will need to be disciplined, reduce fragmentation and increase selectivity.

Sectoral focus is an important way to promote selectivity. However, it is only at the country level that priority sectors can be sensibly decided upon. In abstract terms, all sectors are important. Health interventions might save lives, but might not work without adequate roads, and might not be sustained without economic growth. It is not feasible to suggest that the Australian aid program should not engage in some important sectors such as health or governance or infrastructure.

A more practical route to sectoral focus is at the country level. Not every country program should cover every sector. Far from it. Sectoral selectivity and prioritisation should be exercised robustly at the country level, particularly where Australia is not a major donor.

As shown in Figure 8.1, there does not seem to be a strong link at present between sector coverage and program size. That is, Australia is spreading itself relatively thinly regardless of the scale of the aid program in a particular country. In no case over the five years to 2009–10 did the sectoral spread decline and in a number of cases it increased. Sectors are defined in this Figure as very broad areas of activity, such as health and education, so that the numbers may disguise an even greater spread of effort. It should be borne in mind also, as indicated in Chapter 3, that a number of European donors aim not to exceed three sectors per country in the interests of aid effectiveness.
This broad but thin sector coverage jeopardises effectiveness. Cardno Emerging Markets summed up the problem with the current approach in its submission to the Review:

“The focus of the Australian aid program is too broad. There is an attempt to make a substantial impact across five or six sectors in any one country, limiting effectiveness and impact, and spreading AusAID investment and resources too thin. We believe there is benefit in AusAID taking the lead in a smaller number of sectors within a country and within a defined geographic area; should there be a need to provide any additional sectoral support it may be done via other partners, such as other donors or agencies (for example, UNICEF) or NGO programs which have an established reputation and local presence.”

Being selective is especially important in fragile states, where the ability to absorb aid is restricted. The World Bank's 2002 advice on these states remains valid today:

“If there is a low capacity for change, it is important to be highly selective in priorities, for only a few changes can initially be accomplished, and attempts to move on a broad front may simply dissipate the change effort and overwhelm the country's absorptive capacity.” (World Bank 2002: 13)

AusAID has already indicated it wants to be more selective. The PNG program, for example, is starting to reduce how many sectors and activities it works across. Following through on this in PNG and elsewhere will be critical for the future effectiveness of the aid program.
Not every country program can or should be equally narrow in its sectoral focus. Countries with large Australian programs and where Australia is a major donor will have more sectors than those where Australia's program is small or where it is small compared to other donors.

In most countries in Africa and South Asia, for example, the Australian program will be both small in absolute terms and relative to total aid. In such situations, Australia should focus on a few sectors where it can make a genuine difference.

On the other hand, in countries such as Indonesia, PNG and the Pacific Islands, the country program is large both in absolute terms and relative to total aid. The Australian program will have the scale, staffing and legitimate expectation from the recipient government to justify a spread across a range of sectors. Even in these countries, being a large donor is not a licence to do everything. Selectivity and ensuring each intervention is the right size are vital for the program to be effective and well-managed. Even in these countries, therefore, efforts to consolidate are needed.

A bottom line in all countries is that Australia's work in any sector should be big enough to add value rather than becoming an administrative burden for the recipient country.

As is evident from the above discussion, one size does not fit all. The Review Panel's recommendations on sectoral spread in different regions are given in Table 8.1 below, using the geographical categories introduced in Chapter 6. Of the factors used to determine the focus categories in Chapter 6, the Review Panel gives special weight to the importance of Australia as a donor when making these recommendations.
Table 8.1: Proposed Sectoral Spread in the Aid Program by Region

<table>
<thead>
<tr>
<th>Country/Region</th>
<th>Sectoral Spread</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>PNG</td>
<td>Medium</td>
<td>Australia is the major donor, but this is a difficult environment.</td>
</tr>
<tr>
<td>Solomon Islands and East Timor</td>
<td>Medium</td>
<td>Australia is the major donor in Solomon Islands and a major donor in East Timor, but these are difficult environments.</td>
</tr>
<tr>
<td>South Pacific Microstates</td>
<td>High</td>
<td>Australia is the major donor. Funding recurrent expenditures as recommended is a multi-sectoral approach.</td>
</tr>
<tr>
<td>Other Pacific</td>
<td>Medium</td>
<td>Australia is the major donor, but these are difficult and varied environments.</td>
</tr>
<tr>
<td>Indonesia</td>
<td>High</td>
<td>Australia is a major donor, has a wide-ranging bilateral relationship and relatively strong counterparts.</td>
</tr>
<tr>
<td>Other East Asia</td>
<td>Low</td>
<td>Australian aid is growing in importance, but is still a small share of the total and we need focus to have impact.</td>
</tr>
<tr>
<td>South Asia</td>
<td>Low</td>
<td>Australian aid is a small share of the total and we need focus to have impact.</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>Low</td>
<td>Australian aid is a very small share of the total and there is a very crowded donor environment. We need to have focus for impact.</td>
</tr>
<tr>
<td>Afghanistan and Pakistan</td>
<td>Low</td>
<td>Australian aid is a small share of the total and there is a very crowded donor environment. We need to have focus for impact.</td>
</tr>
<tr>
<td>North Africa and Middle East</td>
<td>Low</td>
<td>Australian aid is a very small share of the total. We need to have focus for impact.</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>Not applicable</td>
<td>No country programs.</td>
</tr>
<tr>
<td>Central Asia</td>
<td>Not applicable</td>
<td>No country programs.</td>
</tr>
</tbody>
</table>

D. TERMINOLOGY

Terms such as ‘sectors’, ‘sectoral priorities’, ‘themes’, ‘cross-cutting issues’ and ‘flagships’ can be confusing as they have different meanings for different people.

To ensure clarity, the Review Panel distinguished between the following three sector perspectives.
First, a thematic organising framework is a way to articulate objectives across the aid program. It explains to managers, government, partners and the public what the program is about. It also provides a framework against which results can be reported.

Second, the program’s sectors (e.g. health and education) and cross-cutting issues (e.g. gender and the environment) are the broad areas across which Australia will provide assistance. These are also the areas in which expertise will be needed, within AusAID or from other government departments, contracted experts, other aid agencies or NGOs.

Identifying these sectors and cross-cutting issues will help shape learning and development, staffing and recruitment strategies. It provides a starting point for programs to be developed with the partner country and other players. It also helps identify the Australian government agencies and other partners with the specialist knowledge needed.

Third, flagships are the more specific areas of activity the aid program focuses on or plays a leadership role in. Flagships should not detract from the importance of other activities. Rather, they are areas where Australia aims to be a significant and high-quality contributor and is recognised for its contribution.

Flagships will help identify areas where Australia is well placed to make an impact or, in some cases, show international leadership.

Flagships will have significant management implications including resourcing, funding allocations, securing particular skills and choosing partners. While, in principle, flagships could be defined at any level (education is sometimes referred to as the Australian aid flagship), in practice they are most useful when at the sub-sectoral or activity level.

In the sections that follow, this chapter explores these three perspectives. It sets out an organising framework of four themes, presents 13 sectors and cross-cutting issues the Australian aid program will need to be active in, and proposes possible flagships.

E. THEMES: ORGANISING FRAMEWORK FOR THE AUSTRALIAN AID PROGRAM

The Review Panel proposes four high-level themes as an organising framework for the aid program:

- investing in pro-poor, sustainable economic growth and private sector development
- promoting opportunities for all
- supporting social stability, improving the quality of government and strengthening civil society
- preparing for and responding to crises.

Investing in economic growth will help tackle poverty and address the cause, not just the symptoms. Both the type and the rate of economic growth matter for development. Economic growth needs to be sustained. Economic growth should benefit the poor, many of whom work the land and have limited skills. The government and the private sector have critical and complementary roles in generating growth. The Review Panel’s formulation stresses the importance of supporting the private sector as the engine of growth.
Promoting opportunities to participate in economic growth are just as important. Illiteracy, ill-health and discrimination prevent poor people from living full lives and participating in development. Better lives for the poor depend on women being empowered, the rights of the disabled being upheld, the rights of children being protected, and access to education and health services being provided for all.

Without effective and honest government in recipient countries, the impact of aid will be muted. Government policy settings, the quality of public administration and social stability will generally have more impact on economic growth and human development than foreign aid. Governance is not just about government. As in Australia, the strength of civil society will be crucial to higher living standards and quality of life.

Finally, development is not linear. Australians are familiar with the devastating impact of natural disasters: flood, fire, cyclones. The impact of natural disasters is magnified if people are already living in poverty. Supporting disaster victims and helping them rebuild is a simple humanitarian responsibility, but can also be one of the most effective forms of aid.

Of course, no framework can capture all the complexities of poverty reduction. Effective government promotes economic growth and economic growth supports more education, which in turn facilitates growth.

While not denying the importance of these links, there is value to articulating the main strands of development, as attempted here.

The Review Panel expects that this framework would be used across the aid program, in all country programs. This is not to say that all country programs would pursue all four objectives. They should not. But this framework would be used as a common strategic and reporting tool. Chapter 16 discusses how these four themes would fit into, and play a central part in, the three-tier reporting framework proposed for the aid program.

F. SECTORS AND CROSS-CUTTING ISSUES

Beneath the four high-level themes, the Review Panel proposes 13 priority sectors and cross-cutting issues. Gender and the environment have long been recognised as cross-cutting issues. More recently disability has also been included.

But in fact ‘cross-cutting’ is a fairly broad notion. Most sectors cut across some or all of the high-level themes. For example, universal primary education to an adequate standard contributes to: higher rates of economic growth by increasing the availability of skilled labour; increased opportunities for the most marginal in society to escape poverty; better governance through promoting understanding of what to expect from government and how to hold it to account; and capacity to cope with disaster.

The placement of different sectors and cross-cutting issues under different themes is therefore primarily for convenience. The Review Panel acknowledges that any grouping of sectors and cross-cutting issues is somewhat arbitrary. Development is a highly integrated business.

The list of sectors and cross-cutting issues against the four organising themes is shown in Table 8.2.
Table 8.2: Proposed Organising Themes, Sectors and Cross–Cutting Issues

<table>
<thead>
<tr>
<th>Organising Themes</th>
<th>Sectors and Cross–Cutting Issues</th>
</tr>
</thead>
</table>
| **Growth**. Investing in pro–poor, sustainable economic growth and private sector development. | • private sector development  
• rural development and food security  
• infrastructure and urban development  
• water and sanitation  
• climate change and the environment  
• gender equality  
• disability  
• education  
• health |
| **Opportunity**. Promoting opportunities for all. | • law and justice  
• governance  
• civil society  
• humanitarian and emergency assistance |
| **Governance**. Supporting social stability, improved quality of government and stronger civil society. | • |
| **Humanitarian**. Preparing for and responding to crises. | • |

These 13 sectors and cross–cutting themes correspond closely, though not exactly, to the classification used by AusAID.

There are many advantages to being explicit about the sectors and cross–cutting issues the aid program will cover. It provides the basis to decide what technical skills are needed in AusAID, in which areas AusAID will develop in–house ability, where it will contract out, and where other government agencies might fit.

The Review Panel recommends in Chapter 14 that AusAID develop specialist skills streams. This is in addition to retaining and building in–house capacity to engage in the core business of engaging with recipient governments and other partners on program management and development. The Review Panel does not recommend AusAID develop 13 specialist streams. This would clearly be too many. Some sector grouping and differential treatment will be needed. AusAID should also consider working through partners that have pre–existing skills and knowledge in particular areas (other government agencies, NGOs and so on) rather than building in–house capability in all specialised areas.

The next four sections discuss the 13 sectors and issues under the 4 organising themes.

**G. INVESTING IN PRO–POOR, SUSTAINABLE ECONOMIC GROWTH AND PRIVATE SECTOR DEVELOPMENT**

Broad–based economic growth, which increases returns on the assets of the poor (typically unskilled labour), is the most effective and sustainable way to reduce poverty. Economic growth also generates revenues for governments to invest back into services such as roads, law enforcement, schools and health clinics.
Economic growth in the Asia–Pacific region is in the Australian national interest. As the Institute of Chartered Accountants in Australia argued in its submission:

“... projects which enhance economic growth in the region provide a sound base for political stability within Australia’s neighbourhood.”

Private sector development is critical for growth. Aid can make it easier for domestic and foreign businesses to invest by helping governments improve the policy and regulatory environment for business. Reforms in trade and investment, property rights and deregulation can all be important.

Aid can play an important role in strengthening the financial sector, including its regulatory framework, in developing countries. This will both help to promote growth and act as a precaution and protection against financial crises, which can lead to millions of households slipping back into poverty. Aid can also provide support to improve financial access for the rural poor, for example through microfinance.

To reduce poverty, private sector development is particularly important in rural areas. Aid for rural development can help improve the distribution of growth—spreading the benefits beyond key urban centres. This links closely to the goal of food security, which will be a growing challenge over the next decade.

Investment in infrastructure, such as roads, bridges, ports, energy networks and telecommunications, helps reduce costs and improves access to markets and services. Economic infrastructure also helps partner countries make the most of opportunities created by trade liberalisation and economic integration. In many developing countries, urban development is becoming an increasingly pressing need as populations move towards the cities.

Finally, to have an impact, aid needs to be environmentally sustainable. Environmental threats to economic growth are increasingly severe. Climate change is the highest profile and is perhaps the most damaging in the long run. But immediate threats, such as water shortages, soil degradation and air pollution also threaten to derail prosperity. Many of these threats are particularly severe in Asia’s densely–populated countries.

i) Private Sector Development

Any strategy to reduce poverty, promote sustainable development and improve human development must involve a vibrant private sector based on open and well–regulated markets.

As the Business Council of Australia submission points out:

“Open and competitive markets are needed to attract investment, enable businesses to grow and innovate, and to provide the basis for sustained economic development and growth.”

Supporting private sector development has long been a feature of the aid program and has received increased emphasis in recent years. The 2006 White Paper called on the program not only to improve “the policy environment for private sector growth”, but also to strengthen “support for private sector–led rural and business development.” (AusAID 2006: xii)

The private sector needs a sound enabling environment to thrive. Many of AusAID’s governance activities have been designed to create such an environment. They have aimed to promote well
led, impartial institutions that provide the right environment for enterprise development in the private sector.

Private sector development is not reported as a separate expenditure category (since it cuts across so many sectors and themes), but AusAID spends some $600 million on what is defined by the World Trade Organisation as ‘aid for trade’. Much of the assistance to improve the business-enabling environment is funded through the multilateral development banks, but AusAID has also promoted its own initiatives.

Successes include:

- mobile telephony deregulation support in the Pacific
- expanded rural financial services, including through mobile banking and microfinance
- streamlined business regulations
- assistance for successful auctioning of radio frequency and 3G spectrum in Indonesia.

The pilot Asia-Pacific Enterprise Challenge Fund (ECF), which began in 2007 and will run to 2013, matches funds to private companies to share the risk of new, innovative and otherwise unfundable pro-poor projects. A mid-term review of the ECF was done in 2009 and has now been published. While noting room for improvement, the review concluded:

“...overall, it has sufficiently demonstrated the value and potential of a challenge fund instrument as a programming option for AusAID. The ECF has attracted quality propositions, and has levered considerable co-investment commitments from private firms in support of a more pro-poor business focus.” (Elliott et al 2009: 3)

Experience with the Zimbabwe ECF has also been positive. Subject to learning lessons from reviews and modifying designs to incorporate improvements, the Review Panel would support a greater use of challenge funds.

One possible future private sector development priority will be the extractive industries. This is considered in the final section of this chapter as a possible flagship.

There is currently no overall policy framework to guide the aid program’s work on private sector development. The most recent private sector strategy dates from 2000 and focuses narrowly on the business-enabling environment.

Consultations revealed different views about the private sector and the appropriate role of the aid program. A policy statement would help clarify the program’s approach. It could also clarify the distinction between private sector development as a sector (which groups together activities to improve the enabling environment, expand rural finance and so on) and private sector development as a cross-cutting issue.

The Review Panel proposes the aid program formulate a high-level policy statement on its approach to private sector development.

A common theme from the Review Panel’s consultations was that private sector and non-government delivery options did not receive enough attention in the design of health and education activities. Further comment on this is made in Section H of this chapter.
ii) Rural Development and Food Security

Agriculture is a major driver of pro-poor growth in developing countries, most of which have large, poor rural populations. In poor countries, rural development is often the most important form of private sector development.

Despite sustained growth in food production, nearly a billion people worldwide are still hungry, most of them in Asia and Sub-Saharan Africa. Apart from this being inherently unacceptable, it has wider consequences. Hungry workers do not have the time, energy or funds to spend on education and health care. The effects of this on children can be devastating. At least 3.5 million children under five die each year due to poor diets. There are also direct economic implications as hungry workers are less productive.

Food security has gained profile in recent years due to high food prices. These rose in 2007 and 2008, fell with the Global Financial Crisis, but have since started to rise again. There is no doubt the issue is important. As the Study of Australia’s Approach to Aid in Africa commissioned by the Review Panel points out: “agriculture and food security remain at the forefront of priorities of African leaders”.

Working with countries in the Asia-Pacific region to help relieve hunger responds to a basic human need, but is also in Australia’s national interest. Recent years have seen food price spikes lead to riots and political demonstrations in many countries.

Making progress in this area will be challenging. Volatile and high food price causes include: growing populations, changing diets, food being diverted to biofuel production, land and water shortages, environmental degradation, high fuel prices, under-investment in agricultural innovation, and failures in global and national food markets. None of these is easy to address.

Rural development and food security have long been aid priorities. Indeed, these have been some of the biggest aid successes worldwide, including through the Green Revolution, which lifted hundreds of millions from poverty. But rural development projects also often show higher failure rates than other projects and this resulted in a sharp decline in Official Development Assistance (ODA) expenditure on rural development and food security through the 1990s and 2000s.

About seven per cent of the Australian aid program (nearly $300 million in 2009–10) is currently spent on food security. Some is delivered through AusAID, but significant expenditures are provided through research bodies including ACIAR and the Consultative Group on International Agricultural Research (CGIAR).

There have been notable achievements from this spending:

- Australian support to Afghanistan has helped identify and promote better wheat and maize varieties; yields have increased by more than 50 per cent and are expected to increase total production by more than $100 million.
- In Solomon Islands, Australian support trained 1,350 smallholders in cocoa management, which has doubled yields and increased incomes. Similarly, 300 farming households have increased their peanut yields by 400 per cent and incomes by up to $1,840 a hectare (AusAID 2009b).
Agricultural research has been a traditionally strong area for the aid program. Independent evaluations show that ACIAR has performed impressively, but its overall funding remains modest. Increased funding for agricultural research seems warranted given high prices and serious concerns around food security.

Box 8.1: The Australian Centre for International Agricultural Research (ACIAR)

Agricultural productivity is a major development catalyst. It is a way to improve livelihoods for the majority of the world’s poor, 50 per cent of whom are smallholder farmers.

ACIAR is a statutory authority, established under the ACIAR Act 1982, and operates as part of the Australian government’s aid program. ACIAR links extensive Australian agricultural and rural development expertise with developing country partners, targeting agricultural research that addresses problems of mutual interest and need. Institutional and individual capacity building is also a key feature of ACIAR’s assistance.

ACIAR focuses on reducing poverty, improving food security, addressing climate change impacts and managing natural resources. Evaluations show a high return for its investments. A recent meta–analysis of 37 impact assessments covering 90 ACIAR projects found $11.4 billion of benefits to developing countries and $1.2 billion to Australia from a total expenditure of $234 million in 2008 dollar present value terms. (Harding, Jiang and Pearce 2009).

A new area of engagement for Australia has been to design safety nets to reduce the poor’s vulnerability to food price volatility.

Given the large overlap between this sector and private sector development, the Review Panel supports the inclusion of rural development and food security in the proposed new strategy on private sector development.

iii) Infrastructure and Urban Development

Hundreds of millions of poor and vulnerable people in developing countries lack access to modern energy and reliable roads. In some Pacific Island countries, up to 85 per cent of the population has no access to electricity.

Investing in infrastructure promotes economic growth and also helps reduce poverty by providing access to basic services. Infrastructure can also symbolise Australian assistance. The My Thuan bridge in Vietnam, funded by Australia more than 10 years ago, has since yielded a high return. It is widely known through the Mekong as ‘the Australian bridge’. The Government of Vietnam commented in its submission to the Review:

“My Thuan bridge exemplifies the development cooperation between the two countries. My Thuan is the very first bridge crossing the Tien River [Mekong Channel] and has realised the dream of millions of people in the Mekong Delta.
My Thuan bridge has removed the bottleneck in the transportation network, improved living standards of the local people and contributed to the socio-economic development of the Mekong Delta area, which is known to have great potential, but also a number of challenges.”

In late 2010, the Australian government announced it would fund a new bridge in Vietnam at Cao Lanh also designed to link people and markets across the Mekong Delta.

Infrastructure investment has rapidly grown in the aid program over recent years, increasing from under $200 million in 2005–06 to a budgeted $570 million in 2010–11. Some of the expenditure is delivered through bilateral projects, such as in PNG and Indonesia. In other regions, such as the Mekong, the World Bank and Asian Development Bank (ADB) are major partners.

This investment has delivered good results, including more than 2,000 kilometres of priority roads and highways that have been maintained and rehabilitated in PNG. Coffee processors in the highland provinces have been able to establish a new high-value organic coffee trade as a result.

As regards urban development, a growing number of the activities undertaken by the Australian aid program over recent years relate closely to this. These include physical and social infrastructure, waste management, water and sanitation and even housing in some disaster-related contexts. However, not a great deal of thought has been given to how such activities might be packaged together, and the Review Panel considers this might be worth further attention given the increased pressures of urbanisation in the developing world.

In general, the shift towards infrastructure has worked well. The Shadow Minister for Foreign Affairs informed the Review Panel that she supports greater emphasis on infrastructure. The Review Panel notes Australia may be well placed to make an impact in private sector participation, water sector reform, sustainable urban development and road safety campaigns.

iv) Water and Sanitation

Nearly 900 million people do not have access to safe drinking water. About 2.6 billion, or more than a third of the world’s population, have no hygienic toilets.

Water and sanitation are also important for access to education and health. The Water, Sanitation and Hygiene reference group summed this up in their submission:

“...the case for investing in sanitation, hygiene and water is clear. Safe water, sanitation and improved hygiene...are critical to all the MDGs, particularly in achieving universal access to health and education.”

In Indonesia, an innovative approach is being used to extend water supply access. The project finances local water companies (typically owned by local governments) to connect households, but pays them only on verification that the households have been connected. As the Study of Australia’s Approach to Aid in Indonesia (the Indonesia Study) commissioned by the Review notes:

“The cash on delivery ‘HIBAH’ system of water-supply connectivity is proving a significant success, with 33,000 households already connected since May 2010.
The overall HIBAH process (run by the Ministry of Finance, developed with AusAID support) holds out great potential for a nationwide roll-out.”

Improving water and sanitation is not just about infrastructure but also about engaging with communities to change attitudes, promote demand and ensure sustainability of investments.

**v) Climate Change and Environment**

Natural systems in developing countries are under pressure from rapid economic development. Many poor people’s livelihoods depend on natural resources, such as oceans, fresh water, forests and soil.

The environment is a small but growing part of the aid program, increasing from about $50 million in 2005–06 to over $200 million in 2010–11.

Climate change is likely to result in environmental issues having a much higher profile in the program in coming years. Climate change is a real development threat. It could increase the spread of disease, exacerbate food shortages and increase communities’ vulnerability to natural disasters. At its most extreme, climate change could destabilise entire societies (Campbell et al 2007). Some of the developing countries most vulnerable to climate change include the Pacific Islands and some South East Asian countries.

Australia has already started to help countries adapt to climate change. The Government of Vietnam commented positively on this in its submission:

> “Viet Nam is one of the countries suffering a lot from natural disasters and climate change. Support of Australia in this area has helped Viet Nam to enhance its adaptation and response capacity, and address the consequences caused by natural disasters and climate change, mostly in the Mekong Delta, which is affected by sea level rise and climate change.”

Australia has committed to spending almost $600 million to assist developing countries with adaptation and mitigation over the three years from 2010–11 to 2012–13. This represents around two per cent of the global target of US$30 billion for the same three-year ‘Fast Start’ period (this was funding committed to by developed countries in the Copenhagen Accord of December 2009 to support mitigation and adaptation in developing countries). It will be entirely funded from the aid budget, and so will increase climate change spending to about five per cent of Australian ODA.

