



Australian Government

Independent Review of Aid Effectiveness

April 2011



Independent Review of Aid Effectiveness

April 2011



© Commonwealth of Australia 2011

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth. Requests and inquiries concerning reproduction and rights should be addressed to the Commonwealth Copyright Administration, Attorney General's Department, Robert Garran Offices, National Circuit, Barton ACT 2600

or posted at <http://www.ag.gov.au/cca>

This document is online at www.ausaid.gov.au/publications

Cover photos courtesy of AusAID and Australian Federal Police.

The Hon Kevin Rudd MP
Minister for Foreign Affairs
House of Representatives
Parliament House
CANBERRA ACT 2600

29 April 2011

Dear Minister

We are pleased to submit the Report of the Independent Review of Aid Effectiveness.

We hope that this will contribute to the government's efforts to achieve the desired scale-up of Australian aid to 0.5 per cent of GNI in 2015-16 on a basis which is administratively sound and which will be effective in assisting people to overcome poverty.

In forming its recommendations, the Review Panel has sought to pay particular attention to value for money to ensure that Australia gets the maximum impact for the resources which are deployed.

Thank you very much for the opportunity to work on this most worthwhile project.

Yours sincerely



Sandy Hollway AO, Chair



Bill Farmer AO



Hon Margaret Reid AO



John WH Denton



Professor Stephen Howes



Contents

PREFACE	vii
EXECUTIVE SUMMARY AND KEY RECOMMENDATIONS	1
Part 1—CURRENT EFFECTIVENESS OF AUSTRALIAN AID	35
Chapter 1: CONTEMPORARY INTERNATIONAL THINKING ON DEVELOPMENT AND AID	37
Chapter 2: AUSTRALIA'S AID PROGRAM	52
Chapter 3: THE EFFECTIVENESS OF THE CURRENT AUSTRALIAN AID PROGRAM	66
Part 2—THE FUTURE AID PROGRAM	85
Chapter 4: THE EVOLVING INTERNATIONAL ENVIRONMENT AND ITS IMPLICATIONS FOR AUSTRALIAN AID	87
Chapter 5: VISION AND OBJECTIVES FOR AUSTRALIA'S FUTURE PROGRAM	102
Part 3—ALLOCATING AUSTRALIAN AID	115
Chapter 6: VALUE FOR MONEY: ALLOCATING AUSTRALIAN AID	117
Chapter 7: GEOGRAPHIC FOCUS	128
Chapter 8: SECTORAL ISSUES	145
Chapter 9: MODES OF DELIVERY: PARTNERSHIP PRINCIPLES	178
Chapter 10: PARTNERSHIPS WITH MULTILATERAL AND NON-GOVERNMENT ORGANISATIONS	188
Chapter 11: OTHER PARTNERSHIPS	215
Chapter 12: AID ALLOCATIONS	234
Part 4—MANAGING FOR EFFECTIVENESS	243
Chapter 13: STRATEGY FOR THE AID PROGRAM	245
Chapter 14: IMPROVING GOVERNANCE, LEADERSHIP AND MANAGEMENT	256
Chapter 15: MANAGING RISK	274
Chapter 16: MANAGING FOR RESULTS	287
Chapter 17: ENHANCING TRANSPARENCY, SCRUTINY AND COMMUNITY ENGAGEMENT	303

Part 5—THE WAY AHEAD	311
Chapter 18: THE STEPS AND HURDLES TO 2015–16 AND BEYOND	313
ANNEXES	317
ANNEX A: TERMS OF REFERENCE	319
ANNEX B: SUBMISSIONS RECEIVED	322
ANNEX C: GLOSSARY	329
ANNEX D: REFERENCES	336

PREFACE

A. PURPOSE OF THIS REVIEW

On 16 November 2010, the Minister for Foreign Affairs, the Hon Kevin Rudd MP, announced the Australian government had commissioned an independent review of the Australian aid program.

The Review Panel consisted of: Sandy Hollway AO (Chair), Professor Stephen Howes, Hon Margaret Reid AO, Bill Farmer AO and John WH Denton.

The purpose of the Independent Review of Aid Effectiveness is to thoroughly examine the aid program, determine whether the program's current systems, policies and procedures are as effective and efficient as they can be, and give advice on how to make the program more strategic over the next five years and beyond. The Review's Terms of Reference are in **Annex A**.

Given the bipartisan commitment that expenditure on aid should reach 0.5 per cent of Gross National Income by 2015–16, this Review is timely. Australians need to feel confident that the aid program is achieving its purpose and to know that the increased funding is improving the lives of the poor.

This Review has therefore been a forward-looking exercise. The Review Panel has moved beyond an assessment of current aid effectiveness to propose a vision of what the aid program should achieve and provide guidance on the steps needed to realise this vision.

The Review Panel has not found it necessary to recommend a 'root and branch' change to the aid program. Instead, the Panel has made proposals that build on what is already a good program. The main challenges relate to the rapid growth of the program, which is achievable without a sacrifice in quality, but only if a methodical program of improvement and change is pursued over the next five years.

B. STRUCTURE OF THE REPORT

The Report is structured around the Terms of Reference for the Review. It includes analysis, findings and recommendations on the following:

- concepts of aid and development
- contemporary international thinking on what makes aid effective
- the aid program as it currently stands and its effectiveness
- political, economic and social trends likely to shape aid and development to 2015 and beyond
- vision and objectives of the future program
- geographical and sectoral priorities for the program
- partnerships and delivery of the program

- aid allocations – the shape of the future program
- governance, leadership and management
- managing risk
- measuring success
- enhancing transparency, scrutiny and community engagement
- the steps and hurdles for moving to an effective program in 2015–16 and beyond.

The Review Panel's main recommendations are contained in the Executive Summary and Key Recommendations. That summary confines itself to a relatively short number of the most important recommendations, in order to assist government in preparing its strategy for the scaling up of the aid program. The Report as a whole contains many other ideas and proposals on specific matters which the Review Panel hopes will be helpful in moving the aid program forward.

C. METHOD OF THE REVIEW

The Review Panel drew on extensive evidence to develop its findings, as outlined below:

- **Public submissions.** Approximately 300 submissions were received from a wide cross-section of individuals and organisations, both in Australia and overseas. The list of those who made a submission are in **Annex B**.
- **Consultations.** The Review Panel met with non-government organisations (NGOs), business groups, think tanks and statutory bodies.
- **Australian government.** Australia's aid agency (AusAID), central agencies within the Australian government, and other departments and agencies involved in the delivery of aid, were actively consulted.
- **Parliamentarians.** Meetings with the Minister for Foreign Affairs, the Shadow Minister for Foreign Affairs and other Members of Parliament were held. Australian Parliamentarians who are members of the United Nations and United Nations Children's Fund (UNICEF) Parliamentary Associations, and the Joint Standing Committee on Foreign Affairs and Trade were consulted.
- **AusAID staff.** Opinions were sought in a variety of ways.
- **International discussions.** The Review Panel travelled overseas (to Afghanistan, Africa, Bangladesh, Europe, Indonesia, PNG, Vanuatu and the United States) to meet with governments, civil society, multilateral donors and think tanks.
- **Commissioned studies.** The Review Panel commissioned studies to inform its work on the following topics:
 - a. the effectiveness of Australia's aid program to Indonesia
 - b. the effectiveness of Australia's aid program to Africa
 - c. how the aid program can more effectively engage with multilateral organisations
 - d. how the aid program can more effectively engage with the private sector

- e. what lessons can be learnt from the experience of other donors in scaling up their programs
 - f. findings from independent reviews of AusAID activities over the past three years
 - g. an analysis of the political, economic and social trends that are likely to shape the development context in 2015–20¹.
- **Stocktake of other recent evaluations.** In recent years, a number of evaluations and reviews of the aid program have been conducted. An analysis of these documents was completed, including the 2009 audit by the Australian National Audit Office (ANAO) and the 2008 Organisation for Economic Cooperation and Development's Development Assistance Committee (OECD DAC) Peer Review.
 - **Online media.** The Review Panel commissioned two blogs in order to generate debate about the Review and the aid program more generally: the *Interpreting the Aid Review* blog (hosted by the Lowy Institute for International Policy) and the *aid.collabor8.net* blog (hosted by the Australian Development Gateway).
 - **Academic conference.** A one-day conference on *Doubling Australian Aid* was hosted by the Australian National University and attended by more than 200 participants, including Review Panel members. Many of Australia's leading aid researchers and aid practitioners were involved.
 - **Disability Leaders Forum.** AusAID convened this high-level forum on disability and development, in which the Review Panel participated.
 - **Academic literature.** The Review Panel considered the latest international research on aid and development.

The Review Panel was proud to take part in this process and hopes that this Review will help the Australian government continue to strengthen the way it delivers aid for the world's poor as it scales up the program to 2015.

1 These Studies are available at: www.aidreview.gov.au and www.ausaid.gov.au.

Executive Summary and Key Recommendations





EXECUTIVE SUMMARY AND KEY RECOMMENDATIONS

In one of the earliest consultations conducted by the Review Panel, the Minister for Foreign Affairs said that he wanted Australia to have an aid program of which Australians would be proud.

The Review Panel agrees that this is a good way of looking at the goal of aid effectiveness, because it captures two essential points. In the first place, an effective Australian aid program must be sustainable over the long term, and this means that it must be firmly founded on a public consensus. In the second place, aid is not just about efficient delivery of services to clients. It is an expression of human values. It is about helping people living in deplorable conditions to overcome poverty.

Australians are generous supporters of this cause. Each year the Australian people contribute \$800 million to NGOs for aid work. Australia has some of the most active NGOs in the field and many Australians also volunteer their time and skills overseas. Additionally, on behalf of the people, the government provides \$4 billion a year, and runs a substantial aid operation around the world.

The other side of this coin is that Australians want their contribution to be effective. They want to know that there is value for money; that it is having a real impact on the lives of people.

In aid, performance needs to be judged against degree of difficulty. Australia is seeking to get results in difficult and sometimes dangerous countries overseas, in a wide range of areas from health and education to humanitarian support in emergencies, and grappling with multiple methods of delivery. By the standards of donors generally, Australia is an effective performer.

Moreover, to the credit of the people running the program, the Review Panel found when it came to its task that improvement was already underway. This is a strength.

But there are problems and, if these are not addressed, they will become more serious as Australia's aid operation, already under strain, comes under the increased pressure of ramping up over the next five years to achieve the target of 0.5 per cent of Gross National Income (GNI). They range from lack of a unified sense of strategic purpose across government, through the need to reform the government's budget processes, to the dangers of fragmentation and stretching the program too thin, to the need for greater public involvement and transparency.

The challenge is not, of course, simply to spend the money. There is assuredly enough poverty. The challenge is to spend effectively. The recommendations of the Review Panel are designed to suggest the characteristics of – and the preconditions for achieving – the aid program to which Australia should aspire in 2015–16, if the Australian people are to have confidence in its effectiveness.

The Review Panel makes 39 key recommendations that are outlined in the Executive Summary. These recommendations are elaborated in detail in the main body of the Report. Beyond the main recommendations, further recommendations, proposals and suggestions are made throughout the Report.

1. CONTEMPORARY INTERNATIONAL THINKING ON DEVELOPMENT AND LESSONS LEARNED

By most measures the world has seen unprecedented developmental success over the past 15 years. Contrary, perhaps, to popular belief, this is not just because of China's remarkable growth, but because of progress in Africa and elsewhere. A lower proportion of the world's population now live in poverty than at any time in history.

Despite successes, development challenges remain acute. More than 1 billion people live on less than US\$1.25 a day, the most commonly used measure of poverty. This is a level of destitution almost unimaginable in Australia. Progress towards meeting the Millennium Development Goals (MDGs), the internationally recognised benchmark of development progress, has been mixed.

There have been important changes to the aid environment in the past decade.

The total volume of aid has grown dramatically, driven by: large increases in aid from traditional donors (basically the Western industrialised countries); the emergence of new non-government donors (such as the Bill and Melinda Gates Foundation) and global funds (for example the Global Fund to Fight AIDS, Tuberculosis and Malaria); and the rapid growth in aid from non-traditional donors such as China and Brazil.

The geographical concentration of the world's poor is now in Africa and South Asia. The bulk of the world's poor also now reside in 'middle-income' countries such as Indonesia, which remain very poor by Australian standards. The average annual income of an Indonesian is less than one-twentieth of an Australian's average income, and more than 35 million Indonesians live on less than US\$1.25 a day.

Aid can play an important role in promoting development. Aid can specifically target the poor, help to stabilise fragile states, promote innovation and help to tackle global challenges. But the role of aid must be kept in context. For most countries, in most times, it is their own policies and practices that are far more important than aid in determining whether or not they succeed.

Many factors determine the effectiveness of aid. They can be grouped into three main categories – the capabilities of the recipient country, the performance of the donor country, and the quality of the relationship between the two. In recent years, across this spectrum, a clear international agenda for aid effectiveness has emerged.

This agenda focuses on **selectivity** of efforts, effective **partnerships**, a focus on **results**, promoting **feedback**, the need for **transparency**, and **coordination** across the **whole-of-government**. This international aid effectiveness agenda informs many of the findings and recommendations in the Report.

2. AUSTRALIA'S AID PROGRAM

A central feature of Australia's aid program is the rapid growth underway in the aid budget. In 2010–11, this stands at approximately \$4.3 billion, or 0.33 per cent of GNI. This represents a doubling of Australian aid over the past five years in absolute dollar terms. The government's commitment to reach 0.5 per cent of GNI by 2015–16 will, subject to future levels of economic growth, see the aid budget almost double again, to around \$8 billion.

The Australian Agency for International Development (AusAID) manages about 85 to 90 per cent of Australia's aid program. The remainder is delivered through other Australian government departments and agencies.

Like most Organisation for Economic Cooperation and Development (OECD) donors, the Australian government is committed to the MDGs as the agreed international development targets. Australia is also a signatory to both the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action, which focus on improving coordination of donor effort and aligning donor programs with recipient government priorities.

Geography has a very significant bearing on Australia's aid program. Two-thirds of Australia's aid goes to the Asia-Pacific region (East Asia, PNG and the Pacific). Australia's two closest neighbours, Indonesia and PNG, are the two largest aid recipients. The OECD has recognised this geographic focus as a major strength.

A high proportion of Australia's aid program is delivered in countries classified as 'fragile states', largely in the Asia-Pacific region, but also beyond, such as Afghanistan. In 2010–11, over 50 per cent of Australia's bilateral and regional aid will be spent in fragile states, higher than any OECD donor except the United States.

Although the Asia-Pacific region remains at the centre of Australia's aid program, the doubling of the aid budget over the past five years has seen significant geographic expansion. Programs in South Asia, particularly in Afghanistan and Pakistan, have risen sharply, as has country program aid to Africa. New programs have been established in Latin America and the Caribbean.

In terms of sectors, since 2005 there has been a gradual decline in the proportion of the program spent on governance. Governance has been given high priority because of the importance to development of sound institutions and government processes, but results have not always been commensurate with spending levels. There have been gradual increases since 2005 in the proportions spent on infrastructure, health, education, rural development and the environment. Together, these five sectors, along with governance and humanitarian spending, dominate the Australian aid program.

3. THE EFFECTIVENESS OF THE CURRENT AUSTRALIAN AID PROGRAM

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

The Review Panel has made findings on 10 key issues that determine effectiveness and inform the recommendations made in the Report:

- The aid program lacks a clear and comprehensive **overall strategy**. This risks a scattered effort and makes an assessment of effectiveness difficult.
- The aid program is **fragmented**. In 88 countries Australia has aid programs of more than \$200,000 a year, compared to 69 countries five years ago. The number of projects has doubled. These trends are unsustainable. Consolidation is a recurring theme of the Report. It will require a sustained effort to tighten political and bureaucratic discipline.

- AusAID has greatly strengthened its **performance management** system in the recent past, but an important gap is the absence of a single, easily comprehensible scorecard on the effectiveness of the Australian aid program as a whole. The system of independent evaluations is not working well and requires reform.
- One of the most striking changes over the past five years has been the dramatic rise in the proportion of the program going through multilateral, NGO and government **partners**. In 2005, over 40 per cent of aid from AusAID was spent through contractors; now it is just over 20 per cent. In several respects this shift has been highly successful, but there is scope to make better use of existing partnerships and include new partners, particularly the private sector and community groups.
- A wide range of government agencies are involved in delivering aid. Other government departments bring a variety of strengths and skills. More emphasis needs to be given to **whole-of-government** coordination and performance management.
- There are significant shortcomings with the current **budget process**. It does not have a whole-of-ODA approach, and has led to fragmentation, inadequate overall scrutiny and an imbalance between the crucial spine of predictability which is needed for multiyear aid projects, on the one hand, and the need for flexibility to respond to unpredictable events on the other.
- A process is already underway to strengthen the **management** of aid. This is heading in the right direction but management challenges are becoming increasingly pressing. There is too much paperwork, leading to lengthy processing times. The recruitment, learning and development required to scale up the aid program is a very substantial task. Resolving these problems requires a determined program of change management and a more selective and focused aid program.
- Delivering complicated aid programs in difficult, often corrupt and sometimes fragile countries around the world inherently involves **risk**. This comes in various forms. AusAID has strong systems for the prevention and detection of fraud. The adviser remuneration review and procurement review are potentially positive steps in improving economy and efficiency. Risks around fraud and efficiency are important, but a third risk to value for money is development ineffectiveness. This is the risk that inputs will be delivered but few if any outputs and/or outcomes achieved. Development ineffectiveness carries a lower political cost than fraud, but is actually the greatest risk for the taxpayer. Many of the core recommendations of the Report are addressed to this challenge of improving development effectiveness.
- The aid program has taken significant steps to improve **transparency** but release of documents and data is not yet always standard practice.
- The government does not have an effective **communications** strategy for the aid program. Fostering more informed public debate about and more community engagement with the program is healthy and appropriate.

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

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

4. THE EVOLVING INTERNATIONAL ENVIRONMENT AND ITS IMPLICATIONS FOR AUSTRALIAN AID

To achieve an effective aid program, Australia needs to understand current trends and emerging challenges to prepare for the future.

Spreading and sustaining economic growth will be an important challenge. The world is becoming increasingly interconnected: markets are expanding; mobility of people, resources, finance and ideas is increasing; business is becoming even more international in nature; and developing countries are adopting more market-friendly policies which give the private sector greater scope. These are positive trends, but their continuation cannot be taken for granted. Countries which are now experiencing growth will want more, not less, assistance to consolidate the start they have made and build on it.

Just as important as sustaining growth will be expanding the opportunities for people within countries who are disengaged from growth to participate in its benefits. An important role for aid is to help to dismantle barriers that stand in the way.

Gender barriers are among the most important which need to be broken down. Gender will remain a key priority for aid, with increased focus on areas where disparities are the greatest, including economic and political opportunities for women, and protection from violence. This will be especially important in the Pacific, where Australia is a major player and gender disparities are among the worst in the world.

Food insecurity and water shortages are growing risks, where Australia should be able to share expertise and experience. Other mounting risks to development where Australian aid will need to respond include climate change, disaster preparedness and response, and transboundary threats.

Australia will continue to be called on to assist with stabilising fragile and conflict-prone states. In the Pacific, it is likely that Australia would again be required to take a lead role if a crisis emerges, as was the case in East Timor and Solomon Islands. Further afield, Australia will need to contribute to international efforts, including possibly in conflict zones, as in Afghanistan and Iraq.

Australia will be able to use its growing aid budget (which will see Australia become one of the top 10 donor countries in the world), the significantly increased core funding to multilateral organisations which the Review Panel proposes, and its membership of key institutions including the G20, to push for a higher profile for development issues. Given the ongoing importance of the multilateral system, but also its variable performance, an enhanced engagement, with greater financial support for the better performing multilateral organisations, will be the best way to leverage reform.

With a growing number of donors – bilateral, multilateral and non-government – coordination will become more difficult but also more important. Working with the right partners and having a selective, focused aid effort will be, increasingly, the keys to success.

The emergence of new donors will be perhaps the biggest change in the aid world in the coming decade. If aid volumes from these donors increase in line with their growing aspirations and economic success, they could be very large sources of external financing. Engaging with new donors will be important, especially in Australia's own region.

New technologies offer new hopes for aid effectiveness if they can be effectively deployed.

5. VISION AND OBJECTIVES FOR AUSTRALIA'S FUTURE PROGRAM

At present, the objective of the aid program is 'to assist developing countries to reduce poverty and achieve sustainable development, in line with Australia's national interest'.

This objective includes important elements but can be improved by removing ambiguity about the role of the national interest and highlighting **people**, rather than countries, as the focus of aid.

Australian aid should put people first. That is, Australian aid is not, in the final analysis, for governments, countries or organisations. The essential test is that there must be a credible pathway to helping people to overcome **poverty**. This should be the fundamental objective of the Australian aid program.

It comprises both helping people to survive in situations of dire need, such as humanitarian crises and chronic poverty, and helping people to escape poverty through sustained economic and social development.

One problem with the objective of the program as it is presently stated is that it is unclear and ambiguous in relation to how the **national interest** should figure in the program. The Review Panel believes that this issue should be brought out into the open and addressed squarely. Those responsible for managing the transition to the much increased aid program of the future need clarity and guidance.

In the first place, Australia's interests are served by a world of prosperity and opportunity, rather than one plagued by poverty.

Second, it is entirely legitimate and sensible to focus Australia's efforts in tackling poverty on those regions and countries where Australia's foreign policy, security and economic interests are most strongly involved. This is a key reason for maintaining the focus on the Asia-Pacific.

Third, once country allocations are made, individual activities or sectoral priorities should only rarely be selected because of national interest. In some cases though, national interests will influence which aid projects Australia chooses to pursue within countries, as when for example we put a special effort into helping the people living along the Kokoda Track in PNG.

The central point is this: all Australian aid must pass the poverty alleviation test, but not all aid needs to pass the test of promoting some other particular national interest. Foreign policy, security and economic interests should figure mainly in focussing Australia's geographical effort.

There is a second key criterion for focussing the geographic effort. We should focus on areas in which Australia can **make a real difference**. We want our aid program to have maximum impact for the resources which we devote to it.

On this basis, we can formulate an objective for the aid program in a way which is both practical and principled, and which respects the complexity involved rather than reducing the objective to an over-simplified one-liner.

This objective firmly anchors Australian aid in both Australia's national character as a decent and caring country and in Australia's enduring national interests.

The aid program is rich in activities that advance Australia's commitment to human rights. The program should more clearly communicate the interconnection between it and human rights.

Recommendation 1: The objective of the Australian aid program should be cast as follows:

The fundamental objective of Australian aid is to help people overcome poverty.

We work to improve the lives of those living in conditions far below what Australians find acceptable. We focus our resources and effort on areas of national interest, and where Australia can make a real difference.

6. VALUE FOR MONEY: ALLOCATING AUSTRALIAN AID

As well as defining a fundamental **objective** (helping people to overcome poverty), the Review Panel proposes a fundamental **operational principle** for the aid program. This is value for money. This principle applies from the highest level strategic design of the program down to the conduct of specific projects and activities.

Value for money starts with a rational calculation of how Australia should best deploy its aid resources geographically, sectorally and by different modes of delivery. This is needed to set out a clear picture of what we want the aid program to look like in 2015–16.

Importantly, the Review Panel sees these three questions as interrelated, and proposes a methodology for reaching a sensible allocation of Australian aid which integrates these three considerations.

The starting point is to recognise that aid can be provided to countries in the following ways:

- **Bilateral:** through AusAID to private contractors or partner governments, or through other Australian government departments.
- **Other country program:** funding of a partner, such as a multilateral organisation or international or Australian NGO, which is earmarked for use in a specific country; or core funding to a partner which only operates in one country or region.
- **Global program:** core funding to a multilateral organisation or NGO that operates across countries and regions.

Typically this third element – global programs – is not included when considering Australia's support to a region. But it should be. The calculation of where Australian funding for global programs winds up, can only be done on an approximate basis. But it is very important to a proper understanding of where Australian taxpayers' money is being spent.

For example, aid to Africa is seven per cent of the total Australian aid program without including the Australian contribution to global programs, but this increases to about 12 per cent once global programs are distributed.

Bearing in mind this more comprehensive approach towards analysing how Australian aid is geographically dispersed, the Review Panel then proceeds as follows:

- It identifies **12 countries and regions**, into which all the 90–odd countries receiving aid from Australia can sensibly be grouped. These are: Papua New Guinea; Solomon Islands and East Timor; South Pacific microstates; other Pacific Island Countries; Indonesia; Other East Asia; South Asia; Afghanistan and Pakistan; Sub-Saharan Africa; North Africa and the Middle East; Latin America and the Caribbean; and Central Asia.
- Each of these countries and regions is then rated using the **three criteria** of the proposed overall objective of the aid program: poverty alleviation, national interest, and capacity to make a difference.
- For each country/regional category, these ratings are then used to inform recommendations about the **case for expansion** of Australian aid, the desirable degree of **sectoral spread** and the extent to which Australia should rely on bilateral **delivery channels** as against earmarked or core funding of partners.

This methodology provides a total picture of how the aid program should be shaped, in the opinion of the Review Panel, when it reaches the 0.5 per cent target of GNI in 2015–16: where it should be spent, on what, and how.

It is crucial, if Australian aid is to be ramped up effectively, that the government establish such a goal. It is not sufficient simply to move forward incrementally; there needs to be a clear target, and the planning for the ramp-up should track back from that.

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.

7. GEOGRAPHIC FOCUS

Country allocations (including distributed funding from global programs) in 2015–16 should take account of the **current effectiveness** and **current scale** of Australia's aid, in addition to the factors embodied in the proposed aid objective – the extent of poverty, the national interest, and capacity to make a difference.

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.

With regard to country programs, the bottom line of the Review Panel's analysis is that Australia will need to maintain country programs in some 20 countries in South East Asia, the 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 programs elsewhere.

More specifically:

In **PNG, Solomon Islands and East Timor**, aid effectiveness is constrained by poor governance. The Review Panel recommends a **low** expansion. If efforts currently underway in these countries to improve effectiveness succeed, this judgement could be revisited.

In the **South Pacific microstates** (Kiribati, Nauru and Tuvalu), Australian funding will be a significant feature of budgets for the indefinite future, and it is best that Australian aid planning recognise that reality. The Review Panel recommends a **high** expansion. Additional funding should be conditional on a changed approach to the aid program founded on mutual accountability and shared oversight.

In other **Pacific Island Countries**, the Review Panel recommends a **medium** expansion. Performance is variable within this group, and any increase should be linked to performance and demonstrated aid effectiveness.

It should be noted that – uniquely – in the Pacific Island Countries and PNG, 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. The Australian policy agenda for the region should include increasing labour mobility, the flow of remittances and encouragement of trade and investment.

In **Indonesia and other East Asian countries**, the Review Panel recommends a **high** expansion. Australia's aid programs are effective and these countries have the capacity to absorb more aid. Significant poverty remains. Australia has an opportunity to play a leadership role as other donors exit.

In **South Asia**, the Review Panel recommends a **high** expansion given the high incidence of poverty, small current base, effective performance of the aid program and the limited aid being provided by donors as a whole.

In **Afghanistan and Pakistan**, the scale of these programs in 2015 will hinge on the context at the time, around which there is considerable uncertainty. The Review Panel recommends a **medium** expansion.