This increase may be a sign of things to come. At the same Copenhagen Conference, developed countries committed to increase developing country mitigation and adaptation funding to US$100 billion by 2020. These commitments were formalised in the Cancun agreements in December 2010. Whilst the detail is yet to be negotiated, the levels of funding anticipated assume significant private flows through carbon markets. If Australia’s share were to stay at 1.9 per cent, with half funded through private sources, then by 2015, the Australian government’s ODA commitment would be US$0.5 billion and by 2020, US$0.9 billion.

Using aid budgets to finance climate change spending is often opposed by developing countries on the grounds it should be ‘additional’. Australia has argued that, with a growing aid budget, aid funding for climate change is additional.
In any case, the objections raised by developing countries have not stopped donors relying on aid for their climate financing. On the contrary, all public sector climate funding is counted as ODA.

Spending resources on climate change effectively will be, if anything, a bigger challenge than finding the resources in the first place. Supply-driven expenditure that is target-led puts quality at risk. Both mitigation and adaptation are hard tasks. Climate change is also a crowded sector. Several European countries and multilateral organisations see themselves as leaders on the agenda.

For all the difficulties, climate change is on the aid agenda to stay. Australia has committed to the Copenhagen Accord and Cancun agreements. Future aid budgets will be increasingly called on to help solve global problems such as this. Mainstreaming adaptation, and working through partners with specialised expertise in both mitigation and adaptation will be critical to success.

**H. PROMOTING OPPORTUNITIES FOR ALL**

Development is about expanding opportunities.

The idea that there is a trade-off between equity and growth has come under question in recent years. While there might be some tension between these two essential goals and thus the need for trade-offs, there are also many complementarities. As the 2006 World Development Report argued:

> “By ensuring that institutions enforce personal, political and property rights for all, including those currently excluded, countries will be able to draw on much larger pools of investors and innovators, and be much more effective in providing services to all their citizens. Greater equity can, over the long term, underpin faster growth.”
> (World Bank 2006: 17)

Gender equality illustrates this point well. It is an intrinsic good: a basic human right. Research shows that a society with gender equality is also more productive than one without: literate mothers normally have fewer children and raise healthier and better-educated children.

Disability-inclusive development is also about promoting opportunities. Tackling disability is about making development accessible to all. With 10 per cent of the global population disabled, development goals cannot be achieved unless this is done.

Expanding opportunities is also about investing in human capital. Investments in health and education provide the poor with the opportunity to participate in the economy, and find employment and income-generating opportunities.

**i) Gender Equality**

In many developing countries, economic and social indicators are significantly worse for women than for men. Their right to participate equally in development is not being realised, nor is their potential as a major asset to the development of their countries being fully utilised.
Oxfam’s submission summed up the importance of gender equality:

“Gender inequality is arguably the most acute and persistent example of inequality and remains the most fundamental obstacle to the eradication of poverty. Over the past 20 years, no single indicator has had a greater impact on overall development than gender equality. Put simply, gender equality helps to reduce poverty and promote economic growth."

The Review Panel recommends that gender equality be a central priority for the Australian aid program.

Serious gender disparities remain in many of Australia’s partner countries.

Pacific Island countries have some of the highest gender disparities in the world in terms of social, economic and political disadvantage. Women hold an average of 2.5 per cent of seats in national parliaments in the Pacific Island region. In South East Asia, the figure is 17 per cent, and in Australia 28 per cent. In PNG there is only one female Member of Parliament.

Violence against women is a problem in many countries. It is particularly acute in some Pacific Island countries, where up to two in three women have experienced physical or sexual violence.

Educating girls is critical for gender equality and it is an area where the aid program has had considerable success. In Indonesia, for example, the Basic Education Program works with school communities on local strategies to ensure there is equal access to education for girls and boys. These strategies include:

- separate toilet facilities for boys and girls
- ensuring all students take part in school activities like sport and leadership groups, regardless of their gender
- designing and developing training on gender in education for teachers, principals and school committees
- working with school principals, teachers and parents and the local community to promote gender equality
- working with district education offices to improve education data related to gender, vital to local development planning.

Some 170,000 girls in Indonesia now go to schools built by the Australian aid program.

Gender is an issue not only for the social sectors but also across the aid program. Australian aid projects aim, with various degrees of success, to promote gender equality and opportunities for women in areas as diverse as governance and rural development. For example, gender has been a major theme in the PNG law and justice program. As a result, there has been an increase in female village court magistrates in PNG from 10 in 2004 to 384 in 2009.

This shows that headway can be made, but there is a long way to go.

Much of the program’s work on gender is done by key partners, including Australia’s NGOs, which prioritise the issue.

The 2006 White Paper raised the profile of gender in the aid program by elevating it to a cross-cutting issue to be addressed across the program. The Review Panel endorses this approach of setting gender as a cross-cutting theme rather than a sector.
While the priority given to gender has increased, there can be no doubt the aid program faces many challenges for this work to be more effective. In particular, some partner governments may see gender equality as an Australian agenda, not one they support. It is important that the aid program is not put off by this. Australia should be a firm and persistent advocate and it should consistently send signals on how important gender equality is. This includes supporting practical activities that advance gender equality with committed partners.

ii) Disability
People with disabilities are among the poorest and most marginal in all of Australia’s major partner countries.

The ADB estimates that one-quarter of people in the Asia–Pacific are affected by disability (ADB 2002). The submission from Dr Julie King and Ms Jenni Mays highlighted that the impacts are widely felt:

“...the disability of a person in a developing country is often experienced by the extended family group and the community.”

Very few donors are focused on disability. Australia is now seen as a global leader on the issue following recent work, including the 2008 release of Development for All: A Disability Strategy for the Australian Aid Program 2009–14. This strategy will see the aid program spend $30 million over the next four years to improve the quality of life of people with disability and increase their access to social and economic opportunities.

As the public submission by Christian Blind Mission Australia and the Christian BM–Nossal Institute Partnership for Disability Inclusive Development noted:

“Disability–inclusive development is a clear area of comparative advantage for the Australian aid program. It is important that we maintain and build on our leadership as a means by which Australia can play a particularly unique and specialised role.”

iii) Education
Education is central to reducing poverty. Mass education helps drive economic growth and provides poor people with the opportunity to participate in it. Education develops leaders and helps build links between people and countries that can underpin peace and prosperity.

There has been major progress worldwide in getting children into school. Even in areas where per capita income has stagnated, such as Sub-Saharan Africa, literacy rates have steadily increased. Between 1999 and 2007 alone, the number of primary school–aged children not in school dropped from 103 million to 72 million.

But the remaining unschooled are increasingly hard to reach. Enrolment is only the first step. Many children leave school without the basic skills and knowledge needed to be productive members of society. Few developing countries are happy with the tertiary education standard their universities offer.
Good education investments can help address national interest concerns. For example, improving the quality of Islamic education in Indonesia and the Philippines can help reduce the risk of breeding extremism.

Education is one of the main spending areas for the aid program. AusAID will spend around $750 million on education in 2010–11, up from about $250 million in 2005–06. Some 57 per cent is spent on basic education and eight per cent on technical and vocational training. Most education assistance is delivered through country programs.

Australian education assistance has achieved notable success, especially in Indonesia and also in PNG, where enrolment rates, having stagnated at low levels, have recently risen.

Scholarships have been an important element of Australia’s aid program since the Colombo Plan in the 1950s. AusAID provides long and short–term scholarships. It also offers fellowships, including professional training and work attachment opportunities.

Scholarship spending has grown over recent years and now makes up 33 per cent of all education spending. The number of long and short–term scholars in Australia at any one time will increase from between 2,500 and 3,000 in 2010 to over 6,000 by 2014. Large programs have been announced in recent years for Pakistan, Iraq and Africa. For example, the government has announced rapid scale up in short and long–term scholarships for Africa to reach 1,000 by 2013 (not all in Australia).

Australia provides high–quality education and this is an asset that should be deployed in overseas development. A scholarship program can raise Australia’s profile and enhance people–to–people links. By building skills and knowledge in the partner country, it can foster development, not only by improving people’s skills in government, but also in professions, civil society and technical specialist areas.

Evidence on the impact of scholarships is largely anecdotal, but a recent survey found that almost one in five returned scholars to Indonesia have been appointed to senior positions in government, academia and the private sector (AusAID 2010a: 142). Former recipients of scholarships provided by AusAID include the Indonesian Vice–President and the Indonesian Minister for Foreign Affairs.

The expansion of the scholarship program has not been without its difficulties. Rapid expansion has made it harder to ensure the highest quality standards are met. The Review Panel was told that following a 2005 commitment for 400 scholarships to Pakistan, the program struggled to find suitable candidates.

Scholarship programs spread over a large number of countries can be resource–intensive. To the maximum extent possible, Australian scholarships should be bundled and targeted geographically.

The provision of scholarships to particular government departments can make sense, especially if linked to other objectives in the aid program, such as capacity building for improved governance. The program should also, however, be proactive in finding the best candidates, rather than simply respond to government requests. It should be prepared to seek candidates outside government circles, including in the civil society and the private sector. The Australian scholarship program should also continue to include a range of offerings from long–term
academic scholarships through to short-term courses, so that it can be tailored to the aptitudes and needs of the recipient.

There have been some positive developments in the management of scholarships in recent years, including attempts to reach out beyond government departments to find the best candidates, for example, through the Australian Leadership Awards. However, scholarships are also an area of the aid program that are particularly prone to be used as an ad hoc foreign policy gesture, where announcements are made prior to detailed planning. This is a source of some of the problems described above.

The scholarship program can be a good one if it has planning and structure and is seen as an integrated part of Australia's broader aid strategy, but not if it is a separate program, off to the side, which grows in a disorganised fashion.

The Review Panel understands that the Australian National Audit Office (ANAO) will complete its detailed scholarship program report by mid-2011. The government should consider the program carefully in the light of the report.

Overall, the Review Panel would favour a significant scholarship program continuing, but within rigorously applied guidelines. Given Australia's strength in international education, scholarships could be a flagship if the potential of the program is realised.

**iv) Health**

Poor health is a major cause of poverty. Healthy people are more likely to develop skills and actively participate in society and the economy.

Health is another major focus of the Australian aid program. In 2010–11, health represented 14 per cent of total aid, or some $550 million, up from about $250 million in 2005–06. Country programs account for 70 per cent of total health expenditure. International health investments (24 per cent of health expenditure) are made through the Global Fund to Fight AIDS, Malaria and Tuberculosis; the GAVI Alliance and International Financing Facility for Immunisation; and UN agencies including the World Health Organisation.

Many developing countries have extremely poor health outcomes. The chances of dying in childhood or while giving birth are at levels many Australians would find incomprehensible. Average life expectancy in Australia is 81 years. But in in PNG and East Timor it is 61. The risk of a mother dying in childbirth is six per 100,000 in Australia, 240 per 100,000 in Indonesia and over 700 per 100,000 in PNG.

Traditional diseases such as malaria are still prevalent and debilitating in PNG, East Timor, Solomon Islands and much of Asia. Non-communicable diseases are growing and now account for 78 per cent of all deaths in the Pacific.

While there is a long way to go, health is a sector where aid can claim some success.

Life expectancy has risen, even in countries that have not been able to sustain economic growth. Over the past 20 years, the number of children who died before turning five dropped from 91 to 31 per 1,000 live births in Indonesia, from 251 to 61 in Bangladesh, from 94 to 65 in PNG and from 121 to 70 in Solomon Islands.
Medical research and mass vaccination drives have resulted in some diseases, such as smallpox, being eliminated and others reduced.

The 2006 White Paper announced a new initiative to eliminate malaria from the Pacific. This has been very successful and has helped reduce new malaria cases in Solomon Islands from 199 to 82 per 1,000 between 2003 and 2008.

Recently, the GAVI Alliance estimated it had been able to fund the immunisation of some 280 million children over the past decade, preventing five million deaths. According to the Copenhagen Consensus Centre, vaccination and food supplements are estimated to be the most cost–effective of all development interventions (Lomborg 2004).

That said, the health sector is probably the most fragmented and crowded of all aid sectors. Many countries in the region do not have the essential elements for a functioning health system, such as enough well–trained and supervised health workers, adequate infrastructure and information systems, sufficient financing, and strong leadership. Disease–specific funds can help address specific health problems, but sometimes also distort priorities and neglect the task of strengthening the overall health system.

Health has been the fastest growing aid sector across the globe since 1990 (about eight per cent growth annually). Within that, support for HIV/AIDS programs has seen even more rapid growth, about 13 per cent on average before 2000 and almost 30 per cent growth each year since (Over 2010). Donors now provide life–sustaining drugs to HIV/AIDS sufferers, but it is unclear whether they will be willing to sustain that commitment, let alone expand it (a majority still receive no treatment).

Perhaps the most positive development from aid for health has been breakthroughs in medical research. Most drug companies focus their research on diseases of the rich, but aid funding can be and has been effectively used to provide companies with incentive to do research into the diseases of the poor.

This is not an area Australia has actively engaged in. In its submission to the Review, the Medicines for Malaria venture calls on Australia “to support clinical trials of new health products for the developing world”. The venture advocates that these be done in a low–risk way through product development partnerships. They say such an arrangement would:

“...leverage Australia’s scientific and medical expertise and deliver demonstrable impact for Australian taxpayers without requiring significant new administrative and bureaucratic structures.”

The Review Panel is not in a position to judge the specific proposal’s merits, but recommends the government consider it as part of the proposed research flagship discussed at the end of this chapter.

The Red Cross in its submission to the Review recommended that support for securing reliable and safe blood supply in developing countries would yield high returns at little cost. Again, the Review Panel recommends the government give serious consideration to this proposal.

Sexual health and family planning, empowering women to control the number and spacing of their children, should be an important priority.
In both health and education, the aid program could do more to work with NGOs and possibly the private sector. The Review Panel was impressed by what had been achieved in health in Afghanistan by bringing in and working through NGOs. This could be replicated in other countries.

The PNG—Australia Development Cooperation Treaty Review noted that, even though churches provided about half of PNG’s health and education services, “the aid program seems to have had little direct interaction with the churches as service providers” (Independent Review Team 2010: 43). In July 2010, the Australian and PNG governments announced $50 million over five years (2010–15) to expand support for churches to deliver education and health services to PNG communities. This positive initiative should be watched with great interest.

I SUPPORTING SOCIAL STABILITY, IMPROVING QUALITY OF GOVERNMENT, AND STRENGTHENING CIVIL SOCIETY

Growth is about much more than having the right policies in place. As Harvard economist Dani Rodrik writes:

“Institutions that provide dependable property rights, manage conflict, maintain law and order and align economic incentives with social costs and benefits are the foundation of long–term growth.” (2003: 10)

Perhaps the most important institutions are those that prevent conflict and uphold law and order, thereby contributing to social stability. As AusAID has argued:

“Sustainable, broad–based growth is impossible in countries which cannot guarantee public safety. And security is not merely a problem for business. In violent or insecure environments, inevitably the poor pay the highest price.” (AusAID 2005: 1)

It is important to clarify that by highlighting social stability as a priority for the aid program, the Review Panel is not in any way suggesting that it should be pursued as a development priority at the expense of democracy, civil liberty and the quality of society. To the contrary, these are all principles that the aid program should uphold.

Quality of government, whether measured by transparency, accountability or effectiveness, is critical to development prospects. Improved public expenditure and financial management may, by unblocking expenditure constraints, do more to improve health and education outcomes than direct interventions.

Governance should not be equated with government. The quality of civil society is also critical. Governments are more likely to respond to changes in internal incentives than external ones. If there is inadequate demand for good governance, efforts to improve governance are unlikely to have impact.

Aid that successfully strengthens institutions, whether government or non–government, is the best aid possible. But results have often been disappointing.
Technical assistance\textsuperscript{11} is not provided only for governance, but governance is the sector that uses such assistance most intensively. About one quarter of all aid from Organisation for Economic Cooperation and Development (OECD) donors, and more from Australia, is provided as technical assistance, but the results are not proportionate. Worldwide, corruption remains an endemic problem despite a concerted aid-funded anti-corruption effort. Billions of dollars of capacity-building projects have yielded few tangible results.

Development economist Paul Collier (2007) is right to say that efforts to improve institutions have to take risks, and that not all governance efforts, perhaps only a minority, should be expected to succeed. But, as he argues, these efforts must be more politically-attuned and responsive to reform opportunities. Efforts should increase when opportunities for such reform exist (even if success is not guaranteed) and reduce where there are none.

This conclusion applies not only to governance, but also to the use of technical assistance more generally. The question is not whether technical assistance is useful in general. It is whether, in any particular situation, the constraint is a lack of skills (which technical assistance can remedy) or of political will (which technical assistance cannot). Technical assistance is discussed further in Chapter 14.

\textbf{i) Law and Justice}

A 2002 AusAID report notes:

“Since 1980, almost half of the world’s least developed countries have suffered a major conflict. Over 90 per cent of wars now take place within states rather than between them. During the 1990s alone, wars claimed over five million lives. The toll in terms of human suffering, economic dislocation and wasted development opportunities has been enormous”. (AusAID 2005: 1)

More recently, the World Bank’s 2011 World Development Report focuses on the impact of conflict and fragility on development. Box 8.3 highlights some of the report’s main findings.

\textsuperscript{11} The actual DAC reference is ‘technical cooperation’, but the Review Panel uses the more common term technical assistance. It includes funding of advisers, but also training and scholarships.
Box 8.3: 2011 World Development Report

The World Bank's flagship publication is its annual World Development Report. The 2011 report, *Conflict, Security and Development*, carries the central message that strengthening institutions and governance to provide citizen security, justice and jobs is crucial to break the cycles of violence that characterise fragile and conflict–affected regions.

Some important messages from the Report include the following:

- there are fundamental differences between fragile and violent situations and stable developing countries
- the economic impact of violence spills over borders
- violence impacts globally and impacts on MDG achievement
- improved institutional reform is a generational process
- great gains are made when security is returned
- confidence in the state needs to be returned after conflict.

Collier sums up what he describes as the “conflict trap” this way:

“Wars and coups keep low–income countries from growing and hence keep them dependent upon exports of primary commodities. Because they stay poor, stagnant and dependent upon primary commodities, they are prone to war and coups. War and coups feed on themselves in other ways that make history repeat itself.”

(2007: 37)

Collier goes on to argue that poor countries find it difficult to break out of a conflict trap on their own. External intervention may be needed. Aid itself is inadequate either to forestall widespread conflict, or to bring it to an end. But it can be a critical part of a broader package of interventions.

Overall, with the exception of strategic conflicts like Afghanistan, donors tend to under–invest in efforts to end violence and promote the rule of law.

The European External Action Service\(^\text{12}\) told the Review Panel that security is the biggest challenge for Africa, that it is not getting better and is totally underfunded. The European Union (EU) is providing the African Union with €1 billion for capacity building and security.

Australia has traditionally given more emphasis to peace keeping and law and justice than most donors, driven by geographic circumstances.

Australia has a proud history of responding to conflict and contributing to peace building in East Timor, Solomon Islands and Bougainville. This has involved government agencies, including AusAID, the Australian Defence Force (ADF) and the AFP. The peace and development effort in Afghanistan can be seen through the same lens of trying to take a country out of a cycle of conflict.

\(^{12}\) Roger Moore, Director, Horn, East & Southern Africa in the European External Action Service
Australia has invested heavily in police training and in the justice sector, but with more mixed results. Often the problems that beset these sectors are political and technical interventions do little to address them, as this assessment from Cambodia confirms:

“Despite AusAID’s 10-year involvement in the highly complex law and justice sector, progress in reforms is slow and has been hampered by a lack of political will, particularly with respect to judicial independence and perceptions of impunity.” (AusAID 2009c: 8)

The message is clear. Plans to reform and build capacity need careful assessment, but there is no higher return from the aid dollar than from successful contributions to restore social stability.

**ii) Governance**

The quest for good governance, where institutions are responsive, legitimate, accountable and provide for the public good, is one of the fundamental development challenges. Poor governance undermines security and development. Institutions hold the potential to either facilitate or obstruct core development objectives, including economic growth, poverty reduction and security.

Poor governance is a significant problem in many developing countries. Many countries in South East Asia and the Pacific score poorly on corruption indexes.

**Figure 8.2: Perceptions of Corruption Index and Per Capita Income in Asia-Pacific (a high score indicates perceptions of low corruption)**

![Figure 8.2: Perceptions of Corruption Index and Per Capita Income in Asia-Pacific](image)

Governance received more funding in the Australian aid program than any other sector over the past decade.

Spending on governance doubled in the first half of the last decade, particularly driven by large increases in Solomon Islands and East Timor (following conflict), and Indonesia (following the Asian financial crisis). Since 2005, it has begun to fall as a proportion of the program. Today, at about $850 million, it is still the biggest sector (ahead of education at about $750 million).

Governance is also where other government departments are most heavily involved. Around one quarter of governance spending is through departments such as the Treasury, Finance and Deregulation, and the AFP.

Governance interventions can work well if they directly support initiatives to which partner governments are strongly committed. As the Indonesia Study sets out:

“The Indonesian government is particularly praising of some of the technical assistance in this area [of economic governance]... In a period of only a year, the number of taxpayers in Indonesia increased by 36 per cent to 14.6 million with support from Australia. The percentage of tax revenue to GDP has been steadily increasing over the period of tax assistance...Arguably some of the AusAID–supported activities in economic governance are the most influential and effective of the whole aid program.”

Where there is no political will, governance interventions have had limited success. As Micah Challenge noted in its submission to the Review, efforts to improve governance “need to be well targeted and have historically often been poorly directed”.

Recently, AusAID has come to stress the importance of political governance and leadership:

“AusAID is deepening its understanding of governance beyond just government and formal institutions to the importance of leadership, political dynamics, and informal institutions.” (AusAID 2011)

Good leadership is certainly critical to successful development outcomes. As Dr Simon Longstaff at the St James Ethics Centre noted in his submission:

“...the development of ethical (principled and practically effective) leadership is essential to the task of creating sustainable communities within which human beings can flourish.”

A recent external review of Australia’s support for political governance (AusAID 2010c) noted the growing importance of this area and recommended that support be “carefully identified and delivered”. The Review Panel endorses this conclusion.

**iii) Civil Society**

The Review Panel supports the nurturing of civil society in recipient countries as a goal of Australia’s aid program.

A robust, dynamic, well-functioning and influential civil society is needed for sustainable development. Traditional social organisations are strong in developing countries and play critical risk-management and safety-net roles among others. This is worth supporting as a development
asset in its own right. Support for civil society is not just about utilising NGOs as partners in the delivery of Australian aid, though that is one important facet of the matter.

One challenge for civil society in developing countries is to influence government as it becomes more important as a service provider.

There is potential for impact here, but also uncertainty. There is evidence that community groups can hold government to account for specific services. But there is little evidence that donor–backed broader efforts to, for example, reduce corruption have much influence.

Not surprisingly, support for greater engagement with civil society received strong support from Australia’s NGOs who are clearly well placed to develop partnerships in this area. The ACFID submission argued:

“The Australian government’s current approach is weaker for not systematically incorporating civil society as an essential part of effective and sustainable development.”

Clearly Australian NGOs can play a particularly well informed and useful role with the Australian government in devising the best strategies for supporting civil society in developing countries.

The 2006 White Paper recommended a new initiative to support demand for better governance. In December 2007, AusAID released a paper on Approaches to Building Demand for Better Governance, which noted that “building demand for better governance is a priority for Australia’s aid program” (2007a: 1). It listed a range of ways to achieve this, from support for media to working directly with communities.

As noted in the discussion under health, the Review Panel agrees NGOs and other civil society groups need to be used more as service providers. On the more ambitious goal of using civil society to increase demand for good governance, the Review Panel believes that a judgement on this will need to be based on evaluation of recent initiatives.

The Review Panel recommends a policy statement on the aid program’s role in relation to civil society. This would provide useful overall guidance to the aid program on how it can engage better with civil society in Australia and overseas, in policy and implementation.

J. PREPARING FOR AND RESPONDING TO CRISES:
HUMANITARIAN AND EMERGENCY ASSISTANCE

Disasters and crises, whatever their origin, take lives, inflict human suffering and erode hard–won development gains. Many developing countries cannot provide basic protection and services, especially for the poor. As a recent AusAID report notes:

“Disasters disproportionately affect the poor. Over 95 per cent of people killed by natural disasters are from developing countries. The poorest people in developing countries are the most vulnerable to disaster impacts and have the least capacity to reduce their risk exposure. They are more likely to reside in marginal, hazard–prone locations, live and work in substandard buildings that cannot withstand stress, have limited livelihood options and food security, and poor access to social protection mechanisms.” (2009d: 8)
The Asia–Pacific region is the world’s most natural disaster–prone region. Between 2000 and 2008, 40 per cent of registered disasters occurred in the region. It also accounted for a third of the world’s ongoing conflicts in 2008.