In **Sub-Saharan Africa**, the Review Panel recommends a **high** expansion on the condition that this is delivered in an effective way through partners. The expansion would be through core funding to multilateral organisations and NGOs, most of whom focus on Africa. There would be no further expansion of the country program to Africa, which would be delivered in a relatively small and manageable number of countries and with a relatively small and manageable number of partners.

The Review Panel recommends that Australia join the African Development Bank (AfDB) which is well respected, scored well in the United Kingdom Department for International

Development's recent review of multilateral organisations, focuses on what it does well (infrastructure and promoting regional integration) and is in the midst of an extensive reform agenda. Joining the AfDB would represent value for money and be a high-level indication of Australia's commitment to development in Africa.

In **North Africa and the Middle East**, the Review Panel recommends that the government plan on the basis of a **medium** expansion. There are high levels of uncertainty about future aid demands because of the fluid and even volatile political environment, but there is also a case for more aid from Australia's low base, especially as part of a wider effort by other Western donors.

Latin America and the Caribbean as well as **Central Asia** do not warrant country programs. Australia's aid contribution should be through global programs. This would require no change to Central Asia, but would mean a phasing out of programs in Latin America and the Caribbean once existing commitments have been met.

The Review Panel does not see a case for country programs to **India** and **China**, particularly given that the former does not wish to have additional aid donors and that these countries are actually themselves becoming donors.

Even in regions where there are no country programs, the ability to respond flexibly to requests will remain important. The Review Panel supports a doubling or more of the Direct Aid Program, a flexible fund to support development activities managed by Australia's Ambassadors and High Commissioners at posts.

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, with the highest increases in countries with no country program.

8. SECTORAL ISSUES

Just as there needs to be a very deliberate and rigorous approach towards where, geographically, Australia provides its aid, so the same is needed in relation to what Australia spends its aid on.

Australia, through a range of government departments, private sector organisations and NGOs, has abilities in many fields of importance to developing countries. There is capacity for 'team Australia' to contribute to international development across a broad front.

On the other hand, it would be fatal to AusAID's effectiveness to try to be all things to all people. Many donors are using sectoral focus as a means to promote selectivity. For example, donors in the European Union have agreed to work in three sectors or less in the countries in which they are active.

The aid program should be driven by country programs, which should not be subject to distortion from predetermined global sectoral targets. It is appropriate for the program to concentrate on particular sectors, but this should be framed as guidance for the development of country programs, not a global 'suit' into which every one of them must try to fit.

The Australian aid program needs greater **sectoral focus** as an important way to promote selectivity. However, it is only at the country level that priority sectors can be sensibly determined. Sectoral prioritisation should be exercised robustly at the country level, particularly where Australia is not a major donor. This idea that country programs should be in the driver's seat if aid is to be effective and provide value for money is one of the Review Panel's fundamental conclusions.

Not every country in the Australian program can or should be equally narrow in its sectoral focus. Countries which have large Australian programs and where Australia is a major donor will naturally have a larger sectoral spread than where Australia is a small donor. 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.

The Review Panel proposes four high-level **organising themes** 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; and preparing for and responding to crises.

Among other things, this formulation elevates the importance of private sector development and strengthening civil society. Policy statements in relation to these two areas should be developed.

The Review Panel proposes that 13 **sectors and cross-cutting issues** sit beneath these four high-level themes: rural development and food security, infrastructure and urban development, water and sanitation, climate change and the environment, private sector development, education, health, gender equality, disability, law and justice, governance, civil society and humanitarian and emergency assistance.

For the reasons given earlier, gender is a critical cross-cutting issue for the aid program. While the priority given to gender has increased, there can be no doubt that the program faces challenges for this work to be more effective, especially in the Pacific.

Australia should be a firm and persistent advocate, and it should consistently signal how important gender equality is. This includes supporting practical activities that advance gender equality with committed partners.

The Review Panel proposes a substantial increase in humanitarian and emergency assistance. This is an area of growing importance, which is globally underfunded and where Australia performs well.

The Review Panel proposes that a small number of **'flagships'** for the aid program be identified. These should be areas where Australia would aim to be a significant and high-quality contributor and receive recognition for its efforts. Five criteria should be used to determine flagships: Australia's comparative advantage; neglected needs; the presence of a 'tipping point'; high prospects for success; and related Australian interests.

The Review Panel proposes a small number of potential sectoral flagships for the program. These are in addition to the Asia-Pacific region which is proposed to be the program's regional flagship and strategic focus. The proposed sectoral flagships are: disability; extractive industries; elimination of malaria from the Pacific; fragile states; research; and humanitarian and emergency assistance.

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.

9. MODES OF DELIVERY: PARTNERSHIP PRINCIPLES

It is clear that the Australian aid program must have a portfolio of methods for delivery. The situation is far from a 'one size fits all'.

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 partnerships with other development actors.

A partnership approach means Australia working through or with others to deliver aid. Partnership is not a delivery mechanism in itself; rather, it is an effective way to use all delivery mechanisms.

Nor is partnership a platitude. To work really well, partnership should be an open, honest, frank, creative relationship which may extend through all parts of the aid process – from the front end of policy and program design, through delivery, to the ultimate measurement and evaluation of

results. On some occasions, partners may be only delivery mechanisms, but the mindset of those administering the Australian aid program should always be to consider whether they can be more.

Australia's central partnerships are currently with recipient governments, multilateral organisations and NGOs. Australia has a range of smaller partnerships with other bilateral donors, think tanks, universities and business consortia (such as on HIV/AIDS) and private sector organisations.

Partnerships bring with them a wide range of benefits. The main one is leverage. Different partners bring different assets to any development task. Other potential benefits of working in partnerships include reducing fragmentation and burden on partner countries. This is particularly important in crowded donor environments.

Partnerships are not always the answer. They have limitations and risks. Partnerships give less control to the funder than a contracting relationship. If used inappropriately, partnerships can lead to, rather than prevent, fragmentation. For example, Australia's aid to Africa is run almost entirely through partners, yet it is a highly fragmented program.

Feedback from partners on existing arrangements suggests that AusAID is often a partner of choice. Nevertheless a number of partners highlighted to the Review Panel problems of frequent staff turnover, micromanagement, and a lack of predictable funding in these arrangements. These problems are being addressed to some degree but further efforts are needed.

The branding of the Australian government's contribution to partnerships is an issue relevant to most partnerships. Achieving due recognition of the Australian government's contribution to partners is an important and legitimate objective.

How much to give partner organisations through core funding and how much to give for earmarked purposes is one of the major decisions for any aid organisation. Earmarked funding allows the Australian government to direct where money is spent, while core funding has the benefit of lowering transaction costs for both AusAID and the partner.

Expanding reliance on core funding to effective NGOs and multilateral organisations would have five particular advantages at this point of time. It would buy time for the Australian government to build the capacity to manage greater quantities of bilateral projects or heavily earmarked programs. It would reduce fragmentation. It would take advantage of the emergence of new and/or more effective partners. It would increase funding (efficiently) to Africa. And it would provide support to other regions which do not warrant country programs.

AusAID's shift towards partnership will require skills beyond traditional development areas (in particular in partnership and stakeholder management, and in advocacy of Australian government policies, interests and requirements). Greater resourcing to manage key partnerships, particularly at senior levels, will be needed to make the most of partnerships.

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

Recommendation 15: Core funding to multilateral organisations 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.

10. PARTNERSHIPS WITH MULTILATERAL AND NON-GOVERNMENT ORGANISATIONS

Multilateral Organisations

Working with effective multilateral organisations such as the World Bank can extend Australia's reach in those areas where Australia has limited experience or presence; deliver activities beyond Australia's capacity; and facilitate access to global knowledge and expertise.

Australia is seen by many multilateral organisations as a constructive and important partner, generally punching above its weight compared to other donors of a similar size.

Australia's current funding is focused heavily on a small number of effective agencies. This selectivity is sensible, as performance is uneven across multilateral organisations. For most multilateral organisations, Australia's earmarked funding is higher than core funding.

As Australia further increases funding to multilateral organisations, including the increase in core funding which is a central recommendation of the Review Panel, it will need to devote greater management attention to these partnerships. This includes exerting greater influence over policy and program directions, getting better recognition for Australia's contributions and more systematically reviewing the effectiveness and relevance of multilateral organisations to Australia's aid objectives.

AusAID should undertake an exercise to rate multilateral organisations, drawing on available performance information, and giving weight to criteria of particular relevance to Australia. Funding decisions should be linked to these ratings.

The Review Panel has been able to form preliminary views on the effectiveness and relevance of a range of multilateral agencies. For good performers (for example, the Asian Development Bank and GAVI), the Review Panel recommends core funding increase in the range of a doubling to a tripling, or even more in some cases. For poor performers (for example the International Labour Organisation and the Commonwealth Secretariat), the Review Panel recommends no increase or a possible end to funding.

Non-Government Organisations

Government brings great strengths to any nation's aid effort, not least in terms of size, influence and official access. But NGOs also bring particular strengths – often complementary strengths – to the aid program. Many NGOs have expertise in meeting people's basic needs, particularly in emergencies where quick and flexible responses are needed. The NGO sector also gives an important community-based perspective on aid policy.

NGOs who wish to access core funding from AusAID need to pass a rigorous accreditation process. The Review Panel supports the accreditation process as an important front-end, risk management measure. Some small Australian NGOs have argued that the accreditation process is demanding and expensive for a small organisation, and AusAID should undertake an exercise of consulting smaller NGOs to consider whether the accreditation process can be improved further.

Both core and earmarked funding for Australian NGOs has increased sharply over the past five years, with core funding more than doubling. Funding to international and local in-country NGOs has tended to be through earmarked funding.

The Review Panel believes that there is scope to increase the share within the aid program of core and earmarked funding to both Australian accredited NGOs and credible and effective international and local NGOs.

AusAID already involves both Australian and in-country NGOs in some sector and country policy development. These are welcome steps and the Review Panel sees scope to more systematically build policy engagement with informed Australian, international and local NGOs.

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.

11. OTHER PARTNERSHIPS

Partner Governments

In most countries, the recipient government is the key partner for the aid program.

In the last five years, there has been a shift to the greater use of government systems (ranging from the project-specific use of partner government budget systems to general budget support). Use of government systems has been most prominent in Indonesia but extends to a range of countries including Samoa, Vanuatu and Vietnam.

The use of government systems should not be the default option. It requires careful consideration of the country context. However, it does have two main advantages: avoiding the creation of systems parallel to the government and helping influence partner government policies and programs beyond the aid activity itself.

Overall the experience of putting more aid through government systems has been positive. Risks of fraud have been successfully managed.

Other Bilateral Donors

Australia works closely with bilateral donors including New Zealand, the United Kingdom, the United States, Germany and the European Union on both policy and program issues.

Australia has or plans to have 'delegated cooperation' arrangements with all these donors, where Australian funding supports programs managed by another bilateral donor. Such arrangements have a clear benefit in terms of reduction in fragmentation, administrative savings for AusAID and the reach which they provide into regions where AusAID does not have country knowledge, expertise or presence. The Review Panel sees considerable scope to increase this method of delivery.

Australia has begun to engage with non-traditional donors such as South Africa and Brazil and should proactively look for opportunities to work with these donors just as much as with traditional donors where this will enhance the effectiveness of the overall effort.

Contractors and Technical Assistance

The proportion of the program delivered through contractors has halved in the last five years. The use of contractors is appropriate where three fundamental conditions are met: specialist project management expertise is needed; it is sensible to outsource the task rather than bring the necessary expertise in-house; and alternative options of giving support have been considered and rejected.

Australian agencies should not overlook the capacity of contractors to play a partnership role in program management. This would mean starting with a genuine dialogue about objectives, moving on to collaborative program design, and following through with joint monitoring and flexibility to adjust. This can be a powerful model, especially in circumstances where the contractor is not held at arm's length but co-located with the agency and integrated into its management for the program or project.

Such partnership with contractors does not mean reliance only on trust and good intentions. It needs to remain a thoroughly businesslike commercial relationship.

The size of Australian 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 the right circumstances.

The key point is worth reemphasising: how Australia goes about pursuing aid outcomes depends upon what will be most effective in any particular case. Those administering the program need to be able to adopt a fit-for-purpose approach. There is still a place for technical assistance, as there is for contractors.

Private Sector and Business Groups

The private sector is crucial for the success of aid recipient countries. Equally, the private sector is an underutilised partner for donor countries, including Australia. The Australian aid program is already engaged with the private sector but the Review Panel sees opportunities to expand this engagement significantly.

Because economic growth is so central to poverty reduction, the Review Panel recommends that pro-poor sustainable growth and private sector development become clearly recognised as one of four high-level themes of the aid program. Moreover, because the Review Panel supports a continuing shift in the program towards working through partnerships, it is recommended that AusAID take active steps to improve its engagement with the private sector. It is to be hoped that businesses and business organisations will respond and reciprocate.

To this end, the Review Panel recommends an Annual Consultative Forum between AusAID and the Australian business community.

Business should be invited to participate in small-group discussion of aid policy and major program design at an early stage, where business is interested and where it can contribute.

The aid program should also consider establishing a mechanism to assist Australian businesses which are seeking corporate social responsibility and/or inclusive business opportunities in developing countries. This could provide information on local context and capacity in developing countries, and link businesses with relevant organisations.

Given the Review Panel's opinion on the importance of well-designed and well coordinated country programs, country managers should think at an early stage about the potential for engagement with the private sector.

Universities and Think Tanks

Some 10 per cent of the aid program is deployed through universities and think tanks. Knowledge and innovation are critical for development success. Some of the biggest aid successes – for example the Green Revolution – have involved supporting research into and then deploying new technologies.

It seems highly likely that, with R&D-based technology increasingly determining the future of human society, the success of development will increasingly hinge upon relevant and vibrant research.

The Review Panel thinks there is a strong case for scaling up in the areas of agricultural research and medical research, which are Australian strengths. The Australian Centre for International Agricultural Research, which has a good track-record, represents an obvious vehicle for scaling up agricultural research. New modalities would need to be developed for medical research, possibly in collaboration with the National Health and Medical Research Council.

In line with the proposed fundamental objective for the aid program, the key criterion for devoting aid money to research should be that it is focused upon improving the condition of the world's poor. On the value for money principle, this should not be confined solely to Australian research organisations but may include high-calibre international and developing country institutions.

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.

12. AID ALLOCATIONS

The big picture outcomes of the methodology employed by the Review Panel are set out below. This summary includes tables from Chapter 12 of the Report based on a numerical exercise undertaken by the Review and detailed in the Report. The figures are indicative and approximate, but they illustrate a number of important points.

Geography, Sectoral Spread and Method of Delivery – Snapshot

The first point is that, as already stated, geographical allocation of aid, sectoral allocation and method of delivery need to be seen as interrelated. The methodology adopted by the Review Panel leads to the snapshot provided in the following table.

Geographic Recommendations for Australian Aid Expansion, Sectoral Spread and Aid Delivery Channels

Criteria	Case for Expansion	Sectoral Spread	Reliance on Bilateral Delivery Channels
PNG	Low	Medium	High
Solomon Islands and East Timor	Low	Medium	High
South Pacific Microstates	High	High	High
Other Pacific	Medium	Medium	High
Indonesia	High	High	Medium
Other East Asia	High	Low	Medium
South Asia	High	Low	Low
Afghanistan and Pakistan	Medium	Low	Medium
Sub-Saharan Africa	High	Low	Low
North Africa and Middle East	Medium	Low	Low
Latin America and Caribbean	Low	N/A	N/A
Central Asia	Low	N/A	N/A

It is notable from this table that it will be in the Asia-Pacific region (which includes East Asia, PNG and the Pacific, but not South Asia) that Australia would be most active in delivering aid through bilateral channels and most prepared to accept a broader spread of activities across sectors.

Aid Program – Basic Break-up

The second big point emerging from the analysis is that Australia should aim for an aid program in 2015–16 which sees a significant shift towards global programs, and towards humanitarian spending. This is shown in the table below. Country programs fall as a share of total aid 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 seven to 11 per cent. Contingencies also increase to allow for unexpected changes. Departmental costs rise, but fall as a share of total aid.

Indicative Aid Allocations by Major Category in 2015–16 Compared with Current

	2010–11		2015–16	
	\$m	%	\$m	%
Country programs	2,860	66%	4,370	55%
Global programs	640	15%	1,610	20%
Humanitarian and emergencies	300	7%	900	11%
Global research	50	1%	110	1%
Other and contingencies	250	6%	600	8%
Departmental costs	250	6%	400	5%
TOTAL	4,350	100%	8,000	100%

Figures are rounded.

Australia's Overall Aid Effort – Geographical Expansion

Third, implementation of the Review Panel's recommendations for the program in 2015–16 will lead to significant growth in two particularly important contexts.

- The first is expansion in the poorest parts of the world, namely Sub-Saharan Africa and South Asia. For these regions, the geographical distribution of Australia's contribution to core funding of multilateral organisations and NGOs is particularly important.
- The second is expansion closer to home in East Asia and the South Pacific microstates.

The following table illustrates these points.

Indicative Geographic Allocations (Including Distribution of Global Programs) in 2015–16 Compared with Current

	\$ million		% share		Growth to 2015–16
	2010–11	2015–16	2010–11	2015–16	
PNG	460	610	13%	10%	30%
Solomon Islands and East Timor	340	440	10%	8%	30%
South Pacific Microstates	60	130	2%	2%	100%
Other Pacific	350	530	10%	9%	50%
Indonesia	470	960	14%	16%	100%
Other East Asia	610	1150	18%	20%	90%
South Asia	270	520	8%	9%	90%
Afghanistan and Pakistan	240	390	7%	7%	60%
Sub-Saharan Africa	450	870	13%	15%	100%
North Africa and Middle East	90	140	3%	2%	50%
Latin America and Caribbean	80	90	2%	2%	10%
Total country allocations	3,420	5,830	100%	100%	70%

Australia's Asia-Pacific Focus

The next table provides the amounts of Australian aid in country programs, that is, without distributing Australia's portion of global programs. This is a measure of where Australia is deliberately choosing to focus its own efforts.

The significant conclusion from this is that, under the methodology adopted by the Review Panel, Australia would maintain its strong concentration of effort on the Asia-Pacific. Country program aid to this region increases as a share of total country program aid from 76 per cent to 80 per cent.

Indicative Country Programs (Excluding Distribution of Global Programs) in 2015–16 Compared with Current

	2010–11	2015–16	Growth to 2015–16
	\$ millions		
PNG	460	590	30%
Solomon Islands and East Timor	330	430	30%
South Pacific Microstates	60	120	100%
Other Pacific	340	510	50%
Indonesia	460	920	100%
Other East Asia	520	940	80%
South Asia	170	270	60%
Afghanistan and Pakistan	190	270	40%
Sub-Saharan Africa	200	200	0%
North Africa and Middle East	80	120	40%
Latin America and Caribbean	40	0	-100%

Overview

In short, in the view of the Review Panel, Australia should:

- expand its aid differentially in different parts of the world, and likewise tailor the sectoral spread and the use of bilateral delivery channels to particular regional and country circumstances
- provide a higher proportion of aid to global programs and to meet humanitarian and emergency needs
- expand aid to the poorest regions – Sub-Saharan Africa and South Asia – principally through greater core funding of multilateral organisations and NGOs, and
- maintain the focus of the aid program on the Asia-Pacific – where country programs would be larger, sectoral spread broader and more use made of bilateral delivery channels.

13. STRATEGY FOR THE AID PROGRAM

The aid program is already complex and large, and ramping it up to 0.5 per cent of GNI poses a significant challenge. It will require high levels of leadership, planning, resourcing and implementation. The direction and the framework need to be set from the top level of government.

The Review Panel proposes a **Four-Year Strategy** agreed by Cabinet to provide clarity, certainty and predictability – across all agencies and for all partners and stakeholders – on the policy and funding parameters of the aid program.

The Strategy should include: the high-level objectives for the aid program; clear guidance on geographic allocations and sectoral priorities; proposed flagships; multi-year indicative allocations for government agencies involved in the delivery of the program; and management hurdles that must be met for the effective scale-up of the program. The Strategy should also commit to a trajectory for increasing the ODA-GNI ratio each year through to meeting the commitment of 0.5 per cent ODA-GNI in 2015–16.

The policy and funding clarity provided by the Strategy will enable the aid program to consolidate activity around agreed priorities in terms of geography, sector and delivery mechanisms. This will reduce fragmentation of effort.

The four year time period is proposed so that the Strategy coincides with the 2012–13 budget and the three forward funding years to 2015–16. The connection between the Strategy and the budget is crucial, and discussed further below.

There should be an **annual review** and **update** of the Strategy. This should be prepared by AusAID and reviewed by the DESC before being considered by Cabinet.

The annual review should not be a return to fundamentals. On the contrary, the Four-Year Strategy is designed to provide certainty, with change then being by way of sensible incremental adjustments. The annual update of the Strategy would reflect any required changes in the aid program's allocations, would allocate funds previously set aside as contingency, and would extend forward the out-year estimates for the program.

To promote discipline, the appropriation of money each year in the budget should be dependent on Cabinet's satisfaction with the annual review, including predetermined **hurdles** being met. The Review Panel sees this as a crucial protection for the taxpayer, the government, the agencies responsible for the aid program, and ultimately Australia's partners.

If hurdles have not been met then Cabinet should consider consequences, such as delaying increases in aid funding or reducing the administrative burden of delivering aid by using more core funding to effective multilateral organisations.

There are a number of problems with the current **budget process** for the aid program, which has been based around the development of New Policy Proposals (NPPs) to allocate new aid funding. This has contributed to fragmentation, because of the large number and small size of typical NPPs. It has led to inadequate scrutiny of the overall aid budget because it means that ministers, in putting together the budget each year, focus on the increment rather than the whole picture.

An additional problem is that large amounts of money are held in contingency for a confused range of reasons, typically leading to a rush of spending towards the end of each financial year as the contingency is allocated.

The Review Panel sees major benefits for effectiveness in an overhaul of this process. Some efforts are already being made in the right direction, but they need to be taken further.

- AusAID and other government departments should be allocated funds in accordance with the Four-Year Strategy.
- Attention should shift to consideration of the aid budget as a whole through the annual review provided to Cabinet, rather than the current heavy and artificial focus on ‘new’ money through NPPs.
- All the contingency reserve should be allocated in the budget process at the start of each year rather than in a rush at the end. This will still leave sufficient capacity to adjust to new situations through what is called ‘mandated flexibility’.

The Four-Year Strategy and reforms to the budget process go hand-in-hand. Together they provide much greater scrutiny over the effectiveness of the entire aid budget, while providing aid administrators with the policy and certainty necessary to confidently plan and implement the scaling-up of aid.

A new Four-Year Strategy will be needed for the period 2016–17 to 2019–20. This and subsequent Four-Year Strategies would benefit from independent review of the aid program. The Review Panel recommends instituting a regular four-yearly independent review of the aid program. The outcomes of these reviews would inform each successive Four-Year Strategy.

Recommendation 24: The government should develop and implement a Cabinet-endorsed Four-Year Strategy for the entire aid program for policy and funding clarity.

Recommendation 25: There should be a Cabinet discussion of an annual review of progress against the Four-Year Strategy and pre-determined hurdles, with consequences if hurdles are not met.

Recommendation 26: The budget process should be reformed to provide greater funding certainty, including allocating funds on the basis of the Four-Year Strategy and its annual updates, not through NPPs, as at present.

Recommendation 27: Four-yearly independent reviews of the aid program should be instituted to inform each new Four-Year Strategy.

14. IMPROVING GOVERNANCE, LEADERSHIP AND MANAGEMENT

An effective aid program requires good management across the board. **Ministers** and all government agencies involved in the delivery of the program must work efficiently towards the common objectives agreed in the Four-Year Strategy.

The role of ministers with responsibility for overseeing ODA expenditure has always been fundamentally important. During consultations and in public submissions many suggested the appointment of a dedicated minister with responsibility for the aid program, given its growing size.

The Review Panel considers the most critical factor in considering ministerial arrangements is that the minister with responsibility for the program remains within Cabinet. If existing ministerial responsibilities are retained, the Review Panel recommends adding ‘International Development’ to the title of the Minister for Foreign Affairs.

Throughout its history, the aid program has been prone to a strong focus on program announcements by ministers and Prime Ministers. While announcements of future plans by ministers will inevitably continue, the Review Panel recommends greater ministerial attention in public statements to the results of Australia’s aid program. An effectiveness culture focused on results, rather than an announcement culture leading to fragmentation, should drive the program.

There are more than 90 federal and state government agencies engaged in the delivery of the aid program. This is a strength, as it enhances linkages and networks across a wide range of specialised fields and is much better value for money than attempting to build in-house capabilities in AusAID.

The Review Panel sees scope to improve **coordination across government** through embedding common approaches to strategy, design, monitoring and evaluation. Coordination at the country and sector level is particularly important, and the government should consider new institutional arrangements to promote this. The mandate of the Development Effectiveness Steering Committee should be expanded to drive coordination of effort across government more strategically.

A scaled-up aid program will be successful only if **AusAID** is a strong and effective institution. AusAID has many assets and strengths. It is well led and AusAID staff are generally highly motivated and capable. To effectively manage the planned increases in the program, AusAID needs to continue and accelerate efforts to promote clear and decisive leadership, entrench a culture geared towards delivering results and learning from experience, and adopt systems and data that support decision-making, and recruit and retain appropriately skilled staff.

AusAID will need to be adequately resourced – and, in particular, adequately staffed – to meet the challenge. Otherwise the scale-up is not only risky but will almost certainly be accompanied by a decline in effectiveness and a proliferation of administrative problems in coming years. Depriving AusAID of the management capacity it needs to implement this suite of corporate reforms would be a false economy.

A two-pronged approach is needed – increased resourcing, which constitutes an investment in long-range success, and productivity gains including through continuous improvement, streamlining of business processes and reduction of paperwork.

The management challenges which the aid program faces require more than managerial solutions. The most consistent feedback the Review Panel received was that AusAID's effectiveness was undermined by rapid staff turnover. It will not be possible to solve this problem without an end to the fragmentation of the program.

Recommendation 28: Ministers should continue to provide leadership to the aid program, and particularly the strengthening of the program for the crucial and challenging period of scaling up over the next five years. An effectiveness culture focused on results, rather than an announcement culture leading to fragmentation, should drive the program.

Recommendation 29: The words 'International Development' should be added to the title of the Minister for Foreign Affairs.

Recommendation 30: A 'whole-of-ODA' approach should be strengthened by creating uniform standards across government departments to planning, delivery, monitoring and reporting, overseen by the Development Effectiveness Steering Committee.

Recommendation 31: Corporate reform efforts within AusAID should be accelerated to promote a culture geared towards delivering results and enhancing productivity, especially by reducing staff turnover, building the workforce with the requisite skills, streamlining business processes and reducing paperwork.

Recommendation 32: AusAID should be provided with increased resources to manage effectively the increasing program.

15. MANAGING RISK

The Review Panel wishes to stress that a culture of risk aversion is itself inimical to the effectiveness of the Australian aid program and to the achievement of value for money. Rather, the requirement is sound risk management.