As the 2010 World Development Report notes, disasters are becoming more frequent and more reported. As the world becomes more connected, humanitarian assistance is becoming normalised as a regular part of the aid program.

**Figure 8.3: Occurrence of Natural Disasters**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Disasters</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>0</td>
</tr>
<tr>
<td>1980</td>
<td>50</td>
</tr>
<tr>
<td>1985</td>
<td>100</td>
</tr>
<tr>
<td>1990</td>
<td>150</td>
</tr>
<tr>
<td>1995</td>
<td>200</td>
</tr>
<tr>
<td>2000</td>
<td>250</td>
</tr>
<tr>
<td>2005</td>
<td>300</td>
</tr>
</tbody>
</table>

Source: AusAID (2009d), based on figures from UNISDR and Centre for Research on the Epidemiology of Disasters

Both disasters and the need for humanitarian assistance are likely to grow in the future. As RedR noted in its submission to the Review:

“By most assessments, population growth, especially in zones of high vulnerability, coupled with more frequent extreme weather events associated with climate change, will lead to increased calls for international humanitarian assistance in the years ahead.”

### i) Relief and Response

Humanitarian assistance is a relatively effective form of aid spending. Roger Ridell, in his authoritative book *Does Aid Really Work?* writes that humanitarian aid:

“...undoubtedly ‘works’. Each year, on average, tens of thousands, and in exceptional years hundreds of thousands, directly affected by disasters and emergencies have had their lives saved by the actions of humanitarian agencies.” (2007: 336)
An annual review of humanitarian assistance evaluations concludes that “humanitarian action is a resounding success” and “perhaps one of the main successes of the aid world” (ALNAP 2004: 30).

Peter McCawley and Sisara Jayasuriya’s detailed study, *The Asian Tsunami: Aid and Reconstruction After a Disaster*, confirms this conclusion. The authors have many suggestions for improvement and lessons learnt (relating to the need for greater coordination), but overall their conclusion is positive:

“The 2004 Asian tsunami was the greatest natural disaster in recent times. It posed challenges that were unprecedented in scale and scope for both national agencies and the international community. The delivery of a large aid program of approximately US$17 billion of tsunami assistance in total across various countries by thousands of agencies was an extraordinary effort. Many lives were saved. Much long-term assistance was delivered. One clear conclusion, therefore, is that the major assistance program was highly successful in achieving the goal of providing widespread help.” (2010: 253)

Humanitarian crises can be caused by conflict and poor governance as well as by natural disasters. A substantial amount of Australia’s humanitarian funding goes to support vulnerable populations affected by protracted crises in such diverse countries as Burma, Zimbabwe and the Democratic Republic of Congo. Success in relation to these situations is harder to establish and measure. But the humanitarian imperative makes it vital that the international community respond generously and that Australia shoulder its fair share of the burden.

The share of aid used to respond to disasters and emergencies is increasing. Globally, aid for humanitarian assistance expanded four-fold in absolute terms since the early 1980s, and rose 50 per cent in the past 12 years (Riddell 2007). However, the amount of humanitarian and emergency assistance provided by the Australian government has remained more or less steady over the past five years, at around $400 million.

Worldwide, there are still enormous funding shortages, which hamper effective disaster responses in developing countries.

While the Review Panel is reluctant to recommend sector targets or increases, it makes an exception for humanitarian and emergency assistance. This is not only because of the above arguments on need and effectiveness, but also because humanitarian assistance does not need to be programmed at the country level. It can be expanded without leading to fragmentation. This is one of its strengths.

The Review Panel recommends a major increase in funding for humanitarian and emergency assistance. This increase would be both in absolute amounts, and as a share of the aid program.

The Australian public give generously to Australian and international appeals for humanitarian assistance. Greater spending on humanitarian assistance would also have strong public support (it is the assistance most identified with any aid program) and would be consistent with Australia’s national character. Australia is a wealthy, resilient and disaster–experienced country. It has the resources, systems and people to assist partners better prepare for and respond to disasters.
Australia already has an international reputation for quick and effective emergency response. In the 24 hours following the 30 September 2009 earthquake in Padang, AusAID deployed a seven-person whole-of-government team to the disaster zone, and released 1,250 family kits and 50 tents from pre-positioned stores in Jakarta. It also deployed Australian government rescue and medical relief teams from Australia. ADF and Department of Foreign Affairs and Trade teams also worked in this very effective whole-of-government Australian response.

But Australia can do better.

DARA, an independent organisation, ranks the effectiveness of all humanitarian donors. In 2010, Australia was rated 13th out of 20 donors (DARA 2010). The main DARA recommendations were: strengthening reporting and accountability, providing more support for crises that receive little publicity and where vulnerability levels are high, increasing funding flexibility, and providing more support to NGOs.

The Review Panel is unable to verify the accuracy of this ranking, but simply notes that it suggests that, however good Australia is at humanitarian and emergency assistance, there is room for improvement.

**ii) United Nations and NGOs**

The issue of how much support should be given directly to NGOs to respond to disasters was raised in submissions. CARE recommended:

“…that AusAID reconsider the balance of emergency funding through NGOs and through the UN and provide more funds quickly to NGOs to enable fast responses.”

This is a complex issue. While the majority of AusAID’s emergency funding went to the UN (about 60 per cent in recent years), a significant amount also went to Australian NGOs (about 20 per cent).

Australia supports the UN system for a number of important reasons. It is vital for the success of most humanitarian responses. The UN typically has critical roles, which often only it can perform in major emergencies, including negotiating access, assessing security, and often providing transport and communications. There is a UN reform process under way to improve humanitarian response, which Australia is supporting.

The UN typically passes on the emergency funding that it receives to NGOs to provide assistance on the ground. And often Australian NGOs are not active in particular disaster areas. So the choice is often between whether Australia should finance international NGOs through their Australian arm or through the UN. The argument for the former is that the funds might move more quickly; the argument for the latter is that it is important to support the UN and, more broadly, to support a coordinated response.

The Review Panel accepts that a balanced and diversified approach is appropriate, one in which Australia’s role and the choice of delivery channel will vary greatly from region to region.

Consistent with arguments later in this Report, the Review Panel supports working with the multilateral system to improve it, rather than bypassing it altogether. At the same time, it has to be accepted that the UN system has been too slow to respond at times, most recently and notably in relation to the Pakistan floods.
Since Australia is using both of the funding routes described above, the Review Panel recommends that a comparative evaluation be undertaken over the next year or so, to determine whether any rebalancing in relative funding to NGOs and the UN is warranted.

iii) Australian Civilian Corps

One recent major initiative has been the creation of the Australian Civilian Corps, so Australian civilians can be rapidly deployed into overseas disaster or conflict-affected countries. This concept came from the Australian government’s 2020 Summit in April 2008, was announced in October 2009 and was recently given legislative backing. The aim is to have a register of up to 500 Australian specialists who can be deployed at short notice.

The corps will have 150 specialists registered by June 2011 and plans to start deploying in 2011. The corps is an important innovation in Australia’s aid architecture. The Review Panel supports the proposed evaluation for the corps once there is a track record, and recommends that it be independent and public.

iv) Disaster Risk Reduction

The aid program has recently given more attention to disaster risk reduction programs. The program invested about $60 million in 2009–10 in disaster risk reduction in more than 30 partner countries in Africa, Asia and the Pacific. The activities aim to reduce vulnerability and improve communities’ and countries’ resilience to disasters.

In 2009, AusAID launched its disaster risk reduction policy. The policy commits to integrating risk reduction across the program, supporting partner countries to reduce disaster risk, supporting advocacy and leadership efforts, and coordinating disaster risk reduction and climate change adaptation.

The aid program has also developed strong partnerships with key multilateral organisations that support regional and national efforts to reduce disaster risk. Australia is currently co-chair, with the World Bank, of the Global Facility for Disaster Reduction and Recovery. This has given Australia international profile and an ability to influence the global disaster risk reduction agenda.

The Review Panel’s visit to Indonesia provided an opportunity to see a good example of effective risk reduction work, namely the results of a ‘Build Back Better’ campaign, launched by the AusAID–funded Australia–Indonesia Facility for Disaster Reduction following the 2009 Padang earthquake. The campaign recognises that there are opportunities to use the recovery and reconstruction phase after disasters to address what causes disasters and to build back better than before.

Australia is a strong advocate of this approach, ensuring its support for disaster recovery builds affected communities’ resilience to future natural hazards. The campaign in Padang used radio, television, billboards and training to educate communities and workers on how to implement simple design and quality changes to ensure they rebuild more earthquake-resilient houses.

There will always be inherent limits to the extent to which disaster impacts can be reduced. But practical, evidence-based disaster risk reduction interventions have a high return.
K. FLAGSHIPS: POTENTIAL AREAS FOR AUSTRALIAN LEADERSHIP

This section examines particular initiatives that could be pursued as flagships: that is, areas where Australia would aim to be a significant and high-quality contributor and receive recognition for its efforts.

There is advantage to the Australian aid program having a small number of flagships. It will build international and domestic support for the program and heighten the impact of Australia’s aid. But there should not be too many or the concept will be diluted.

Importantly, flagships are bilateral in nature. They cannot be contracted out.

Flagships are different from initiatives. The Review Panel received many good suggestions through submissions and meetings, indeed too many to respond to every one. Some of the more important ones have been mentioned in previous sections and many are ideas the aid program should pursue, or at least consider. But only a subset could be considered important enough to be flagships.

Flagships can, in theory, be defined at any level but the concept will be more meaningful if applied at the sub-sectoral level. A country or regional program could also be a flagship.

Flagships are not linked to dollars. Excellence is more important than scale.

The following five criteria are suggested to identify flagships:

• Australia’s comparative advantage. Australia, and AusAID, are well placed to add real value in areas where they have expertise and ability. This could apply, for example, to legislation and regulation in the mining sector, or agriculture.

• Neglected need. Disability fits into this category. The 500 million disabled people living in developing countries have received little support from the international community or, in many cases, their own government.

• Tipping points. There may be issues on which a substantial Australian contribution can, as part of a wider international effort, resolve a development challenge. For example, vaccination programs have been able to defeat the spread of disease in many cases, such as eradicating polio in the Western Pacific Region.

• Prospects for success. If something is going to be a flagship, there have to be strong prospects for success.

• Other Australian interests. The fundamental objective of all Australian aid should be to reduce poverty. Other Australian national interests can be a legitimate consideration in focusing the effort on particular activities or on particular countries and regions.

It is for the government to decide on areas where Australia could exercise leadership, but the Review Panel suggests a number of possible areas for Australian leadership.
i) The Asia–Pacific region

Many other donors are leaving the Asia–Pacific region to focus more on Africa and strategically–important regions, such as Afghanistan and Pakistan.

The Review Panel recommends Australia expand its aid to the Asia–Pacific region, especially to Indonesia and other East Asian countries. If this recommendation is followed, then Australia will become a lead donor in the region. Other important donors will include Japan and increasingly China, but Australia will certainly have a significant role to play. It would be consistent with emerging trends, and with the strong geographic focus of this Report, for Australia to choose a regional flagship. The Asia–Pacific region would be the natural choice.

ii) Disability

Australia is already regarded as a world leader on integrating disability into aid. For this reason, and because of the intrinsic need, disability should be a flagship.

iii) Extractive Industries

There is strong demand from African leaders for Australian assistance to regulate their booming mineral sectors. Australia has a lot of experience in developing and applying legislative, regulatory, social and environmental frameworks in the mining sector. This could be tapped in many ways, including through multilateral institutions and other donors, but could also help build links with the business community. It could raise conflict of interest issues, which would need to be carefully managed.

iv) Eliminating Malaria from the Pacific

This is an existing initiative, arising from the 2006 White Paper, that appears to have been very successful. AusAID reports a large decline in malaria cases from Solomon Islands and a spectacular decline in Vanuatu: from 74 cases for every 1,000 people in 2003, to 15 cases in 2009. But the task is not over. It would be a great achievement to be able to credit the Australian aid program with eliminating malaria from the Pacific.

v) Fragile States

Promoting stability and development in fragile states is something the aid program is known for. These are difficult places to work, but probably no one does a better job at it than Australia. Australian efforts to promote stability, including contributions from the AFP and ADF in places like Solomon Islands and East Timor, are seen as international best practice.

vi) Research

Development demands innovation. Australia has a long and proud tradition of research, including research that benefits poorer countries.

One area of excellence has been in agricultural research, where ACIAR has a strong record of achievement stretching back over several decades.
Another research area of strength has been in health. As a recent Nossal Institute for Global Health policy brief noted: “Australians have contributed significantly to progress in global immunisation through scientific breakthroughs and leadership in global health programming.” (Ruff et al. 2011)

A research flagship would extend beyond support for Australian centres of excellence to important regional and international research centres.

**vii) Humanitarian and Emergency Assistance**

Australia responds quickly and generously to international assistance requests, and works closely with regional and international partners to ensure timely responses and coordinated effort. The aid program is well placed to draw on and share Australia’s domestic expertise in preparing for and responding to natural disasters and humanitarian crises.

| Recommendation 7: The aid program should be driven by country programs, rather than by predetermined sectoral targets. |
| Recommendation 8: Sectoral selectivity should be increased at the country level. Sectoral spread in country programs should be low, outside of Indonesia, East Timor, PNG and the Pacific Island region. |
| Recommendation 9: An organising framework should be adopted to enhance the aid program’s strategic clarity and facilitate communication of results. This should be built around the following four themes: |
| - investing in pro–poor, sustainable economic growth and private sector development |
| - promoting opportunities for all |
| - supporting social stability, improving the quality of government, and strengthening civil society |
| - preparing for and responding to crises. |
| Recommendation 10: The aid program should increase its emphasis on private sector development and strengthening civil society. Policy statements in relation to each should be developed. |
| Recommendation 11: Promoting gender equality should be a critical cross–cutting objective for the aid program. Australia should be a firm and persistent advocate and practical supporter of gender equality, especially in the Pacific. |
| Recommendation 12: Humanitarian and emergency assistance should be increased as a share of the program. |
| Recommendation 13: A small number of flagships should be identified where Australia should exercise leadership and be recognised for its efforts. |
Chapter 9: MODES OF DELIVERY: PARTNERSHIP PRINCIPLES

A. INTRODUCTION

The Report now moves from where Australia should focus its aid (geography) and what it should focus its aid upon (sectors), to how it should deliver aid.

Chapters 9, 10 and 11 look at the different ways Australian aid has been delivered over the past five years, in particular at the types of partnerships through which Australia delivers its aid, and consider the best means of delivery for the much expanded aid program of the future.

B. CHOOSING THE RIGHT MECHANISM

It is clear that the Australian aid program must have a portfolio of methods for delivery.

The situation is not 'one size fits all'. The aid program operates in many different country contexts and through a variety of programs, projects and activities. One of the most important managerial obligations of the program is to ensure the best possible delivery mechanism is selected.

The Review Panel supports a ‘fit for purpose’ approach to the choice of delivery method. This approach uses the best option, consistent with the principles set out in this Report. That is, there needs to be a conscious and disciplined consideration of value for money in all its aspects, including:

- impact
- cost
- risk
- avoiding fragmentation
- working with others who can add real value
- supporting national government systems
- supporting the multilateral system and civil society where effective
- the implications for an Australian presence on the ground
- recognition of Australia's contribution.
C. THE MOVE TOWARDS PARTNERSHIPS

As is clear from Chapter 2, AusAID is not just growing; it is changing its modus operandi. It is shifting from being a predominantly contracting organisation to one more focused on grants and relationships.

The shift to greater use of partnerships has profound implications for the Australian aid program and for AusAID in particular.

Partnership is not a delivery mechanism in itself. It is an effective way to use all delivery mechanisms.

A partnership approach means Australia working through or with others to deliver aid.

When working through others, Australia needs to be willing to devolve and delegate authority and responsibility to the recipient government, a multilateral institution or an NGO. This must always be done with appropriate care and conditions because, in the end, the Australian government will remain accountable for taxpayer funds.

When working with others, Australia needs to work in a creative and businesslike way to engage the expertise, skills, networks and abilities of partners in order to maximise impact.

Of course partnership is not only important in the context of aid delivered with and through recipient governments, multilateral organisations and NGOs. AusAID is also entering partnerships with other bilateral donors, think tanks, universities and business groups. All these partnerships are examined in Chapters 10 and 11.

Other government departments involved in the aid program are also partners. These partnerships are covered in Chapter 14. The focus of Chapters 9 to 11 is partnerships external to the Australian government.

Partnerships vary. Some are simple and involve an agreement with a single organisation, sometimes to deliver one project. Others are wide-ranging. For example, Australia’s partnership with the World Bank involves both core and earmarked funding and has multiple points of engagement. The Australia–Indonesia Basic Education Program (see Box 9.1) is an example of how effectiveness can improve when partners with different strengths unite.
Box 9.1: The Australia–Indonesia Basic Education Program

Starting in 2005, Australia provided $387.6 million over five years to support the Indonesia Basic Education Program. It built 2,075 junior secondary schools and gave more than 330,000 children the chance to go to school across 20 provinces in Indonesia.

The program is a good example of many aid forms coming together to maximise impact.

It involved loans (disbursed by the Indonesian Ministry of Finance) and grants (disbursed by a managing contractor) to support the Indonesian government’s school construction programs. Two managing contractors provided program management, monitoring, advice and capacity building, and an independent contractor provided audit services.

Technical assistance was also given to train communities to manage their school budgets and teaching resources, and to understand how to maintain the newly built schools. More than 500 school principals, teachers, supervisors, and district officials were trained in curriculum development.

The new Australia–Indonesia Education Partnership, beginning mid-2011, builds on and replicates key features of the successful Australia–Indonesia Basic Education Program. It is part of a broader program of sector support that involves the Government of Indonesia, the European Union (EU) and the Asian Development Bank (ADB). It reflects Indonesia’s increased commitment to give nine years of quality basic education to all its children by 2015.

D. THE BENEFITS OF PARTNERSHIPS

Partnerships bring with them a range of benefits. The main one is leverage. Different partners bring different assets to any development task. Partners bring skills, knowledge, networks, perspectives and resources that the Australian government does not have. Partnerships will be particularly important as the aid program expands into countries or sectors that are beyond the government’s capacity to deliver effective country programs on its own.

Other potential benefits include reducing fragmentation and the burden on partner countries, particularly important in crowded donor environments. Good partnerships can reduce administrative costs. They can give greater flexibility than traditional contracting.

Long-term partnerships can strengthen the partners Australia supports, with substantial spin-off benefits.

Finally, partnerships with Australian NGOs, universities, business and community groups help strengthen the connection between the aid program and the Australian people. This helps to bring the global challenges of development and poverty reduction into the mainstream of Australian life.
E. THE RISKS AND LIMITATIONS OF PARTNERSHIPS

Despite these benefits, partnerships are not always the answer. They have limitations and risks.

Partnerships give the funder less control than a contracting relationship. This can make it more difficult to be accountable for the way aid funds are used and can make tracking results more difficult.

Economy and efficiency are not as easy to verify in partnerships. Sometimes the answer is to rely on competitive processes, as AusAID currently does when allocating earmarked funding to NGOs. Sometimes, however, these processes cannot be used. For example, most multilateral organisations will not enter into competitive bidding processes.

Some potential partners may be ineffective in delivering development results. They may also not have strong monitoring, evaluation, reporting or other systems to give confidence that they will efficiently and effectively manage Australian taxpayers’ money. The measures proposed by the Review Panel in Chapter 10 for better assessing effectiveness are important in ensuring value for money when working through partners.

If used inappropriately, partnerships can lead to, rather than prevent, fragmentation. This is because they expand the options for aid delivery and reduce engagement costs. AusAID’s Africa program is run almost entirely through partners, yet it is a fragmented program.

Countering fragmentation through a partnership approach is ultimately a matter of discipline. Management tools that will help with this are: increased emphasis on core funding (discussed below), restrictions on the number of partners or on average partnership/project size, and creating flexible facilities that allow small grant agreements to be pursued at low management cost.

F. THE PROS AND CONS OF FORMAL PARTNERSHIP AGREEMENTS

In recent years, Australia has entered into partnership agreements with various NGOs, UN agencies and the ADB.

These agreements generally involve commitments to engagement above and beyond aid delivery, covering areas such as policy dialogue and joint analytical work. Some agreements include firm multi-year commitments on increasing levels of core funding.

Feedback from the Australian NGOs who have entered into formal partnership agreements over the past two years has been very positive. The World Food program (WFP) and United Nations Children’s Fund (UNICEF) have also noted the positive impact of their formal partnership agreements with Australia.

To be of use, partnership agreements require sustained senior management attention, which is a limited resource. The Review Panel proposes that partnership agreements be signed only where there are clear benefits from doing so and dedicated senior management resources can be made available.
G. SKILLS, CULTURE AND INFLUENCE

AusAID’s shift towards partnership requires skills beyond traditional development areas. It requires expertise in multilateral/NGO effectiveness, and in working through government systems and with the private sector.

AusAID staff have traditionally dealt mainly with partner governments and contractors. AusAID’s culture needs to adjust so that engagement with a range of partners, from large multilateral organisations to business groups to NGOs and community groups, becomes second nature.

To make the most of partnerships, greater resourcing will be needed in partnership areas, though it will remain relatively efficient and low cost compared to delivering bilateral projects.

In particular, dedicated senior management resources will be needed to manage and influence partnerships with key multilateral organisations and NGOs. This may require senior AusAID officers to be posted to Australian embassies where key multilateral partners, such as the World Bank and ADB, are headquartered.

H. GREATER LONG-TERM PREDICTABILITY AND REDUCED MICROMANAGEMENT

While the Review Panel heard frequently that AusAID is often welcomed as a partner of choice, the most common complaints from AusAID’s partners were:

- frequent staff turnover
- micromanagement
- a lack of predictable funding.

The first of these issues is dealt with in Chapter 14. Here, the Review Panel deals with the latter two issues.

Micromanagement of partners (especially in cases where partners clearly have greater expertise than the AusAID staff managing them) defeats the purpose of partnership. The extent of AusAID’s management should be agreed between AusAID and the partner up-front. Different levels of management will be appropriate for different partners. The aim should be to give trusted and effective partners freedom to manage for results in their own systems, and to rely largely on their own reporting systems. The proviso is that they need to be able to feed in, in a quick and uncomplicated way, to the Australian government’s measurement and reporting system.

AusAID has entered into a range of multi-year funding agreements with NGOs and UN agencies over recent years. Feedback to the Review Panel on these arrangements was very positive.

Those partners that did not have multi-year funding arrangements often highlighted this as a problem. Not giving partners enough long-term certainty over funding reduces their effectiveness and leverage.

Multi-year funding should be given to partners wherever possible, particularly when they have a proven track record of capacity and effectiveness.
I. BRANDING AND VISIBILITY

To some extent, branding of the Australian government’s contribution is an issue relevant to all partnerships. It is particularly relevant to partnerships with the large multilateral organisations to which it is proposed Australia provide substantially increased core funding. The comments below are largely in that context rather than, for example, the government’s partnership with NGOs.

The Australian government should receive due recognition for its contribution to partnerships. This is an important and legitimate objective.

Australia has not always paid due attention to this issue, particularly in terms of core funding. Australia should expect multilateral organisations to give recognition for its contributions.

Australia is entitled to recognition not only from the organisations, but also the countries that benefit from the programs. The Australian public, who after all are the source of these funds, need to know that the Australian contribution is being appropriately recognised. Just as importantly, effective branding is essential if the Australian public themselves are to feel comfortable with and proud of the way their taxes are being spent.

The Australian aid program has been paying greater attention to branding and visibility over the past three years. Partnership Agreements with UN agencies and the ADB include clauses on recognition of Australian contributions. Co-financing activities include clauses on how Australian contributions will be recognised in the branding of project activities. Joint communication strategies have been developed with UNICEF and the United Nations Development Program (UNDP) to highlight achievements.

Efforts to date have largely focused on ensuring appropriate branding of earmarked activities. The aid program will need to pay greater attention to what it wants in terms of branding and visibility of core contributions as they grow.

In the Review Panel’s discussions with other bilateral and multilateral donors, and with NGOs, most expressed willingness to build on efforts to date to incorporate better visibility and branding over core funding. The World Bank and the ADB made it clear at very senior levels that they are ready to work with Australia on this issue.