There are detailed systems in place to manage risk in AusAID which demonstrate commitment to understanding and managing risk. Among the useful measures recently taken to further strengthen these systems is the appointment of an independent chair of AusAID's Audit Committee.

The Review Panel's concern is not, therefore, with the risk management system as such, but rather that it be widely communicated and well understood within the organisation as the aid program grows.

The Review Panel considers that there is in the aid program a serious and systematic approach to fraud management. The incidence of fraud in the aid program appears to be very low. While all fraud is serious and the doctrine is, correctly, zero tolerance, fraud cases are a very small proportion of the thousands of aid activities and billions of dollars that AusAID manages.

The potential loss from the 175 active cases is estimated to represent 0.017 per cent of the \$20 billion appropriated to AusAID since 2004–05.

It is unsurprising that there is some fraud within the aid program given its size and nature. Many of the countries where AusAID currently delivers aid are inherently difficult environments in which to operate.

Over the past year, AusAID has taken a number of important steps to improve the efficiency of the program.

A new Adviser Remuneration Framework has been put in place, which applies to all commercially–contracted advisers funded by AusAID. This Framework has the potential to drive down costs, but will need to be monitored carefully and implemented flexibly to ensure that Australia can still access the best expertise.

AusAID is also conducting a review of agreements and procurement processes to ensure practices keep pace with the changing aid market and continue to deliver value for money.

Development effectiveness risks do not generate the headlines that cases of fraud or waste do, but they are nevertheless real. Indeed, in the judgment of the Review Panel, they constitute the greatest risk for the taxpayer in relation to the aid program. AusAID's performance management system indicates that 17 per cent of projects are at risk of not delivering their objectives.

It is important to recognise the trade–offs involved in managing different types of risk. Over–emphasis on the reduction of fraud can increase the risks related to development effectiveness. The aid program needs to foster a culture that is focused on results, but accepts the possibility of failure, and rewards innovation.

The final risk to the aid program is reputational. Simply working in countries with governments that are corrupt and incompetent can damage the reputation of the program. The most important mitigating measure here will be to show that the program is delivering results, and reaching people in need.

Recommendation 33: The aid program should foster a culture of risk management rather than risk aversion by balancing various forms of risk and ensuring they are well understood across AusAID as the program grows. It should increase the relative importance of risks to development effectiveness as compared to other risks. There should be a greater focus on results and reward for innovation and acceptance that in a big program some activities will fail.

16. MANAGING FOR RESULTS

The measurement of effectiveness is unquestionably harder in aid than in many businesses due to complexity of objectives and wide range of potential delivery mechanisms.

Over the past five years, AusAID has invested heavily in performance management and increased the focus on results.

AusAID, and to some extent the broader aid program, is also subject to a variety of external performance reviews, from Australian National Audit Office (ANAO) reports, peer reviews by the OECD DAC, parliamentary oversight and government-commissioned reviews.

The ANAO and OECD DAC have positively assessed AusAID's system of self-rating projects, which puts AusAID at the forefront of bilateral donors.

However, the evaluation dimension (relating to in-depth assessments rather than across-the-board monitoring) of AusAID's performance management and reporting system is not working well. There is low compliance in relation to existing guidelines for independent evaluation reports, and little use of them to inform decision-making.

The creation in 2006 of the Office of Development Effectiveness and its Annual Review of Development Effectiveness (ARDE) were no doubt important initiatives that have helped prioritise aid effectiveness. No other bilateral donor has an equivalent to the ARDE. Overall, however, the ARDE has been a limited success, being released with increasing delay.

The Review Panel proposes that the Office of Development Effectiveness remain within AusAID, but change its name to the Office of Aid Effectiveness and focus more on evaluation. It would be responsible for undertaking and publishing each year a manageable number (say, 10–20) of high quality evaluations. The Office would also publish an annual synthesis of evaluations and a quality assurance assessment of the aid program's performance management system.

A small Independent Evaluation Committee should be appointed (with both AusAID staff and several external members, including the Chair). All draft independent evaluations and the new annual synthesis report would be discussed and then cleared by the Independent Evaluation Committee (not AusAID) and then published.

At present, other Australian government departments, with the exception of the Australian Federal Police, do not generally apply the effectiveness measurement and reporting systems AusAID uses. In the future, all departments that spend ODA should fully participate in the aid measurement and effectiveness reporting system.

AusAID and other government agencies should adopt a single and consistent approach to measuring effectiveness. This should be based on a three-tier system with a simple 'traffic light' system rating performance against indicators in each tier:

1. progress against development goals
2. the contribution of Australian aid
3. operational and organisational effectiveness.

The Review Panel recommends that there should be an annual assessment of aid effectiveness that covers all ODA and serves two purposes: public accountability and informing the annual review and budget process. The annual assessment should include a summary scorecard using the three-tier system supported by reports on the effectiveness of major country and other programs. The annual assessment should replace the ARDE, which would be discontinued.

The net effect of the Review Panel's proposals will be a streamlined process for growing the aid program in a responsible and effective fashion.

The net effect of the Review Panel's proposals will be a streamlined process for growing the aid program in a responsible and effective fashion.

Recommendation 34: A three-tiered reporting system should be adopted by all Australian government departments and agencies in relation to their use of ODA funds.

Recommendation 35: An annual assessment of aid effectiveness of all of ODA should be prepared using the three-tier system. This should inform the annual reviews of the Four-Year Strategy provided to Cabinet.

Recommendation 36: A small number of high quality evaluations and an annual synthesis and quality assurance report should be produced annually, overseen by an Independent Evaluation Committee.

17. ENHANCING TRANSPARENCY, SCRUTINY AND COMMUNITY ENGAGEMENT

Transparency, scrutiny and public engagement are not optional add-ons to the aid program; they are part of its foundation. A 'warts and all' approach to aid transparency is needed. Transparency and scrutiny lead to more informed discussion and debate, which in turn leads to a more effective program.

The Australian aid program has made significant progress in this area. A recent independent assessment ranked Australia as the most transparent OECD donor. But there is still room for improvement. The Review Panel believes AusAID should be a leader in embracing a freedom of information culture.

The Review proposes that the government develop a Transparency Charter, listing the documents and data that the government pledges to release, with specified timeframes for their release.

The Review Panel has been impressed by the well-informed views and suggestions which parliamentarians have put to it. Their interest in the subject and their unique role in representing public views are, of course, already respected by those responsible for the aid program. But parliamentary engagement could be further strengthened through a parliamentary committee or sub-committee focused on aid and development.

The Review Panel also sees scope for the aid program to more actively engage community groups in the program through a new grants scheme. This would support the

development-related activities of community groups, such as Rotary clubs or Girl Guides units with grants of up to \$20,000.

Australian taxpayers have a right to see exactly how and where overseas aid money is being spent just as citizens in poor countries do. The size and effectiveness of the aid program are legitimate points of public debate. Good communications are an important way to make sure public debate is well informed. In order to promote public debate, the Review Panel recommends the aid program fully embrace new media and other innovative technology and consider investments in development education.

Recommendation 37: A Transparency Charter should be developed, committing the aid program to publishing documents and data in a way that is comprehensive, accessible and timely.

Recommendation 38: Public engagement should be improved through a new community grants scheme, embracing new media technologies and promoting development education.

18. STEPS AND HURDLES TO 2015–16 AND BEYOND

The Review Panel has set out a suggested plan for the aid program to follow to 2015–16 and beyond.

All staff, from the most senior to the most junior, across all relevant agencies, in headquarters or in the field, will perform best if they understand the big picture – the multi-year plan.

The Review Panel proposes a number of key steps, or hurdles, which provide a safeguard for the effective expansion of the aid program. A summary table follows below. Budget appropriations each year should be contingent on things going to plan and existing monies being spent effectively.

In monitoring this, the Review Panel advocates use of a single, coherent annual review process and not multiple processes using multiple methodologies. The most important input into the annual review should be the annual assessment of aid effectiveness, employing the three-tier scorecard.

This is a prudent approach to accomplishing an ambitious objective and ensuring that Australia does indeed have an aid program of which it can be proud.

Recommendation 39: The scale-up of the aid program to 0.5 per cent of GNI should be subject to the progressive achievement of predetermined hurdles.

Increasing Australian Aid – Steps and Hurdles – A High-Level View

2010–11 Preparation	2011–12 Setting the Foundations	2012–13 Year one of Strategy	2013–14 Year two of Strategy	2014–15 Year three of Strategy	2015–16 Year four of Strategy
<p>Panel report</p> <p>Response</p> <p>AusAID corporate reforms to continue and be reported on by Director General as part of annual reviews of aid effectiveness</p>	<p>Adoption of Four-Year Strategy (2012–13 to 2015–16) by Cabinet</p> <p>Reform budget process</p> <p>2012–13 budget adopted with three-year Forward Estimates to conform with Four-Year Strategy</p> <p>Budget to agree on phased scale-up of AusAID resources</p> <p>Three-tier measurement adopted</p> <p>Transparency Charter</p> <p>New evaluation structure</p> <p>Enhanced oversight role for DESC</p> <p>Multilateral organisation strategies</p> <p>Key consultations with NGOs and multilaterals on core funding, Pacific microstates</p>	<p>First annual review by Cabinet, including assessment (scorecard) of ODA effectiveness</p> <p>First products from new evaluation arrangements</p> <p>Policy statements on private sector and civil society</p> <p>Commence community engagement (small grants, schools outreach)</p> <p>Complete process of joining African Development Bank</p> <p>AusAID Workforce Plan substantially implemented</p> <p>Scale up research program in agriculture and medicine</p>	<p>Second annual review by Cabinet, including assessment (scorecard) of ODA effectiveness</p> <p>Spread three-tier system across government</p> <p>Partnerships with multilateral organisations, NGOs and business upgraded</p> <p>Africa program consolidated</p>	<p>Third annual review by Cabinet, including assessment (scorecard) of ODA effectiveness</p> <p>Enhanced whole of government coordination (DESC, three-tier measurement) working well</p> <p>Appoint independent panel and commence External Review</p>	<p>External Review of aid program and fourth annual review considered by Cabinet</p> <p>New Four-Year Strategy adopted 2016–17 to 2019–20</p> <p><u>0.5 per cent target achieved</u></p>

Part 1

CURRENT EFFECTIVENESS OF AUSTRALIAN AID





Chapter 1: CONTEMPORARY INTERNATIONAL THINKING ON DEVELOPMENT AND AID

A. INTRODUCTION

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

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

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

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

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

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

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

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

B. GLOBAL DEVELOPMENT PROGRESS

Much commentary about development focuses on failures. But by most measures, the world has seen unprecedented development in recent years. A smaller proportion of the world's population now lives in poverty than at any time in history.

A large part of this success is due to fast-growing economies in Asia, most notably China and India. But this is not the whole story. Many countries in Africa, long considered a continent of development failure, have made strong gains over the past decade.

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

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

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

Table 1.1: Progress Against the Millennium Development Goals

THE MILLENNIUM DEVELOPMENT GOALS	PROGRESS
1. Eradicate extreme hunger and poverty	
2. Achieve universal primary education	
3. Promote gender equality and empower women	
4. Reduce child mortality	
5. Improve maternal health	
6. Combat HIV/AIDS, malaria and other diseases	
7. Ensure environmental sustainability	
8. Develop a global partnership for development	
 On track towards being achieved  Substantial progress has been made  Less progress has been made	

Source: Synthesised from data and statistics published in United Nations (2010).

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

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

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

Furthermore, there are many countries where development is stagnating or going backwards. Many of Australia's Pacific neighbours are making little progress towards the MDGs.

Some countries, such as Zimbabwe, have seen previous development gains reversed. Some countries that were once stable and developing now seem precariously placed, such as Pakistan.

The World Bank classifies 39 countries as 'fragile states', characterised by conflict or weak governance (World Bank 2009a). Six of these countries (PNG, Solomon Islands, East Timor, Kiribati, Cambodia and Laos) are in the Asia-Pacific region.

Box 1.1: Poverty in Indonesia

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

The Death of an Indonesian Family Subsisting on Cassava

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

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

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

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

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

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

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

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

Source: Grazella (2011).

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

C. FACTORS FOR SUCCESS

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

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

i) Economic Growth

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

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

ii) Investing in Opportunity

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

iii) Strong Institutions

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

D. THE RAPIDLY CHANGING AID ENVIRONMENT

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

Box 1.2: Official Development Assistance

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

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

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

ODA has grown from around US\$50 billion to nearly US\$130 billion over the past decade.² This was driven mainly by increased attention to the linkages between development and security following the terrorist attacks of 11 September 2001. Major donors, including the United States, the United Kingdom, Germany and France, increased their aid programs by two to three fold between 2000 and 2009.³

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

² According to the OECD DAC, net ODA from DAC members rose from US\$50 billion in 2000 to US\$120 billion in 2009 (OECD DAC 2000, 2011). In April 2010 the OECD DAC estimated that net ODA in 2010 would be US\$126 billion (OECD DAC 2010).

³ The net ODA provided by the United Kingdom rose from US\$4.5 billion in 2000 to US\$11.5 billion in 2009. The net ODA provided by Germany rose from US\$5 billion in 2000 to nearly US\$12 billion in 2009. The net ODA provided by France rose from US\$4 billion in 2000 to more than US\$12 billion in 2009 (OECD DAC 2000, 2009).

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

Box 1.3: United Kingdom Aid Reforms

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

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

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

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

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

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

Finally, the humanitarian emergency response review recommends ways the United Kingdom can strengthen its response to natural disasters and humanitarian crises.

Box 1.4: US Quadrennial Diplomacy and Development Review

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

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

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

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

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

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

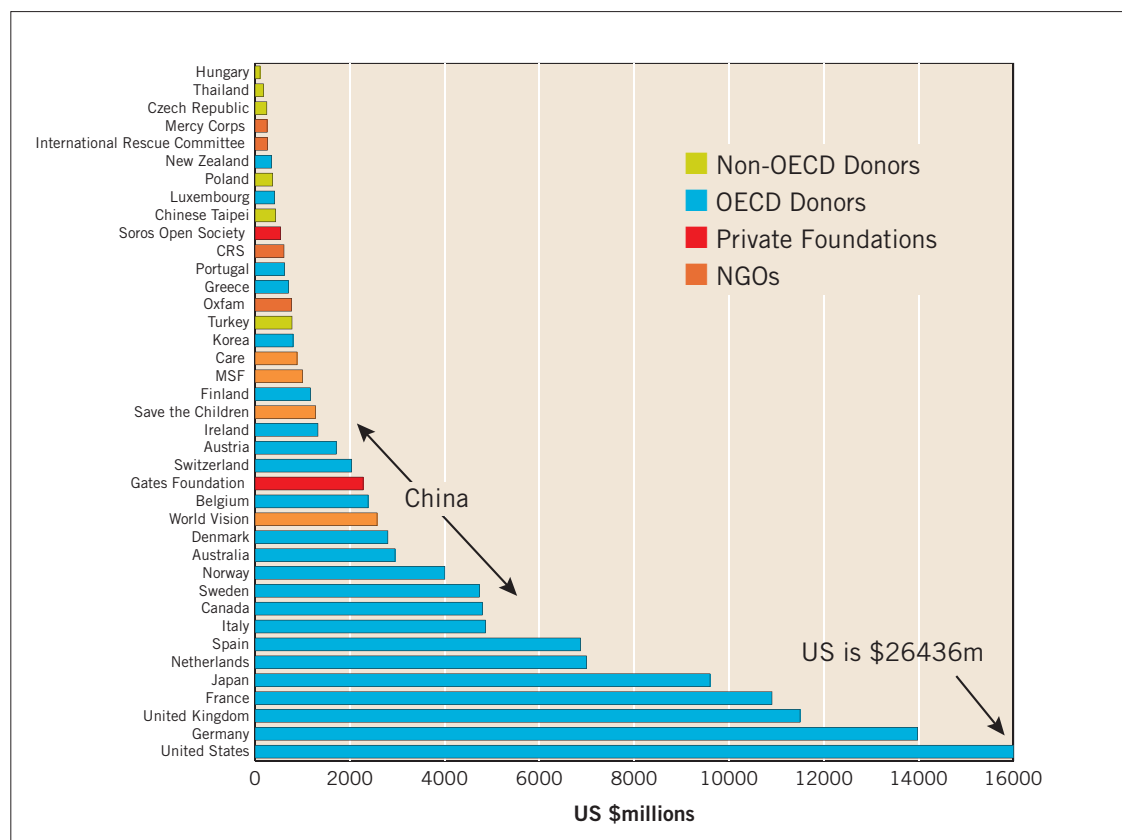
Though not captured by official data, growth in non-government aid has also expanded. As noted in the Study of the Future State of the World as it Relates to the Australian Program (the Lowy Study) commissioned by the Review Panel:

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

Not only have well-known NGOs such as World Vision and Oxfam grown, but completely new non-government donors have also emerged such as the Bill and Melinda Gates and Clinton Foundations. These have brought with them new resources and ways of doing business,

including more attention to results. As can be seen from Figure 1.1, annual contributions from the Bill and Melinda Gates Foundation now match the bilateral aid of many donor governments.

Figure 1.1: Government and Non–Government Aid



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

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

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

Despite the fact that the majority of the world's poorest people now reside in countries classified as 'middle income', donors are now reducing their support for middle–income countries, such as China, India and Indonesia. They are instead shifting their focus to the poorest countries, most of which are in Africa.

Since the poorest countries are also typically the worst governed, this trend means that donor resources are increasingly focused on ‘fragile states’ affected by conflict or weak governance. Aid effectiveness in fragile states is a particular challenge and this has significant implications for donors such as Australia, which direct a large proportion of their aid program to fragile states.

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

E. THE ROLE OF AID IN DEVELOPMENT

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

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

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

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

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

Aid can also have negative consequences, which donors need to recognise. Possible negative consequences include:

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

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

F. IMPROVING AID EFFECTIVENESS

i) What is Aid Effectiveness?

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

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

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

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

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

- Risk. This comprises financial or fiduciary risk, risk of not getting value for money, risk to Australia's reputation and risk of not achieving aid outcomes.

These concepts feature prominently throughout this Report.

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

ii) What Matters for Aid Effectiveness?

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

(a) The Aid Recipient

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

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

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

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

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

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

More recently, donors have started to focus on improving demand for good governance, for example by supporting anti-corruption NGOs and civic education. This is an important goal, but a long-term one with uncertain prospects for success.

While strong and effective governments are needed for successful development, promoting a commitment to good governance from recipient governments is typically beyond the ability of aid to influence, except at the margin. Promoting good governance now appears to be a matter of supporting reform efforts of committed governments rather than a broad-brush solution.

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

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

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

(b) The Donor Country

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

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

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

The above analysis suggests several ways to improve effectiveness:

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

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

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

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

(c) Donor–Recipient Interactions

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

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

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

The Paris Declaration, agreed in 2005, commits donor governments and developing countries to work together to make aid as effective as possible. It is an attempt to reform how aid is delivered and managed.

Box 1.6: Major Principles from the Paris Declaration on Aid Effectiveness

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

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

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

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

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

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

Box 1.7: Major Principles from the Accra Agenda for Action

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

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

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

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

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

“The future direction of the aid program should continue to be directed by the principles of the Paris Declaration and Accra Agenda. Specifically, this should include greater use of effective multilateral channels where there is appropriate developing country representation, ... an increase in the share of bilateral aid provided through general budget support, and a move toward increased average project size.”

At the same time, there are widely differing views about how effective and relevant the Paris Declaration and Accra Agenda are. Progress towards their goals has been slow and patchy and in recent years the aid world has become more rather than less complex. Nevertheless, there is no doubt these agreements have led to a greater focus on important principles of aid effectiveness, such as transparency, selectivity and partnerships.

G. THE INTERNATIONAL AID EFFECTIVENESS AGENDA

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

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

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

These themes are at the centre of contemporary international thinking on aid effectiveness. They underpin the recommendations in this Report.

Chapter 2: AUSTRALIA'S AID PROGRAM

A. INTRODUCTION

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

B. AUSTRALIA'S INTERNATIONAL COMMITMENTS

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

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

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

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

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

Box 2.2: The International Aid Transparency Initiative

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

C. AUSTRALIA'S MEMBERSHIP OF MULTILATERAL ORGANISATIONS

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

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

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

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

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

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

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

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

Australia's membership of the Group of 20 Nations (G20), which has emerged as the premier international body for global economic affairs, means it is now better placed to influence international development efforts. The G20 has established a development work stream, although it is too early to judge the impact this will have.

Australia is a member of, or engages with, many other regional bodies with development mandates. These include the Asia–Pacific Economic Cooperation forum (APEC), the Pacific Islands Forum and the Association of South East Asian Nations (ASEAN).

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

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

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

D. OBJECTIVES

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

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

In 1997, the Simons Review recommended the objective be:

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

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

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

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

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

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

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

E. NATIONAL INTEREST

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

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

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

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

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

Box 2.3: The Regional Assistance Mission to Solomon Islands

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

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

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

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

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

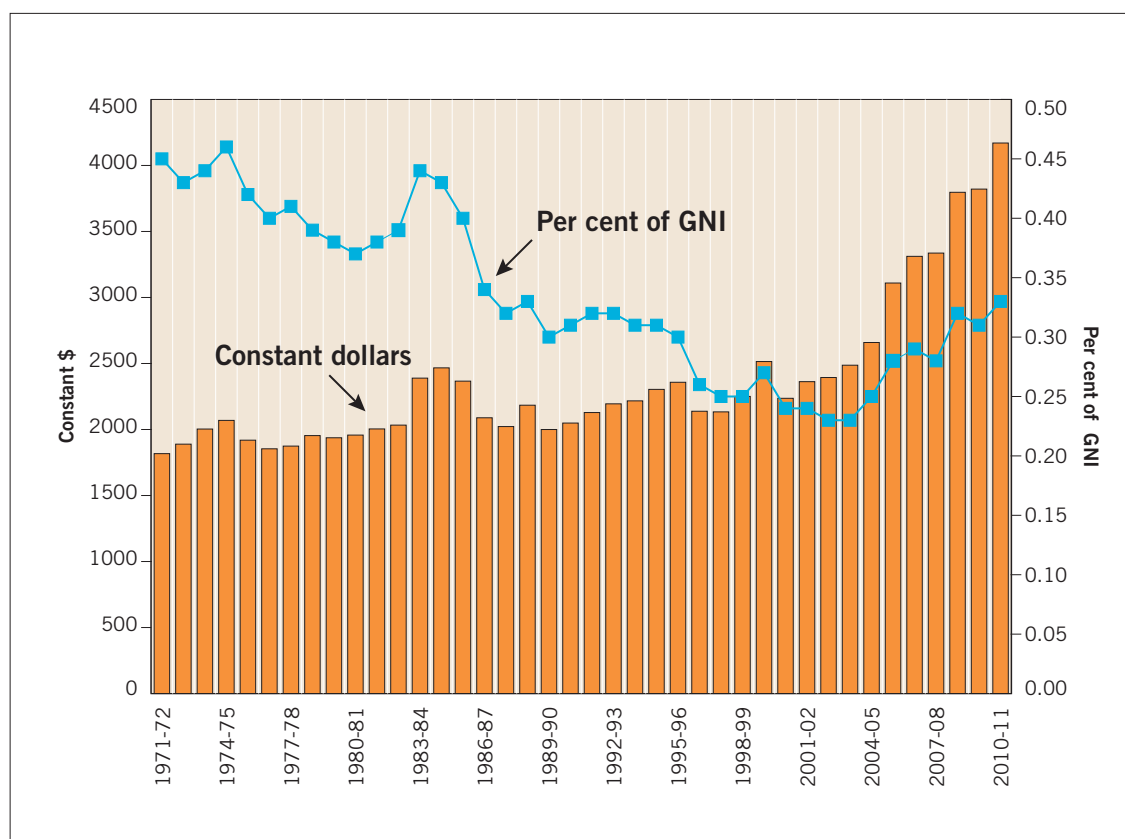
F. SCALE-UP

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

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

Before the 2007 election, the Australian Labor Party promised to increase Australia's overseas aid to 0.5 per cent of GNI by 2015. The commitment has gained bipartisan support.

Figure 2.1: Scale-up of the Australian Aid Program



Source: AusAID.

The government's commitment to reach 0.5 per cent of GNI by 2015–16 will, subject to future levels of economic growth, see the aid budget almost double again, to about \$8 billion.

Box 2.4: Gross National Income

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

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

Box 2.5: History of the ODA/GNI Target

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

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

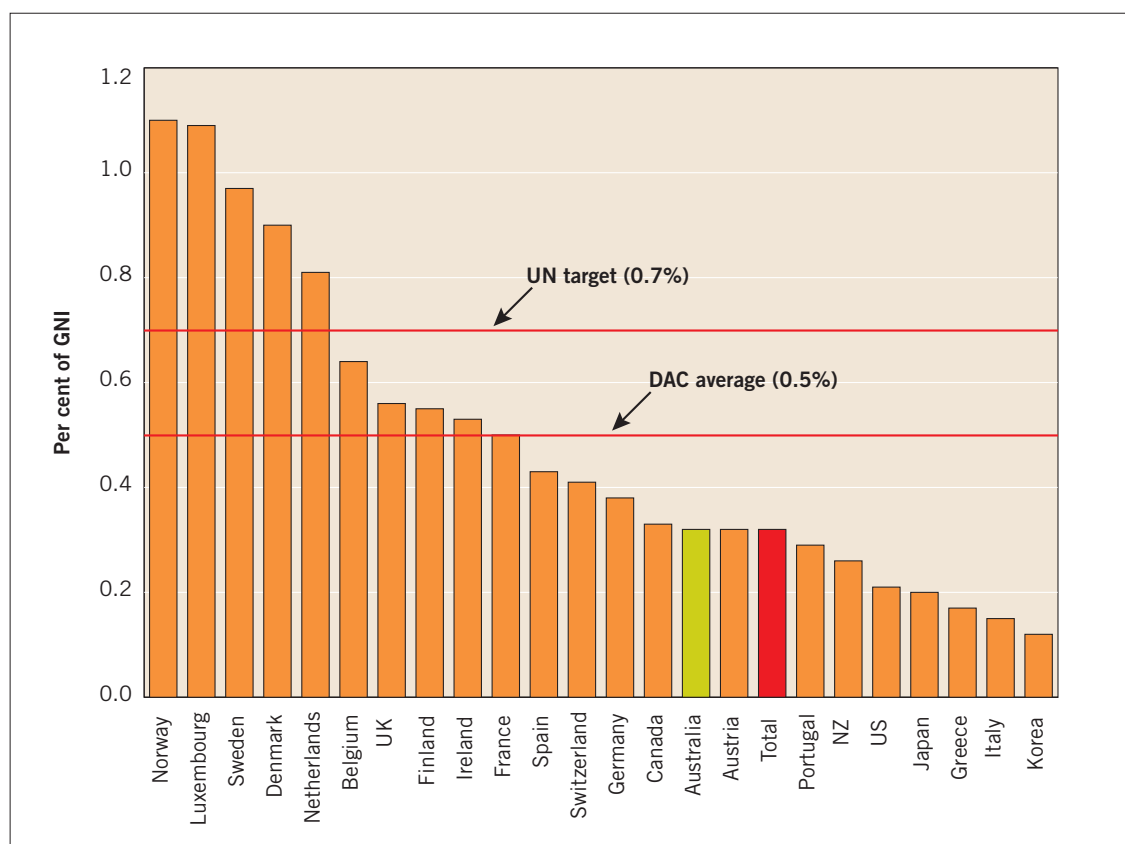
In terms of the size of the aid program as a proportion of GNI, Australia is ranked 15 of the 23 OECD DAC donors according to the latest available figures (see Figure 2.2). In terms of the size of the aid program by dollar amount, Australia is the 11th largest donor.

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

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

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

Figure 2.2: Net ODA as a Percentage of GNI



Source: Gulasan (2010: 10).

G. CHANGING GEOGRAPHIC AND SECTORAL FOCUS

i) Geographic Allocation

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

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

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

Australia's two closest neighbours, Indonesia and PNG, are the two largest recipients of Australian aid. They are critical to Australia's foreign policy and security interests, and matter to Australia in a range of fields extending from quarantine and health, to business and trade.

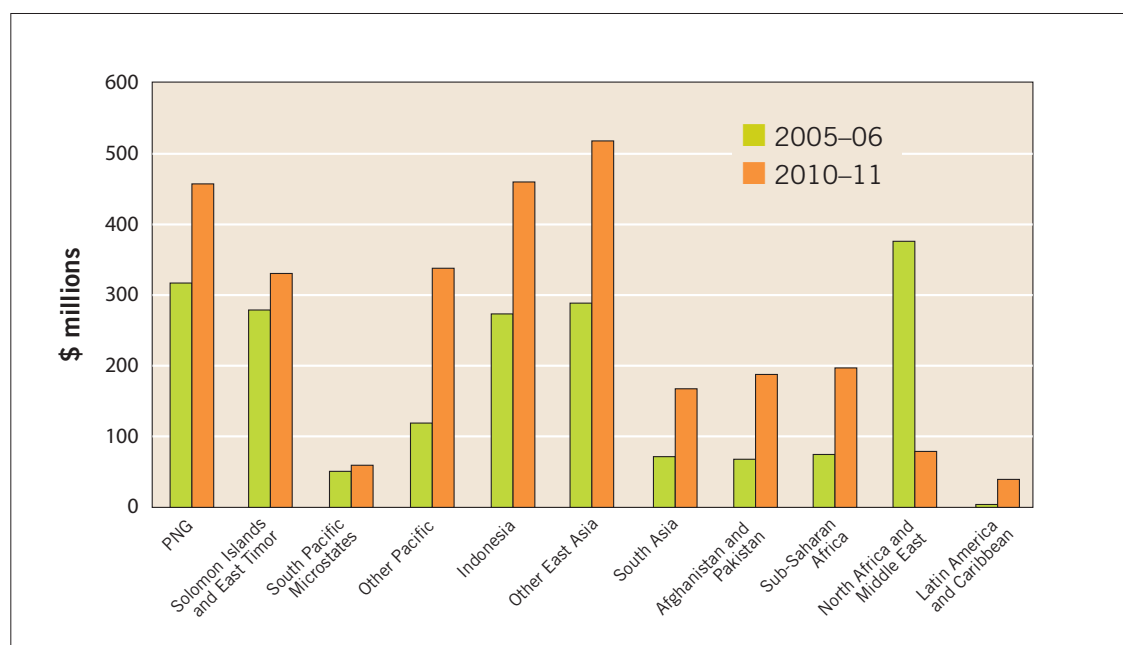
Since the 1970s, Australia has had substantial aid programs in Pacific Island countries, some of which are not economically viable without development assistance.

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

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

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

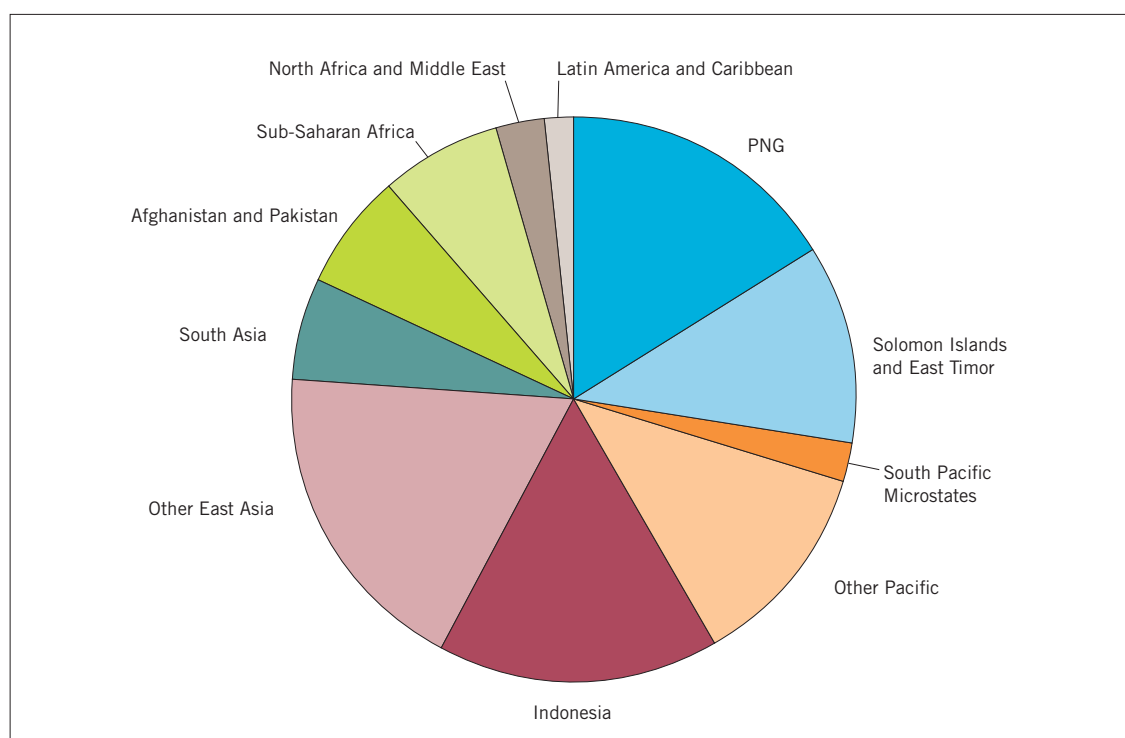
Figure 2.3: Changing Geographic Allocation of Australian Aid Excluding Global Programs 2005–06 to 2010–11 (\$ millions)



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

The following chart shows the current proportions of the aid program by geography.

Figure 2.4: Shares of ODA Expenditure by Geographic Region Excluding Global Programs (2010–11)



Source: AusAID.

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

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

ii) Sectoral Composition

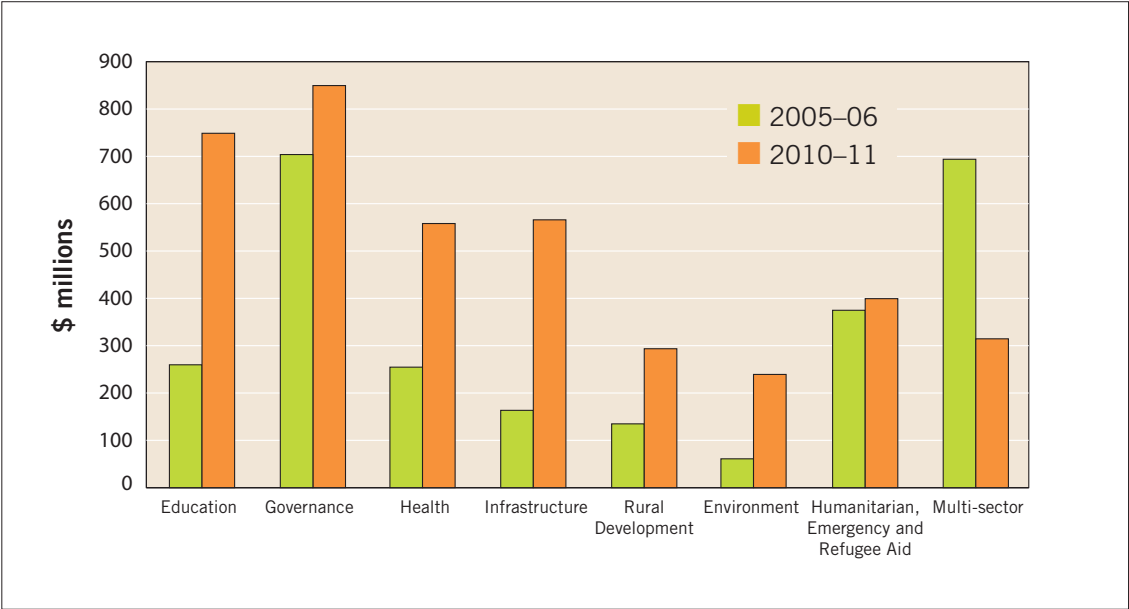
There have been changes in the sectoral composition of the program. From 1997 to 2005, there was significant growth in funding for governance. There was a heavy focus on supporting the post-conflict development of governments in Solomon Islands and East Timor and also support for the post-Suharto reforms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

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

Overall, governance, education, health and infrastructure are the four largest sectors.

The changes in sectors by dollar value are shown in Figure 2.5 ('multi-sector' refers to aid that cannot be apportioned to a particular sector, for example debt relief, some trust funds and general budget support).

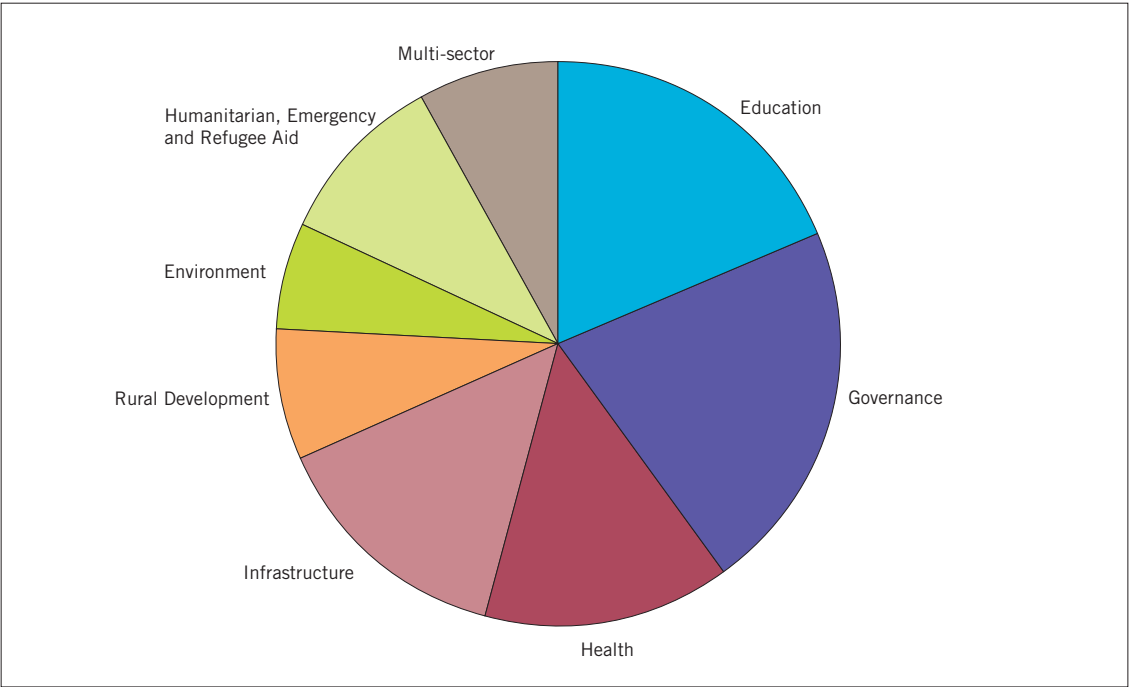
Figure 2.5: Sectoral Allocation of Australian Aid Excluding Global Programs (2005–06 and 2010–11, \$ millions)



Source: AusAID.

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

Figure 2.6: ODA Expenditure by AusAID Sector 2010–11

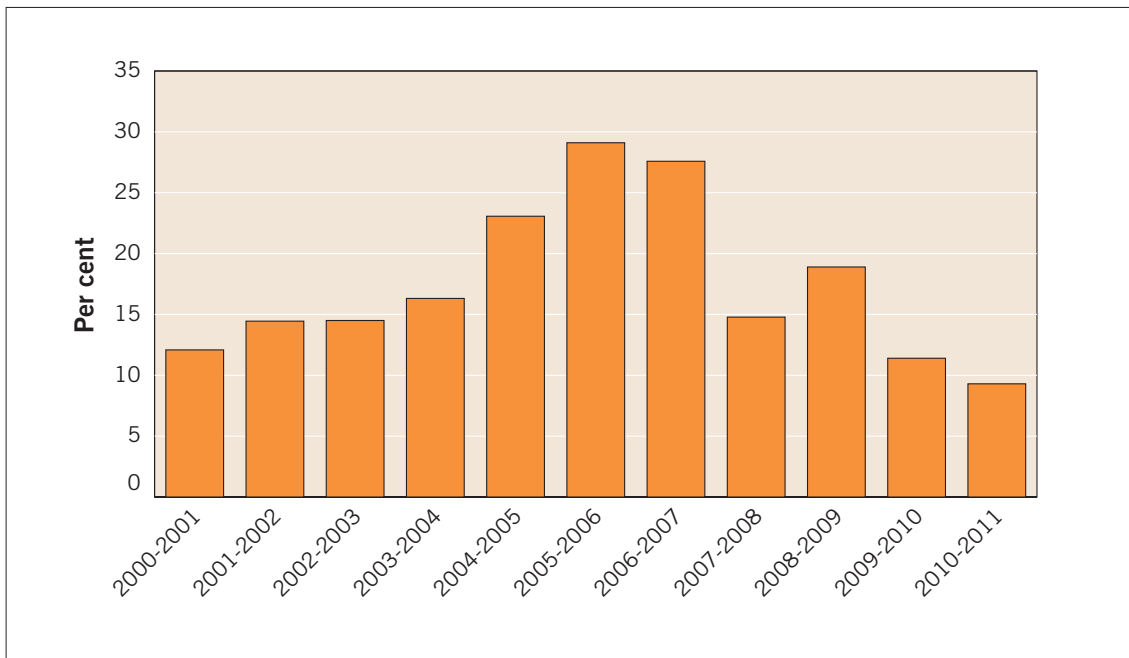


Source: AusAID.

H. CHANGES IN METHODS OF DELIVERY

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

Figure 2.7: ODA Managed by Departments other than AusAID



Source: Budget data.

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

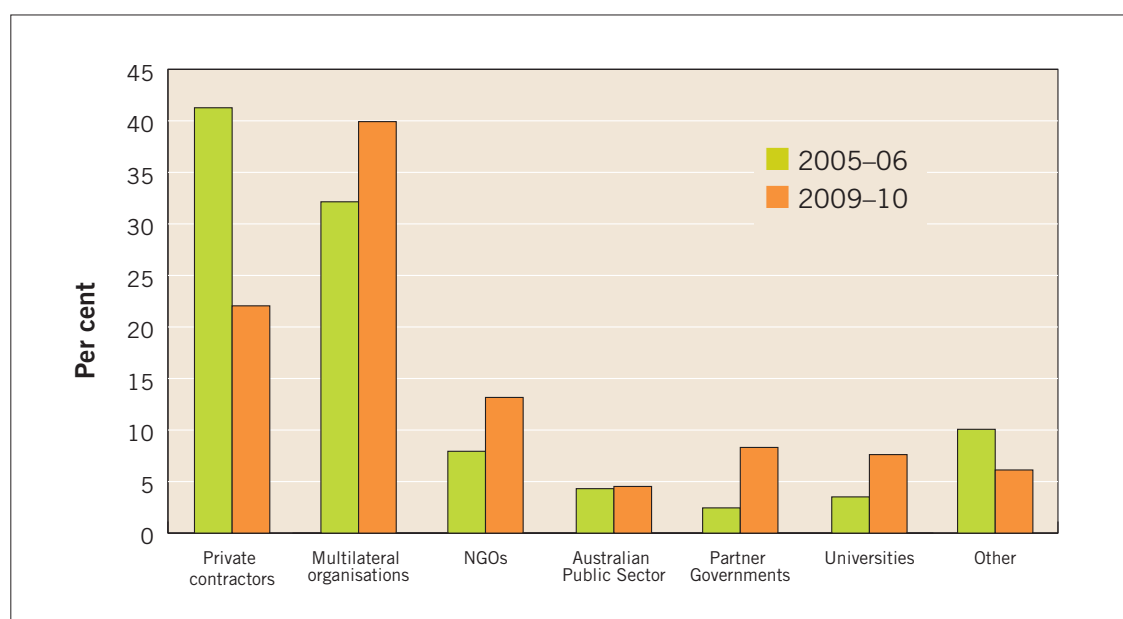
In total, 55 federal departments and agencies and 37 state departments and agencies are involved in the delivery of ODA (a full list of federal departments and agencies is provided in Chapter 14).

As shown in Figure 2.8, over the past five years, there have been major shifts in the way AusAID has delivered its proportion of ODA. The amount delivered through:

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

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

Figure 2.8: AusAID Expenditure by Mode of Delivery



Source: AusAID.

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

i) Multilateral Organisations

The overall proportion of Australia's aid program delivered through multilateral institutions is close to the OECD average. But Australia's core funding to multilateral organisations (that is, funding that is not earmarked and can be used by organisations for any purpose in their mandate) is one of the lowest in the OECD.

Relative to other donors therefore, Australia assigns a large amount of its multilateral funding as earmarked funding (funding for specific purposes), rather than providing it as core funding. A major reason for this has been Australia's desire to encourage multilateral organisations to work in the Asia-Pacific region, usually not their main focus.

ii) Partner Government Systems

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

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

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

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

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

Chapter 3: THE EFFECTIVENESS OF THE CURRENT AUSTRALIAN AID PROGRAM

A. INTRODUCTION

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

B. THE EVIDENCE BASE

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

C. OVERALL ASSESSMENT

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

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

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

AusAID itself monitors the effectiveness of its aid program by rating project and program performance annually. Each AusAID project is rated on a scale of one to six, with a rating of

three or below indicating less than adequate quality. In 2009–10, 83 per cent of projects had a rating of four or higher and 17 per cent a rating of three or less.

The best way to think of this 17 per cent score for unsatisfactory projects is as projects at risk.

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

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

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

- First, tougher scrutiny was applied to projects. Essentially, the agency became more willing to be self-critical. This is, of course, good.
- Second, the increase may have indicated a decline in project quality. The agency may have experienced teething problems as it moved away from traditional contractor-implemented projects towards projects with other partners, in particular through more earmarked funding arrangements with multilateral organisations.
- Third, new policy proposals and the complexity around the budget (discussed in Chapter 14) may have also contributed to a decline in project quality.

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

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

- in PNG and the Pacific, 62 per cent of program objectives were partially achieved (31 per cent were fully achieved)
- in East Asia, 47 per cent were partially achieved (43 per cent were fully achieved)
- in South Asia and Africa, 64 per cent of program objectives were partially achieved (36 per cent were fully achieved).

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

Sometimes the problem is that objectives are set unrealistically and so could never be achieved no matter how good the aid. In other cases, the problem is that the interventions are not working well. In others, poor performance by the recipient government undermines project success.

Again, Australia is not alone in having mixed success in achieving its aid objectives. The World Bank's Independent Evaluation Group assesses the extent to which World Bank country strategies achieve their objectives. On a six-point scale, the average rating for the performance of country strategies is around 3.7 (IEG World Bank 2009: 18).

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

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

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

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

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

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

Box 3.1: Visit to Vanuatu: Personal Observations

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

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

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

I came away from Vanuatu with a strong impression that Australia has achieved the kind of close, frank and friendly partnership that is needed to get results.

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

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

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

Sandy Hollway

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

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

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

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

“There was very vigorous debate on the issue of geographic scope with informants stating ‘it doesn't make sense to be continent-wide’, ‘funding is limited, capacity is limited and it's incredibly complex’ and ‘in order to have impact on poverty reduction, [the program needs] to focus on a limited set of countries’. The main

argument is one of focus, with a number of informants recommending that AusAID focus on a smaller set of countries where it can invest the time and resources needed to be a significant and effective aid partner as it has done in Zimbabwe.”

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

Box 3.2: Achieving the MDGs in the Pacific

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

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

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

Source: AusAID (2009a).

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

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

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

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

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

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

Box 3.3: Quality of Official Development Assistance (QuODA) Index

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

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

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

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

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

Source: Birdsall and Kharas (2010).

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

D. SPECIFIC FINDINGS

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

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

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

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

i) Strategic Clarity

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

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

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

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

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

Second, there is not a well considered and articulated vision for the aid program in 2015–16 when it is at 0.5 per cent of GNI. The program lacks a vision of how it should be shaped in terms of such fundamentally important considerations as geographical priorities and allocations of money, sectoral priorities and methods of delivery.

Third, the program lacks a four-year strategy for moving to this vision for 2015–16 – a plan that specifies the steps which must be taken, the hurdles which must be met if the upward trajectory is to be achieved, and rigorous methods for measuring progress and effectiveness along the way.

ii) Fragmentation and Need for Consolidation

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

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

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

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

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

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

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

For example, Finland now works in only eight countries. Germany is reducing its number of partner countries from 80 to 50. The United Kingdom has announced it will reduce partner countries from 43 to 27. Donors are also reducing the number of sectors in which they work. Germany, the United Kingdom and several other European donors now aim to work in three

sectors at most in each priority country. These efforts have successfully reduced fragmentation. In Germany, the average project size has increased over the past decade from US\$8 million to US\$14 million.

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

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

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

The Review Panel has identified four factors driving fragmentation:

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

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

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

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

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

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

iii) Focusing on Results

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

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

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

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

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

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

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

iv) Partnerships

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

In several respects this shift has been highly successful.

In general, using partner government systems more has delivered results, especially in Indonesia where it has been most heavily used.

The Review Panel was impressed with how the Bangladesh country program used strong partnerships to achieve results in a crowded donor environment.

Box 3.3: Bangladesh – Use of Partnerships

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

The program is carried out through partnerships with:

- i) reputable local NGOs, mainly BRAC (see Box 7.4) and the International Centre for Diarrhoeal Disease Research
- ii) UN agencies, including the United Nations Children's Fund (UNICEF) and the United Nations Development Program (UNDP)
- iii) other bilateral donors, including the United Kingdom and Denmark
- iv) other Australian government agencies such as the Australian Centre for International Agricultural Research (ACIAR) and the Commonwealth Scientific and Industrial Research Organisation (CSIRO) on climate change.

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

Box 3.4: AusAID–NGO Partnership Agreements

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

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

A major feature of the partnerships is the way that they allow each organisation's strengths to influence the delivery of the Australian government aid program. For example, Plan Australia is particularly experienced at child-centred community development so it is working with other child-focused partners, including ChildFund and AusAID, to achieve MDG 2, universal primary education. Under their ANCP partnership, Plan Australia is expanding its early childhood care and development program into South and East Africa and the Mekong. The program will help children aged up to eight in these regions regularly attend good quality schools.

These more strategic and flexible partnerships provide a solid platform to build on.

Australia is also channelling more funding through NGOs in the countries receiving its aid. The effectiveness and capacity of NGOs and civil society groups vary and Australia needs to be selective in determining the NGOs it works with. But overall, the trend towards greater engagement with NGOs is positive, and one whose full potential is far from being realised.

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

Box 3.5: Partnership with World Food Program (WFP)

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

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

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

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

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

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

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

Links with Australian and international research organisations and think tanks have strengthened over the past five years. But as discussed in Chapter 11, more can be done.

Overall, Australia's aid program is headed in the right direction through greater use of partnerships. Those managing the program can be credited for moving in the right direction, but efforts need to be accelerated.

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

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

v) Whole-of-Government Management Issues

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

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

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

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

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

This increased focus on coordination has not yet gone sufficiently far.

As discussed above in relation to strategic clarity, ministers must be able to have a view across the entire government of the aid program to ensure that there is a coherent effort and a sound plan for moving ahead in a synchronised way towards the 0.5 per cent target. The Minister for Foreign Affairs should have the lead role in this and AusAID should have the lead role at agency level, with the DESC more empowered than it is at present to oversee the task.

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

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

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

vi) Budget Process

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

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

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

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

vii) AusAID Management Issues

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

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

The same Report also found that:

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

The Review Panel shares the ANAO’s broad assessment.

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

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

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

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

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

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

The Review Panel supports these initiatives.

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

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

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

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

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

And

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

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

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

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

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

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

viii) Management of Risk and Fraud

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

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

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

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

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

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

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

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

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

ix) Transparency

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

Australia is a foundation signatory to the International Aid Transparency Initiative (IATI) and provides high quality reporting to the OECD DAC.

Despite this positive progress, there is scope for increased transparency in the program. Transparency must be ‘warts and all’. Releasing easy-to-understand program documents and information to both the public and partner governments should become standard practice. As illustrated in the earlier discussion of ICRs, this is not the case at the moment.

x) Communication and Community Engagement

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

Box 3.7: Australian Public Perceptions of Aid

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

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

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

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

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

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

The government does not have an effective communications strategy for the aid program. This contrasts for example with the proactive communications practices of the Australian Defence Force. The contrast was particularly stark following the Padang earthquake in Indonesia when the ADF actively promoted publicly the work it had done, whereas there was very limited coverage of the AusAID effort. A generally ad hoc and reactive approach may have been viable for a small program, but it will not work given the increased scrutiny the program will face as it grows. AusAID’s leadership has been more forthcoming and more publicly available than in the past, and this is a welcome development.