The onus is on the Australian government to define what it wants from each partner. Where arrangements are not already in place, visibility and branding should be carefully thought through and addressed in formal documents, such as partnership agreements and multilateral organisation strategies (discussed below).

The Review Panel supports an AusAID review of existing agreements on branding and visibility, and where necessary, better defining of what it wants from each partner on branding and visibility, particularly regarding core funding. Formal agreements on branding and visibility should be established for major partners where they are not currently in place.
J. CORE AND EARMARKED FUNDING

i) Advantages of Core Funding

How much to give partner organisations through core funding, and how much to give for specific activities, is one of the major decisions any aid organisation faces.

**Box 9.2: What is Core Funding?**

Core funding is money provided to support the general operation of an organisation. It is not tied to any specific purpose. Consequently, core funding from a particular donor cannot be traced to particular activities; it supports the organisation’s overall results.

Core funding enables multilateral organisations and NGOs to give funds according to the preferences of their partners, where they see the greatest need and where they believe they can add the greatest value. This contrasts with earmarked funding, which is directed according to donors’ preferences.

For agencies that rely heavily on earmarked funding, like many UN agencies, core funding can provide critical flexibility. It can be directed to countries or sectors where there are substantial development needs, but are neglected by donors in their earmarked funding choices. Core funding from multilateral organisations is particularly important for so-called ‘donor orphans’, or countries who tend to be avoided by bilateral donors because they have difficult operating environments or limited geopolitical importance.

In the case of core funding to the multilateral development banks, administrative expenses are offset by internal revenue from commercial lending.

In the case of UN agencies and NGOs, core funding is mostly spent on development activities in low-income countries, but a small amount is set aside for general administration. A base level of administrative funding is essential to operate effectively, and most UN agencies and NGOs rely on core funding to pay for their administrative costs.

As discussed in Chapter 2, historically Australia has favoured earmarked funding, particularly for multilateral organisations. The effectiveness of both earmarked and core funding depends on the partner’s abilities. Both have their advantages.

Earmarked funding allows the Australian government to direct where money is spent, although the extent of control varies greatly depending on the nature of the funding. Earmarked funding has been used effectively in the Pacific to leverage World Bank engagement in a region where it would otherwise have limited engagement (see Box 10.2).

Core funding requires strong alignment in overall objectives between the partner organisation and AusAID. It also demands greater confidence in the partner’s abilities, since core funding is typically given without separate reporting arrangements.

Core funding also lowers transactions costs for both AusAID and the partner.
Another advantage of core funding is that it promotes the overall health of the organisations AusAID wants to use for earmarked funding. No organisation can survive purely on earmarked funding and Australia needs to help ensure key partners have adequate access to core funding.

Expanding core funding would have five particular advantages for the Australian government at this time.

First, it will inevitably take time to build the capacity effectively to design, deliver and manage greater quantities of bilateral projects or heavily earmarked programs. AusAID resources have already been stretched by the increased aid budget to date. Effective country programs need an intensive and sustained effort by AusAID and other Australian government agencies. While that ability is being built, core funding for reliable partners with proven track records under conditions acceptable to Australia will provide a valuable breathing space. When the capacity to manage bilateral or earmarked projects has been enhanced within the Australian government, the balance could then be readjusted with confidence that aid will be delivered effectively.

Second, core funding is an effective way to deal with fragmentation, given that a single, large core funding contribution can replace several smaller earmarked contributions or bilateral projects.

Third, core funding should be given more weight because there are a growing number of NGO and multilateral organisations with strong track records. Australia can be confident these organisations will use core funding effectively.

Fourth, Australia is seeking to scale-up its funding for Africa. Africa is the main focus for most of the world’s international organisations and most of Australia’s NGOs. Greater core funding to these organisations will increase Australian aid to Africa without overly fragmenting the program.

Fifth, core funding enables Australia to make a contribution to poverty reduction and development in areas geographically distant from Australia and not of the highest priority in terms of Australia’s foreign policy, security and economic interests. Core funding of multilateral organisations, will, for example, support development efforts in the Caribbean, Latin America and Central Asia.

For these reasons, the Review Panel recommends overall core funding to NGO and multilateral organisations be significantly increased as a share of total aid spending.

**ii) Need for a Discriminating Approach**

Increases in core funding should not be made indiscriminately. Australia currently provides core funding to around 20 multilateral agencies and 50 NGOs. The capacities and effectiveness of this group vary widely. Decisions on the benefits of increased core funding must be made with the same care and analysis as other funding decisions. They must be made on a case–by–case basis, using the following three criteria:

- the effectiveness of the organisation in delivering development results
- the relevance of the organisation to advancing the objectives of the Australian aid program, including with regard to visibility of Australia’s contributions
- the organisation’s ability to effectively manage increased core funding.
Rigorous and transparent accreditation and ranking processes are a large part of the answer. Australian NGOs are subject to a rigorous accreditation process (discussed in Chapter 10).

Australia needs to build on existing ways of assessing and strengthening the effectiveness and efficiency of multilateral organisations such as the Multilateral Organisation Performance Assessment Network (MOPAN), discussed in Chapter 10.

Increased core funding should go hand-in-hand with increasing Australia’s engagement with multilateral organisations through stronger representation and influence. Nonetheless, Australia will only be one shareholder amongst many and must exert its influence by working with others.

In the case of some Australian NGOs, there is a fourth criterion for increased core funding: their willingness to accept substantial increases in funding levels from the Australian government. This is discussed in more detail in Chapter 10.

**K. GEOGRAPHIC IMPLICATIONS**

Chapter 6 made the distinction between bilateral modes of delivery (using contractors, partner government systems and other government departments) and other forms of country program aid (working with other donors and NGOs). The relative mix of reliance on these two modes should vary from region to region, depending on a range of factors, primarily those captured by the categorisation of countries in Chapter 6.

Table 9.1 reflects the Review Panel’s recommendations on reliance on bilateral delivery channels. Ratings place heavy weight on the presence of other partners, and Australia’s relative size as a donor. They also reflect country-specific circumstances, such as in Afghanistan where different parts of the program will need to operate very differently (largely through partners at the national level, more bilaterally in Uruzgan) and in East Asia, where Australia’s importance as a donor will grow as other donors depart.

As Table 9.1 shows, reliance on bilateral delivery channels should largely be a feature of Australia’s aid program in the Asia-Pacific region. This would reduce the need for Australian staff to be involved in aid delivery in other regions and correspondingly reduce, though not eliminate, the need for an on-the-ground presence.
### Table 9.1 Recommended Reliance on Bilateral Delivery Channels in Different Countries and Regions

<table>
<thead>
<tr>
<th>Region</th>
<th>Reliance on Bilateral Delivery Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>PNG</td>
<td>High</td>
</tr>
<tr>
<td>Solomon Islands and East Timor</td>
<td>High</td>
</tr>
<tr>
<td>South Pacific Microstates</td>
<td>High</td>
</tr>
<tr>
<td>Other Pacific</td>
<td>High</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Medium</td>
</tr>
<tr>
<td>Other East Asia</td>
<td>Medium</td>
</tr>
<tr>
<td>South Asia</td>
<td>Low</td>
</tr>
<tr>
<td>Afghanistan and Pakistan</td>
<td>Medium</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>Low</td>
</tr>
<tr>
<td>North Africa and Middle East</td>
<td>Low</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>N/A</td>
</tr>
<tr>
<td>Central Asia</td>
<td>N/A</td>
</tr>
</tbody>
</table>

**Recommendation 14:** Reliance on bilateral modes of aid delivery should largely be restricted to East Asia, the Pacific, Afghanistan and Pakistan. Aid delivered to other regions should be mainly through partners.

**Recommendation 15:** Core funding to multilateral organizations and NGOs should be significantly increased as a share of total spending. Core funding increases should be made on a case–by–case basis, linked to effectiveness, capacity and relevance.

**Recommendation 16:** AusAID should devote greater senior management resources to developing and managing relationships with key partners. Predictable, multi–year funding of partners should be provided and micromanagement avoided.
Chapter 10: PARTNERSHIPS WITH MULTILATERAL AND NON–GOVERNMENT ORGANISATIONS

A. INTRODUCTION

This chapter looks at Australia’s partnerships with multilateral organisations and NGOs, building on the principles established in Chapter 9.

Multilateral organisations and NGOs are already important partners for the aid program. They are also sufficiently important to the future of the program to warrant their own chapter.

B. MULTILATERAL ORGANISATIONS

This Report adopts a broad definition of multilateral organisations. Included are the multilateral development banks, UN development and humanitarian organisations and specialised organisations such as the Global Fund to Fight AIDS, Tuberculosis and Malaria (the Global Fund) and the International Committee for the Red Cross (ICRC).

i) Opportunities to Increase Australia’s Multilateral Engagement

Obviously not all multilateral organisations are of equal capability; nor are they of equal relevance to Australia’s aid program. Multilateral organisations extend across a range, from large, cumbersome, complicated and sometimes slow-to-move intergovernmental bodies (such as the Food and Agriculture Organisation) through to smaller, innovative and responsive entities which may include major private sector players as well as governments (such as the GAVI Alliance).

As made clear in the previous chapter, Australia must adopt a discriminating approach in choosing its partners. There is further discussion below in relation to the effectiveness and relevance of multilateral organisations. The overall judgement of the Review Panel is that Australia can confidently commit more of the aid program to multilateral partners, including through core funding.

The Review Panel commissioned a separate Study of AusAID’s Approach to Assessing Multilateral Effectiveness (the Multilateral Study).

The Multilateral Study makes a strong case for support to multilateral organisations. It notes:

“The case for supporting multilateral organisations is well documented. Their wide membership gives them greater legitimacy and weight in addressing challenging issues and coordinating donor efforts; they have neutrality which allows greater scope for dialogue with recipient countries; and their large size enables them to undertake programs beyond the capacity of bilateral donors such as Australia.”
Working through the multilateral system can extend Australia’s reach to where it has limited experience or presence (such as Africa, South Asia and Latin America). It can deliver activities beyond Australia’s capacity (for example food aid, large-scale humanitarian assistance and large infrastructure). It can also extend Australia’s influence, enabling it to contribute to a much larger share of international development efforts. Multilateral organisations are also valuable policy partners where their global knowledge, expertise or convening power complements Australia’s local knowledge, presence and networks.

The Review Panel notes many positive aspects of AusAID’s current engagement with multilateral organisations. For example the Multilateral Study finds:

“As far as partnerships with multilateral agencies are concerned, AusAID is seen by many as a constructive and important partner, generally punching above its weight compared to other donors of a similar size. This says much about the skills and commitment of AusAID’s visiting staff and their permanent representatives on boards.”

These views were reflected in many discussions the Review Panel had with multilateral organisations. The box below provides an example of Australia’s engagement in the recent replenishment of the International Development Association (IDA), the World Bank’s concessional lending arm.

**Box 10.1: Policy Reforms in IDA16 Replenishment**

The 16th replenishment of the IDA took place in 2010.

Australia successfully used its seat at the table to gain commitment to policy reforms to help improve the World Bank’s effectiveness and strengthen its focus on small and fragile states, including in the Pacific. Policy reforms included:

- rule changes to increase allocations to small states, resulting in East Timor and Pacific Island countries receiving increased funding of between 30 and 80 per cent
- improved measurement, reporting and communication of development results
- the introduction of a ‘crisis facility’ to provide more rapid assistance to countries following economic shocks or natural disaster.

Based partly on these positive policy changes, Australia increased its contribution compared to the previous replenishment by 30 per cent.

Given its focus on the Pacific, Australia has actively encouraged more engagement by the World Bank and Asian Development Bank (ADB), mainly through use of earmarked funding (See Box 10.2). This is a good example of the leverage that can be gained through working with partners.
Box 10.2: Increased World Bank Engagement in Pacific Island Countries

With Australian assistance and encouragement, the World Bank has significantly expanded its presence in Pacific Island countries over the past five years.

Over the past three years, World Bank lending (through concessional and private sector lending arms) to Pacific Island countries was US$230 million. This was a sharp increase from $63 million over the previous three year period. The World Bank has expanded its analytical work, including groundbreaking work on telecommunications reform and an influential study on labour migration. The World Bank has significantly expanded its staff presence in the Pacific, which is essential to maintain strong relationships with national governments. The World Bank’s office in Sydney, which is the regional hub for the Pacific, has expanded significantly to around 55 staff, up from 20 five years ago. In addition, the World Bank has a substantial presence in Solomon Islands and PNG and, with the ADB, has opened joint offices in other Pacific Island countries, including Tonga, Vanuatu and Samoa.

The World Bank acknowledges that its presence in the Pacific Island region would be much lower if not for Australia’s support and encouragement.

**ii) Core and Earmarked Funding to Multilateral Organisations**

As noted in Chapter 2, Australia’s total funding to multilateral organisations has grown as a proportion of the aid program over the past five years. This growth has been almost entirely due to a sharp increase in earmarked funding. Total funding to multilateral organisations reached almost $1.3 billion in 2009–10.

Chapter 2 also highlighted that the composition of Australia’s core and earmarked funding was unusual compared to most other OECD donors. Australia’s share of core funding to multilateral organisations, as a ratio of total aid, is one of the lowest of all OECD donors. Australia’s share of earmarked funding to multilateral organisations, on the other hand, is one of the highest of OECD donors.

A number of the multilateral organisations that received significant funding from Australia in 2009–10 are outlined below in Table 10.1.
### Table 10.1: Australian Government Funding to Selected Multilateral Organisations in 2009–10

<table>
<thead>
<tr>
<th></th>
<th>Core Funding ($ million)</th>
<th>Earmarked Funding ($ million)</th>
<th>Total Funding ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank</td>
<td>160.3</td>
<td>305.7</td>
<td>466.0</td>
</tr>
<tr>
<td>ADB</td>
<td>54.6</td>
<td>77.0</td>
<td>131.6</td>
</tr>
<tr>
<td>UNICEF</td>
<td>19.6</td>
<td>88.5</td>
<td>108.1</td>
</tr>
<tr>
<td>UNDP</td>
<td>14.6</td>
<td>55.8</td>
<td>70.4</td>
</tr>
<tr>
<td>WFP</td>
<td>30.0</td>
<td>20.5</td>
<td>50.5*</td>
</tr>
<tr>
<td>Global Fund</td>
<td>46.5</td>
<td>0</td>
<td>46.5</td>
</tr>
<tr>
<td>UNHCR</td>
<td>14.3</td>
<td>28.1</td>
<td>42.4</td>
</tr>
<tr>
<td>WHO</td>
<td>13.0</td>
<td>23.3</td>
<td>36.3</td>
</tr>
<tr>
<td>ICRC</td>
<td>16.0</td>
<td>19.3</td>
<td>35.3#</td>
</tr>
<tr>
<td>ILO</td>
<td>3.8</td>
<td>20.3</td>
<td>24.1</td>
</tr>
</tbody>
</table>

# The ICRC is an impartial, neutral and independent organisation established in 1864. It is neither an NGO nor a multilateral organisation, but is classed as a multilateral organisation for the purposes of this Report.

* 2009–10 was an unusually low year for Australian contributions to the World Food Program. The average annual Australian contribution from 2005–06 to 2009–10 was more than $80 million.

Three things are striking from this table.

First, Australia’s funding is heavily focused on a small number of agencies that are seen as effective and relevant.

Second, for most multilateral agencies, Australia’s earmarked funding is higher than core funding. This is a fundamental change from 2005, when the split between core and earmarked funding was almost equal. The growth in earmarked funding has not been the result of a centrally-driven strategy. Earmarked funding is mainly decided by country and sector teams across AusAID determining that this represents the best form of aid in their particular context.

Third, although core funding to multilateral organisations has fallen as a proportion of the program, it remains a substantial slice of the aid budget.
Box 10.3: What does Australia get from its Core Funding to Multilateral Organisations?

Core funding goes to multilateral organisations’ general operations and therefore cannot be traced to particular activities. But donors, including Australia, can legitimately claim their core funding has contributed to the overall results achieved by multilateral organisations.

Australia’s largest core contribution, $160.3 million in 2009–10, goes to the World Bank’s IDA. IDA operates in 79 of the world’s poorest countries, providing grants and concessional loans to support a wide range of development activities. Over the past decade, IDA activities have resulted in: three million primary teachers being trained, 310 million children being immunised, 1.5 million water connections, 118,000 kilometres of road being constructed, 33 million malaria nets being distributed and 120,000 loans to small business. Australia contributes about two per cent of donor funding to IDA and can claim credit for this share of these impressive results.

Australia’s second largest core contribution, $54.6 million in 2009–10, goes to the ADB’s concessional lending arm, the Asian Development Fund (ADF). In the period between 2009 and 2012, the ADF has committed to: build or upgrade 30,000 kilometres of road, connect 167,000 households to electricity, provide more than 850,000 households with new sanitation connections, irrigate nearly 400,000 hectares and open more than 600,000 new microfinance loan accounts. Australia is the third largest contributor to the ADF, providing around seven per cent of donor finance.

As well as the development benefits that come from Australia’s core contributions to multilateral organisations, core funding buys Australia a ‘seat at the table’. As illustrated in the IDA replenishment example in Box 10.1, this provides an opportunity to influence the policy directions of multilateral organisations.

The forms of earmarked funding, and the associated management implications, vary significantly.

Large global trust funds, such as the Central Emergency Response Fund managed by the United Nations Office for the Coordination of Humanitarian Affairs (UN OCHA), are counted as earmarked funds by OECD’s Development Assistance Committee (DAC), but have many of the characteristics of core funding. They involve pooling funds with many other donors to support programs across a large number of countries. Priorities are generally determined by a board comprising the multilateral organisation, donors and sometimes potential recipients.

These large global trust funds, like core funding, generally involve low administrative costs for AusAID and do not add to global fragmentation. In fact, they generally reduce fragmentation by encouraging donors to work through one mechanism rather than bilaterally.

At a country level, large multi–donor trust funds, such as the one managed by the World Bank in Afghanistan, also count as earmarked funds, but share many of the characteristics of core funding. Again, Australia buys a seat at the table by being a contributor, as well as being part of a multi–donor effort to advance development results. Priorities and governance arrangements are
determined jointly by the World Bank, the Government of Afghanistan and donors. Administrative costs for AusAID are also low and fragmentation tends to be reduced.

The most common form of earmarked funding involves Australian support for a particular activity or program of a multilateral organisation. Australia may be the only donor involved in supporting an earmarked activity, or a number of donors may be involved. Where Australia is the only or largest donor, it generally has considerable sway over how the activity is managed. The extent to which Australian government officials become heavily involved in the management of earmarked activities varies greatly.

Earmarked funding can be highly effective and used to exert leverage. This is particularly so when Australia’s grant funds are combined with loan funds from the multilateral development banks. The box below provides an example of the impact and leverage achieved from Australia’s engagement with the ADB to develop infrastructure in the Mekong region.

**Box 10.4: Leveraging Better Outcomes through Earmarked Funding for ADB Infrastructure Activities in the Mekong**

Australia is working with the ADB to improve conditions for trade and help create a unified transport network in the Mekong region, including Cambodia, Laos and Vietnam.

Australia is contributing around $320 million in grant aid combined with almost $1 billion of ADB loans. These joint activities are improving roads, building new bridges and widening canals. The passage of goods through borders is being sped up by cutting customs red tape and improving coordination between border agencies.

For example, Australia is contributing $160 million to the ADB–led Central Mekong Delta Connectivity Project. This will fund the construction of a landmark new bridge at Cao Lanh, as well as wider road upgrades. Australia will provide $43.5 million to complement an ADB loan of more than US$200 million to help link Vietnam’s Mekong Delta to Bangkok through Cambodia.

Australia is investing $6 million in an ADB–managed project (total value US$58.4 million) to upgrade Cambodia’s internal road network. Australia’s investment is funding civil works, impact measurement and the development of a road safety plan. The aid program is also helping to build the capacity of the Cambodian government to improve the management and maintenance of roads. A number of national roads are particularly important to regional connectivity as they link Ho Chi Minh City to Bangkok.

Australian funds are also being used to leverage broader development outcomes than would otherwise have occurred. For example, Australian funds help develop gender strategies to assist women make better use of new infrastructure. The aid program also supports the equal involvement of women and men in resettlement consultations and implementation. A range of activities will be funded to reduce the risk of spread of HIV.

In summary, earmarking can be extremely effective in the right circumstances and the Review Panel supports its retention as an important delivery option.
Where the necessary conditions are in place and the correct partners are chosen, core funding can also be highly effective. As noted by the Multilateral Study commissioned by the Review Panel:

“Core funding is generally seen as the best route for furthering multilateral effectiveness. While over-reliance on earmarked funding adds to the proliferation of aid activities, core funding supports flexibility and multilateral organisations’ capacity to respond to the needs of recipient countries, unhindered by donor earmarking. It strengthens Australia’s voice in regard to improving effectiveness, quality and efficiency, at the global and country level.”

An important aspect of core funding to multilateral organisations is that it can give Australia much higher profile and much greater influence over the overall direction of the organisation.

Box 10.5: How does Australia Know Core Funding to Multilateral Organisations is Being Properly Used?

Australia is a member of all the multilateral organisations to which it provides core funding. As a member, Australia is part of the governance arrangements of these organisations.

Australian government representatives attend annual meetings and board meetings to review development results and scrutinise the progress of efforts to improve effectiveness and efficiency. Multilateral organisations are subject to annual independent audits and, in many cases, are scrutinised by independent evaluation offices. The outcomes of these reports are closely watched by Australia and other donors.

In the case of the ADB, a senior Australian official is a full-time permanent member of the Board. In the World Bank, a senior Australian official is appointed as a full-time board member for four out of every eight years, with Australia holding a deputy board member position for the remaining time. Boards are responsible for approving loan operations and overseeing governance arrangements. The current Australian board member at the World Bank is chair of the Audit Committee.

Australia also joins with 16 other bilateral donors in regularly assessing the organisational effectiveness of major multilateral organisations, through the Multilateral Organisations Performance Assessment Network (MOPAN). This involves a comprehensive survey of how efficiently and effectively organisations are delivering on their mandate, both at headquarters and in their operations in developing countries.

iii) Performance–Based Selectivity

The Review Panel supports increased core funding, but it must be performance based. The Multilateral Study notes that while some multilateral organisations are highly effective, performance is uneven. This means Australia needs to continue to invest selectively in the best organisations. The funding must be invested in agencies which are effective and align with the objectives of Australia’s aid program.
As noted above, Australia is already selective in terms of where it invests the bulk of its multilateral funding. By far the largest share of multilateral funding goes to the World Bank, with the ADB, the Global Fund and a handful of UN agencies making up most of the remaining multilateral funds. But it will be important that decisions about scaling up core funding be systematically based on performance information.

The Multilateral Study finds that Australia currently adopts a suite of approaches to assess the effectiveness of the multilateral agencies it supports. In addition to scrutiny of assessments and reports from multilateral organisations themselves, and relying on bodies such as MOPAN, these include various processes that capture information about effectiveness at the institutional and country program level.

Nevertheless, the Multilateral Study concludes:

“…developing a coherent and consistent evidence base and narrative to underpin these indications of effectiveness has been more of a challenge.”

Fortunately, there is a firm base of information to work from in terms of the relative effectiveness of multilateral organisations. Perhaps the most comprehensive source is the recent multilateral effectiveness review by the United Kingdom government, released on 1 March 2011.

The United Kingdom Multilateral Aid Review examined 43 multilateral development organisations. Organisations were assessed against nine criteria including importance to the United Kingdom’s aid objectives, delivery against agency mandate, cost consciousness, management of partnerships, results orientation, financial management, transparency and accountability, and responsiveness. The primary purpose of the review was to ensure that the United Kingdom gets value for money from its contributions to multilateral aid organisations.

The multilateral review drew on a wide range of evidence including survey data, other studies of effectiveness, external evaluations, reporting by the multilateral organisations, visits by the United Kingdom’s Department for International Development (DFID) staff to 10 developing countries, consultation with developing country partners, and submissions to the review from United Kingdom civil society and the multilateral organisations themselves. Table 10.3 summarises the ratings of the DFID assessment.