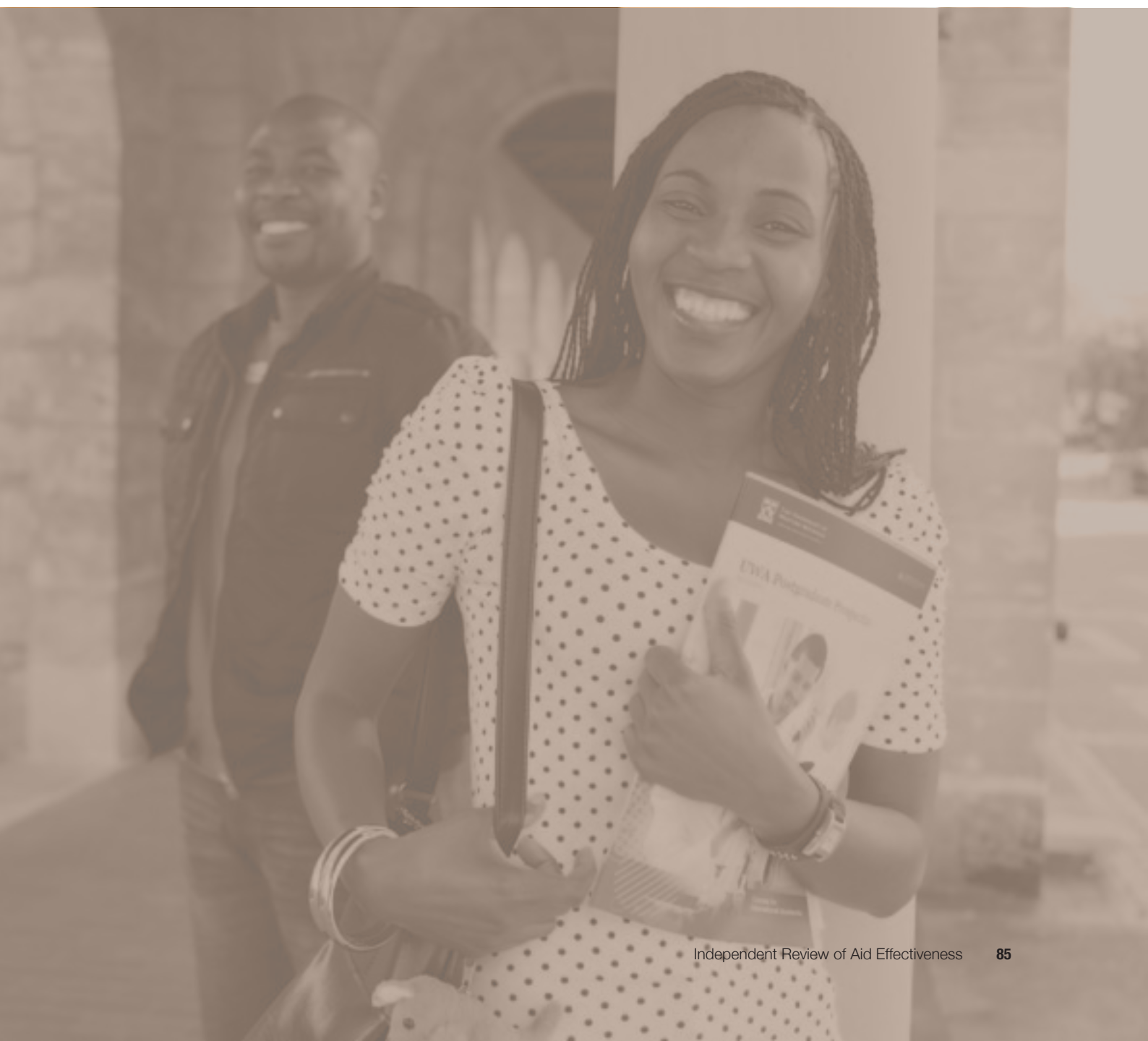
The Review Panel does not advocate a public relations strategy which is merely self-congratulatory. The issue is, rather, ensuring that the Australian public are able to obtain an accurate and full account of the resources which are being devoted to aid, both the accomplishments and the difficulties.

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

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

Part 2

THE FUTURE AID PROGRAM





Chapter 4: THE EVOLVING INTERNATIONAL ENVIRONMENT AND ITS IMPLICATIONS FOR AUSTRALIAN AID

A. INTRODUCTION

To achieve an effective aid program, Australia needs to understand current trends and prepare for the future.

This chapter looks at issues facing both developing countries and donors in the next five to ten years. Its focus is not on all aspects of the international environment, but rather on those most relevant to aid.

It draws on the Study of the Future State of the World as it Relates to the Australian Program (the Lowy Study) commissioned by the Review Panel, as well as other sources and data.

The implications for the program are summarised at the conclusion of the chapter.

B. TRENDS IN GLOBAL GROWTH, POVERTY AND INEQUALITY

(i) Growth

The world is becoming increasingly interconnected. Markets have expanded, mobility has increased, and the private sector has become ever more international in nature. Flows of trade, capital and people have all grown rapidly in the post–World War II era, and are likely to continue to grow in the coming years.

Technology will continue to reduce the costs of distance and accelerate globalisation. Developing countries have already reaped huge benefits from the defining trend of the early 21st century: the rapid development, plunging costs and broad uptake of mobile phone and computing technology. Some two-thirds of all mobile phone subscribers already live in developing countries.

The adoption of more market-friendly policies has given greater scope for the private sector and has enabled large countries such as China and India to take advantage of global opportunities and new technologies. Their rapid growth has now spread to an increasing number of developing countries.

Table 4.1 shows annual average growth rates for broad regional groupings of developing countries since 1980, and as projected by the International Monetary Fund (IMF) until 2015. Even with the Global Financial Crisis factored in, all four regions experienced more growth in the last decade than in the 1980s and 1990s. The turnaround in Sub-Saharan Africa is particularly stark: it grew at an annual average rate of only 2.4 per cent from 1980 to 2000, but at 5.6 per cent from 2000 to 2009.

While there are clearly risks to a continuation of these high levels of growth – an economic or other large shock in China would have global ramifications – the most likely outcomes are for their continuation, as Table 4.1 illustrates.

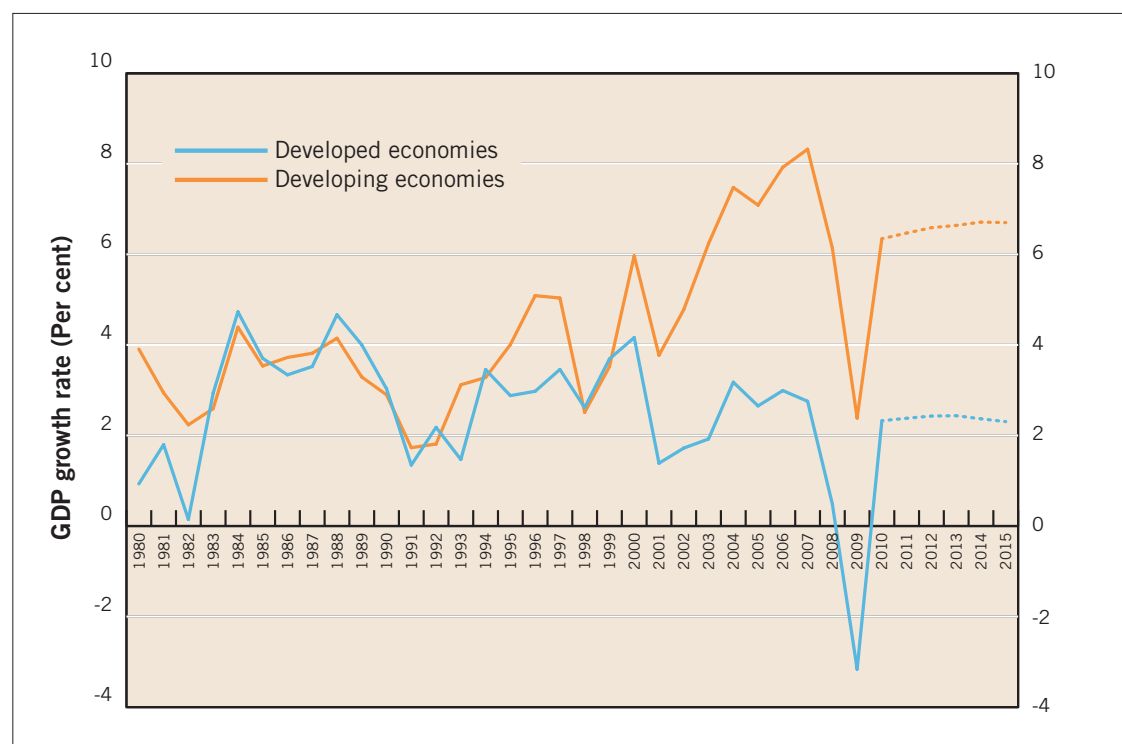
Table 4.1: Average Annual GDP Growth Rates, Historical and Projected, for Broad Regional Groupings of Developing Countries (Per cent)

	1990–2000	2000–2010	2010–2015 (projected)
Pacific	3.0%	2.8%	4.1%
East Asia	6.4%	5.8%	4.9%
South Asia	6.0%	7.2%	7.3%
Middle East and North Africa	3.4%	4.4%	4.4%
Sub-Saharan Africa	1.4%	5.0%	4.6%
Latin America and the Caribbean	3.6%	4.1%	4.5%

Source: IMF (2010). 2009 figures are estimates. GDP is measured in constant prices.

By contrast, growth in developed countries has slowed. Figure 4.1 shows the contrast in trends and the widening gap that has emerged between the two broad groups of countries.

Figure 4.1: Growth in Developed and Developing Economies, 1980–2009 (Actual and Estimates) and from 2010–2015 (Projections)



Source: Chandy and Gertz (2011: 6) using IMF (2010) data and projections.

Developed country growth is projected to stay low, at around two per cent. Moreover, many developed economies are now characterised by high unemployment, austerity packages and high public debt. Generous welfare commitments will only make these problems worse as populations age. Developed countries as a whole will face very tight fiscal constraints in the coming years. The implications of this for aid are discussed in Section E.

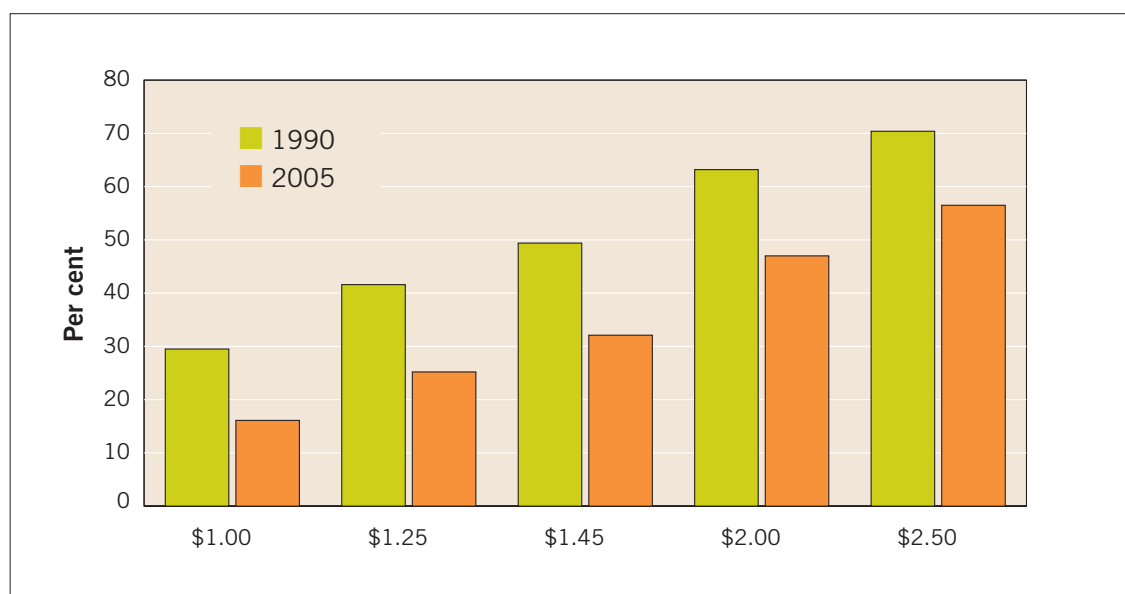
(ii) Poverty

The widespread rapid economic growth being experienced by developing countries is driving a significant worldwide reduction in extreme global poverty, a trend which is projected to continue.

The World Bank has defined an international poverty line, at US\$1.25 a day per person.⁴ This is a very low poverty line and a measure of extreme poverty, but it is the one most commonly used (including to define the first Millennium Development Goal (MDG) of halving of poverty by 2015). The World Bank also uses higher poverty lines, up to \$2.50 a day.

Obviously, as the poverty line goes up so does the number of poor. As Figure 4.2 shows, a very large number of people live on incomes just above the \$1.25 poverty line. If a poverty line of \$2.50 is used, global poverty rates leap to more than 50 per cent. Whichever poverty line is used, however, the proportion of the world's population living in poverty is falling. The fall in poverty is more rapid the lower the poverty line, indicating that the greatest gains are being made in reducing extreme poverty.

Figure 4.2: Global Poverty Rates for 1990 and 2005, Using a Range of Poverty Lines



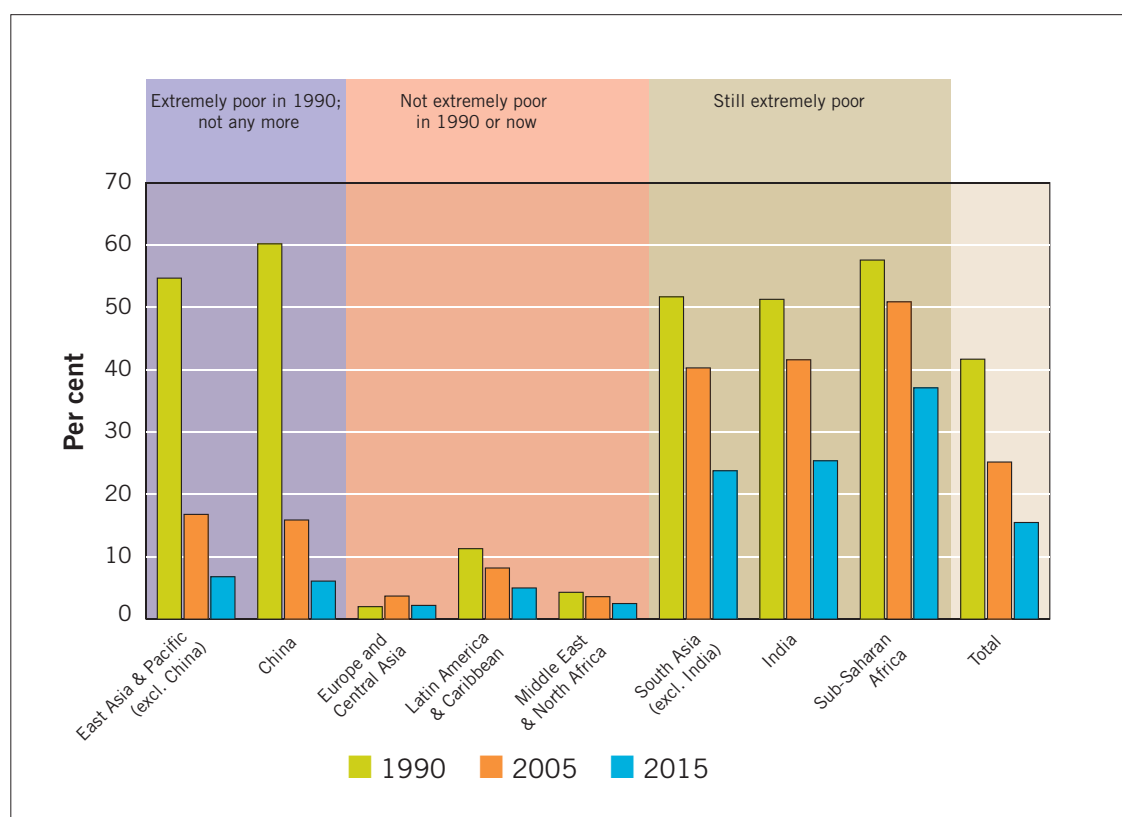
Source: Chen and Ravallion (2008).

⁴ Purchasing power parities (PPPs) are used in this exercise. PPPs convert from local currencies to an international currency on the basis of the cost of a standard bundle of goods, and are better for international standard-of-living comparisons than market exchange rates.

Looking forward to 2015, these trends are set to continue. For example, the number living in extreme poverty (below the \$1.25 a day line), which has fallen from 1.8 billion in 1990 to 1.4 billion in 2005, is projected by the World Bank to decline to 0.9 billion by 2015 (World Bank 2009b).

The rapid decline in poverty highlighted by Figure 4.2 has been unevenly distributed around the world and so has already re-shaped the global poverty map. Figure 4.3 shows the changes in poverty in various regions.

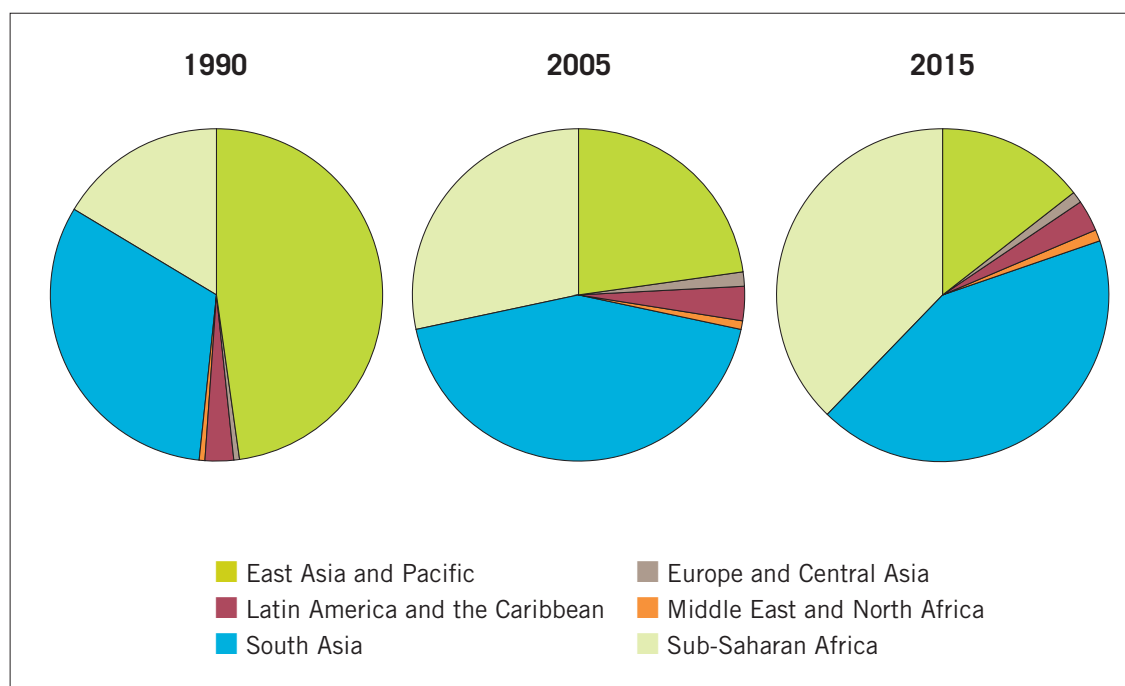
Figure 4.3: Percentage of People Living on Less Than \$1.25 a Day by Region, 1990, 2005 and 2015 (Projected)



Source: World Bank (2009b). 2015 figures are World Bank projections.

As a result of the differential trends evident in Figure 4.3, global poverty is increasingly concentrated in South Asia and Sub-Saharan Africa, a trend that is set to continue. In 1990, almost half (48 per cent) of the world's poor lived in East Asia. By 2005, this had halved (to 23 per cent) and it is projected to decline further to 14 per cent by 2015. By 2015, 80 per cent of the world's poor will live in South Asia and Sub-Saharan Africa: 43 per cent in South Asia and 37 per cent in Sub-Saharan Africa. While the above analysis uses the lowest \$1.25 a day poverty line, the same qualitative conclusion holds regardless of the poverty line used.

Figure 4.4: Concentration of the World's Poor in Different Geographical Regions



Source: World Bank (2009b).

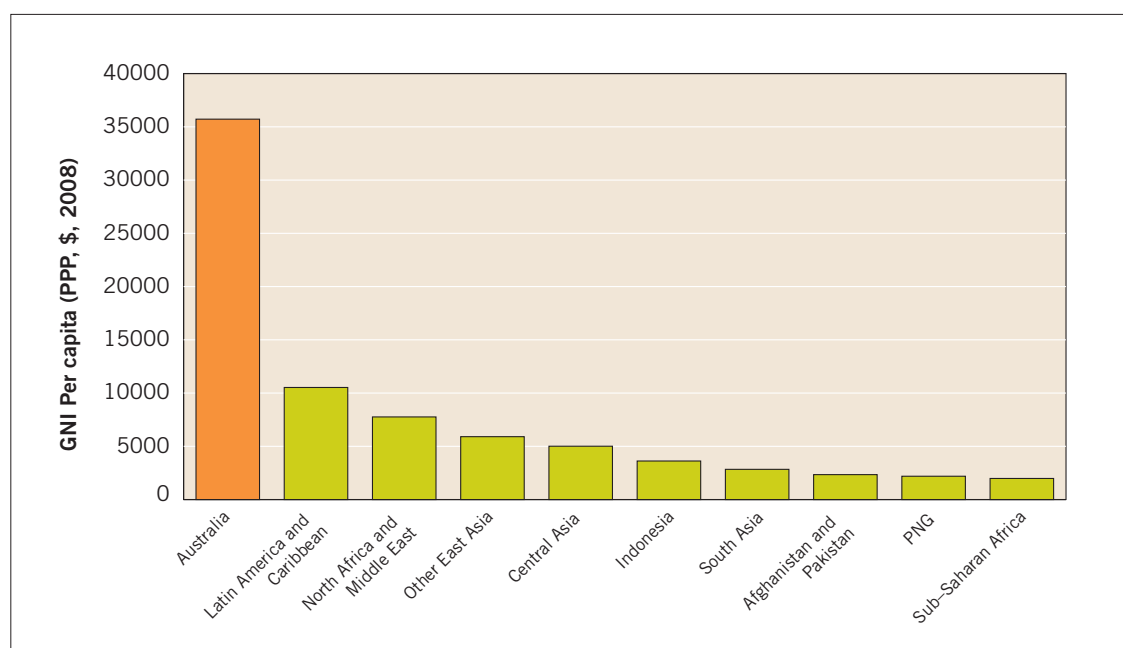
Another important shift being driven by rapid growth, one already mentioned in Chapter 2, is that more and more of the world's poorest live in middle-income countries.

As a result of economic growth, many large countries such as China, Indonesia, India and Nigeria have crossed the low-income threshold (which is currently set at US\$995) and achieved middle-income status⁵. In 1990, about 93 per cent of the world's poor (using the \$1.25 a day poverty line) lived in low-income countries. By 2007–08, this figure dropped to 25 per cent. The remaining 75 per cent lived in middle-income countries (Sumner 2010).

Even with incomes rising and poverty falling across all regions, most people in developing countries, whether low-income or middle-income, will continue in the coming decade to live at a standard far below that experienced by most people in Australia. Figure 4.5 illustrates this point by comparing average income per capita between Australia and major developing country regions, and a few individual countries important to Australia. The gap in social indicators is no less stark.

⁵ Countries graduating to middle-income status include Botswana, China, India, Oman, Nigeria, Sudan, Republic of Korea, Thailand, Papua New Guinea and Nicaragua. But six countries have moved in the other direction—from middle-income to low-income: Congo, Liberia, Niger, Ghana, Zambia and Cote d'Ivoire. Their aggregated populations are less than those moving to middle income status. See Winters et al (2010).

Figure 4.5: Average Per Capita Income: a Comparison of Australia and Other Countries and Regions



Source: World Bank (2011b). Per capita income is measured by dividing GNI in 2008 by the population and converting into a common international currency using purchasing power parities. Other East Asia excludes Indonesia, and South Asia excludes Afghanistan and Pakistan

(iii) Inequality

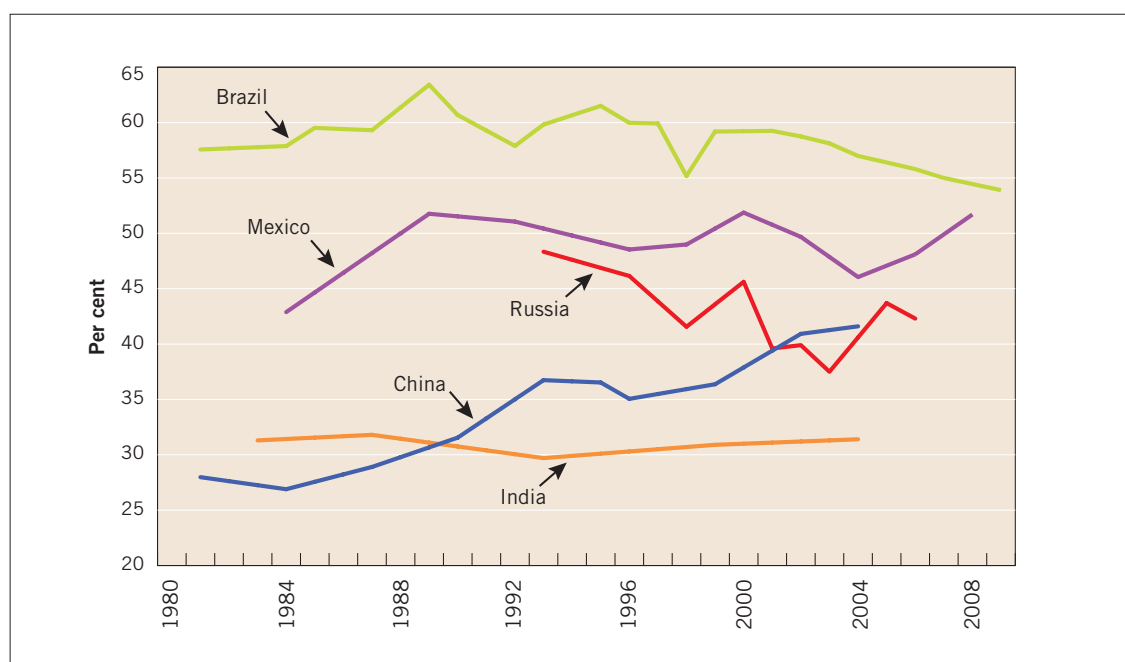
How rapidly national growth will translate into poverty reduction depends on what happens to inequality. The Oxfam submission to the Review sums up the challenge facing developing countries:

“While economic growth raises incomes overall, its effect on income poverty varies enormously from country to country, depending largely on the level of inequality in a country, and the extent to which growth is used to increase or decrease inequality.”

Trends in global inequality depend on how it is measured, but the most comprehensive measures show a moderate increase in recent years (Milanovic 2009). What is important for individual countries is the national level of inequality. Inequality has been increasing in some developing countries. As Figure 4.6 shows, there has been an upward trend in some large developing countries, such as China, that started from a low base prior to market liberalisation. Other countries have displayed a downward trend, such as Brazil.⁶

⁶ Evidence of inequality changing in Asia is mixed. Different countries show different trends, although several countries show an increase, but again from a low base. See Liu (2010) and ADB (2007).

Figure 4.6: Income Inequality (measured by Gini coefficient⁷) in Selected Countries 1980–2009 (percentage)



Source: IMF (2007) and World Bank (2011b).

The extent to which rising inequality is a cause for concern depends on the country context. In some countries, an increase in inequality accompanies an acceleration of growth which ultimately benefits the poor. In others, increased inequality may hamper opportunities for the poor to participate in growth and a policy response is required.

Predicting inequality is difficult. Many developing countries are giving increasing emphasis to social safety net programs and other interventions to help the poor and vulnerable. This will continue. Conditional cash transfers, which provide additional income to households (often to women and often conditional on, for example, child immunisation or school enrolment), are likely to continue to grow.

National inequality statistics capture only part of the story. Inequality between groups often reflects discrimination, and can be a major barrier to development. Gender inequality remains an enduring global problem and a constraint to achieving good development outcomes. It is also one area where impressive gains have been made over past decades, partly as a result of development and partly as a result of a concerted campaign:

- Thirty years ago, girls represented 38 per cent of primary enrolments in low-income countries and boys 62 per cent. By 2005, the gender gap had significantly narrowed, with girls representing 48 per cent and boys 52 per cent of primary enrolments (World Bank 2009c).
- In 1950, the world's total fertility rate, the number of children a woman has during childbearing years, was five. By 2010, the rate is estimated to have been halved, to around 2.5 (United Nations 2010: 8).

⁷ The Gini coefficient is the most commonly used measure of inequality. The closer to 100 per cent the higher the inequality.