The highest-rated organisations were those that focused on results, were accountable, well–run and delivered improvements to poor people’s lives.
Table 10.2: Findings of the United Kingdom Multilateral Aid Review

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Rating on Organisational Strengths</th>
<th>Rating on Contribution to UK Development Objectives</th>
<th>Overall Assessment of Value for Money</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Global Alliance for Vaccines and Immunisation</td>
<td>Strong</td>
<td>Strong</td>
<td>Very good</td>
</tr>
<tr>
<td>International Committee of the Red Cross</td>
<td>Strong</td>
<td>Strong</td>
<td>Very good</td>
</tr>
<tr>
<td>European Commission Humanitarian Aid and Civil Protection</td>
<td>Satisfactory</td>
<td>Strong</td>
<td>Very good</td>
</tr>
<tr>
<td>European Development Fund</td>
<td>Strong</td>
<td>Strong</td>
<td>Very good</td>
</tr>
<tr>
<td>International Development Association</td>
<td>Satisfactory</td>
<td>Strong</td>
<td>Very good</td>
</tr>
<tr>
<td>Asian Development Fund</td>
<td>Satisfactory</td>
<td>Strong</td>
<td>Very good</td>
</tr>
<tr>
<td>Global Fund to Fight AIDS, TB and Malaria</td>
<td>Strong</td>
<td>Strong</td>
<td>Very good</td>
</tr>
<tr>
<td>The Private Infrastructure Development Group</td>
<td>Strong</td>
<td>Strong</td>
<td>Very good</td>
</tr>
<tr>
<td>United Nations Children’s Fund</td>
<td>Satisfactory</td>
<td>Strong</td>
<td>Very good</td>
</tr>
<tr>
<td>European Bank for Reconstruction and Development</td>
<td>Strong</td>
<td>Weak</td>
<td>Good</td>
</tr>
<tr>
<td>Global Environment Facility</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td>Good</td>
</tr>
<tr>
<td>Global Facility for Disaster Reduction and Recovery</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td>Good</td>
</tr>
<tr>
<td>International Federation of Red Cross and Red Crescent Societies</td>
<td>Weak</td>
<td>Strong</td>
<td>Good</td>
</tr>
<tr>
<td>International Finance Corporation</td>
<td>Strong</td>
<td>Satisfactory</td>
<td>Good</td>
</tr>
<tr>
<td>International Fund for Agricultural Development</td>
<td>Satisfactory</td>
<td>Strong</td>
<td>Good</td>
</tr>
<tr>
<td>The African Development Fund</td>
<td>Strong</td>
<td>Satisfactory</td>
<td>Good</td>
</tr>
<tr>
<td>The Climate Investment Funds</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td>Good</td>
</tr>
<tr>
<td>The Education for All – Fast-track Initiative</td>
<td>Satisfactory</td>
<td>Strong</td>
<td>Good</td>
</tr>
<tr>
<td>UNITAID</td>
<td>Weak</td>
<td>Strong</td>
<td>Good</td>
</tr>
<tr>
<td>United Nations Development Programme</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td>Good</td>
</tr>
<tr>
<td>United Nations High Commission for Refugees</td>
<td>Satisfactory</td>
<td>Strong</td>
<td>Good</td>
</tr>
<tr>
<td>United Nations Office for the Coordination of Humanitarian Affairs</td>
<td>Weak</td>
<td>Strong</td>
<td>Good</td>
</tr>
<tr>
<td>United Nations Peacebuilding Fund</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td>Good</td>
</tr>
<tr>
<td>World Food Programme</td>
<td>Satisfactory</td>
<td>Strong</td>
<td>Good</td>
</tr>
<tr>
<td>Central Emergency Response Fund</td>
<td>Weak</td>
<td>Strong</td>
<td>Good</td>
</tr>
<tr>
<td>Organisation</td>
<td>Rating on Organisational Strengths</td>
<td>Rating on Contribution to UK Development Objectives</td>
<td>Overall Assessment of Value for Money</td>
</tr>
<tr>
<td>---------------------------------------------------</td>
<td>-----------------------------------</td>
<td>----------------------------------------------------</td>
<td>--------------------------------------</td>
</tr>
<tr>
<td>European Commission Budget</td>
<td>Satisfactory</td>
<td>Weak</td>
<td>Adequate</td>
</tr>
<tr>
<td>Expanded Delivering as One Funding Window for the achievement of the MDGs</td>
<td>Weak</td>
<td>Satisfactory</td>
<td>Adequate</td>
</tr>
<tr>
<td>Inter–American Development Bank</td>
<td>Satisfactory</td>
<td>Weak</td>
<td>Adequate</td>
</tr>
<tr>
<td>Joint United Nations Programme on HIV/AIDS</td>
<td>Weak</td>
<td>Satisfactory</td>
<td>Adequate</td>
</tr>
<tr>
<td>Office of the High Commissioner for Human Rights</td>
<td>Weak</td>
<td>Satisfactory</td>
<td>Adequate</td>
</tr>
<tr>
<td>The Caribbean Development Bank</td>
<td>Satisfactory</td>
<td>Weak</td>
<td>Adequate</td>
</tr>
<tr>
<td>United Nations Environment Program</td>
<td>Weak</td>
<td>Weak</td>
<td>Adequate</td>
</tr>
<tr>
<td>United Nations Population Fund</td>
<td>Weak</td>
<td>Satisfactory</td>
<td>Adequate</td>
</tr>
<tr>
<td>World Health Organization</td>
<td>Weak</td>
<td>Satisfactory</td>
<td>Adequate</td>
</tr>
<tr>
<td>Food and Agriculture Organisation</td>
<td>Weak</td>
<td>Weak</td>
<td>Poor</td>
</tr>
<tr>
<td>International Labour Organisation</td>
<td>Weak</td>
<td>Weak</td>
<td>Poor</td>
</tr>
<tr>
<td>International Organisation for Migration</td>
<td>Weak</td>
<td>Weak</td>
<td>Poor</td>
</tr>
<tr>
<td>United Nations Development Fund for Women</td>
<td>Weak</td>
<td>Weak</td>
<td>Poor</td>
</tr>
<tr>
<td>United Nations Human Settlements Programme</td>
<td>Unsatisfactory</td>
<td>Weak</td>
<td>Poor</td>
</tr>
<tr>
<td>United Nations Industrial Development Organization</td>
<td>Weak</td>
<td>Unsatisfactory</td>
<td>Poor</td>
</tr>
<tr>
<td>United Nations Educational, Scientific and Cultural Organisation</td>
<td>Unsatisfactory</td>
<td>Unsatisfactory</td>
<td>Poor</td>
</tr>
<tr>
<td>The Development Programmes of the Commonwealth Secretariat</td>
<td>Unsatisfactory</td>
<td>Unsatisfactory</td>
<td>Poor</td>
</tr>
<tr>
<td>The United Nations International Strategy for Disaster Reduction</td>
<td>Unsatisfactory</td>
<td>Unsatisfactory</td>
<td>Poor</td>
</tr>
</tbody>
</table>


Obviously, the findings of the multilateral review reflect United Kingdom development priorities and national interests, which are not identical to Australia’s. However, most of the criteria used to make the assessments are relevant for all donors, including Australia.

Australia has never made such a systematic effort to assess the effectiveness and relevance of multilateral organisations. The Multilateral Study recommends that AusAID undertake an exercise to rate multilateral organisations, drawing on available information (including the United Kingdom multilateral review), but giving weight to criteria of particular relevance to Australia.
The Review Panel agrees. Such an exercise would provide a firm base for ensuring increased core funding goes to effective multilateral organisations relevant to Australia’s objectives.

Drawing on the multilateral review, information from the Multilateral Study, and discussions with bilateral and multilateral donors and AusAID staff, the Review Panel has been able to draw preliminary views on the effectiveness and relevance of a range of multilateral agencies. These views are outlined below. Both the analysis and conclusions will need to be tested in a subsequent process.

The analysis below looks at 14 multilateral organisations: the ten recipients of core funding in 2009–10 listed in Table 10.2 plus a further four agencies which the Review Panel believes are worthy of comment. For good performers, the Review Panel considers the scope for a scaling up of core funding in the range of a doubling to a tripling. In some cases, there may be scope for an even larger increase in funding. For poor performers, the Review Panel recommends no increase or a possible end to funding.

a) World Bank

The World Bank is an obvious candidate for a substantial core funding increase. It is widely regarded as the world’s leading development organisation. As discussed in Box 10.3, the results achieved by the World Bank’s concessional lending arm are impressive. The World Bank often plays an important coordination role at country level, as it is doing in Afghanistan through the reconstruction trust fund. Some of the World Bank’s analytical work, particularly through flagship publications such as the World Development Report, helps to shape the actions of all donors.

Interestingly, the United Kingdom’s multilateral review rated the World Bank as equal 10th in terms of organisational strengths. The rating was dragged down by a low score for partnership behaviour and for varied quality of staff in fragile states. Australia’s experience with World Bank staff in Pacific Island countries is consistent with these findings, but the World Bank’s partnership behaviour has been positive in Indonesia and the Pacific in recent years.

Australia is currently the 11th largest donor to IDA. A tripling of current funding levels would see Australia become the fifth largest donor, larger than France and Canada. From an effectiveness standpoint, this would be a sound investment.

Payments to IDA are generally made with a considerable lag and the three-yearly replenishment of IDA has just concluded. Consequently, scaling up funding through the normal processes would not see funding increase sharply until after 2015–16. Therefore, the Review Panel recommends Australia explore options to pre-pay existing commitments.

b) Asian Development Bank (ADB)

The ADB is another obvious candidate for a significant increase in core funding. It is the largest and arguably the most respected donor in Asia. The results achieved through ADF are impressive, particularly in infrastructure and regional integration.

The ADB is already an important partner for Australia. As discussed in Box 10.4, a range of co-financing activities are working well, particularly in the Mekong region.

The United Kingdom multilateral review rated the ADB very highly (fourth) in terms of organisational strengths, noting its strong partnerships with governments and results focus.
A doubling of current funding levels would make Australia the second largest donor to the ADF and a tripling of funding would bring Australia close to Japan. Under either scenario, far greater Australian engagement with ADB, at policy and headquarters level, would be required. From an effectiveness standpoint, a doubling or tripling of funding to ADF would be a sound investment.

Like IDA, payments to ADF are generally made with a considerable lag. However, unlike IDA, the four-yearly replenishment process is about to commence. Therefore, the Review Panel recommends Australia use the forthcoming replenishment to significantly increase its contributions to ADF.

c) United Nations Children’s Fund (UNICEF)

UNICEF has long been the favoured UN development agency for the Australian aid program. This is because it has a strong track record of delivering tangible results on the ground, particularly in areas such as health, education and water and sanitation. The partnership agreement between AusAID and UNICEF has worked well, with UNICEF showing a strong willingness to make Australia’s contributions visible.

In recent years, UNICEF has strengthened its organisational practices and is better at implementing the aid effectiveness agenda, including harmonisation of procedures at country level.

UNICEF rated strongly in the United Kingdom multilateral review, although the review found UNICEF needed to do more to report aggregate results and collaborate with other UN agencies consistently.

Most of Australia’s current engagement with UNICEF is through earmarked funding. In 2009–10, Australia was the eleventh largest core funding provider. A doubling of core funding is certainly warranted, which would make Australia the sixth largest donor. A tripling would make Australia the fifth largest donor, more than the United Kingdom. Such a status would require a much higher level of engagement at headquarters level.

d) United Nations Development Program (UNDP)

UNDP is charged with coordinating UN development efforts. This is an important but difficult mandate. UNDP delivers programs across many countries with varying levels of governance.

UNDP has a mixed record. The quality of its staff and operations varies widely across countries. It has performed well in improving governance in some ways, such as supporting the smooth running of elections, but has tended to spread itself too thinly. At the country level, it has a strong focus on gender equality and human rights–based approaches to development.

Former New Zealand Prime Minister Helen Clark has headed UNDP since April 2009. The Review Panel met her during the consultation process and was impressed with the energy with which she is tackling reform in UNDP and the UN system more broadly. She has a clear idea of where she wants to lead the organisation.

Australia’s core contributions to UNDP are low compared to most donors. In 2009–10, Australia was the fifteenth largest provider. A tripling of core funding would only see Australia move to twelfth. There is a case for supporting the UNDP reform agenda, but increases in funding should be contingent upon improvements in performance over time.
e) Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund)

The Global Fund is a public–private partnership that raises and disburses funds to prevent and treat HIV/AIDS, tuberculosis and malaria. The Global Fund has been instrumental in reducing mortality levels, by garnering resources to fight major diseases in the world’s poorest communities.

Australia is generally favourably disposed towards the Global Fund, particularly due to its strong focus on delivering results. In 2010, the government announced a new three–year $210 million commitment, a 55 per cent increase on Australia’s previous three–year pledge. Based on targets, this commitment will provide HIV treatment for approximately 28,000 people, tuberculosis treatment for 35,000 people, and allow the distribution of 1,050,000 bed nets to prevent malaria.

The United Kingdom’s multilateral review rated the Global Fund as being very good value for money, praising its focus on results and strong commitment to transparency.

The Global Fund has been criticised for not giving enough attention to strengthening health systems and is rectifying this, though more needs to be done.

The Review Panel sees a case for a substantial increase in core funding to the Global Fund given its strong focus on results.

f) The Global Alliance for Vaccines and Immunisation (GAVI)

GAVI is a public–private partnership that brings together governments, vaccine manufacturers, NGOs, the Gates Foundation and other multilateral organisations. GAVI is significantly increasing the number of children worldwide who have access to immunisation. Between 2000 and 2009, GAVI–supported programs immunised more than 257 million children and prevented an estimated 5.4 million future deaths through routine immunisations.

GAVI’s innovative approach to working within existing partner country frameworks and systems has allowed for greater funding flexibility and reduced the reporting burden at country level. GAVI’s business model fosters a healthy vaccine market by encouraging and pooling growing demand from developing countries, attracting new manufacturers and increasing competition to drive down prices.

Like the Global Fund, GAVI has a very strong focus on results. Based on estimated country needs, GAVI currently estimates it has a financing gap of US$3.7 billion.

Australia is generally well disposed to GAVI, but has been a relatively modest donor to date. In October 2010, the government announced a new $60 million commitment for 2011–13. Based on GAVI’s expected results, this will prevent about 50,000 deaths through immunisation programs.

GAVI offers Australia a proven, respected and innovative multilateral mechanism for further developing its interest in supporting countries in Africa, while at the same time minimising the risk of aid fragmentation.

The United Kingdom’s multilateral review rated GAVI as providing very good value for money, noting it demonstrates tangible results, is innovative and transparent.

The Review Panel sees a case for a very large increase in core funding to GAVI given its strong results focus, innovative approach and the low level of current Australian contributions.
g) World Health Organisation (WHO)

WHO is the coordinating authority for health within the UN system. It is responsible for providing leadership on global health matters, shaping the health research agenda, setting standards, articulating evidence-based policy, providing technical support to countries, and monitoring and assessing health trends.

WHO plays a critical role at the country level, providing technical and policy assistance to governments and coordinating other development partners. Without an institution such as WHO, Australia would need to invest significantly more resources in the provision of technical assistance and policy advice.

Australia’s experience with WHO at the field level is mixed, with highly variable performance across countries and slow decision-making due to heavy bureaucracy. The Executive Director’s reform agenda is wide-ranging and likely to impact on both the strategic direction and management arrangements of WHO. Australia broadly supports the reform agenda, which is expected to result in positive changes to organisational and development effectiveness.

The United Kingdom’s multilateral review gave WHO a weak rating in terms of its organisational strengths. The review found that WHO needs to improve its strategic focus and delivery at country level, its results reporting, cost consciousness, financial management and transparency. Further, it suggested there was uncertainty about whether WHO has the capacity to change. Nonetheless, it considered WHO critical to the achievement of the health Millennium Development Goals (MDGs) and found its value for money to be adequate.

The Review Panel does not believe there is a strong case for a significant increase in core funding to WHO, unless it can be used as a means to leverage acceleration in current reform efforts to improve its effectiveness.

h) United Nations High Commissioner for Refugees (UNHCR)

UNHCR is mandated to lead and coordinate international action to protect refugees and resolve refugee problems worldwide. Its primary purpose is to safeguard the rights and wellbeing of refugees. It strives to ensure everyone can exercise their right to seek asylum and find safe refuge, with the option to return home voluntarily, integrate locally or resettle in a third country. It also has a mandate to help stateless people.

Australia’s experience with UNHCR has been generally positive. UNHCR has made good progress on major structural and management reforms. AusAID has no formal agreement for regular high-level bilateral meetings within which to raise issues, and therefore has limited influence. There is also some concern that UNHCR may allocate insufficient resources to the Asia-Pacific region.

The United Kingdom’s multilateral review rated UNHCR as being good value for money. UNHCR strongly aligns with United Kingdom development objectives as it has a unique mandate and has expertise in providing protection and assistance to displaced persons. Similarly, Australia has real interests in the effective discharge of the mandate of UNHCR and in enhancing its operations in the Asia-Pacific region.

Australia was the thirteenth largest core funding provider to UNHCR in 2009–10. The Review Panel sees a case for a substantial increase in core funding.
i) United Nations Office for the Coordination of Humanitarian Affairs (UN OCHA)

UN OCHA is responsible for mobilising and coordinating humanitarian action in partnership with national and international actors during disasters and emergencies.

Australia is a past chair of the UN OCHA donor support group

UN OCHA, unlike any other UN organisation, has only a coordination mandate; it does not deliver goods or services. As a result, its success will always, to some degree, be linked to the performance of others, including big UN service delivery agencies, which UN OCHA seeks to coordinate.

The Review Panel has raised the issue whether Australia would want UN OCHA to take the lead in coordinating the international response should there be a major disaster in the South Pacific, because Australia would presumably not want to constrain its options to move quickly and unilaterally. The response is that UN OCHA could still play a valuable role in coordinating UN agencies, without constraining the opportunity of Australia to take a lead.

The United Kingdom’s multilateral review found UN OCHA has a critically important role. UN OCHA performs strongly in fragile contexts and demonstrates good partnership behaviour, although it needs to strengthen its leadership and coordination structures. It rated UN OCHA as being good value for money overall.

The Review Panel sees a case for a substantial increase core funding to UN OCHA, subject to continued progress in institutional reform efforts.

j) World Food Program (WFP)

WFP is the food aid arm of the UN, focused mainly on providing humanitarian and emergency relief.

Australia generally has a very positive view of WFP. In most years, WFP receives more Australian aid funding than any other UN agency. It is generally very efficient in delivering food aid, even in the most difficult environments, and willing to provide visibility for Australian contributions. The Australian government received high praise from WFP head Josette Sheeran for providing guaranteed, multi-year funding under the partnership agreement signed in 2009. Australia is a member of the WFP Executive Board, giving it considerable ability to influence and support policy making.

Any WFP operation involves some risk purely because of the nature of its response. However, WFP has strong monitoring and evaluation mechanisms in place to ensure operations are effective.

The United Kingdom’s multilateral review found that the WFP has a critically important role, including in fragile contexts, and demonstrates a commitment to results. It noted there was evidence of good cost consciousness and sound financial resources management. It also found WFP needs to further strengthen its core emergency response capacity and improve its performance on results, value for money, transparency and accountability.

The Review Panel see a case for substantial increase in core funding to WFP. This would be an effective use of funds and consistent with this Report’s recommendation for a greater focus on humanitarian assistance.
k) Global Environment Facility (GEF)

The GEF provides grants to developing countries for projects related to climate change, international waters, land degradation, the ozone layer, biodiversity, and persistent organic pollutants.

Australia has some concerns regarding the inefficiency of GEF project approval procedures, which historically have been burdensome and tend to incur delays.

The United Kingdom's multilateral review rated the GEF as having good overall value for money and gave it a high ranking for organisational strength. It found that GEF reform measures are on track.

Australia committed to increase its funding to GEF to $105 million under the recently–completed replenishment. Like IDA and ADF, GEF generally raises money through replenishments. The Review Panel does not see a strong case for a special Australian contribution to GEF outside the usual replenishment process, but believes Australia should at least double its contribution during the next replenishment in 2013.

l) International Committee of the Red Cross (ICRC)

The ICRC is an international organisation with a unique status and an exclusively humanitarian mission. It directs and coordinates the international relief activities conducted by the Red Cross movement in conflict situations. It is not officially classed as a multilateral organisation, but is in this category for the purposes of this Report.

Australia has generally had very positive experiences with ICRC at both a country and institutional level. The ICRC positions itself strategically, makes efficient use of resources and is placing greater emphasis on coordination with other actors, for example WFP.

The United Kingdom's multilateral review considered the ICRC to be very good value for money. It rated the ICRC highly for its strong organisational strengths and its contribution to United Kingdom development objectives. The review found the ICRC often has unparalleled access to vulnerable populations because of the trust it has developed with governments, and is therefore often the only organisation offering assistance and protection in remote areas.

The Review Panel sees a case for a very substantial increase in core contributions to ICRC on the grounds of effectiveness. Such an increase would require a much higher level of engagement with ICRC headquarters and an agreement on the visibility of Australia’s contributions.

m) Commonwealth Secretariat

The Commonwealth aims to uphold democratic values across Commonwealth countries, and its activities include representing the interests of small states on issues such as climate change.

The Commonwealth is a forum in which Australia can promote the core Commonwealth values of democracy, good governance, the rule of law and human rights.

The Commonwealth Secretariat's effectiveness is hindered by its broad and loosely–defined mandate. At present, its activities are spread over a wide range of issues and a large geographical base, which dilutes its overall impact. Many activities appear to underperform and sometimes duplicate, rather than complement, activities of larger donors.
The United Kingdom's multilateral review rated the Commonwealth Secretariat unsatisfactory. It found that it lacks strategic focus and needs to improve its transparency and results-based management.

AusAID will provide $12.8 million to the Commonwealth Secretariat in 2010–11. In the lead up to the Commonwealth Heads of Government Meeting in November 2011 and beyond, the Australian government should send a clear message that core funding from Australia for the Secretariat’s development activities will be contingent on a demonstrated increase in effectiveness.

n) International Labour Organisation (ILO)

Australia provides only a small amount of core funding to ILO, through the Department of Education, Employment and Workplace Relations. Given the substantial and growing earmarked funding, the panel believe Australia’s engagement with ILO is worthy of comment.

Australia has intensified its engagement with ILO with a partnership agreement signed in April 2010. This resulted in a sharp increase in funding. Australia has had mixed experiences with ILO in the field, with concerns about the quality of staff in some countries and a lack of focus on results.

In the United Kingdom’s multilateral review, the ILO ranked very low on both its organisational strength and development objectives. DFID has announced it will cease core funding as a result.

Australia’s partnership agreement includes a review in 2012. The period between now and that review provides an opportunity for Australia to send clear messages to the ILO that it must lift its game if funding for development activities under the partnership agreement is to continue.

iv) Improving Australia’s Engagement with Multilateral Organisations

The Multilateral Study commissioned by the Review Panel makes a series of recommendations for improving Australia’s engagement with multilateral organisations, including the recommendation that Australia undertake a comparative assessment of multilateral organisations to shape future decisions on core funding. All the Multilateral Study’s recommendations are supported by the Review Panel:

- A multilateral engagement strategy, already in draft, should be finished and widely disseminated to clarify how future decisions, including on funding, will be made on multilateral funding and policy. A periodic ‘report card’ should let the public know how the strategy is progressing.
- Under this headline strategy, AusAID should prepare organisational strategies for all its key multilateral partners. These strategies should set the context for each organisation and cover the range of AusAID’s interaction with it: core and earmarked, policy, financial and operational. These strategies should include how Australia will get appropriate recognition for its contributions to multilaterals through branding and other means.
- New agreements with multilateral (mainly UN) organisations should replace the existing partnership agreements once they cease. Where possible, these should be drawn up with other like-minded donors, with a stronger link between the multilateral organisations’ performance and AusAID’s future funding.
• AusAID should rate multilateral organisations, based on an assessment of the effectiveness and relevance of each organisation to Australia’s aid objectives. The assessments should draw on comparative studies made by others (including the United Kingdom’s multilateral review). These ratings should be used to inform future decisions on funding and policy engagement. This will be important in core funding decisions, which are currently made in isolation of each other.

• AusAID requires the injection of new staff to work on multilateral issues.

This last point warrants elaboration. Senior management resources dedicated to multilateral issues are light even at current funding levels. This Report is recommending a substantial increase in funding to multilateral organisations. For Australia to get the most from this investment, and for it to be effectively monitored, a substantial injection of new resources is required.

The Review Panel believes this should include new senior management staff dedicated to overseeing Australia’s relationship with core multilateral partners. Senior staff should be based in Australian Embassies where they can best influence policy and program directions at headquarters and monitor whether Australia is receiving value for money, not unlike the functions performed by AusAID posts in developing countries.

The number and location of these new senior management positions would be a matter for AusAID management. But the Review Panel sees a strong case for new and/or more senior dedicated resources in: Washington DC (to oversee the relationship with the World Bank), Manila (to oversee the relationship with the Asian Development Bank), New York (to oversee the relationship with the UN development agencies), Geneva (to oversee the relationship with the Global Fund, ICRC and UN humanitarian agencies), and Rome (to oversee the relationship with the UN food agencies).

C. NGOS

i) Opportunities to Increase Engagement with NGOs

The role which AusAID and other Australian government agencies play in development, and the role of NGOs, are not identical, but they can be powerfully complementary.

Australian government agencies are obliged to function within the framework of Australia’s government–to–government relations with other countries, and to be continuously attentive to the views of other governments. They also have an obligation to promote Australian government positions. They should aspire to be influential with recipient governments. Typically, NGOs will spend less time in intergovernmental activities, will have a high level of specialisation and will operate on a smaller or even niche scale.

Australian NGOs bring particular strengths to the aid program. The geographic reach of the NGO networks is a real asset. Many of the large international development NGOs have strong international networks, for example World Vision, CARE and Caritas. These networks extend the reach of Australia’s aid.
Many NGOs also have expertise in meeting people’s basic needs, particularly in emergencies where quick and flexible responses are needed. This means they are well placed to assist where government capacity is weak. The Review Panel saw evidence of this in Afghanistan, where NGOs are delivering the bulk of health services in many provinces, often on behalf of the Government of Afghanistan.

The NGO sector also provides an important, community–based perspective on aid policy. NGO and civil society input into country strategies and sector policies is essential. Australia’s impressive disability strategy is an example of how involving NGOs in policy development can improve the outcome.

In their submission, CARE Australia summed up the comparative advantage of NGOs:

“NGOs work directly with poor communities and often have the most comprehensive knowledge of poverty in specific contexts. This enables NGOs to directly deliver support based on the communities’ own needs and concerns, support initiatives to reduce conflict and enhance social inclusion as well as providing support to communities to monitor government services. NGOs are well placed to understand how government policies affect the poor and to support advocacy to enhance services and programs to best meet the needs of the poor and marginalised.”

In addition to Australian NGOs, international and local NGOs (that is, those within aid recipient countries), are increasingly important partners of the aid program. About 11 per cent of Australia’s ODA, and 13 per cent of the budget appropriated to AusAID ($422 million), is spent through Australian, international and local NGOs.

NGOs will become more important in the future as the aid program grows. Australia’s relationship with NGOs needs to be close, businesslike and effective.

AusAID’s new country strategy process includes more systematic engagement with NGOs than has been the case in the past. This can be built on to strengthen the involvement of NGOs in program design and evaluation.

Just as Australian agencies need a budget process that provides certainty of funding into future years, so too NGOs need long–term funding so they can plan and invest with confidence in long–range projects and programs. It will also be necessary to invest in the scale–up of NGOs’ capacity to effectively handle increased funding.

**ii) Up–front Risk Management through Accreditation**

The NGO community is very large and there is wide variation in capability.

Australian NGOs understand the importance of providing confidence and reassurance about their performance, especially as a condition of receiving public funds. The Australian Council for International Development (ACFID) Code of Conduct, which has existed for almost two decades, has recently been reviewed and strengthened (see Box 10.6).

NGOs that wish to access core funding from the aid program need to pass a rigorous accreditation process. This due diligence test is an in–depth assessment of an NGO’s management, systems, operations, and links with the Australian community.
If an NGO passes this assessment, it is granted accreditation for five years (dependent on the NGO meeting its responsibilities to AusAID during this time). NGOs can receive ‘full accreditation’ or ‘base accreditation’. Base accreditation provides assurance that government funds will be properly used, but requires slightly less onerous governance and systems arrangements. Full accreditation provides access to higher levels of core funding. Some 35 Australian NGOs currently have full accreditation and seven base accreditation.

The Review Panel supports the accreditation process as an important front–end risk management measure. The rigor of the process gives AusAID and the public confidence that accredited NGOs are able to deliver quality development outcomes.

**Box 10.6: ACFID Code of Conduct**

For more than 14 years, members of ACFID have used the Code of Conduct for self–regulation to ensure effective development outcomes and enhanced public trust. ACFID comprehensively reviewed the code in 2010 and it now includes more than 50 principles and more than 150 binding obligations.

The code is a voluntary, self–regulatory sector code of good practice. It aims to improve international development outcomes and increase stakeholder trust by improving the transparency and accountability of signatory organisations.

The code sets out standards in three areas of accountability:

- program principles, including obligations for effectiveness in aid and development activities, human rights and working with partner agencies.
- public engagement, including obligations to be ethical and transparent in marketing, fundraising and reporting.
- organisation, including obligations for governance, management, financial controls, treatment of staff and volunteers, and complaints.

The code has been rated at the ‘hard end’ in a spectrum of soft to hard national self–regulatory initiatives compiled by the One World Trust (Lingán et al 2009). It is one of only two self–regulatory codes that operate in the Australian not–for–profit sector and is one of only 27.5 per cent of international codes of conduct operating worldwide for civil society organisations that have a system for ensuring compliance (Lloyd et al 2010).

Current compliance mechanisms include: checking of documentation upon membership application (governing instrument, policies), an annual statement of commitment to the code, review of annual and financial reports by a qualified accountant against the reporting requirements of the code, annual self– assessment against every principle of the code signed by the signatory governing body and reviewed by the Code of Conduct Committee, random audits of fundraising material during an emergency and an external complaints mechanism.

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13 The other is for fundraisers and is managed by the Fundraising Institute of Australia.
An independent, voluntary Code of Conduct Committee monitors adherence to the code and investigates complaints, which may be brought by any member of the public. The primary focus, if a breach occurs, is to work with signatory organisations to improve standards and reduce the risk of recurrence. If a breach is more serious, or the signatory does not respond appropriately, disciplinary action may be considered. The committee may require the signatory to provide information to donors, notify AusAID, and ultimately suspend code membership.

Adherence to the code is a requirement of AusAID accreditation. While compliance with both AusAID accreditation and the code takes different forms, the two systems reinforce and strengthen each other to ensure a high level of aid effectiveness.

Some small Australian NGOs have argued that the accreditation process is demanding and expensive for a small organisation. For example, in their public submission, Sexual Health and Family Planning Australia noted:

“In relation to the AusAID NGO Accreditation System, despite the review and subsequent changes in 2009, the accreditation system continues to present particular challenges for small and/or specialised Australian NGOs. It would be useful to revisit this section of the accreditation system. Small NGOs have an important niche role to play in international development efforts: they have specific technical expertise or work with community groups in developing countries that others overlook. Their contribution needs to be supported and encouraged in ways that are different to larger NGOs. Some of the accreditation system requirements can be irrelevant to small and niche NGOs’ work, yet they have to implement these requirements regardless. This creates inefficient burdens and wastes resources on compliance simply for the sake of it.”

A difficult balance for AusAID is evident here. It is only through a strong, up-front accreditation process that AusAID and the Australian public can have enough confidence in an organisation to give core funding with low levels of oversight. On the other hand, the Review Panel accepts that the accreditation process is onerous and may be daunting for smaller organisations, especially those run entirely by volunteer staff. Good, small NGOs do not object to high standards for accreditation, but they want the processes to be improved.

Since 2009, AusAID has offered technical assistance of up to five days for small agencies seeking accreditation for the first time or reaccreditation under AusAID NGO Cooperation Program (ANCP).

AusAID should undertake an exercise of consulting smaller NGOs which have dealt with the accreditation process to hear any complaints and consider whether it can be further improved. The Review Panel also supports examination by AusAID of other options such as establishing a mentoring system where accredited NGOs provide formal support to smaller NGOs.
iii) Core and Earmarked Funding of NGOs

Both core and earmarked funding for Australian NGOs has increased steeply over the past five years. Funding to international and local NGOs has tended to be through earmarked funding, although AusAID has begun to enter several small core funding arrangements with non–Australian NGOs.

AusAID provides core funding to Australian NGOs through the ANCP. This program has been the primary interface between AusAID and Australian NGOs for more than 30 years. Funding through ANCP has more than doubled over the past five years. In 2010–11, $69 million will be provided, up from $27.4 million in 2006–07.

Table 10.3: Australian ODA to NGOs in 2009–10 (for organisations that received more than $4 million in total funding)

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Core Funding ($ million)</th>
<th>Earmarked Funding ($ million)</th>
<th>Total Funding ($ million)</th>
</tr>
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<tbody>
<tr>
<td>BRAC (see Box 10.7)</td>
<td>0</td>
<td>30.4</td>
<td>30.4</td>
</tr>
<tr>
<td>World Vision Australia</td>
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<td>14.8</td>
<td>29.8</td>
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<td>Oxfam Australia</td>
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<td>15.8</td>
<td>21.1</td>
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<td>Fred Hollows Foundation</td>
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<td>19.9</td>
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<tr>
<td>Australian Volunteers International</td>
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<td>18.2</td>
<td>18.2</td>
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<tr>
<td>CARE Australia</td>
<td>1.0</td>
<td>16.8</td>
<td>17.8</td>
</tr>
<tr>
<td>Australian Red Cross **</td>
<td>1.8</td>
<td>15.5</td>
<td>17.3</td>
</tr>
<tr>
<td>Save the Children Australia</td>
<td>1.3</td>
<td>15.8</td>
<td>17.1</td>
</tr>
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<td>Macfarlane Burnet Institute for Medical Research and Public Health</td>
<td>0.5</td>
<td>14.0</td>
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<td>Alliance for a Green Revolution in Africa</td>
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<td>The Asia Foundation</td>
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<td>Development Gateway Foundation</td>
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<td>4.4</td>
</tr>
<tr>
<td>Australasian Society for HIV Medicine Inc</td>
<td>0</td>
<td>4.2</td>
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** Australian Red Cross is not strictly a non–government organisation, but is listed here for the purposes of this Report.
Core funding through ANCP is provided in three parts.

First, the formal partnership agreements that AusAID has signed with the six NGOs with the greatest Australian community support include firm multi-year funding commitments.

Second, the remaining NGOs with full accreditation are allocated core funding from a fixed annual pool of funds in proportion to the amount of money they collect from the Australian community for overseas activities.

Third, small agencies with base accreditation receive $150,000 where at least $50,000 has been raised from the community.

The accreditation process gives AusAID confidence this core funding will be well used, but AusAID presently does little to highlight the development results achieved from core NGO funding. This is a lost opportunity. There is a range of benefits from AusAID’s core funding of NGOs:

- Australian NGOs often operate in countries where the Australian government has no country program. AusAID’s core funding of NGOs, along with its core funding of multilateral organisations, is a key component of Australia’s engagement with these countries.
- Australian NGOs have strong recognition and support within the Australian community. Highlighting government support for Australian NGOs’ own programs can help build a sense that the aid program is a ‘team Australia’ effort.
- Many of the development results NGOs achieve are impressive, and deserve to be highlighted within the story of the overall impact of the aid program.

Australia also provides some core funding to international NGOs, although it generally involves very small amounts. Recipients of core funding include the Mine Action Group, the International Campaign to Ban Landmines, the Humanitarian Action Partnership, the International Displacement Monitoring Centre and the International Coalition for Responsibility to Protect. Core funding to international NGOs totalled around $5 million in 2010–11.

In a few cases, AusAID has also provided core funding to local NGOs in developing countries. For example, in Bangladesh, AusAID gives $1 million a year in core funding to the International Centre for Diarrhoeal Disease Research. AusAID is also about to begin core funding to BRAC, based in Bangladesh.

There are many cases where earmarked funding of local NGOs has delivered good results. For example, AusAID’s funding supported the Vanuatu Women’s Centre to advocate for the gazettal of the Family Protection Act in 2009, which extended the definition of rape to include rape in marriage.

BRAC (Box 10.7) is a good example of an effective local NGO that Australia can confidently support. Australia should look for opportunities to work with such organisations when preparing country strategies and program designs, just as systematically as it does with multilateral organisations.
Box 10.7: BRAC

BRAC is the world’s largest development NGO. Originally the Bangladesh Rehabilitation Assistance Committee, its mission is to “empower people and communities in situations of poverty, illiteracy, disease and social injustice”. It also aims to “achieve large-scale, positive changes through economic and social programs that enable men and women to realise their potential”.

BRAC has evolved from a small relief organisation based in Bangladesh to engaging in long-term community development and running various social enterprise programs, such as in microfinance, education and agriculture. Its programs have expanded across Bangladesh into both rural and urban areas, and to countries in Asia and Africa. It now employs more than 100,000 people, including microfinance officers, teachers, health staff and enterprise managers. It reaches 110 million people throughout the world and is 80 per cent self-funded.

BRAC’s success has been built on its knowledge and understanding of poverty, and its strong focus on women and girls. Its efforts in microfinance have helped more than four million people access credit. This includes Afghanistan, where, since 2002, it has disbursed more than US$195 million worth of small loans to 150,000 borrowers. In post-conflict southern Sudan, BRAC is pioneering a non-formal education program for children who have not completed primary school and has opened 110 ‘second chance’ learning centres. In Bangladesh, BRAC’s Community Empowerment and Strengthening Local Institutions Program aims to enhance the human and social capital of the poor and marginalised, especially women, so that they are aware of their rights and are empowered to resist exploitation.

In the case of core funding to international and local NGOs, AusAID has no equivalent to the accreditation process. Individual arrangements must be put in place for each core partner to ensure funds will be well used.

Several of these partners, such as BRAC and the ICRC, are extremely reputable organisations with a strong track record. The Review Panel sees scope to give much larger core funding to well-credentialed NGOs, with potentially a reduction in the total number of international and local NGOs receiving core funding.

AusAID can work with reasonable confidence with overseas NGOs that are partners of Australian NGOs or federated with major global NGOs. In selecting overseas partners, AusAID can also take into account whether an NGO has signed the equivalent of ACFID’s Code of Conduct or AusAID’s accreditation scheme.

Even for the most trustworthy of organisations, however, the condition of receiving Australian funds should be President Reagan’s dictum: “trust, but verify”.

In summary, there is scope to increase the share within the aid program of core funding to both Australian accredited NGOs and to credible and effective international and local NGOs.
The Review Panel also sees significant scope to increase funding of Australian, international and local NGOs for specific activities at the country level. As mentioned above, there are many circumstances where NGOs will have a comparative advantage in delivering all or part of a program, particularly when engaging local communities.

In the case of accredited Australian NGOs, the Review Panel sees scope for AusAID to rely more on the accreditation process for confidence about providing earmarked funding to NGOs. The Review Panel agrees with Australian Volunteers International (AVI) in their submission to the Review:

“AusAID needs to place much greater value and importance on processes like ANCP accreditation and the ACFID Code of Conduct as rigorous and effective risk management tools. Often, it appears that these processes are sidelined, as AusAID seeks to manage risk through additional layers of contract and compliance measures. This leads to greater administrative and other transactional costs, and undermines the flexibility and other benefits brought to the program by development NGOs.”

The approach in such cases should be quality assurance rather than excessively intrusive or duplicative quality control.

iv) Selectivity in Funding to NGOs

Clearly core funding should be restricted to NGOs which are effective. However, there is a significant distinction between the criteria for selectivity of Australian NGOs as compared with multilateral organisations.

Australian NGOs are independent entities. The Australian government is not a shareholder or stakeholder in them. They have their own charters and objectives. It is not for the government to seek to influence them to act in accordance with government–determined priorities and national interests. Their independence clearly needs to be respected.

Therefore the present approach towards allocating the core funding available for Australian NGOs should be maintained. This approach is to allocate core funding in proportion to public donations which they receive, this being a measure of both public interest in their causes and confidence in their performance. The safeguard on effectiveness is provided through the prior accreditation, which is required for any access to core funding.

For some Australian NGOs, there are limits to the extent to which funding can be effectively increased, at least in the short term. There are two main constraints.

First, just as there are challenges to both AusAID and other partners in coping with sudden increases in funding, some Australian NGOs will take time to build capacity to effectively absorb significant increases in funding. As noted by Oxfam in its submission:

“The growth of the program creates the potential for a significant increase in government support to NGOs and CSOs. However, this also raises questions regarding absorptive capacity and Oxfam is not simply arguing for an increase in government funding for NGOs. As with other delivery mechanisms for the development cooperation program, issues of aid effectiveness and comparative
advantage should be the key consideration in determining the appropriate level of support for NGOs.”

Second, to remain independent, several NGOs have self-imposed limits on the amount of government funding they will accept. The Review Panel understands and supports this.

Within these limitations, the Review Panel believes the ANCP accreditation process provides a firm basis for scaling up core funding for Australian NGOs.

Funding through international and local NGOs is a different story. AusAID must have full confidence in the effectiveness and capacity of NGOs before it provides funding of any kind, let alone core funding. There is most certainly scope to significantly increase both core and earmarked funding to effective international and local NGOs, but AusAID and other government agencies must proceed with care and caution. The calibre and motivations of such NGOs vary widely. There is currently no systematic process equivalent to the accreditation process to assess the effectiveness of international and local NGOs. The Review Panel therefore recommends that clear guidance for quality assurance processes be developed and widely disseminated to govern AusAID’s engagement with these NGOs.

v) NGO Engagement in Policy Development

The Review Panel sees scope to engage Australian, international and local NGOs more systematically in policy development. There are obvious limits to this. Policy development is a core function of government and government will, legitimately, sometimes have vastly differing perspectives from NGOs. But policy is generally improved through engagement with informed stakeholders. Often NGOs and civil society groups are informed stakeholders in areas of policy development.

AusAID already involves both Australian and local NGOs in some sector and country policy development. For example, NGOs and community groups in Australia and in developing countries were very heavily involved in the disability strategy. Consultation with NGOs is a requirement of AusAID’s new country strategy development process. But such engagement is not universally embedded in AusAID’s culture and systems.

The partnership agreements with the six NGOs with the greatest Australian community support (World Vision, Oxfam, Caritas, PLAN, ChildFund, and Christian Blind Mission) are working well and have facilitated greater policy engagement. ChildFund commented favourably on the agreements in its submission to the Review:

“This partnership arrangement recognises the strengths of NGOs... and establishes a more equal relationship that not only delivers aid programs, but provides a basis for robust policy dialogue.”

Other organisations expressed similar sentiments to the Review. ACFID also commented favourably on its partnership agreement with AusAID.

While these are welcome steps, the Review Panel sees scope to build more systematic engagement during policy development with informed Australian, international and local NGOs and civil society groups. The appropriate form of engagement will vary depending on the nature of the policy being developed. Relevant Australian NGOs and civil society groups should be
included in development of country, sector and thematic strategies and policies, and the design of major programs. This will require additional AusAID staffing resources.

Several submissions suggested an advisory committee be established to help improve policy engagement between AusAID and NGOs. The Review Panel supports the need for the consistent inclusion of NGO (and other) views in policy development, but does not believe an advisory committee is the best way to achieve this. Systematically including NGOs (and private sector representatives) in key processes, such as country strategy and policy development, is a more powerful form of engagement. This will have greater impact than a new advisory body, which risks being tokenistic and administratively burdensome.

What is needed is a mindset of seeking early consultation with NGOs at the policy development and program design phases, especially where major new initiatives are contemplated by government.

**Recommendation 17:** Core funding to multilateral organisations should be linked to performance and relevance to Australia through the introduction of a multilateral rating system.

**Recommendation 18:** In relation to multilateral organisations, Australia should use its more prominent ‘seat at the table’ to seek greater influence over policy and program directions, better recognition for contributions and better monitoring of effectiveness.

**Recommendation 19:** AusAID’s existing accreditation system should be used as a basis for Australian NGOs to access increased funding. AusAID should consider further means to improve the accreditation process for small NGOs.
Chapter 11: OTHER PARTNERSHIPS

A. INTRODUCTION

This chapter looks at Australia’s partnerships with partner governments, other bilateral donors, contractors, business and private sector organisations, universities, research institutions and think tanks.

B. PARTNER GOVERNMENT SYSTEMS

In any country the partner government is normally the key partner for the aid program. This is the case regardless of whether or not aid is delivered through partner government systems.

The term ‘use of partner government systems’ covers a wide array of approaches.

At one extreme is general budget support. This involves simply providing a cheque to the treasury of the partner government to support the government’s general expenditure, typically on the basis of various policy conditions.

At the other extreme, money is provided within the context of a specific project. Here, money flows through the budget systems of the partner government, but is earmarked for a specific purpose. In this type of arrangement, donors sometimes provide auditors or accountants to check whether the money is being used for its intended purpose.

A range of approaches sit within these two extremes. One of the most common is ‘sector–wide approaches’, where donors supplement partner government programs in a particular sector, often health or education, on the basis of an overall agreed program of policies and expenditure.

From the 1970s until the early 1990s, Australia’s main form of aid to PNG was general budget support. Budget support was not seen as a success in PNG and the program moved away from this in the 1990s. Since then, Australia has rarely used pure budget support as a form of aid within country programs. By 2005, only two per cent of the aid program was delivered through partner systems.

In the last five years, there has been a shift back to partner government systems. About eight per cent of the program is now channelled through partner governments. There has been some increase in general budget support, but most of the increased use of government systems has tended to be through sector–wide approaches or similar mechanisms.

Indonesia has been a major beneficiary of the increased use of government systems. Part of this is because some of Australia’s post–tsunami aid was a concessional loan, but loans are now being replaced by grants and the use of partner systems continues.

Use of government systems spreads well beyond Indonesia, to countries including Samoa, Vanuatu and Vietnam.
Indeed, official figures do not reflect the extent to which Australian aid uses partner government systems because some multilateral organisations typically pass a lot of their funding through government systems. So as Australia’s contributions to multilateral organisations has risen, so too has the reliance on government systems. A good example of this is Australia’s funding to Afghanistan’s multi-donor trust fund, where funds are allocated to the Afghan government as budget support under World Bank’s supervision.

The use of government systems has two advantages.

First, it avoids parallel systems for donor projects that create administrative burdens for governments and donors.

Second, it can help donors influence and improve policy and program settings of entire government systems rather than being confined to individual aid activities.

The Indonesia schools program mentioned earlier is an example of how the use of government systems enabled Australia to help improve the functioning of the education system, including important areas like approaches to disability. This is far beyond what could have been achieved by a stand-alone activity delivered parallel to government systems.

So in the right circumstance, there are considerable advantages to aligning aid funding with partner government activities in areas like health and education. In some situations, use of such systems can influence large slabs of partner government expenditure. This can dramatically increase the impact of aid.

Overall, putting more funding through partner government systems has been a positive experience. Sector-wide approaches and individual programs and projects that have used partner government systems have generally worked well. For example, Australia is supporting the Nepal School Sector Reform Program, which is a government-led, sector-wide approach to funding primary and secondary schooling. The preceding five-year Nepal Education for All Program, which Australia also supported, saw primary enrolment increase by 20 per cent.

In some cases, partner government systems used to disburse funds have been strengthened because of Australia’s aid oversight. Risks of fraud have been successfully managed through the presence of auditors, accountants and other fiduciary oversight. This is discussed further in Chapter 15.

The time needed for negotiations is one of the main problems with working through government systems. In some cases, it has been impossible to bridge the gap between the different players (not only Australia and the partner government, but sometimes other donors). As a result, some proposed projects that were to use partner government systems have not come to fruition.

AusAID’s current policy is that working through government systems should not be the default. This policy is correct. The form of aid should always be driven by careful consideration of the country context and the best way of achieving desired outcomes.

Nevertheless, given the successful use of partner government systems in a range of contexts and the potential benefits of this form of aid, the Review Panel recommends that Australia expand the share of aid being disbursed through government systems.
It is worth noting that the United States Agency for International Development (USAID), traditionally wary of working through partner government systems, is now aiming to increase disbursement through such systems from nine per cent (in six countries) to 20 per cent (in 25 countries).

**C. OTHER BILATERAL DONORS**

Australia works closely with a number of other bilateral donors on both policy and program issues. There are a number of ‘delegated cooperation’ arrangements, where Australia provides funding in support of programs managed by another bilateral donor.

Such arrangements have clear benefits in terms of reducing fragmentation, administrative savings for AusAID and reach into regions where AusAID does not have country knowledge, expertise or presence. The total value of delegated cooperation arrangements with other bilateral donors is less than $100 million. Given this low base, the key theme of partnership in this Review, and the relatively low risk of this mode of delivery, the Review Panel sees considerable scope to increase this method of delivery.

**i) New Zealand**

Australia and New Zealand share a wide-ranging aid and development relationship. Collaboration focuses mainly on development assistance in the Pacific, but extends to global, thematic and corporate issues.