- The maternal death toll worldwide dropped from 526,300 in 1980 to around 342,900 in 2008 (Hogan et al 2010).

Not all the trends are positive. The spread of extremism is a growing threat to women's rights. The sex ratio (the proportion of boys to girls) at birth is still rising in some countries.

Moreover, women continue to fare poorly on a number of fronts:

- Two thirds of those who cannot read are women.
- Time spent on household duties such as fetching water and cooking disproportionately falls on women, often with negative health consequences.
- Women continue to trail men in formal labour force participation, access to credit, entrepreneurship rates, income levels, inheritance and ownership rights (World Bank 2011a).
- Women suffer from high levels of violence, a particularly acute problem in some Pacific Island countries.
- Women hold an average of 19 per cent of seats in national parliaments in East Asia and only three per cent in the Pacific.

In coming years, overall progress in improving gender outcomes will likely continue to improve, partly because it will remain a priority for many countries and campaigners, but it will be variable, across countries and indicators. The agenda for equality will continue to broaden, to focus increasingly on economic and political opportunities, and on gender-based violence.

C. DEVELOPMENT THREATS AND CHALLENGES

The continuation of rapid growth in developing countries cannot be taken for granted. The welfare benefits of growth, as well as the growth process itself, could be undermined by a number of risk factors, many of which are intensifying in force.

(i) Food, Energy and Water

Worldwide, food and energy prices spiked before the Global Financial Crisis and have risen again. A variety of factors is responsible, from rapid growth to competition from biofuels. The impacts are felt disproportionately by the poor. Price hikes also subject governments to fiscal stress and can lead to instability and even violence. The policy responses, which include export controls, subsidies and price caps, are often short-sighted with negative knock-on effects. The solutions require investments in new technology as well as better policies – including more rational biofuel policies in developed countries – but high food and energy prices are, more likely than not, here to stay.

There are also signs of a growing water crisis, which threatens livelihoods and is a source of conflict. The World Bank's Independent Evaluation Group (IEG) writes:

“Development patterns, increasing population pressure, and the demand for better livelihoods in many parts of the globe all contribute to a steadily deepening global water crisis.” (IEG World Bank 2010: ix)

(ii) Climate Change

Developing countries are particularly vulnerable to the impact of climate change. As the Garnaut Review notes:

“Climate change outcomes such as displacement of human settlements by sea-level rise, reduced food production, water scarcity and increased disease, while immensely important in themselves, also have the potential to destabilise domestic and international political systems in parts of Asia and the South-West Pacific.” (Garnaut 2008: 145)

The low-lying atolls of the Pacific as well as the coastal deltas of Asia are both vulnerable to sea rise.

Though both the time-frame and severity of the impacts of climate change are uncertain, concern around climate change is likely to grow over the coming decade.

The response to climate change will also shape both development and aid.

Developing countries are increasingly engaged in the international response to climate change. Developing countries view climate change as one of a number of reasons for embracing ‘green growth’. Other drivers include energy security concerns, high levels of national pollution, and efforts to obtain competitive advantage in the global market place for clean technologies. That said, energy subsidies are still widespread in many developing countries. These will make efforts to reduce emissions more difficult and will be difficult to remove.

Developed countries have committed to provide \$10 billion a year to help developed and developing countries mitigate and adapt to climate change between 2010 and 2012, and to increase this up to \$100 billion a year by 2020. This would rival aid flows in volume, if it eventuated, though the expectation is that it would comprise private carbon market as well as government flows. As discussed in Chapter 8, there is no doubt that aid budgets will be a major source of financing for climate change in the coming years.

(iii) Natural Disasters

Natural disasters are increasing in number and impact (World Bank 2010). The European Union estimates natural disasters have increased five-fold over the past 35 years and the damage caused by them has increased by between seven and eight times. Developing countries are disproportionately affected by natural disasters. The average number of deaths per disaster in the developed world is 23, while in the poorest countries it is 1,052 (Oxfam International 2009: 4).

(iv) Demographic Challenges

Population growth falls as incomes rise. Continuing rapid economic growth will be accompanied by a further decline in global population growth rates. Some developing countries already have to deal with the problems of an ageing population: China’s population is projected to start declining around 2030.

At the same time, further significant growth is expected before the global population stabilises at 9–10 billion early in the second half of this century. The growth in numbers from almost seven billion today will put added pressure on resources, including food and water.

Some very poor countries, with low growth and high fertility rates, are already experiencing youth bulges – with a large proportion of young, unemployed or underemployed people. This, where it occurs, may lead to conflict and law and order problems, as Australia has seen close to home in East Timor, PNG and Solomon Islands.

(v) Urbanisation

Urbanisation is a central part of development, driven by the internal migration of people looking for a better life. But it is also one which poses major challenges for government, particularly in relation to infrastructure and housing.

There are now more people living in cities than in rural areas, the first time this has occurred in human history. Though urban poverty is more visible than rural, it is less prevalent, but with increasing urban numbers, the share of the world's poor living in urban areas is on the rise. The World Bank estimates about 30 per cent of the world's poor live in urban areas. This is expected to rise to 50 per cent by 2035 (Ravallion 2001: 9).

(vi) Transboundary Threats

Globalisation brings many opportunities for poverty reduction, but also threats.

The ever-expanding movement of people and goods across borders leads to increased risks of the international transmission of disease. There is a well-grounded and widespread expectation that a major viral pandemic will affect the world sooner rather than later. This is one of the biggest health challenges facing developing countries over the next decade. It is also one of the most dramatic examples of how the futures of developed and developing countries are intertwined in an era of globalisation. Developed and developing countries have strengthened their ability to respond to pandemics by upgrading preparedness regimes, surveillance, and vaccine development and distribution. But the severity of disease and death caused by a pandemic virus varies and cannot be forecast.

The technology revolution is also a source of enhanced transboundary threats.

The Lowy Study noted:

“When combined with increased deregulation and trade, new communications technologies have provided a huge boost to transnational crime, facilitating money laundering, the smuggling of drugs, people and weapons, and intellectual property theft.”

D. COUNTRIES AT RISK

(i) Conflict-Prone and Fragile States

Not all countries will participate in the global trend of poverty reduction. Countries trapped in conflict will be the most likely to be left behind. Conflict in developing countries has decreased over the past two decades. Greater stability in Africa is one reason for its recent economic growth. However, conflict-related deaths have risen since 2005.

Factors that lead to conflict in developing countries include low economic growth, ethnic divisions, extremism, autocratic rule, low incomes, weak institutions, access to natural resources, and unequal access to political or economic opportunities.

Fragile states have weak institutions, and are ineffective in providing basic services and the rule of law. Given the importance of institutions for growth and development, countries with weak institutions will grow more slowly.

Conflict and fragility impose the most direct costs on the citizens of the countries trapped by them. As Oxfam noted in its submission to the Review:

“Conflict exacerbates existing inequalities and further marginalises already marginalised groups of people. Women and girls experience high rates of sexual violence, particularly during complex and protracted conflict.”

Fragile and conflict-prone states also impose costs on their immediate neighbours, and other nations. They are likely to generate transnational threats such as the proliferation of small arms, organised crime, drug trafficking and terrorist networks. They are the source of tens of millions of refugees and internally-displaced persons. The cost of international interventions required to restore and maintain peace, and to assist with recovery, is huge.

Several fragile and conflict-prone states are the focus of not only international humanitarian but also global strategic concerns. These include Pakistan, Afghanistan, Yemen, Somalia, North Korea and Burma.

As the Lowy Study noted:

“Ongoing chronic instability or the catastrophic collapse of any of these states threatens both serious transnational impacts on their neighbours and the developed world, as well as the potential for increasing great power rivalries.”

One study found that on average fragile states stay fragile for about 70 years (Collier 2007). Whether the resource boom and high resource prices will intensify conflict remains to be seen, but is certainly a real risk. Sadly, the number of conflict-prone and fragile states in 2015 or 2020 is unlikely to be lower than it is today. This is true not only globally but also within the Asia-Pacific region.

(iii) Microstates

Geography can also make development more difficult. Studies have shown that landlocked states are less likely to develop than ones with a coastline, as trade is more expensive and they are more reliant on neighbours, who may be unstable (Collier 2007).

Small states do not necessarily grow more slowly than large ones, but extreme small size and isolation can impose a large cost disadvantage and threaten development prospects (Winters and Martin 2004). This is a particular issue for the very small island states of the Pacific. Aid will remain an important revenue source for these states. Migration will also continue to be important as a source of both employment and remittances for those with access to metropolitan labour markets.

The prospects for these states in the coming years are uncertain, but they will depend both on their internal capacity to manage their limited opportunities and on the external environment, in particular aid volumes and migration opportunities.

E. SHIFTS IN GLOBAL POWER: INTERNATIONAL INSTITUTIONS AND AID

The economic centre of the world is shifting, towards Asia and towards developing countries. This has major implications for international institutions in general and for aid in particular.

The international landscape has already seen significant shifts over the past decade.

The Group of Seven Nations (G7) has long represented the interests of major developed countries, but now the larger, fast-growing developing countries (often referred to as 'emerging' economies) are starting to meet as a group, in particular the BRICS forum, which brings together Brazil, Russia, India, China and South Africa.

The Group of 20 Nations (G20) has emerged as the premier international body for global economic affairs. Importantly, this key institution brings together large developing and developed countries.

At the November 2010 G20 Summit, G20 leaders agreed on a multi-year program of action on development. The main areas of focus are infrastructure, food security and growth with resilience (which covers social safety nets and remittances). This work on development is consistent with the G20's core focus on economic cooperation and coordination in addressing issues that pose systemic global risk, and could have a very large development impact. However, it is too early to judge this.

The IMF and the World Bank, created at the end of World War II, are enduring features of the international architecture. The IMF has regained relevance as a result of the Global Financial Crisis. The World Bank is also lending at near-record levels and has become a key part of the world's international problem-solving kit, with dedicated funds for a variety of tasks from responding to climate change to development in Afghanistan.

Both institutions have now made progress in providing more of a voice for the large emerging developing economies in their governance structures. Continuing change in this area will be critical if they are to maintain their relevance.

The performance of the UN is more mixed. As the Lowy Study noted:

“The United Nations [General Assembly] has shown itself to be completely ill-suited as a forum for addressing the most pressing global challenges, from climate change to nuclear proliferation.”

UN reform is a slow undertaking and results will be long term at best. But, as discussed in Chapter 10, some UN agencies are already good performers. The UN is, and will remain, at the centre of global humanitarian responses.

Aid will remain relevant over the coming decade, indeed in some ways its importance will increase. It will become less important for most recipients relative to the size of their economies, but will remain an important source of support for smaller and fragile states, a key conduit for the transmission of international innovation and knowledge, and an essential instrument for global problem solving.

Even though the MDGs will have been partially rather than fully achieved by 2015, their success as a way of communicating the global development and aid challenge means that they are likely to be replaced by a second set of goals, say to be achieved by 2030.

Aid trends over the next decade will also reflect the global power shifts under way. Slow growth in Organisation for Economic Cooperation and Development (OECD) countries and, more importantly, underlying fiscal weaknesses, will put downward pressure on foreign aid budgets. The rapid expansion in Official Development Assistance (ODA) from OECD countries seen over the past decade is unlikely to be repeated this decade. A better guess would be that aggregate aid from the OECD will stay roughly constant in real terms.

OECD aid will also become increasingly focused on Africa and on fragile states (many of which are, of course, in Africa). Donors have already started to pull out of Asia. Analysis from the Centre for Global Development of the International Development Association (IDA), the World Bank's concessional lending and grants window, shows that, under current rules, by 2025:

“The remaining IDA-eligible countries will be ... overwhelmingly African, and a majority are currently considered fragile or post-conflict.” (Moss and Lee 2011: i)

The big emerging economies will continue to provide more development assistance; a reflection of their increased financial resources, expanding strategic interests, and emerging dependence on imported energy, resources and food. This will continue to be welcomed by developing countries, and may, by providing an alternative source of funds and ideas, weaken the influence of the West and lead to greater aid competition.

Finally, while the analysis above has focused on bilateral aid, as noted in Chapter 2, aid from non-government sources is also on the rise. There has also been a rapid increase in specialised international organisations, especially in the field of health. Overall, the aid field is likely to become more, rather than less, crowded.

F. IMPLICATIONS FOR THE AUSTRALIAN AID PROGRAM

These issues and trends will all have implications for the Australian aid program over the next five to ten years. Of course, other dynamics could emerge and alter the already complicated mix.

The most obvious implication is in relation to profile. If Australia doubles its aid during a period in which total OECD ODA increases only in line with inflation, Australia will become a much more important donor. It will get increased attention and scrutiny not only domestically but also internationally.

There are a number of implications for the geographical focus of the aid program. A program with the objective of reducing poverty will need to engage more with the regions that are now home to most of the world's poorest, namely Sub-Saharan Africa and South Asia.

At the same time, South East Asia will remain a poor region, confronting all the threats and challenges outlined in Section C. The ongoing exit of OECD donors from this region is not something Australia should necessarily mimic. The fragile and small states of the Pacific Island region will require ongoing support.

A balanced approach will be required. How this can be achieved, without overwhelming managerial capacity and worsening the problem of fragmentation, is a major challenge for the coming years and a focus of the chapters to follow.

The analysis above also points to a number of themes which will grow in importance for the aid program in the coming years.

Spreading and sustaining economic growth will be an important challenge. Its continuation certainly cannot be taken for granted and countries which are now experiencing growth will want more not less assistance in growth-related areas. The Study of Australia's Approach to Aid in Africa (the Africa Study) commissioned by the Review found that:

“The dominant discourse with regards to Africa in 2000 was centred on poverty and gave rise to the MDGs. In 2011, there is an increasing focus on development and growth.”

Not everyone will benefit equally from economic growth. Just as important as sustaining and deepening growth will be expanding the opportunities for people to participate in the growth process and helping to tear down barriers that stand in the way.

Gender will remain an important priority, with increased focus on areas where disparities are the greatest, including economic and political opportunities for women, and protection from violence. It will be especially important in the Pacific, where Australia is a major player and gender disparities are among the worst in the world.

Food security and growing water shortages are areas where Australia should be able to share expertise and experience.

Other mounting risks to development where Australian aid will need to respond to include climate change, disaster preparedness and response, and transboundary threats.

Australia will continue to be called on to assist with stabilising fragile and conflict-prone states. In its neighbourhood, Australia will be required to take a lead role in such situations. Further afield, Australia will need to contribute to international efforts, including possibly in conflict zones.

Finally, this chapter's analysis has implications for international engagement and aid delivery.

Australia will be able to use its membership of the G20 to push for a higher profile for development issues.

Given the ongoing importance of the multilateral system, but also its variable performance, an enhanced engagement, with greater financial support for the better performers, might be the best way to leverage reform.

With a growing number of donors – bilateral, international and non-government – coordination will become more difficult but also more important. Partnership and selectivity will be, increasingly, the keys to success.

The emergence of new donors will be perhaps the biggest change in the aid world in the coming decade. If aid volumes from these donors increase in line with their growing aspirations and economic success, they could become very large sources of external financing. Engaging with new donors will be important, especially in Australia's own region. But it will not be easy, as indicated, for example, by the fact that China has not signed the Cairns Compact, which Australia has promoted as a means of strengthening donor coordination in the Pacific.

Finally, new technologies offer new hopes for aid effectiveness if they can be effectively deployed. Online recruitment and availability of specialist advisory services are likely to grow, with tremendous potential gains in the efficiency and effectiveness of technical assistance. And the widespread use of mobile telephony points to the future use of techniques such as crowdsourcing to improve feedback from aid recipients.

Chapter 5: VISION AND OBJECTIVES FOR AUSTRALIA'S FUTURE PROGRAM

A. INTRODUCTION

With the Australian aid program set to grow over the next five years, it is crucial the program is designed, resourced and delivered in a way that encourages public support. This is crucial during a time of fiscal constraint and with important spending priorities at home.

The program must have a solid rationale and be grounded in good policy and public administration, and the public need to be able to judge whether the performance is up to scratch.

It will not be enough for those managing the program just to move forward from where the program is now. There needs to be a clear idea of what the program should look like when it reaches 0.5 per cent of Gross National Income (GNI) in 2015–16, and then a tracking back from there to establish a clear plan.

To start, there needs to be a compelling vision and objective for the program. The managers of this large and complicated program need an objective that respects its complexities and does not oversimplify by reducing the objective to a neat one–liner.

B. PROBLEMS WITH THE PRESENT OBJECTIVE

At present, the aim of the aid program is 'to assist developing countries to reduce poverty and achieve sustainable development, in line with Australia's national interest'.

This formulation contains several elements that should drive the program, but it can be improved in two respects:

- It is ambiguous. In one way, it is saying reducing poverty and achieving development will be in line with Australia's national interest. This is probably true, but then the reference to national interest constitutes merely a comment rather than part of the objective. In another sense, it is saying the aid program should focus on poverty reduction and development of a sort that is in line with Australia's other interests: foreign policy, security and economic. If the latter is the intent, then it should be stated more clearly. As the program grows, there needs to be clarity.
- The current objective does not specifically say that Australian aid is not, in the final analysis, directed towards governments or even countries in the abstract, but to the people who need it. The objective should be defined in a way that stamps a people-focused mindset on those responsible for delivering the aid program.

The existing objective needs to be unpacked and clarified with a coherent and principled underpinning.

A clear statement of the government's aid policy is essential for the public and those working in the area.

The Review Panel suggests an overall conceptual approach for the aid program, and for its growth.

C. PUTTING PEOPLE FIRST

Whatever the context of Australian aid – whether to help people facing a humanitarian crisis, to provide basic services essential to a decent life such as health or education, or to help countries move towards economic prosperity – all aid must aim to improve the lives of fellow human beings living in conditions far below those we in Australia consider acceptable.

This focus on people reflects Australians' sense that aid must find its way to the people who need help, not just governments or organisations.

This is an essential test. No matter how effective an aid initiative may be in building relationships between Australia and foreign governments and businesses, or improving Australia's image, it should not be pursued unless it really benefits people.

The path must be credible. If an aid activity is not credible then it will fail regardless of the kind of aid, the circumstances in which it is given, or the way it is delivered.

The aim to help those in worse circumstances than ours would command widespread community support. Indeed, Australians generously support overseas aid efforts by government, NGOs and others. As the ninth-wealthiest country in the world⁸ (International Monetary Fund 2010), Australia should do its fair share to help the world's poor. Just how much aid this implies will, of course, always be the subject of legitimate public debate, but whatever the aid program does, the Australian people will demand, and rightly so, that Australian aid is getting to those who need it.

This means the poor.

D. REDUCING POVERTY

The fundamental objective of the Australian aid program should be to help people overcome poverty. That too is an essential test which Australian aid must pass.

In its effects, Australian aid may well benefit more people than only the poor. For example, a significant infrastructure project or an important program like health improvement will benefit the wider community in a recipient country, but, in their intention and design, Australia's activities should be directed at helping the poor.

Overcoming poverty means both making the poor better off and helping them escape poverty.

Assistance to help people get by and to survive, in circumstances of chronic poverty, humanitarian emergencies and disasters, should be an important part of any aid program. At the

⁸ Measured by GDP per capita purchasing power parity in 2009.

same time, wherever possible, Australia should support sustainable development, which creates permanent solutions to poverty and opportunities for long-term prosperity.

Australians would want not just to help people in poverty; they also want to help them escape it.

There was widespread support for putting the goal of reducing poverty at the centre of the aid program during the Review Panel's consultations and in submissions. Some also wanted similar priority to be given to the goal of reducing inequality. For example, this was a recommendation from the Australian Council for International Development.

It is important to disentangle a number of issues here.

In the Review Panel's opinion, the question is not whether there should be equality of opportunity for people to participate in economic development. There certainly should be. Nor is the issue whether this should be built into the design of Australian aid projects to the extent possible. Clearly it should be. Nor is the issue whether reducing inequality can be an important means of reducing poverty. It can be.

But there are two questions distinct from these to which the answers are less obvious.

The first is the analytical question whether, in some circumstances and in some countries, an increase in inequality will be a concomitant (at least in the short to medium term) of the economic development needed to reduce poverty. The empirically correct answer is that in some countries rapid poverty reduction has gone hand in hand with increases in inequality.

The second question is whether, given varied country circumstances and need, Australia should put reducing inequality on the same footing as reducing poverty in a universal objective for the aid program.

The view of the Review Panel is that the idea, indeed imperative, of promoting opportunities for all to participate in the development process is an important one (further pursued in Chapter 8). That said, reduction of inequality per se does not have the same overarching significance as poverty reduction as the highest-level objective for the aid program.

E. THE NATIONAL INTEREST

The Review Panel considers that the program should be anchored both in Australia's national character and enduring national interests. The relationship between national interest and aid is not simple and needs careful analysis.

A common aid debate is whether its rationale is altruism or national interest. This is often run together with the debate on whether aid should be directed at alleviating poverty or to Australia's strategic, economic, security or political interests.

The Review Panel believes that there is a risk of Australia founding its aid policy on confusion and oversimplification.

Altruism and self-interest are motivations. Alleviating poverty, enhancing Australia's reputation as a good international citizen, strategically positioning Australia, international economic engagement, security from threat, and foreign policy influence are all objectives.

Motivation to support the aid program is important, and indeed community support will be critical as the scale-up continues. For some, the motivation will be altruism, for others Australia's self-interest, for many, a mix of both. The need for public consensus is a theme the Review Panel addresses through the Report and especially in Chapter 17. But in this chapter, the Review Panel is concerned with objectives.

One of the aid program's objectives is to advance the national interest. Unlike poverty reduction, it is not an essential test of a good aid program, but it is a legitimate consideration, which is particularly important as a criterion for deciding where Australia's efforts against poverty are focused.

Like poverty reduction, national interest is a broad notion. It covers economic, security and foreign policy interests: from the commercial interests of individual companies, to the safety of Australian citizens and Australia's international image and reputation.

The national interest relates to the aid program in two principal ways.

First, Australia has a strong national interest in a world with less poverty. Such a world is something many Australians aspire to (as evidenced by their own charitable giving). It would provide greater economic opportunity for Australia and is likely to be more stable and less violent.

Second, while global prosperity is the main national interest the aid program advances, Australia has more specific national interests that aid can help advance. Australia has specific interests in particular regions. For example, what happens in the Asia-Pacific affects Australia's interests more than what happens in Africa. Australia also has interests in activities that directly impinge on us such as people smuggling or illegal fishing.

When people say national interest has no place in the aid program's objective, they mean these interests (other than reducing global poverty) should not be pursued through the program. Many put that view to the Review Panel and it was the recommendation of the last independent review of the program, the 1997 Simons Review.

The Review Panel agrees, indeed urges, that the fundamental objective of the program should be to reduce poverty. But it is unrealistic to expect the aid program would not be used to pursue Australia's other interests. Australia, like every nation, has legitimate and specific interests it needs to advance by helping developing countries. This is not wrong provided that the activities undertaken are directed to assisting the poor and that there is a credible pathway to this fundamental goal.

It is one thing to say that Australia's various national interests should play a role in aid decisions, it is another to say what role they should have. Often, advancing specific national interests and effectively reducing poverty will be complementary objectives. For example, the fact that Australia is most affected by events in its region has led the aid program to concentrate on the Asia-Pacific. That also makes sense in terms of global poverty reduction because the Asia-Pacific has a lot of poverty yet receives little aid.

To a significant extent therefore, development assistance policy coincides with Australia's broader security, economic and foreign policy interests.

But there can be trade-offs. What Australia can do about poverty reduction and what it can do about other national interests involves choices along a spectrum. It is not a matter of black and white, either poverty reduction or national interest. The hard cases will always be a matter of the mix.

It is best to have a framework for the aid program which recognises this and provides direction on it, rather than to leave the point tacitly understood, but never explicitly stated.

As an example of the kind of trade-off which can arise, in the past Australian aid could be used only to purchase Australian goods and services. The tied aid thus served Australia's economic interests and reduced poverty, but this latter goal could have been more effectively pursued if the aid program had been able to draw on more suppliers. Over time, Australian aid has become untied, and interestingly, no-one argued to the Review Panel that it should be tied again. This is clearly one trade-off between poverty reduction and other national interests that Australia is not prepared to make.

But there are other trade-offs that Australia is prepared to make. Examples are given below of activities that reduce poverty, but were pursued mainly because of national interests.

How to make these trade-offs, when needed, is a matter of judgement. It is impossible to establish rules to cover every case. The guidelines below aim to help define the role of the national interest in influencing aid decisions.

- First, the Review Panel does not suggest national interest should be given more weight than it has recently received. The aim is to remove the current objective's ambiguity, not to shift the balance.
- Second, the main way national interest will play out in the aid program is through aid allocations to different countries. One can see this not only in the Asia-Pacific, but more recently in Afghanistan, which has become Australia's fourth-largest country program because of Australia's security interests and presence there. In this way, national interest helps drive the aid program's geographical focus.
- Third, once country allocations are made, individual activities or sectoral priorities should only rarely be selected because of national interest. There will be some exceptions. If it were not for the historical links, the Australian aid program would not have had an activity focused on the Kokoda Track in PNG. Australian aid activities carried out by and with the Australian Defence Force in Uruzgan, Afghanistan, are undertaken principally because of security interests. However, choosing aid activities because of specific national interests is, and should remain, the exception. Every proposed activity must demonstrate it contributes, directly or indirectly, to poverty reduction. The Review Panel does not suggest every activity should have to pass a national interest test.
- Fourth, the aid program should not be used to promote commercial gain, whether by re-tying aid to Australian producers or by other means. Australian industry will benefit from the aid expansion, but it should be on the basis of a level playing field and not preferential treatment.

The Review Panel suggests that if these guidelines are followed by ministers and by those responsible for designing and administering the aid program, then the sometimes vexed question of how national interest considerations fit with good aid policy will be addressed in a way that is both practical and principled.

F. MAKING A DIFFERENCE

Needs and opportunities to improve people's lives vastly exceed the resources available. Choices need to be made as to where Australia should contribute in the global effort. The aid program needs to be selective and focused.

Australian aid should be used only when it can make a real difference.

Chapter 3 highlighted the harm fragmented aid is doing to the current program's effectiveness and efficiency. Addressing this problem is serious and the benefits are so large that the Review Panel believes that reference to Australia's capacity to make a difference ought to be included in the overall objective.

In deciding whether and when to intervene, the following points should be taken into account:

- strong partner governments
- the existence of or potential for real partnership and collaboration, including high-quality delivery partners in-country
- Australia's weight as a donor and whether there is a problem of 'donor crowding'
- correspondence or otherwise between Australia's strengths and a particular country's needs
- the depth of Australia's relationship, historical and contemporary connections, country knowledge and people-to-people connections
- Australia's in-country influence and how effective its engagement is with partner government, civil society, business and other stakeholders
- Australian presence in a country: whether or not there is diplomatic representation and the presence of Australian NGOs, business or other networks
- confidence that Australian funding will be used appropriately and not wasted, and the ability to verify this
- countries' varying abilities to absorb more aid effectively, and Australia's confidence that there is a sound strategy for scaling up
- Australia's willingness to stay the course.

How these factors are aggregated will depend on judgment. The bottom line is that there needs to be fewer and bigger interventions, in fewer countries and sectors.