In August 2009, Prime Minister John Key and then Prime Minister Kevin Rudd committed to an Australia–New Zealand Partnership for Development Cooperation in the Pacific. The importance of this agreement was reiterated in the February 2011 joint statement by Prime Ministers Key and Julia Gillard. The partnership aims to further integrate Australia and New Zealand’s development assistance in the Pacific, consistent with principles in the Cairns Compact.

Formal annual meetings are held between the head of AusAID and New Zealand’s Deputy Secretary for International Development. There is constant informal contact at both senior and working levels, particularly on Pacific-related issues.

Australia currently has delegated cooperation arrangements with New Zealand in Tonga, Vanuatu and Cook Islands worth around $23 million. This includes the complete delegation of Australia’s aid program to the Cook Islands through a single co-funded program managed by New Zealand. A template for delegated cooperation programs is currently being prepared to facilitate greater use of such arrangements.

Australia and New Zealand, together with the United States, are jointly working on women’s leadership in the Pacific. The United States and New Zealand have agreed to focus on political and business leadership, and Australia on community leadership.

Australia and New Zealand have shared joint leadership of the Regional Assistance Mission to Solomon Islands (RAMSI) since 2003. Australia and New Zealand contribute police and military personnel to help stabilise Solomon Islands.
Australia and New Zealand are key contributors to the Pacific Region Infrastructure Facility (with the World Bank and Asian Development Bank). The facility helps to coordinate financing from the four donors in support of long-term infrastructure improvements in the region, such as energy security in Tonga and road transport rehabilitation in Solomon Islands.

In PNG, Australia and New Zealand contribute police advisers to strengthen peace and restoration efforts in Bougainville, and work together in the health and education sectors.

**ii) United Kingdom**

Australia’s aid relationship with the United Kingdom is guided by the partnership agreement signed between AusAID and the United Kingdom’s Department for International Development (DFID) in May 2008. Annual development dialogues are held under the partnership to identify specific areas of collaboration and oversee ongoing activities.

The agreement has been the catalyst for agreements on a range of delegated cooperation arrangements. In total, these are worth around $45 million and include:

- joint programs on maternal and newborn health and education in Pakistan
- social development programs in Bangladesh and Nepal
- food security programs in Zimbabwe
- promotion of disability-inclusive development.

The partnership also includes secondment of staff. One AusAID staff member is currently seconded to DFID to work on aid effectiveness issues. Until January 2011, AusAID also hosted a DFID secondee who worked as AusAID’s Principal Education Adviser.

**iii) United States**

AusAID and USAID signed a Memorandum of Understanding (MOU) on international development cooperation in June 2010.

In the first formal discussions under the MOU, the following priorities were agreed:

- stabilisation, reconstruction and development in Afghanistan
- combating violence against women in the Pacific
- improved food security, with particular attention to Sub-Saharan Africa
- climate change and natural resource management, with a focus on Indonesia
- maternal and child health and family planning in the Asia-Pacific region and Sub-Saharan Africa.

The only program-level collaboration arising from the MOU so far has been a small delegated cooperation arrangement of Australian support for a USAID–managed regional food security initiative in East and South Africa, and collaboration on earthquake relief in Sumatra. Discussions on further delegated cooperation arrangements are well advanced.

A second MOU was signed between the Australian Civilian Corps and the United States State Department’s Office of the Coordinator for Reconstruction and Stabilisation in July 2010. Under
this MOU, Australia and the United States are working together to help countries experiencing or emerging from conflict move towards recovery, reconstruction and development.

iv) Germany

A MOU between AusAID and the German Federal Ministry for Economic Cooperation and Development was signed in February 2007. The MOU outlines shared principles and interests, with a particular focus on the Asia–Pacific region.

Australia currently has delegated cooperation arrangements with Germany worth around $30 million. This includes a major environmental protection project in Vietnam and a water and sanitation program in Zambia, as well as programs in other southern African countries and in Afghanistan. Discussions are well advanced for Germany to manage new, Australian–funded programs in Latin America.

Annual high–level consultations are held under the MOU to review progress and identify new areas of collaboration.

v) European Union (EU)

The EU is the world’s third largest aid donor and the second largest donor in the Pacific after Australia.

Cooperation on aid matters falls under the EU–Australia Partnership Framework launched on 29 October 2008. The framework is designed to deepen engagement in five areas: foreign and security policy, trade, Asia and the Pacific including in development cooperation, the environment, climate change and energy, and science and education.

The biggest achievement under the framework has been the European Commission’s decision in March 2009 to untie its aid for three years in 18 partner countries. This has enabled Australian companies to bid for European development contracts. Australia has already completely untied its aid program, so European firms can bid for tenders under the Australian aid program.

Australia and the EU are in the final stages of a mutual assessment process that will enable delegated cooperation arrangements.

vi) Non–Traditional Donors

As noted earlier in the Report, the emergence of non–traditional donors, such as China, Brazil and South Africa, is one of the important changes on the international aid scene. The increasingly active role of China, including in Africa and the Pacific, has attracted particular attention.

Australia has recently entered into a number of small joint projects with non–traditional donors including Brazil, South Africa and Malaysia. For example Australia is working with South Africa to strengthen the Zimbabwean Revenue Authority on Tax Administration. Australia signed an MOU with Brazil on development cooperation in December 2010.

The Review Panel considers that the Australian aid program’s response to the non–traditional donors generally, not just in the somewhat controversial case of the South Pacific, should be based on three fundamental principles.
First, the overriding objective should be the improvement of conditions in the recipient country and any contribution which any donor makes effectively to that outcome is something to welcome.

Second, Australia should stand for good aid, taking into account the full range of requirements for effectiveness discussed throughout this Report. Australia should not be driven by foreign policy considerations to reduce its standards. Australia should be prepared to be frank with all donors about their aid and its effectiveness.

Third, given their growing importance, Australia should proactively look for opportunities to work with emerging donors.

**D. CONTRACTORS**

Contractors have played a significant role in the aid program, especially in the past when the program was dominated by major projects. Five years ago, more than 40 per cent of Australian aid went through contractors. Today, only about 20 per cent does. This is not to say the program has stopped, or should stop, delivering aid through contractors. The government cannot possibly have the in–house capacity and resources to solely implement complex bilateral programs across a large number of countries. This makes contractors an essential part of the mix of delivery partners. The Australia–Indonesia Basic Education Program illustrates the important role contractors continue to play.

Country circumstances should drive the appropriate form of aid, so setting a target for the use of contractors in projects is not appropriate. The automatic default option should not be contractors. However, in some cases, contractors will be indispensable either as the key delivery mechanism (for example, in large bilateral projects) or as a crucial part of the delivery mix (for example, where Australia works with and through partner governments, but where on–the–ground delivery requires a strong role for contractors). The use of contractors in bilateral projects should not necessarily continue falling.

i) The Decision to Use a Contractor

Companies recognise that effective aid means using the appropriate mechanism for aid delivery. Clearly, contractors will not always be required. The joint submission from International Development Contractors (a number of the most significant Australian and international project management companies) shows a good understanding of the diversity of the aid program:

> “Distinction needs to be made between different modalities or forms of aid (budget support, SWAPs, project support, etc) and different implementing agencies (NGOs, multilaterals, the private sector, etc). Each combination of modalities and range of implementing agencies has its own merits, and should be applied according to the intended aid program outcomes.”

The use of contractors is appropriate when three fundamental conditions are met.

First, specialist project management expertise is needed. This will clearly apply to major and complex projects. It can also apply to large–scale programs that are best broken down into individual projects. Companies are capable of portfolio management as well as individual project management.
Second, it is sensible to outsource rather than bring the necessary expertise in–house. Outsourcing in different circumstances is the subject of a great deal of literature and study. In essence, the decision for an organisation like AusAID is likely to turn on cost and risk. The higher the cost and risk posed by bringing expertise in–house, the more attractive the outsourcing contract model. In major construction projects, it is almost inconceivable not to engage a specialist contractor.

Third, alternative options of providing support while standing back from implementation have been considered, but rejected. The Review Panel notes that even in these cases Australia should take an interest in the system used by any partner to select contractors and on what basis. This will often be a necessary part of our quality assurance. The Australian taxpayer is fully entitled to know this is being scrutinised.

As a general comment, it is important that the pros and cons of various options are carefully considered before resources are deployed. This should be an ingrained habit across AusAID and other Australian agencies. This need not be a time–consuming process in every case and it is important to be quick in pursuing opportunities which arise. Concern about risk should not get to the point where it stifles initiative and innovation. But on larger projects, where substantial funds are involved, thorough analysis of alternative options at the outset will reduce risk and save money down the track.

The same is true in relation to the development at the beginning of a clear, manageable and win–win contract and (something which is not so often recognised) high–quality relationships.

ii) From Delivery Mechanism to Delivery Partner

In straightforward aid activities where the goal is clear and the path largely predictable, the relationship between AusAID and a contracting company can be kept relatively simple. The agency will set out the specifications of the job and the successful tender will implement.

Australian agencies should not overlook the capacity of contractors to play a bigger and more valuable role in more complicated cases. A health or education program may involve moving targets in terms of development outcomes and flexibility may be needed to achieve them. The situation may, in other words, be one in which the client and the contractor walk the journey together. This would mean starting with a genuine dialogue about objectives, moving on to collaborative program design, and following through with joint monitoring and adjustments. The International Development Contractors’ submission says “there could be value in enhancing the design process by engaging potential implementers during the design process”.

This is a model where the contractor is more than a delivery mechanism; it is a delivery partner. This can be a powerful model, especially when the contractor is co–located with the agency and integrated into the program or project management.

This idea of engaging with contractors more as partners than as delivery mechanisms is not new. It has been tried within AusAID but, the Review Panel understands, with limited success. Fashioning and managing partnership approaches in which client and contractor work together is more complex than a straightforward procurement contract for delivery of projects. However, the benefits can be considerable.
A related thought is that a powerful method for harnessing innovation can be for a government agency like AusAID, in its tender and procurement processes, to challenge the market for ideas about how to achieve outcomes, not merely for the supply of outputs.

The Review Panel thinks that a proactive effort is needed in AusAID to acquaint managers with different implementation methods. In recommending this, the Review Panel is mindful of the following comment from the submission by Independent Development Contractors. No doubt there is more than one side to this story, but the Review Panel does support a move away from micro-management of contractors:

“Effective development comes from good program development and it also requires high levels of flexibility. While there is greater variation now in AusAID tendered programs, a number are still based upon prescriptive contracts and rigid compliance against predetermined outputs and outcomes. These characteristics constrain the flexibility necessary for rapid and innovative development: they also divert attention away from development outcomes and towards both compliance demands and responses.”

iii) Contestability and Control

Partnerships with contractors do not rely solely on trust and good intentions. There needs to be a thoroughly businesslike relationship, which recognises that contractors are commercial entities, carefully prescribes the limits to flexibility and pays close attention to value for money.

This is especially so because the number of project management companies involved in international development has diminished through mergers. Not all are interested in projects in every country where Australia operates and thus the tender pool can be quite small. Recent AusAID experience is that three organisations (Coffey International Development Pty. Ltd., Cardno Emerging Markets Pty. Ltd. and GRM International Pty. Ltd.) have won 46 per cent of tenders since 1 January 2010, excluding period offers and panels.

This obviously blunts contestability and can pose difficult choices for those responsible for administering the aid program and ensuring value for money. Unless value for money can be reasonably assured, it may be necessary to use the second–best option rather than a contractor.

The Review Panel recommends that AusAID explore further ways to deepen competition, including through building on efforts made to date to encourage new entrants into the market.

Some concerns were expressed in submissions to the Review about the accountability of private contractors. TEAR Australia compares this unfavourably to the situation of NGOs:

“The accountability of private contractors and for–profit companies within Australia’s aid program must be strengthened through the establishment of a binding and comprehensive code of conduct or accreditation process. The Australian NGO sector has voluntarily submitted itself to, and systematically strengthened and improved, forms of accountability such as the ACFID Code of Conduct and it participates willingly with AusAID accreditation. The standards enshrined in these accountability mechanisms are much higher than those set for contractors who represent a significant component of Australia’s aid expenditure.”
Unsurprisingly, the International Development Contractors’ submission takes the opposite view:

“The Australian private sector undergoes intense scrutiny through such means as Contractor Performance Assessments, audits of operational and Imprest funds, TAGs, PMGs, QAlS etc. The evaluation of other delivery mechanisms, if not undertaken in a similar way, could be compared with those processes, leading to the development and application of standard methods of evaluation for all delivery modalities and mechanisms.”

The Review Panel is not confident that the TEAR comment takes full account of the high levels of due diligence AusAID applies and the stringent commercial contract conditions. A code of conduct could also inadvertently become an unhelpful barrier to entry.

**iv) Broader Contractor Contribution**

All parties should interact in a unified approach to maximising aid effectiveness. AusAID should be the hub and the catalyst for this. It should encourage and facilitate the sharing of experience between all its partners including NGOs, the private sector, contractors and the research community. For example, the Review Panel agrees with the contractors’ recommendation for industry sectoral forums for implementing partners “to share evaluation and research findings and improve practice”.

Contractors have experience of “various partnership models that enable delivery of major programs in Australia and other developed countries, using innovative and evolving mechanisms such as alliance contracting and public–private partnership arrangements. Drawing from this experience could help drive new approaches”. They also bring to the table views about how to pursue private sector development in developing countries.

In short, the traditional role of contractors may be diminishing, but they can and should continue to play a valuable part in the total effort.

**E. TECHNICAL ASSISTANCE**

Technical assistance has been a large and controversial area of the aid program.

Technical assistance is the provision of expert consultants, or advisers, to partner countries to assist with policies, programs and projects. The size of Australia’s technical assistance and the remuneration of experts have, correctly, recently been reviewed and reduced.

But as with contractors, it is important to recognise that technical assistance can have major benefits.

In Indonesia, for example, Australia is seen as having a comparative advantage in specialised areas of governance provided through technical assistance. Indonesia looks to Australia to provide world-class expertise to help advance key economic and legal reforms. The benefits from such assistance can be enormous for Indonesia and there are a range of national interest benefits for Australia from being a donor of choice in such matters. In these circumstances, paying rates in excess of agency-wide remuneration guidelines, if required, is appropriate.
Box 11.1: Technical Assistance to Samoa

The Government of Samoa is firmly in control of its development agenda and makes limited, targeted use of external advisers to support its development priorities. The government’s governance and institutional reforms, promoted since the early 1990s, have resulted in more effective public institutions and higher public service salaries. Such an environment has attracted talented, educated Samoans back to their country, generating a cadre of capable and committed officials and political leaders. Where advisers are required, the majority of placements are recruited, paid and monitored through government financial and human resource systems.

In this environment, AusAID works closely with the Government of Samoa to draw on the pool of local talent available when procuring advisor and consultancy services. AusAID has established a local period offer database and relationships with local consultancy firms to provide details on local and short-term adviser capacity. Where international consultants are required, the Government of Samoa is closely involved in the process.

Australia currently funds two long-term advisers to Samoa: a legal adviser for the Public Trust Office and an investment department adviser for the Samoa National Provident Fund. Both positions required specialised expertise with experience and understanding of the broader international environment, which the Government of Samoa was unable to recruit locally. These advisers were engaged through the Pacific Technical Assistance Mechanism and are contracted employees of the organisations where they are placed. Their positions were identified by the Government of Samoa and are in line with the priorities outlined in the Samoa–Australia Partnership for Development.

F. BUSINESS AND PRIVATE SECTOR ORGANISATIONS

i) The Involvement of Businesses in Achieving Development Objectives

The private sector can help achieve human development outcomes across a broad spectrum of activities.

First, the private sector provides economic opportunities for people in developing economies. The private sector does this through investment in economically productive activities.

The most important drivers of economic growth and development include ongoing investment and advances in technology and innovation.

Investments made by business result in the following benefits to people in developing economies:

- employment leading to higher household incomes
- encouraging local enterprise development through demand for local products and services as part of private sector supply chains
• the potential development of infrastructure required to support commercial activities
• the payment of taxes which support the provision of government services including health and education.

In addition, where policies provide for open, competitive markets and innovation, the private sector provides further benefits. Through effective competition between private sector organisations, resources are allocated to their most productive use.

Effective private sector competition results in lower prices and greater choice for consumers, which has the potential to improve their quality of life. The incentive to innovate extends through the supply chain to local suppliers, encouraging further investment in business development and greater opportunities for local employment.

Provided effective policies are in place, the private sector, through ongoing investment and innovation, underpins economic growth and development that can be sustained over medium to long term time horizons.

Second, through corporate social responsibility activities, companies give back to the communities and countries in which they operate. There is a growing consciousness within both the Australian and international business community about the need to take social and development considerations into account when operating in poor countries. The public submission from Principles for Social Investment highlights one example:

“The Australian corporate sector has proactively demonstrated a commitment to the philosophy of social investment. As an example, a collaborative program run by BHP Billiton, in cooperation with the local community of Mozal, Mozambique, successfully reduced the incidence of malaria from 86 per cent to 8.6 per cent whilst also decreasing absenteeism at the BHP Billiton smelter from 20 per cent to one per cent. Through cooperation with private sector stakeholders, NGOs and government, there is the potential to increase the overall effectiveness of social investment programs.”

The growing focus on philanthropic and corporate social responsibility initiatives creates opportunities for increased engagement between business and donors.

Third, there are so-called ‘inclusive businesses’, where companies have both profitable business practices and a specific emphasis on beneficial development outcomes for the poor. These are on the rise.

Inclusive businesses have two defining features:

• They include low-income communities in the business cycle either as employees, suppliers or distributors. One international company, for instance, now purchases organic coconut oil from small farmers in Samoa to use in its beauty products.
• They recognise poor people as consumers. An international joint venture has created low-priced yoghurt fortified with micronutrients to be marketed to poor communities in Bangladesh.
Fourth, businesses and donors can engage in dialogue to identify mutual interests. The hundreds of millions of poor and near poor in the Asia–Pacific region represent an enormous and underdeveloped market. By 2050, 85 per cent of the world’s population will live in developing countries.

**ii) How the Aid Program Currently Engages with Business**

The aid program funds a small number of initiatives to help promote engagement with business including:

- **Business Call to Action (BCtA)**, which encourages companies to develop inclusive business models.
- **Business for Millennium Development (B4MD)**, which brokers relationships between the corporate sector and communities in the developing countries where they operate.
- **Asia–Pacific Business Coalition on HIV/AIDS**, which aims to increase business engagement and coordination in the fight against HIV.

Australia also supports the Extractive Industries Transparency Initiative (EITI), which sets a global standard for transparency in oil, gas and mining by verifying and publishing company payments and government revenues.

The aid program also supports initiatives to promote inclusive business development, such as the Enterprise Challenge Fund (ECF).14

There are few initiatives that promote donor and business engagement (the fourth category above). A number of AusAID country programs engage informally with private sector bodies to identify mutual interests. For instance, the PNG program has an informal dialogue with the PNG Australia Business Council.

**iii) Encouraging Business Innovation and Engagement**

Businesses offer advantages not available under the traditional donor model. The Review Panel agrees with the B4MD submission:

“…in contrast to conventional donor programs [and] unlike organisations that must continue to rely on donor funds, a business can replicate and scale up successful approaches quickly. Business can offer immediate expertise, resources, operational capacities and management know–how. Business can keep an open timeframe and grow organically because, unlike donor–reliant actors, it creates its own revenues. Finally, by its very nature, business contains an inbuilt feedback mechanism that is self–propagating, a feature often lacking from non–business approaches.”

AusAID’s seed funding for InfraCo Asia, a company which develops greenfield infrastructure projects from concept stage to financial close, is a good example of encouraging business innovation for poverty reduction.

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14 As discussed in Chapter 8, the ECF helps the private sector develop commercially-successful ventures. By providing up to half of a project’s funds, AusAID shares a project’s set-up costs and some of the risk.
Box 11.2: An Example of Innovative Use of Aid Funding: InfraCo Asia

Infrastructure and an active private sector are central to economic growth and poverty reduction. Developing countries lack sufficient resources to build all the infrastructure needed yet the private sector will only put up-front effort into the largest projects. There are, however, many infrastructure projects that could be of interest to the private sector if the structural, technical, environmental, financial and other development work was done to get these projects to a bankable point.

To address this market failure, InfraCo was established by the Private Infrastructure Development Group (PIDG), a coalition of European donor governments and the World Bank. InfraCo combines aid funding and private sector expertise to create viable infrastructure investment opportunities. AusAID is providing $10 million to InfraCo Asia over two years from 2011–12.

Acting as principal, InfraCo takes on the risk of early project development, thereby allowing infrastructure projects to proceed that otherwise would not. Managed by a board that represents aid donor interests and a private sector management team with extensive project development experience, InfraCo operates on commercial principles to attract private sector investment. InfraCo operates in the poorest areas in Asia and does not compete with other infrastructure project developers.

Since its launch in 2005, InfraCo has developed seven projects that have reached financial close or are pending closure. These projects have mobilised a total of £758m, leveraging donor capital by about 40 times, and are expected to provide services to more than 3.6 million people, of whom almost two million are below the poverty line. The projects will improve services for a further eight million people and include: a 150 MW power plant in Nigeria, a 400 MW gas turbine power project in Ghana, a 28 MW wind power project in Cape Verde, a farming and irrigation project in Zambia, and a cold storage facility in Vietnam.

With this proven business model, InfraCo Asia was set up in 2009 with committed funding for projects in South Asia and South East Asia. InfraCo Asia is currently working on projects in India, Nepal, Philippines and Cambodia, and is also exploring opportunities in Bangladesh, Indonesia, Laos, Sri Lanka and Vietnam. Its projects include medium-sized hydro power projects in Nepal and India, a wind power project in the Philippines, and infrastructure to service an agriculture project in Cambodia.

The Review Panel agrees with the submission from World Vision Australia that the aid program needs to “harness the power of business”. As the B4MD submission sets out:

“AusAID’s engagement with business and the private sector has been constrained by a risk-averse attitude within AusAID to engaging with business groups and private sector initiatives.”

Australia is not alone in this regard. Many governments tend to under-utilise the potential of business partnerships.
The Review Panel believes engagement between business and the Australian aid program has been ad hoc and insufficient. AusAID is familiar with working with partner governments to improve the business–enabling environment for private sector development and growth in developing countries. But there is no parallel to the dialogue between AusAID and the NGOs, and indeed nothing close to it.

The Review Panel has recommended pro-poor sustainable growth and private sector development be one of the four organising themes of the aid program, with the same status, and therefore requiring the same concerted effort, as other core goals related to human development, governance and humanitarian assistance. In line with this, substantial engagement with the private sector will be required.

The aid program has not been able to construct a constant narrative around its work with the private sector. There is a need for new types of cooperation and partnerships between businesses that desire to engage with the program and government.

A formal dialogue between the aid program and interested business groups will have clear benefits. As the BCA submission sets out:

“The opportunity to work with and build ongoing relationships with business should be regarded as an asset to the aid program. Improved linkages can make a contribution at a number of levels and for different objectives, which might include:

- coordination between aid program delivery and business investment with the aim of improving the effectiveness of aid outcomes
- sharing of expertise and information about experiences and requirements in different countries and regions
- sharing of resources and infrastructure
- collaboration in the delivery of projects.”

The Review Panel agrees with BCA's recommendation to strengthen links with the private sector by:

“...identifying this objective as a priority within its policy framework, and… encourage the development of new mechanisms to foster business links.”

Developing a dialogue between the aid program and business should be a priority. The Review Panel recommends an annual consultative forum between AusAID and the Australian business community. The forum would provide an opportunity to share strategic thinking and information between the aid program and business.

To further its support for business innovation, Australia should consider associating itself with the Bilateral Donors’ Statement in support of Private Sector Partnerships for Development, adopted at the MDG Summit in September 2010.
iv) Private Sector Engagement in Policy and Program Development

Giving effect to the high-level theme of pro-poor sustainable growth and private sector development will require systematic engagement with the private sector when developing policy and programs.

As the submission from International Development Contractors sets out, businesses could help AusAID to:

“…identify the practical constraints to doing business such as foreign investment regulation, discretionary taxation and lack of transparency in dealings.”

The Review Panel has four recommendations to help improve engagement between AusAID and private sector organisations in policy and program development.

First, a more systematic engagement with private sector organisations should be taken forward under a high-level, overarching policy statement on the role of private sector-led economic growth in the aid program, as recommended by the Study of How the Australian Aid Program Can Strengthen Links with Business and the Private Sector (the Business Study) commissioned by the Review.