G. THE OBJECTIVE

To summarise the above, the Review Panel believes the rationale and explanation for Australian aid should be along the following lines:

- First, the aid program is anchored in Australia's national character and enduring national interests. Australia is motivated to give aid because Australians are a decent and caring people. Australia also gives aid because it is in its interest to have an economically prosperous world with opportunity, rather than a world plagued by poverty, insecurity and instability.

- Second, Australian aid will always focus on people. It must benefit people struggling to survive and people living at standards far below those considered acceptable. It is not just about benefiting foreign governments or foreign countries in the abstract.
- Third, poverty reduction should be the fundamental objective of the program. It is the essential test.
- Fourth, Australia gives aid to help poor people, but also to help them escape poverty and become prosperous through sustainable development.
- Fifth, the aid program should advance Australia's national interests: global prosperity and also more specific economic, security and foreign policy interests. These national interests should influence decisions about country aid allocations and help focus the aid program. They will sometimes – though less frequently – guide individual aid activity choices too.
- Sixth, activities should be prioritised to where Australia can make a real difference.

The overall objective or mission statement for the aid program should be based on the above points. The Review Panel suggests the following formulation:

The fundamental objective of Australian aid is to help people overcome poverty.

We work to improve the lives of those living in conditions far below what Australians find acceptable. We focus our resources and effort on areas of national interest, and where Australia can make a real difference.

The Review Panel also suggests that when the government releases its next strategy, it include guidance on where national interest sits in the aid program along the lines of Section E above. Together, this objective and the related guidance should help build strong support for the program, and clear up confusion and suspicion about its purpose.

H. DESIGN PRINCIPLES FOR A SUSTAINABLE AID PROGRAM

Based on this overall objective, what would be the design principles of an Australian aid program that can be managed effectively, commands public support and is sustainable over time?

One useful way of approaching this is to ask the following question:

‘What would Australians want to be able to say, with pride, about what the Australian aid program is accomplishing, taking into account Australians’ view of themselves as a decent, fortunate country whose people wish to reach out to help those in need and who want Australia to do its bit as a good international citizen; while, at the same time, dealing with challenges at home and aspiring to achieve for themselves even greater economic development, a higher quality of life and security?’

In other words, what would be the shape of an aid program that properly reflects the values and interests of the Australian people?

A sustainable aid program would be one founded on the answer to this question.

Australia should aim to do better than a program that has grudging public support and a manageable level of controversy. It should aim for a program that enjoys positive backing and is seen as a genuine Australian achievement.

The answer to the question above is suggested below (accompanied by suggestions on the principal implications for the design of the Australian program).

First, Australians want an aid program that contributes to reducing poverty in the world, as an important moral objective.

- Key design principles. If Australians see overcoming poverty as morally important, then Australian aid should be spread to include geographically distant regions/continents not traditionally the focus of foreign policy. Aid should not be confined to 'our own backyard'. Compassion is not geographically limited.

Second, so long as reducing poverty is not compromised, it makes sense for the aid program to support Australia's security, economic or foreign policy interests.

- Key design principles. Australia must design its program to help reduce poverty in distant areas while prioritising poverty reduction in the Asia-Pacific region.

Third, Australia should make a special effort in special circumstances where lives are devastated overseas: natural disasters, man-made catastrophes and humanitarian emergencies.

- Key design principles. Australia should be equipped to contribute at each stage: prevention, emergency relief and recovery. The aid program should be designed so it can respond fast. Australia should work with others, including the UN, NGOs and other donors. The aid program should learn from Australia's extensive domestic experience in managing natural disasters: flood, fire and cyclone.

Fourth, the Australian public would prefer cures to band-aids.

- Key design principles. Australian aid should be directed to economic development as the ultimate answer to poverty. Its goal should be to help create prosperity. The aid program should address where possible underlying poverty causes (including poorly functioning markets, insufficient opportunity for the private sector, poor governance, gender discrimination and corruption). It should recognise that progress may be slow, but worth pursuing if there is a credible path forward.

Fifth, the Australian people want to know that funds are not being wasted. This applies to all government programs, but it has particular potency when it comes to spending resources overseas for the benefit of non-Australians.

- Key design principles. Activities should be targeted to where Australia can be effective and add value. The aid program should focus on sectors where Australia has particular strengths. Australia should work more with partners with complementary attributes and whose efforts can be leveraged. The aid program should take account of recipient countries' differing abilities and track records, and be as rigorous as possible in monitoring and assessment. The program should be stable and predictable, but also able to adjust with experience.

Australia needs to avoid spreading its bilateral aid too widely (functionally or geographically) and should focus on opportunities to work with others (including other donors and NGOs) and leverage resources for greater impact.

Sixth, the aid program should be anchored in a political and public consensus. Aspects of the program will be debated. This is legitimate, but the overall objectives, shape and performance of the program need to command wide public support. Moreover, Australians need to feel engaged with the program.

- Key design principles. Effective public communication and consultation with civil society, Parliament, business and others should be built into the aid program. There should be better efforts by government to engage community groups. There must be transparency.

I. HUMAN RIGHTS AND THE AID PROGRAM

Poverty is an affront to human rights. Australia has international human rights commitments and high human rights standards. These demand that human rights be considered in the management of Australia's aid program.

The role of human rights in the program was the subject of many public submissions to the Review and was often raised in consultations with the Review Panel. Several submissions proposed the program formally adopt a 'rights-based approach'.

These issues are worth in-depth discussion.

The aid program does help people realise their civil, political, cultural, economic and social rights. Numerous examples exist – from the intervention in strife-torn Afghanistan, to the phasing out of school fees so 43,000 children can get a primary education in Vanuatu, to new clinics to help the 200,000 people in PNG living with HIV/AIDS, to expanding water supply in Mozambique. The commitment to the Millennium Development Goals is a commitment to people's human rights.

Box 5.1: How does *Development for All* Demonstrate a Human Rights-Based Approach to Development?

AusAID's *Development for All: towards a disability-inclusive Australian aid program 2009–14* strategy is an example of a human rights-based approach to development as it is guided by the UN Convention on the Rights of Persons with Disabilities. This strategy aims to ensure people with disability, who make up to 20 per cent of the poorest, are included in and benefit equally from all aspects of the aid program. Its main aim is to support people with disability and improve their lives by giving them access to opportunities to participate, contribute, make decisions, and have the same social and economic wellbeing as others.

Development for All recognises that disability is both a cause and consequence of poverty, and aims to alleviate inequalities that reduce development progress. The strategy includes initiatives to help people with disabilities participate, for example, by ensuring infrastructure such as schools and hospitals can be accessed by all. It focuses on

empowering people with disability to have a voice and participate in development processes. It maximises opportunities for them to participate, for example by including people with disability in aid design and evaluation processes. As a result, people with disability are increasingly becoming involved in decision-making, ensuring aid policies and programs are shaped to take better account of their requirements (AusAID 2008b).

AusAID's Disability Inclusive Development Reference Group helps ensure transparency and accountability. Including international and Australian leaders with disability, this group helps guide Australia's aid program, making sure activities are consistent with and fulfil Australia's obligations under the Convention.

As well as links between human rights and many ongoing aid activities, there are a number of initiatives that advance human rights, such as the Human Rights Grants Scheme.

Box 5.2: Human Rights Grants Scheme

The Human Rights Grants Scheme is a competitive funding scheme that supports NGOs and human rights institutions working in developing countries to promote and protect human rights. The value of the scheme has increased from \$1.5 million in 2008–09 to \$3.5 million in 2010–11.

Applications for funding under the scheme are open to organisations from more than 100 countries. An independent panel of eight human rights experts reviews the applications and provides recommendations to the government.

The scheme aims to promote and protect human rights directly. For instance, a project in Liberia seeks to include and promote rights of persons with disabilities by helping the National Union of Organisations of the Disabled and five local disabled persons' organisations advocate, lobby and raise awareness of disability rights. Another project in Solomon Islands will help develop a national commitment to eliminate violence against women through community training and advocacy, and ensure this commitment has an impact at the village level.

Nevertheless, the Review Panel believes the aid program does not do enough at the policy or communications level to highlight how it advances human rights. This risks selling the program short in terms of what is already being done. It also raises the risk that parts of the program will overlook human rights in policy and program development.

One of the reasons there is no human rights policy for the aid program is the debate over whether or not the program should formally adopt a ‘rights-based approach’ to development. The recommendation that Australia adopt such an approach was put to the Review Panel in public submissions, in consultations with NGOs and statutory bodies, and in meetings with parliamentarians. For example, the submission made by the Committee to Protect Vietnamese Workers states:

“We strongly support a rights-based approach to aid. That is, we support an approach in which human rights considerations permeate all aspects of aid. Further, as it is universally recognised that peoples whose civil and political rights are respected can best develop their potential, we submit that civil and political rights ought to be given more prominence than up to now.”

The rights-based approach is not a new idea. In May 2010, the Joint Standing Committee on Foreign Affairs, Defence and Trade recommended that AusAID “adopt a human rights-based approach to guide the planning and implementation of development aid projects”. Several prominent NGOs and the UN Commissioner for Human Rights have advocated for several years the adoption of a rights-based approach.

In summarising the meaning of a rights-based approach, the Australian Human Rights Commission (AHRC) states:

“A human rights-based approach to development is based on agreed international human rights standards. It views poverty as a direct result of disempowerment and exclusion. A rights-based approach focuses on redressing the discriminatory practices and inequalities that impede development progress by supporting empowerment, participation and capacity building. A rights-based approach focuses as much on how things are done as what is being done.”

UN agencies articulate three main elements of a rights-based approach:

- all development programs should advance human rights
- the fundamental principles underlying human rights should guide development cooperation programs
- development programs should help ‘rights holders’ to claim their rights and ‘duty bearers’ to meet their obligations (United Nations Development Group 2003).

Proponents of a rights-based approach argue it results in:

- improved aid effectiveness through an enhanced focus on marginalised and excluded groups
- improved sustainability by helping marginalised groups participate and become empowered
- a more holistic understanding of what development entails
- improved cooperation with partner governments.

To some degree, the debate is about how the aid program approaches and describes what is being done, rather than what it is actually doing.

The four benefits of a rights-based approach listed above are good development practice. Over the past five years, there has been more focus in the aid program on marginalised groups,

community empowerment and participation, more holistic development approaches and improved cooperation with partner governments, despite no formal rights-based approach. Adopting a rights-based approach is not the only way to achieve these ends.

The AHRC submission acknowledges that:

“...many of the elements of a human rights-based approach already exist in different programs and activities administered by AusAID. For example, a number of activities are targeted at particularly vulnerable groups (such as people with disabilities), include a focus on gender equality, support the development of local institutions with transparent governance, and are conducted through participatory and consultative processes.”

Arguments against adopting a rights-based approach are listed below:

- A rights-based approach would commit Australia to making human rights the fundamental objective of its aid policy and reducing poverty would become an outcome of this rather than the main mission. The Review Panel would not favour a rights-based approach that placed other rights above the poverty objective.
- The approach is vague and could open the Australian government to unpredictable demands, for example, that the government use the aid program to press for human rights even in circumstances where this might reduce the ability to work effectively to meet human needs.
- The MDGs do not fully align with helping countries meet their human rights responsibilities. While the eight MDGs are encapsulated in human rights conventions, there are many more agreed human rights goals that might be pursued under a rights-based approach. This includes, for example, freedom of the press, a fundamental right which Australia supports, but which is not core business for the Australian aid program.
- Important parts of the aid program, such as technical assistance to central banks or road maintenance, do not easily lend themselves to a human rights perspective and it would be a waste of time trying to twist such efforts into a human rights framework.
- Adopting a rights-based approach would mean the aid program would have to be significantly reshaped. Every level of the program, including central, country and sectoral policy and programs would need to be redesigned and staff trained. This shift would not be a small one.
- The Australian government does not adopt a rights-based approach to development of its domestic health, education or other programs.

The Review Panel believes some of these arguments carry weight, others not so much.

Clearly those advocating and those opposing a rights-based approach have differences, but also common ground.

On balance, the Review Panel does not favour the formal adoption of a rights-based approach. But it does see an opportunity to improve clarity and communication about the links between the aid program and human rights. The fact is the aid program targets people's right to be lifted from poverty and has, and needs to have, an explicit focus on the marginalised.

The Review Panel recommends the government communicate to all stakeholders the strong interconnection of the aid program and human rights. The government's position should include:

- emphasis that poverty is an affront to human rights and thus improvement of human rights is embedded in the Australian aid program's objective
- clarity on the links between human rights and the program, in order to dispel confusion among Australian government staff, partner governments and human rights advocates
- a practical approach to encourage the recognition of human rights in other countries
- an ongoing commitment to report on the aid program's role in advancing human rights.

Recommendation 1: The objective of the Australian aid program should be cast as follows:

The fundamental objective of Australian aid is to help people overcome poverty.

We work to improve the lives of those living in conditions far below what Australians find acceptable. We focus our resources and effort on areas of national interest, and where Australia can make a real difference.

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.

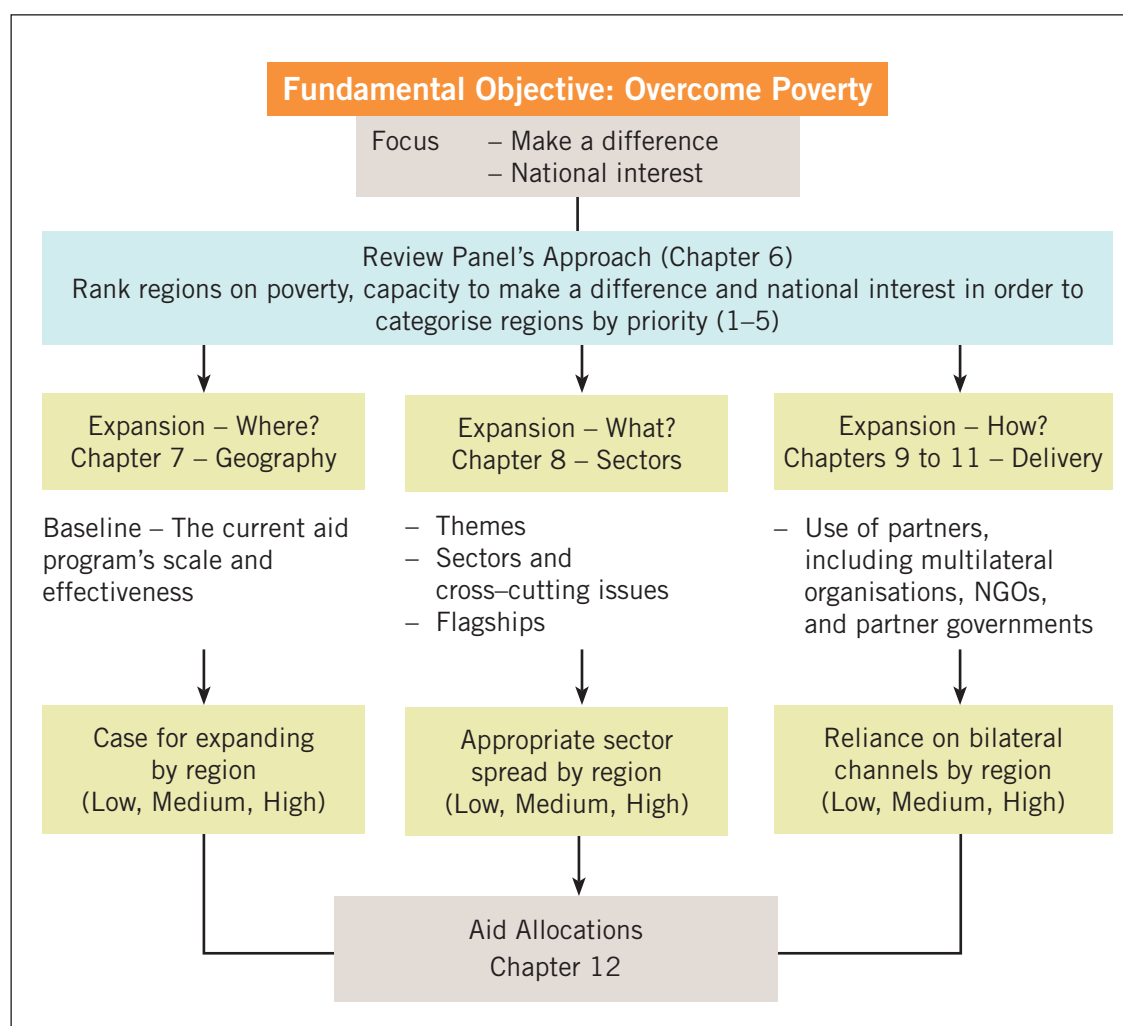
A sound methodology for making decisions about where Australia should put its aid effort needs to recognise that geographical, sectoral and method of delivery considerations are not separate but interact in a complex way.

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

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

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

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

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.

Figure 6.2: Categorisation of Types of Aid

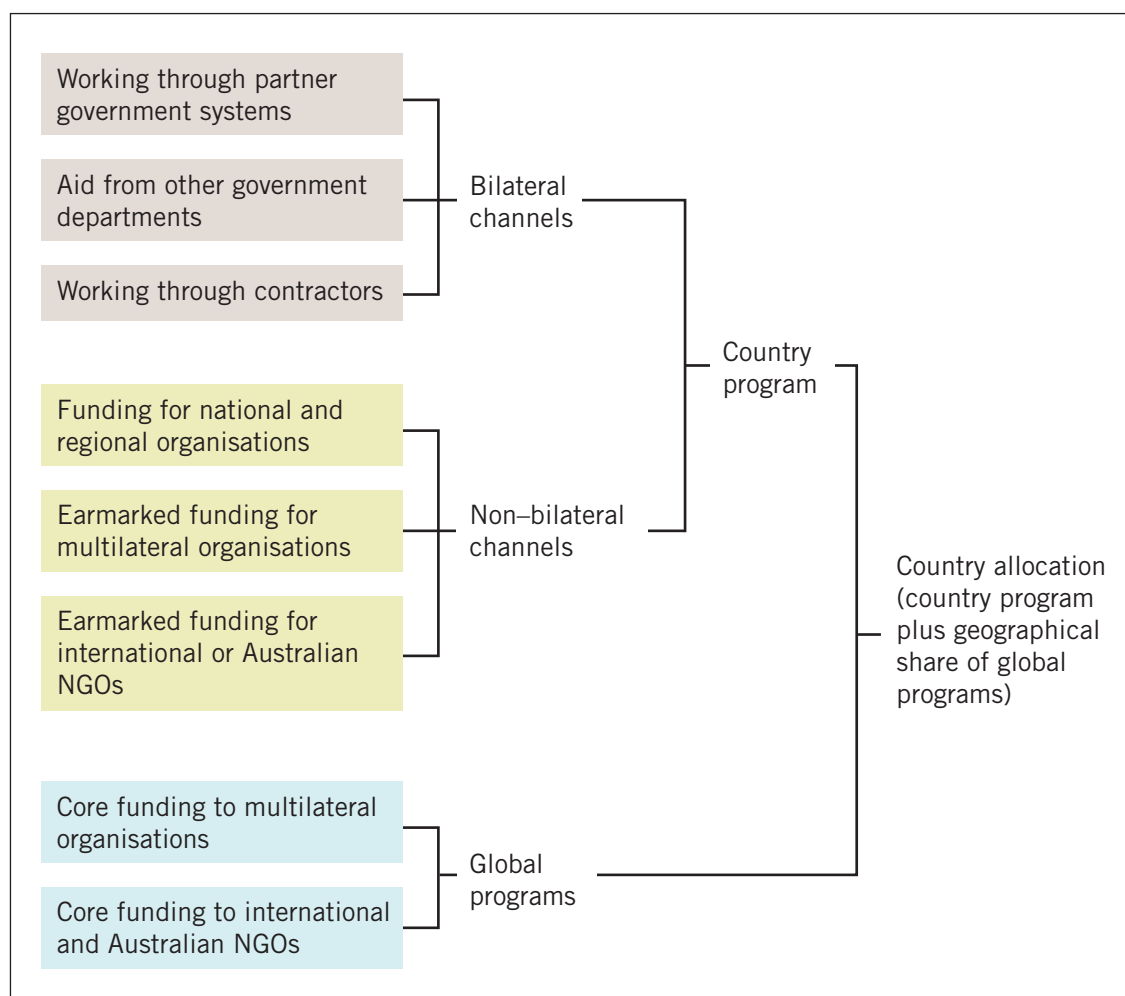


Table 6.3 below shows aid allocation using the above approach and the way the Review Panel has categorised countries and regions above.⁹

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

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)

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

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.

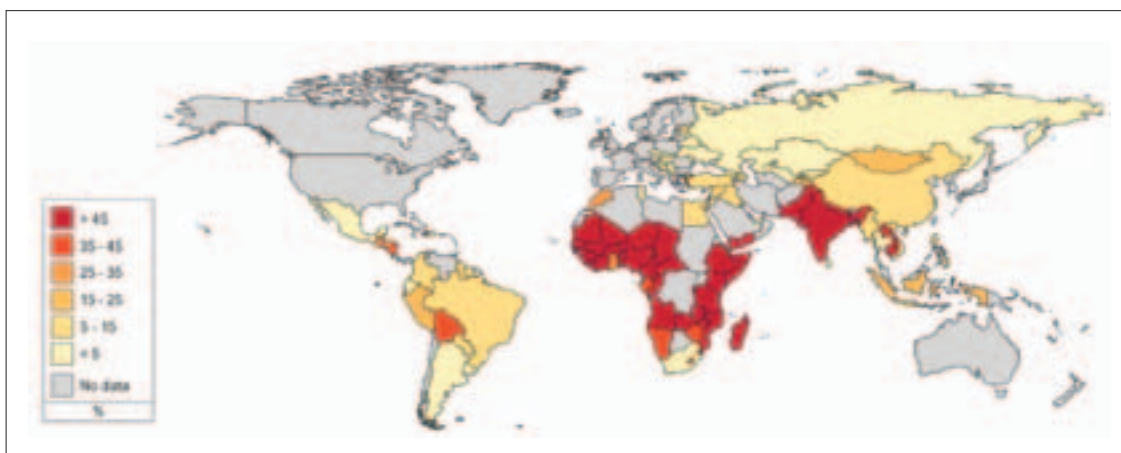
Table 6.5 rates each country or region as low, medium or high against the three criteria of:

- 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



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

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

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.

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

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

	Share of ODA	
	Australian	OECD
PNG	13%	0.5%
Solomon Islands and East Timor	12%	0.5%
South Pacific Microstates	2%	0.1%
Other Pacific	11%	0.6%
Indonesia	18%	4%
Other East Asia	16%	10%
South Asia	9%	7%
Afghanistan and Pakistan	7%	8%
Sub-Saharan Africa	5%	36%
North Africa and Middle East	5%	12%
Latin America and Caribbean	0.1%	7%
Central Asia	0%	1%
Other	2%	13%
Total	100%	100%

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 7.2: The Case for Expanding Aid Allocations to Different Countries and Regions

Criterion	A. Focus category	B. Current scale of support		C. Effectiveness of the current aid program	Case for Expansion	Comments
		a) Share of current Australian aid	b) Australian focus relative to other donors			
PNG	1	High	High	Low	Low	Case for expansion dependent on reform orientation of the PNG government and the success of current efforts to improve the effectiveness of the aid program.
Solomon Islands and East Timor	1	High	High	Low	Low	Case for expansion dependent on reform orientation of the recipient government and the success of current efforts to improve the effectiveness of the aid program. In Solomon Islands the aid program is critical for stability, but under current settings a large expansion would not be effective.
South Pacific Microstates	2	Low	High	Medium	High	These are countries with limited economic opportunities. There should be a large increase in aid provided aid effectiveness improves.
Other Pacific	2	High	High	Medium	Medium	Current effectiveness varies in this group. In some cases, such as Vanuatu and Samoa, significant increases in aid could build on successes already achieved.
Indonesia	1	High	High	High	High	Very successful aid program in a country of strategic importance to Australia, which continues to have a lot of poverty. At the same time, Australia is starting from a high base.
Other East Asia	2	High	High	High	High	Strongly performing economies where aid is already highly effective. Australia has an opportunity to play a leadership role given other donors are withdrawing.
South Asia	3	Medium	Medium	High	High	High current effectiveness and high poverty levels justify large increase, especially given moderate current base.
Afghanistan and Pakistan	2	Medium	Medium	Medium	Medium	Of strategic interest because of Australian military involvement, and international geopolitical significance. Mixed effectiveness of aid and uncertainty about the future.
Sub-Saharan Africa	3	High	Low	Medium	High	High poverty and low current base relative to other donors warrants high increase provided mode of delivery changes to increase effectiveness.
North Africa and Middle East	4	Low	Low	Medium	Medium	A special case of geostrategic importance. Mixed effectiveness of aid and uncertainty about the future.
Latin America and Caribbean	5	Low	Low	–	Low	Relatively low poverty levels and national interest.
Central Asia	5	N/A	N/A	N/A	Low	Moderate poverty levels and low national interest

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.

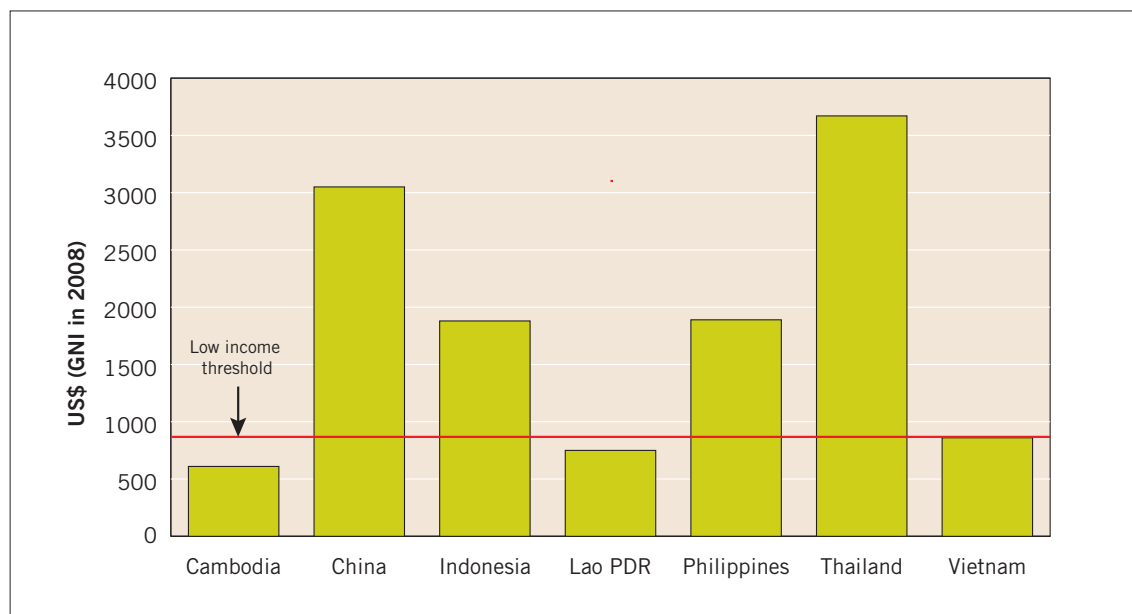
The diversity of the region means multilateral integration will achieve little. This is illustrated by the lack of progress in the proposed new free trade agreement between Australia and the region (PACER Plus).