Second, country/regional analysis or sector strategies must give those parts of the business community engaged in that country or sector an opportunity to provide views. This could be achieved through formal engagement with bodies such as business councils, trade promotion agencies, or chambers of commerce.

Third, Australia should integrate business engagement activities into existing AusAID programs, with a focus on leveraging business engagement as a form of aid. For example, the volunteer program involves deploying professional business volunteers overseas. Such approaches could be significantly expanded as a targeted approach to engaging with business, leveraging the intellectual and administrative capacity of business in development activities. Volunteering, in the domestic context, is a strategy already used by many businesses as part of corporate social responsibility strategies.

Fourth, the aid program should consider establishing a facility to assist Australian businesses seeking corporate social responsibility and/or inclusive business opportunities in developing countries. This could provide information on local context and capacity in developing countries, or link businesses with relevant organisations.

G. VOLUNTEERS

Australia has a proud volunteering culture. This was evident during the Sydney Olympics when nearly 50,000 Australians volunteered to help out and in Australians’ response to the recent Queensland floods. In 2007, the Australian Bureau of Statistics found that 34 per cent of the Australian adult population, roughly 5.4 million people, volunteer (Volunteering Australia 2009).

Australians do not volunteer only at home – many also assist those overseas. Volunteers share their skills and experience across a range of sectors, including health, HIV/AIDS, education, agriculture, rural development, water and sanitation, community development and governance. They transfer knowledge, build the capacity of people and organisations and create lasting
people–to–people linkages. In so doing, they contribute to sustainable global development. Volunteering also has considerable benefits for volunteers, both professionally and personally.

A wide range of organisations facilitate overseas volunteering assignments. These include those that focus on volunteering opportunities for young people, for specific professions (such as doctors, lawyers or engineers) and faith–based efforts. There are, however, no statistics available on the total number of Australians who volunteer overseas.

The aid program has long provided support to volunteers, including through funding Australian Volunteers International (AVI), Australian Youth Ambassador for Development (AYAD) and Volunteering for International Development from Australia (VIDA). The government currently funds more than 1,200 Australian volunteers to work in developing countries every year. These people work throughout Asia, the South Pacific and Africa, Latin America, the Caribbean, North Pacific and North Africa.

AusAID has recently developed a new volunteer program. This will be implemented in partnership with AVI, Austraining International and the Australian Red Cross. The new program draws together all current AusAID–funded development volunteering initiatives into one program with a single brand. The monitoring and evaluation framework for this program is also improved, so that the impact of the volunteers is able to be better demonstrated.

The Review Panel considers this new program to be a welcome step in the aid program’s making better use of volunteers. Nonetheless, there remain areas in which the volunteer program could further evolve and expand.

AVI stated in its submission:

“...greater use should be made of skilled volunteers to deliver development assistance in particular contexts ... skilled international volunteering programs offer scalable and flexible responses to improved service delivery and organizational and institutional capacity development.”

The Review Panel agrees, provided it is recognised that often commercial rates will need to be paid for advisory and specialist skills of the standard that is required for effectiveness. Volunteers and consultants should not be seen as substitutes.

The Review Panel heard in consultations with both NGOs and Parliamentarians that AusAID could better harness volunteers in order to engage the Australian community in the aid program. The Australian Council for International Development (ACFID) submission argued that a narrative should be developed that emphasised that “Australians are world travellers who have people to people links and a volunteering spirit ... and give their time in thousands of voluntary hours because they care about the goal of reducing poverty overseas”.

The Review Panel agrees with ACFID’s assessment. Because volunteers have direct experience and knowledge of how aid can assist people in developing countries, their stories are particularly powerful.

Indeed, the Review Panel was struck by many of the submissions made to it by those with experience in volunteering overseas. These submissions indicated the understanding and passion volunteers have for the aid program and international development. The Review Panel therefore would support more effort to harnessing volunteers’ stories to explain aid, development and global poverty to the Australian community.
H. PARTNERSHIPS WITH THE KNOWLEDGE SECTOR: UNIVERSITIES, RESEARCH INSTITUTIONS AND THINK TANKS

Some 10 per cent of the aid program is deployed through universities and think tanks. This comes under two distinct categories.

First, Australian universities receive about $139 million and 1,370 students a year through Australian scholarships, which have expanded rapidly in recent years and are projected to continue to grow.

Second, a broader range of Australian institutions in the ‘knowledge sector’ participate in the aid program through research. Actors include not only universities, but also think tanks and scientific institutes such as CSIRO.

Scholarships and research can be very good uses of aid. Good leadership is fundamental to a developing country’s success. Today’s university students are tomorrow’s leaders. In some countries, domestic universities are of a low standard. Even those with good universities benefit from the international experience scholarships provide.

Scholarships have been discussed in Chapter 8. This section focuses on research and the generation of knowledge.

Knowledge and innovation are critical for development success. Some of the biggest aid successes have involved supporting research and deploying new technologies (for example, the Green Revolution and various health innovations and programs).

The past five years have seen support for research increase. Over this period, AusAID spending on research has increased from $30 million to about $100 million. In addition, the Australian Centre for International Agricultural Research (ACIAR) spends $60 million specifically on agricultural research. The combined total of about $160 million is equal to almost five per cent of the aid program, which is comparable with other bilateral donors.

About 60 per cent of that research funding goes to Australian institutions. Another 20 per cent is given directly to developing country institutions and some goes to world-class research institutions, such as the Centre for Global Development and the World Bank’s research department.

The support for Australian institutions is useful for promoting their engagement with development issues, but a balanced approach is appropriate. The aid program should support the world’s best researchers (wherever they are). Supporting developing country research institutions is also critical, as they are likely to be better informed and more influential on many development issues. The Review Panel supports the continuation of a balanced approach to research funding, with support for Australian, developing country and international research organisations.

Aid–funded research spending is quite widely spread, but dominated by agriculture. All the $60 million spent by ACIAR and almost one-third of AusAID research spending is for agriculture. That is more than 50 per cent of aid–funded research. Other important areas of research include: health (about 15 per cent), economics and infrastructure (about 10 per cent), governance (another 10 per cent) and the environment (about 10 per cent).
The impact of research is hard to assess, especially in the social sciences. The impact of agricultural research is easier to evaluate and ACIAR has a robust and independent system of impact evaluation. This indicates a very high return on investment (see Box 8.1).

Evidence for AusAID–financed research is, by necessity, less systematic since it is more diverse. The research portfolio includes some of AusAID’s best–performing projects, such as its support for PNG’s National Institute of Health and for the Australian National University’s Indonesia Project.

Australian researchers have made enormous medical research contributions of benefit to developing countries. A recent policy brief by the Nossal Research Institute notes the important role played by various Australian medical researchers and institutions in the area of global immunisation (Ruff et al. 2011).

Overall, the Review Panel thinks there is a strong case for scaling up agricultural research (given not only the good track record in this area, but the mounting concerns in relation to food security) and medical research. ACIAR represents an obvious vehicle for scaling up in relation to the former. Medical research is not an area the aid program has engaged with other than through support for multilateral agencies such as the GAVI Alliance, and modalities would need to be developed, possibly in collaboration with the National Health and Medical Research Council. The Review Panel agrees with recommendations of a Nossal Institute policy brief that the aid program should:

“…prioritise funding basic and clinical research into vaccines for unmet medical needs of the poorest countries. Consideration should be given both to research and development conducted by Australian institutions, as well as through international partnerships, including public–private partnerships such as International AIDS Vaccine Initiative, the Malaria Vaccine Initiative, and the Aeras Global TB Vaccine Foundation.” (Ruff et al. 2011)

The Nossal Institute brief also suggests medical research funding could cover not only research into new vaccines, but also technical and regulatory assistance for local vaccine manufacturers, where feasible, and safety and effectiveness evaluations for new vaccines.

The Review Panel recommends an increase in the aid program’s support of Australian and international institutions to conduct agricultural and medical research of direct benefit to the world’s poor.

As discussed in Chapter 8, an expanded research program could be considered a flagship for the aid program.

Most research is directed towards solving important development problems. A small part aims to help inform and improve aid programming decisions. This can also be a good use of research funding, but a cautious approach is needed until AusAID has greater specialist expertise and thus a greater capacity to absorb and use research.

There is little competitive tendering in the research program. About 20 per cent of the research program is competitively tendered, which indicates less reliance on competitive processes than many other bilateral donors. AusAID has recently introduced the Australian Development Research Awards, which is a competitive research mechanism. This is a small but important
contribution to the overall research program and, pending a successful evaluation, could usefully be expanded.

The Review Panel recommends AusAID make greater use of competitive tendering in relation to its research funding.

**Recommendation 20:** The share of aid being disbursed through government systems should be expanded.

**Recommendation 21:** The power of business should be harnessed and business innovation should be encouraged, including through an annual consultative forum.

**Recommendation 22:** There should be increased use of partnership arrangements with other bilateral donors, both traditional and non-traditional.

**Recommendation 23:** There should be more aid funding for research by Australian and international institutions, particularly in agriculture and medicine.
Chapter 12: AID ALLOCATIONS

A. INTRODUCTION

This chapter draws together the analysis of Chapters 6–11 concerning the allocation of Australian aid.

B. WORKING DIFFERENTLY IN DIFFERENT PARTS OF THE WORLD

The table below summarises the Review Panel’s geographic recommendations relating to: (i) the case for aid expansion (Chapter 7); (ii) sectoral spread (Chapter 8); and (iii) use of various delivery channels (Chapters 9 to 11). It shows how the recommendations combine to produce a tailored package for each region.

Table 12.1: Geographic Recommendations for Australian Aid Expansion, Spread and Aid Delivery Channels

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Case for Expansion</th>
<th>Sectoral Spread</th>
<th>Reliance on Bilateral Delivery Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>PNG</td>
<td>Low</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>Solomon Islands and East Timor</td>
<td>Low</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>South Pacific Microstates</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Other Pacific</td>
<td>Medium</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>Indonesia</td>
<td>High</td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td>Other East Asia</td>
<td>High</td>
<td>Low</td>
<td>Medium</td>
</tr>
<tr>
<td>South Asia</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Afghanistan and Pakistan</td>
<td>Medium</td>
<td>Low</td>
<td>Medium</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>North Africa and Middle East</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>Low</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Central Asia</td>
<td>Low</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

The case for expansion includes all funding sources, and so includes global programs. Sectoral spread excludes global programs. Reliance on bilateral delivery channels refers to the use of contractors, partner government systems, and the delivery of aid by other government departments. (See Figure 6.1 and Box 12.1.)
C. INDICATIVE ALLOCATIONS: ASSUMPTIONS AND RECOMMENDATIONS

The analysis can now move to a quantitative exercise which results in approximate and indicative dollar allocations against the various regions and countries, as well as global programs.

As explained in Box 12.1, this exercise draws on the distinction made in Chapter 6 between country and global programs. Allocating the latter to the various countries and regions, though approximate, helps give a better picture of Australia’s support for them than looking only at the distribution of country programs.

Given time limitations, a number of simplifying assumptions and approximations had to be made to undertake this analysis. Given the complexities, some approximations will always be required, but the Review Panel recommends that AusAID undertake this exercise itself to firm up the numbers and thereby take full advantage of the methodology proposed.

**Box 12.1: Methodology and Principles**

The methodology used in this chapter draws on the distinction made in Chapter 6 between country and global programs (see especially Figure 6.1):

**Country programs** include bilateral delivery channels (working through contractors, partner government systems, and other government departments) and non–bilateral channels (earmarked funding arrangements, and funding of other country and regional organisations).

**Global programs** consist of core funding to multilateral organisations and to Australian and international NGOs. Typically, comparisons of aid across countries are made on the basis of country programs. However, a more accurate, though approximate, measure is obtained by also estimating the regional distribution of global programs. This is done by using data on the existing geographical distribution of major multilateral organisations and NGO programs, and on Australian aid to them, now and in the future.

**Country allocations** are defined to include both country programs and the share of global programs which it is estimated is or will be destined for the particular region.

The figures for the geographical distribution of Australian aid set out by the Review Panel in this chapter represent proposed orders of magnitude and relativities between different regions and countries, rather than precise dollar recommendations. A number of factors, such as Australia’s capacity to make a difference and the extent to which other Australian national interests are engaged, are clearly matters for judgment. The Review Panel’s recommendations relate to a logical methodology for the government to use and some important guidance concerning the expansion of different regions and forms of aid. The numerical outcomes presented in the tables below, on the other hand, include a number of simplifying assumptions and approximations, and are only illustrative in nature.
The following assumptions and recommendations form the basis of the exercise:

- It is assumed that the total aid budget is $8 billion by 2015–16. The precise amount will depend on actual GNI growth.

- Chapter 10 made the case for a large scaling up of core funding to effective Australian and international NGOs and to multilateral organisations. Allocations to individual organisations will depend on an assessment of each organisation’s effectiveness, relevance to Australia’s objectives, capacity to scale-up and, in the case of NGOs, readiness to accept increased government funds and support from the Australian public.

- For the exercise, core funding to Australian and international NGOs and to multilaterals both increase by 150 per cent. Among multilaterals, the largest increases are for the Asian Development Bank (ADB), the World Bank, global funds, such as for health and climate change, and the African Development Bank (AfDB), which Australia is assumed to join. UN agencies show more variable performance and only a small increase to the non-humanitarian UN agencies is assumed (Funding to UN humanitarian agencies is included under humanitarian funding below).

- Qualitative recommendations for country allocations, defined for the reasons given in Chapter 6 to include funding distributed through global programs, were made in Chapter 7 and summarised in Table 12.1 above. The Review Panel quantifies these recommendations as follows:
  - countries and regions where there is a case for a high expansion, roughly double
  - countries and regions where there is a case for a medium expansion, increase by 50 per cent
  - countries and regions where there is a case only for low expansion, experience an increase of one third or less.

- Chapter 8 argued for a large increase for humanitarian and emergency assistance. The Review Panel recommends a tripling.

- The large increase in research funding argued for in Chapter 11 is captured in this exercise through a 150 per cent increase in aid-funded global research.

- As discussed later, in Chapter 14, there will need to be a significant strengthening of AusAID and other agencies involved in aid delivery to manage this much bigger program. The exercise assumes, without any commitment to these numbers, that the AusAID departmental budget will increase from $250 to $400 million.

- Country programs (i.e. aid allocated to countries excluding global programs – see Box 12.1) are adjusted for different countries and regions so that, when combined with the geographical allocation of global programs, total aid allocations to different countries and regions are broadly in line with the targets above.
D. INDICATIVE ALLOCATIONS: RESULTS

i) The Shift Away from Country Programs

Table 12.2 provides summary allocations by major category of expenditure. There is a major shift away from country programs towards global programs. Country programs fall as a share of total spending from 66 to 55 per cent. The share of global programs increases from 15 to 20 per cent. The share of humanitarian and emergency assistance increases from 7 to 11 per cent. Contingencies also increase to allow for unexpected changes. Departmental costs rise, but fall as a share of total aid.

Table 12.2: Indicative Aid Allocations by Major Category in 2015–16 Compared with Current

<table>
<thead>
<tr>
<th></th>
<th>2010–11</th>
<th></th>
<th>2015–16</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$m</td>
<td>%</td>
<td>$m</td>
<td>%</td>
</tr>
<tr>
<td>Country programs</td>
<td>2,860</td>
<td>66%</td>
<td>4,370</td>
<td>55%</td>
</tr>
<tr>
<td>Global programs</td>
<td>640</td>
<td>15%</td>
<td>1,610</td>
<td>20%</td>
</tr>
<tr>
<td>Humanitarian and emergencies</td>
<td>300</td>
<td>7%</td>
<td>900</td>
<td>11%</td>
</tr>
<tr>
<td>Global research</td>
<td>50</td>
<td>1%</td>
<td>110</td>
<td>1%</td>
</tr>
<tr>
<td>Other and contingencies</td>
<td>250</td>
<td>6%</td>
<td>600</td>
<td>8%</td>
</tr>
<tr>
<td>Departmental costs</td>
<td>250</td>
<td>6%</td>
<td>400</td>
<td>5%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>4,350</td>
<td>100%</td>
<td>8,000</td>
<td>100%</td>
</tr>
</tbody>
</table>

Monetary values are rounded to the nearest 10 million, and may not add up due to rounding. 2010–11 figures are estimates. Humanitarian and global research figures will differ from those in the text of earlier chapters, as country-program components of humanitarian and research expenditure are excluded.

ii) Implications for Spending by Region

Table 12.3 shows spending by region now and as proposed for 2015–16, including country programs and the regional distribution of global programs. These are consistent with the principles outlined in Section C, which in turn is based on the arguments of Chapter 7. The regions that should have the highest growth (Indonesia, other East Asian countries, the South Pacific microstates, South Asia and Sub-Saharan Africa) increase in the range of 90–110 per cent. The regions that should see moderate growth (other Pacific, Afghanistan and Pakistan, and North Africa and the Middle East) will increase in the range of 40–60 per cent, and those with a low increase expand by no more than a third (PNG, Solomon Islands and East Timor, the Latin America and the Caribbean).

There is no significant change in the total share of aid going to the Asia-Pacific region, which stays at around two-thirds of the program. This reflects the region’s ongoing poverty and importance to Australia.
Table 12.3: Indicative Geographic Allocations (Including Distribution of Global Programs) in 2015–16 Compared with Current

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PNG</td>
<td>460</td>
<td>610</td>
<td>13%</td>
<td>10%</td>
<td>30%</td>
</tr>
<tr>
<td>Solomon Islands and East Timor</td>
<td>340</td>
<td>440</td>
<td>10%</td>
<td>8%</td>
<td>30%</td>
</tr>
<tr>
<td>South Pacific Microstates</td>
<td>60</td>
<td>130</td>
<td>2%</td>
<td>2%</td>
<td>100%</td>
</tr>
<tr>
<td>Other Pacific</td>
<td>350</td>
<td>530</td>
<td>10%</td>
<td>9%</td>
<td>50%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>470</td>
<td>960</td>
<td>14%</td>
<td>16%</td>
<td>100%</td>
</tr>
<tr>
<td>Other East Asia</td>
<td>610</td>
<td>1150</td>
<td>18%</td>
<td>20%</td>
<td>90%</td>
</tr>
<tr>
<td>South Asia</td>
<td>270</td>
<td>520</td>
<td>8%</td>
<td>9%</td>
<td>90%</td>
</tr>
<tr>
<td>Afghanistan and Pakistan</td>
<td>240</td>
<td>390</td>
<td>7%</td>
<td>7%</td>
<td>60%</td>
</tr>
<tr>
<td>Sub–Saharan Africa</td>
<td>450</td>
<td>870</td>
<td>13%</td>
<td>15%</td>
<td>100%</td>
</tr>
<tr>
<td>North Africa and Middle East</td>
<td>90</td>
<td>140</td>
<td>3%</td>
<td>2%</td>
<td>50%</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>80</td>
<td>90</td>
<td>2%</td>
<td>2%</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Total country allocations</strong></td>
<td><strong>3,420</strong></td>
<td><strong>5,830</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
<td><strong>70%</strong></td>
</tr>
</tbody>
</table>

To obtain these figures, most funding of global programs is allocated to various countries and regions and added to country program figures (see Box 12.1). Dollar amounts and growth rates are rounded. Figures may not add up due to rounding. 2010–11 figures are estimates. Central Asia is not included here, but is included under total global programs in Table 12.2.

iii) Implications for Country Programs

The proposed indicative allocations imply that country programs, as distinct from total country allocations, will expand very differently in different parts of the world. Growth in country programs, as shown in Table 12.4, includes the following distinctive features:

- Approximate doubling of country programs in Indonesia, South Pacific microstates, other East Asia.
- Moderate growth (about 50 percent) in the other Pacific countries, South Asia, Afghanistan and Pakistan, and North Africa and the Middle East.
- Relatively low growth (about 30 per cent) in PNG, Solomon Islands and East Timor.
- As discussed in Chapter 7, no further growth in the Africa country program, since overall aid to Africa will approximately double due to the rapid expansion of support to global programs.
- As discussed in Chapter 7, phasing out of Latin America and Caribbean country programs.

Taken together, these recommendations imply that country program aid focus on the Asia–Pacific region. Country program aid to this region increases as a share of total country program aid from 76 per cent to 80 per cent. This would represent a welcome enhancement of the aid program’s regional focus.
### Table 12.4: Indicative Country Programs (Excluding Distribution of Global Programs) in 2015–16 Compared with Current

<table>
<thead>
<tr>
<th></th>
<th>2010–11 $ millions</th>
<th>2015–16 $ millions</th>
<th>Growth to 2015–16</th>
</tr>
</thead>
<tbody>
<tr>
<td>PNG</td>
<td>460</td>
<td>590</td>
<td>30%</td>
</tr>
<tr>
<td>Solomon Islands and East Timor</td>
<td>330</td>
<td>430</td>
<td>30%</td>
</tr>
<tr>
<td>South Pacific Microstates</td>
<td>60</td>
<td>120</td>
<td>100%</td>
</tr>
<tr>
<td>Other Pacific</td>
<td>340</td>
<td>510</td>
<td>50%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>460</td>
<td>920</td>
<td>100%</td>
</tr>
<tr>
<td>Other East Asia</td>
<td>520</td>
<td>940</td>
<td>80%</td>
</tr>
<tr>
<td>South Asia</td>
<td>170</td>
<td>270</td>
<td>60%</td>
</tr>
<tr>
<td>Afghanistan and Pakistan</td>
<td>190</td>
<td>270</td>
<td>40%</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>200</td>
<td>200</td>
<td>0%</td>
</tr>
<tr>
<td>North Africa and Middle East</td>
<td>80</td>
<td>120</td>
<td>40%</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>40</td>
<td>0</td>
<td>-100%</td>
</tr>
</tbody>
</table>

Dollar amounts and growth rates are rounded. Figures may not add up due to rounding. Regarding the zero country program in Latin America and the Caribbean, this does not include the Direct Aid Program. Also, existing commitments would be honoured.

Table 12.5 shows how the country program share of total aid spending will change in each country or region. Country programs will continue to dominate aid spending in the Asia–Pacific region and in most other regions. South Asia and Sub–Saharan Africa are exceptions. Especially in Sub–Saharan Africa, the bulk of Australian aid will be delivered through global programs. Australia will be able to leverage global programs to deliver aid to these regions effectively and efficiently, and with low transaction costs.
### Table 12.5: Indicative Aid Allocations to Different Countries and Regions, Currently and in 2015–16, and the Share of Those Allocations Delivered Through Country Programs.

<table>
<thead>
<tr>
<th>Region</th>
<th>2010–11</th>
<th>Of which, country program (%)</th>
<th>2015–16</th>
<th>Of which, country program (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total $ million</td>
<td></td>
<td>Total $ million</td>
<td></td>
</tr>
<tr>
<td>PNG</td>
<td>460</td>
<td>98%</td>
<td>610</td>
<td>97%</td>
</tr>
<tr>
<td>Solomon Islands and East Timor</td>
<td>340</td>
<td>98%</td>
<td>440</td>
<td>96%</td>
</tr>
<tr>
<td>South Pacific Microstates</td>
<td>60</td>
<td>94%</td>
<td>130</td>
<td>92%</td>
</tr>
<tr>
<td>Other Pacific</td>
<td>350</td>
<td>98%</td>
<td>530</td>
<td>97%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>470</td>
<td>97%</td>
<td>960</td>
<td>96%</td>
</tr>
<tr>
<td>Other East Asia</td>
<td>610</td>
<td>87%</td>
<td>1,150</td>
<td>82%</td>
</tr>
<tr>
<td>South Asia</td>
<td>270</td>
<td>63%</td>
<td>520</td>
<td>53%</td>
</tr>
<tr>
<td>Afghanistan and Pakistan</td>
<td>240</td>
<td>79%</td>
<td>390</td>
<td>68%</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>450</td>
<td>45%</td>
<td>870</td>
<td>23%</td>
</tr>
<tr>
<td>North Africa and Middle East</td>
<td>90</td>
<td>90%</td>
<td>140</td>
<td>86%</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>80</td>
<td>52%</td>
<td>90</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total country allocations</strong></td>
<td><strong>3,420</strong></td>
<td><strong>84%</strong></td>
<td><strong>5,830</strong></td>
<td><strong>75%</strong></td>
</tr>
</tbody>
</table>

See notes to Table 12.3.

Figure 12.1 shows the recommended regional and country aid shares for 2015–16, first using total allocations and then in relation only to country programs.
Figure 12.1: Indicative Shares of Aid Allocations and Country Program Aid to Different Countries and Regions, 2015–16.