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)



Source: World Bank (2011b).

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 assistance¹⁰ 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.

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.”

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

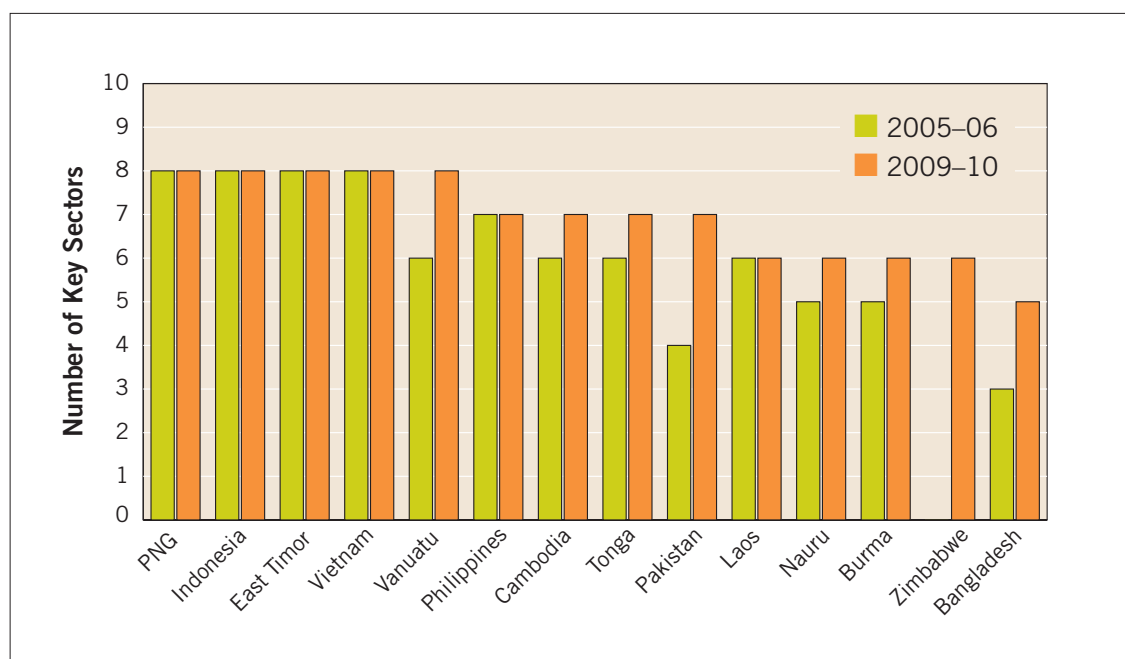
To ensure it is effective, a bigger aid program will need to be disciplined, reduce fragmentation and increase selectivity.

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.

Figure 8.1: Australian Aid by Sector for Selected Countries, 2005–06 and 2009–10



Source: AusAID.

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

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

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

Organising Themes	Sectors and Cross-Cutting Issues
<p>Growth. Investing in pro-poor, sustainable economic growth and private sector development.</p> <p>Opportunity. Promoting opportunities for all.</p> <p>Governance. Supporting social stability, improved quality of government and stronger civil society.</p> <p>Humanitarian. Preparing for and responding to crises.</p>	<ul style="list-style-type: none"> • 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 • law and justice • governance • civil society • humanitarian and emergency assistance

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 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 assistance¹¹ 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.

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.

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 Service¹² 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)

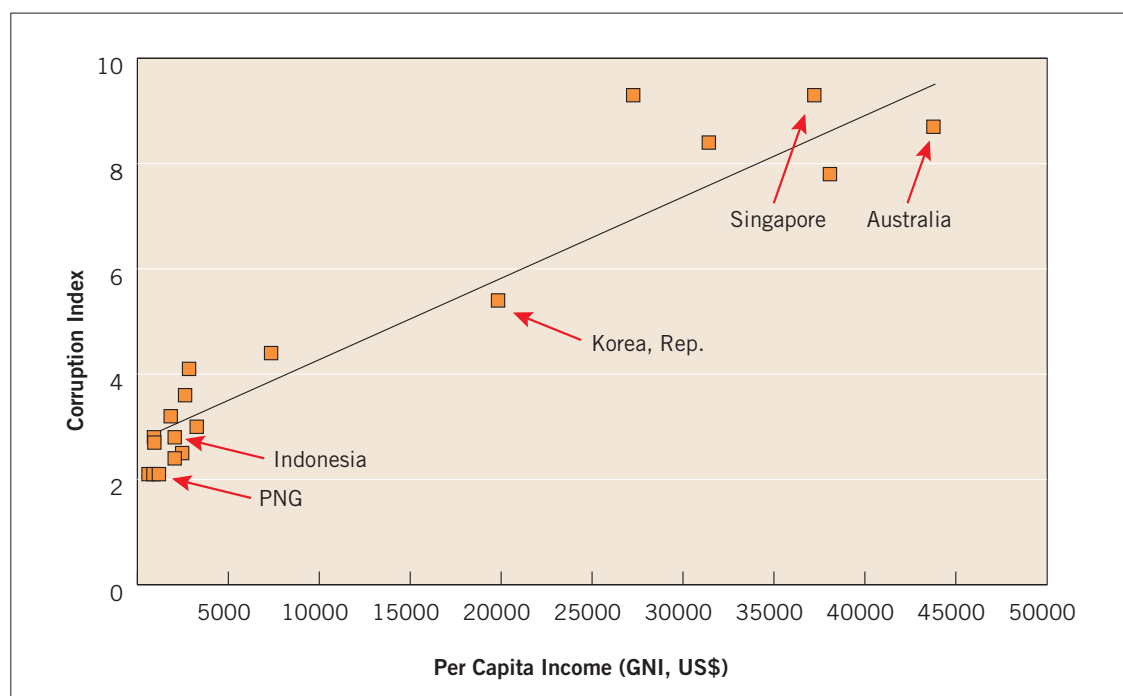
The message is clear. Plans to reform and build capacity need careful assessment, but there is no higher return from the aid dollar than from successful contributions to restore social stability.

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)



Source: Transparency International (2010) and World Bank (2011b).

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

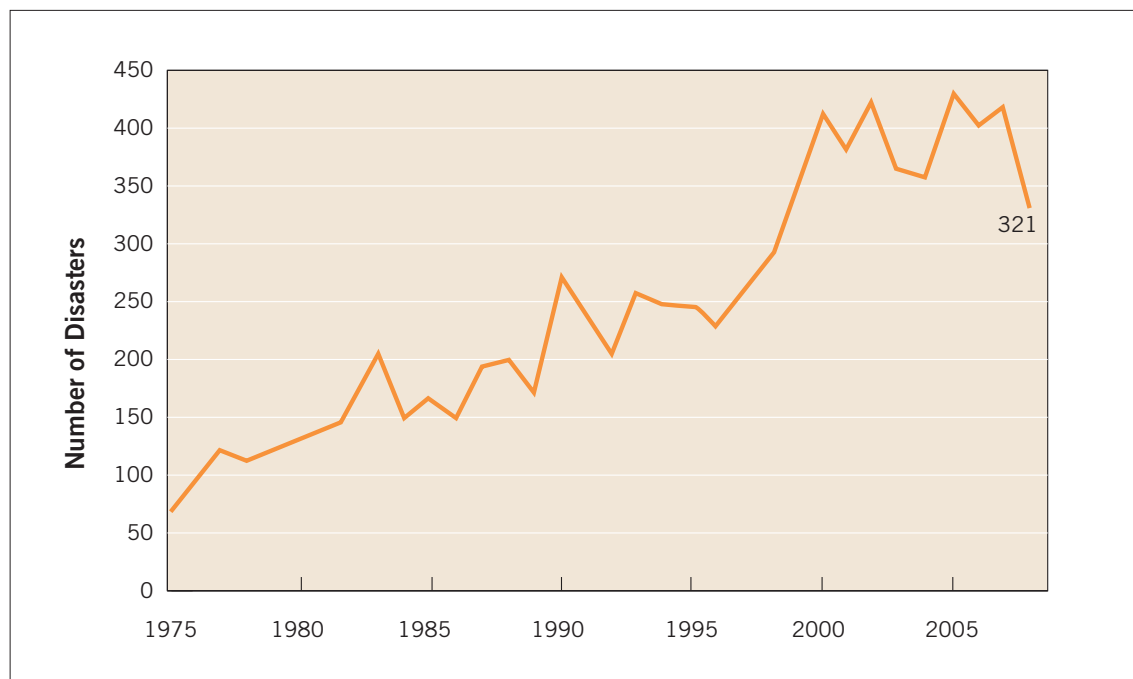
Disasters and crises, whatever their origin, take lives, inflict human suffering and erode hard-won development gains. Many developing countries cannot provide basic protection and services, especially for the poor. As a recent AusAID report notes:

“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



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

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

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

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

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

	Rating on Organisational Strengths	Rating on Contribution to UK Development Objectives	Overall Assessment of Value for Money
The Global Alliance for Vaccines and Immunisation	Strong	Strong	Very good
International Committee of the Red Cross	Strong	Strong	Very good
European Commission Humanitarian Aid and Civil Protection	Satisfactory	Strong	Very good
European Development Fund	Strong	Strong	Very good
International Development Association	Satisfactory	Strong	Very good
Asian Development Fund	Strong	Strong	Very good
Global Fund to Fight AIDS, TB and Malaria	Strong	Strong	Very good
The Private Infrastructure Development Group	Strong	Strong	Very good
United Nations Children's Fund	Satisfactory	Strong	Very good
European Bank for Reconstruction and Development	Strong	Weak	Good
Global Environment Facility	Satisfactory	Satisfactory	Good
Global Facility for Disaster Reduction and Recovery	Satisfactory	Satisfactory	Good
International Federation of Red Cross and Red Crescent Societies	Weak	Strong	Good
International Finance Corporation	Strong	Satisfactory	Good
International Fund for Agricultural Development	Satisfactory	Strong	Good
The African Development Fund	Strong	Satisfactory	Good
The Climate Investment Funds	Satisfactory	Satisfactory	Good
The Education for All – Fast-track Initiative	Satisfactory	Strong	Good
UNITAID	Weak	Strong	Good
United Nations Development Programme	Satisfactory	Satisfactory	Good
United Nations High Commission for Refugees	Satisfactory	Strong	Good
United Nations Office for the Coordination of Humanitarian Affairs	Weak	Strong	Good
United Nations Peacebuilding Fund	Satisfactory	Satisfactory	Good
World Food Programme	Satisfactory	Strong	Good
Central Emergency Response Fund	Weak	Strong	Good

	Rating on Organisational Strengths	Rating on Contribution to UK Development Objectives	Overall Assessment of Value for Money
European Commission Budget	Satisfactory	Weak	Adequate
Expanded Delivering as One Funding Window for the achievement of the MDGs	Weak	Satisfactory	Adequate
Inter-American Development Bank	Satisfactory	Weak	Adequate
Joint United Nations Programme on HIV/AIDS	Weak	Satisfactory	Adequate
Office of the High Commissioner for Human Rights	Weak	Satisfactory	Adequate
The Caribbean Development Bank	Satisfactory	Weak	Adequate
United Nations Environment Program	Weak	Weak	Adequate
United Nations Population Fund	Weak	Satisfactory	Adequate
World Health Organization	Weak	Satisfactory	Adequate
Food and Agriculture Organisation	Weak	Weak	Poor
International Labour Organisation	Weak	Weak	Poor
International Organisation for Migration	Weak	Weak	Poor
United Nations Development Fund for Women	Weak	Weak	Poor
United Nations Human Settlements Programme	Unsatisfactory	Weak	Poor
United Nations Industrial Development Organization	Weak	Unsatisfactory	Poor
United Nations Educational, Scientific and Cultural Organisation	Unsatisfactory	Unsatisfactory	Poor
The Development Programmes of the Commonwealth Secretariat	Unsatisfactory	Unsatisfactory	Poor
The United Nations International Strategy for Disaster Reduction	Unsatisfactory	Unsatisfactory	Poor

Source: DFID (2011).

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 sector¹³ 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.

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)

	Core Funding (\$ million)	Earmarked Funding (\$ million)	Total Funding (\$ million)
BRAC (see Box 10.7)	0	30.4	30.4
World Vision Australia	15.0	14.8	29.8
Oxfam Australia	5.2	15.8	21.1
Fred Hollows Foundation	1.3	18.6	19.9
Australian Volunteers International	0	18.2	18.2
CARE Australia	1.0	16.8	17.8
Australian Red Cross **	1.8	15.5	17.3
Save the Children Australia	1.3	15.8	17.1
Macfarlane Burnet Institute for Medical Research and Public Health	0.5	14.0	14.6
Alliance for a Green Revolution in Africa	0	11.2	11.2
Caritas Australia	4.0	6.3	10.2
Plan International Australia	3.1	5.3	8.4
The Asia Foundation	0.2	7.1	7.3
Aga Khan Foundation (Pakistan)	0	5.8	5.8
International Medical Corps	0	4.7	4.7
ChildFund Australia	2.9	1.6	4.6
Clinton Foundation HIV/AIDS Initiative	0	4.5	4.5
Development Gateway Foundation	3.7	0.7	4.4
Australasian Society for HIV Medicine Inc	0	4.2	4.2

** 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, QAIs 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.

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 Ambassadors 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

Criteria	Case for Expansion	Sectoral Spread	Reliance on Bilateral Delivery Channels
PNG	Low	Medium	High
Solomon Islands and East Timor	Low	Medium	High
South Pacific Microstates	High	High	High
Other Pacific	Medium	Medium	High
Indonesia	High	High	Medium
Other East Asia	High	Low	Medium
South Asia	High	Low	Low
Afghanistan and Pakistan	Medium	Low	Medium
Sub-Saharan Africa	High	Low	Low
North Africa and Middle East	Medium	Low	Low
Latin America and Caribbean	Low	N/A	N/A
Central Asia	Low	N/A	N/A

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

	2010–11		2015–16	
	\$m	%	\$m	%
Country programs	2,860	66%	4,370	55%
Global programs	640	15%	1,610	20%
Humanitarian and emergencies	300	7%	900	11%
Global research	50	1%	110	1%
Other and contingencies	250	6%	600	8%
Departmental costs	250	6%	400	5%
TOTAL	4,350	100%	8,000	100%

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

	\$ million		% share		Growth to 2015–16
	2010–11	2015–16	2010–11	2015–16	
PNG	460	610	13%	10%	30%
Solomon Islands and East Timor	340	440	10%	8%	30%
South Pacific Microstates	60	130	2%	2%	100%
Other Pacific	350	530	10%	9%	50%
Indonesia	470	960	14%	16%	100%
Other East Asia	610	1150	18%	20%	90%
South Asia	270	520	8%	9%	90%
Afghanistan and Pakistan	240	390	7%	7%	60%
Sub-Saharan Africa	450	870	13%	15%	100%
North Africa and Middle East	90	140	3%	2%	50%
Latin America and Caribbean	80	90	2%	2%	10%
Total country allocations	3,420	5,830	100%	100%	70%

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

	2010–11	2015–16	Growth to 2015–16
	\$ millions		
PNG	460	590	30%
Solomon Islands and East Timor	330	430	30%
South Pacific Microstates	60	120	100%
Other Pacific	340	510	50%
Indonesia	460	920	100%
Other East Asia	520	940	80%
South Asia	170	270	60%
Afghanistan and Pakistan	190	270	40%
Sub-Saharan Africa	200	200	0%
North Africa and Middle East	80	120	40%
Latin America and Caribbean	40	0	-100%

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.

	2010–11		2015–16	
	Total	Of which, country program (%)	Total	Of which, country program (%)
	\$ million		\$ million	
PNG	460	98%	610	97%
Solomon Islands and East Timor	340	98%	440	96%
South Pacific Microstates	60	94%	130	92%
Other Pacific	350	98%	530	97%
Indonesia	470	97%	960	96%
Other East Asia	610	87%	1,150	82%
South Asia	270	63%	520	53%
Afghanistan and Pakistan	240	79%	390	68%
Sub-Saharan Africa	450	45%	870	23%
North Africa and Middle East	90	90%	140	86%
Latin America and Caribbean	80	52%	90	0%
Total country allocations	3,420	84%	5,830	75%

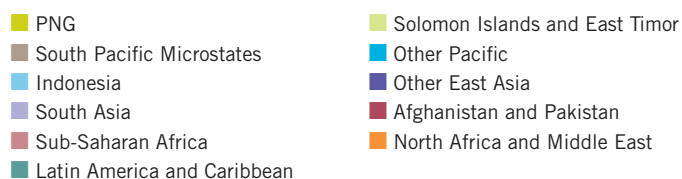
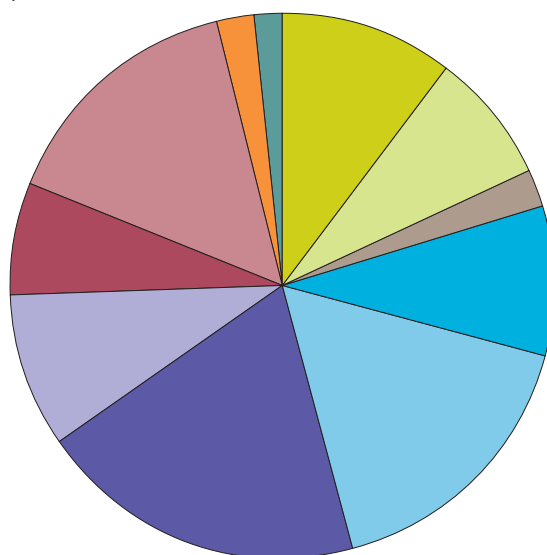
See notes to Table 12.3.

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.

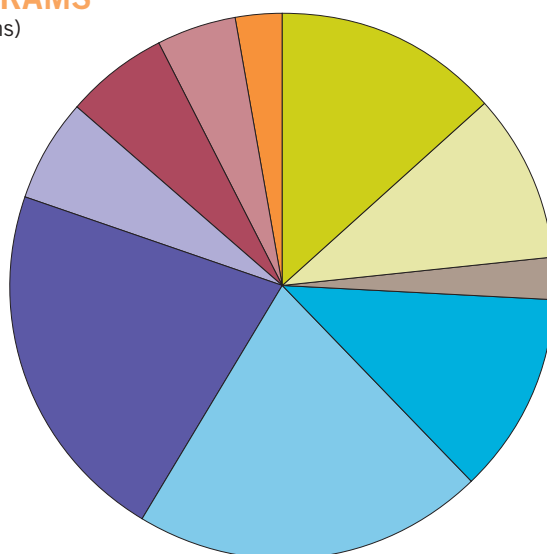
COUNTRY ALLOCATIONS

(including global programs)



COUNTRY PROGRAMS

(excluding global programs)



Part 4

MANAGING FOR EFFECTIVENESS





Chapter 13: STRATEGY FOR THE AID PROGRAM

A. INTRODUCTION

The components of good aid management are common to most other areas of government administration: clear direction, strong leadership, good systems and well-equipped, highly-motivated staff.

An effective aid program requires good management across the board, from the budget process and coordination across government, to the way individual aid activities are delivered in developing countries.

The following four chapters look at these management issues, starting at the macro level and then burrowing into the way individual activities are handled.

B. FOUR-YEAR STRATEGY FOR THE AID PROGRAM

i) Policy Clarity

The need for greater strategic clarity was identified as a key requirement for aid effectiveness in the assessment of the current program in Chapter 3. This will become vitally important if the program is to be scaled up effectively to 2015–16.

The Review Panel proposes the adoption of a Four-Year Strategy. This would provide clarity at the highest government level on:

- the aid program's unifying vision and top-level objectives, for all Official Development Assistance (ODA) and across all agencies (not just AusAID)
- the aid program's position in Australia's broader interests internationally, regionally and bilaterally
- the aid program's strategic directions and priorities through to 2015–16, including geographical distribution, sector priorities and flagships
- the steps required to achieve an effective program of 0.5 per cent of Gross National Income (GNI) by 2015–16
- the results expected over a four-year period.

The Strategy would give Australia's aid administrators certainty and predictability to plan the doubling of Australia's aid and guide the choices they face.

It would provide a basis for Parliament and taxpayers to hold government and its agencies to account for the major public investment being made on their behalf.

It would give Australia's development partners, including developing country governments, civil society and other donors clear information about the plans and priorities for Australian aid.

ii) Coordinating the Strategy

The Strategy requires the highest level of government agreement. It should be brought to Cabinet by the Minister for Foreign Affairs, as the minister responsible for the aid program.

It should be subject to normal processes, with Cabinet resolving any differences that cannot be resolved at ministerial or official level. Differing views are not a bad thing in this. Healthy debate is one of the best guarantees of an effective aid program. It is a complex and difficult program to get right, and no one agency or minister will have all the answers.

The Strategy's preparation should be coordinated by AusAID across whole-of-government. This could be done under the auspices of the Development Effectiveness Steering Committee (DESC), which would elevate the importance of aid as a whole-of-government issue for relevant departments.

The Review Panel suggests this Review should provide the basis for the first Four-Year Strategy, 2012–13 to 2015–16. The issues and trade-offs discussed in this Review would need to be grappled with and difficult decisions made. This is also a healthy and necessary process. The aid program will be much stronger in the end for having been thought, and argued, through.

iii) Funding Clarity

The Four-Year Strategy should provide high-level guidance on funding, which should be used to create a budget for 2012–13 and forward estimates to 2015–16.

The Strategy should commit to increasing the ODA/GNI ratio each year through to meeting the commitment of 0.5 per cent target in 2015–16.

The funding guidance provided by Cabinet in the Four-Year Strategy should be consistent with the principles discussed in this Report. This should include the geographical order of allocations using the methodology outlined in Chapter 7.

On sectors, Cabinet could indicate sector priorities based on recommendations of the Minister for Foreign Affairs. The Strategy should also highlight sector flagship initiatives and other areas where firm funding commitments have been entered into, such as climate change. This would be for guidance to be taken into account in the formulation of country programs and the determining factor would be what makes sense at the country level. The argument for putting country planning in the driver's seat means sector allocations should be the consequence of country planning, not the foundation of it.

The Strategy should also include:

- indicative targets for funding across other Australian government agencies that deliver ODA
- indicative core funding to multilateral organisations and NGOs
- fixed funding allocations to cover contingencies based on principles outlined below
- increased departmental spending to effectively manage the increased aid budget.

If the Four-Year Strategy were approved by, say, August 2011, there could then be a process through to November 2011 where country-level application of the strategy is considered. There are four important points.

- This is not about starting country plans again. On the contrary, it will be important to have continuity. The starting points will be the existing country strategies. It is just that these will be looked at again in light of the Cabinet guidance on the Four-Year Strategy.
- Since many areas will be getting an increase, country managers should think very seriously, and be empowered to consult with partners in country, about how their existing plans will need to be adjusted to conform to the Four-Year Strategy, and also (critically) the extent to which they could sensibly scale up to 2015–16. The mindset should be one of realism combined with a sense of opportunity, not only to expand but also to consolidate.
- This process must certainly involve joint consideration by representatives of the various Australian agencies operating on the ground in a particular country. The coordinating responsibility would be with AusAID. Again, the process need not be laborious, but it should be structured and systematic.
- Country managers would provide advice to Canberra in a short, standard template. Consistent with one of the strong themes of the Review it would be important to make this advice simple and streamlined.

On this basis, a comprehensive and firm budget proposal could be put forward by early 2012, in time for the 2012–13 budget.

Further comments on the nature of the budget are below.

iv) Annual Review and Update

There should be an annual review of progress, considered by Cabinet. The Four-Year Strategy and the associated budget are designed to provide certainty, with change coming from flexible adjustments to the program and continuous improvements in how it is implemented.

Once the Four-Year Strategy has been set, there should only be a return to fundamentals if there has been some significant change, either in the results of the aid program, international circumstances or conditions within Australia. The annual review would be, in large measure, directed to ensuring that Australian aid is sustained; that we are on track and are staying the course.

But it would also, of course, be an opportunity to address the inherent uncertainties of economic development and developing countries' political, economic and social circumstances.

More specifically, the annual review would have the following purposes.

First, it will review progress over the previous year. In Chapter 16 of this Report, the Review Panel proposes rigorous but streamlined processes for monitoring and assessment of aid effectiveness, including an annual assessment. This would be a crucial input into the annual review to Cabinet of the Four-Year Strategy.

Second, the Review Panel proposes that the appropriation of money each year in the budget should be dependent on predetermined hurdles being met. The Review Panel sees it as a crucial protection for the taxpayer, the government, the agencies responsible for the aid program, and ultimately Australia's partners, that the ramp up in the aid program does not proceed regardless of problems that may occur. The annual review would be the occasion for the government to make its judgment about whether hurdles have been met.

The Review Panel stresses that this should not involve a return to ‘ground zero’ on policy and budget settings in the Four-Year Strategy:

- If annual management hurdles have been met, and there have been no dramatic changes in the international or domestic environment, then the Four-Year Strategy and associated budget framework should remain unchanged.
- If hurdles have not been met, and these put the effectiveness of the scale-up at risk, the Review Panel recommends Cabinet discuss options. These could include delaying increases in aid funding or reducing the administrative burden of delivering aid by using more core funding to effective multilateral organisations.

Third, the annual review will provide ministers with the systematic opportunity to consider the Four-Year Strategy and budget trajectory in light of major changes in the international or domestic environment.

Fourth, the review process will feed into the annual budget process (indeed it should be coincident with it) and inform decisions about the annual allocation of funds set aside for contingency. It would also see if any changes should be made to the Four-Year Strategy. But again, this would not be a return to fundamentals. In the absence of significant change, the mindset should be that the budget for each year will be as specified in the forward estimates.

Based on the review, the update would reflect any required changes in the aid program’s allocations, would allocate funds previously set aside as contingency, and would extend forward the outer year estimates.

The annual review and update process would be coordinated by the Minister for Foreign Affairs. At the bureaucratic level, AusAID would lead the process with heavy engagement by DESC.

v) Relationship to the Budget Process

A Four-Year Strategy would coincide with the budget period. That is, it would cover the budget appropriation for the first year and the forward estimates for the succeeding three years.

Ideally, Cabinet would consider the Strategy/annual review and budget in one single, coherent exercise each year.

In establishing the first Four-Year Strategy, however, a multi-step process may be unavoidable. The government may wish to consider the following.

First, the Four-Year Strategy for the period 2012–13 to 2015–16 would be considered by Cabinet. The Cabinet-endorsed Strategy would include a vision and high-level objectives, geographic distribution of funding, identification of sector flagships, an indication of the funding distribution between different government agencies, strategies for transparency and public engagement, a trajectory for scaling up to 2015–16, and a high-level plan, with hurdles, for moving to 0.5 per cent of GNI.

Second, the aid program’s budget would be formulated in accordance with this strategic guidance. Most importantly, during this step, Cabinet’s guidance on geographic allocations would be shaped and moulded into actual budget allocations. The top-down guidance would be combined with the bottom-up reality check. This would ensure the ultimate budget for each

region/country was practicable for those administering the program and, especially, that the trajectory of the aid program could be achieved without reducing effectiveness.

This stage of the process need not be long and laborious. Nor would regions/countries need to go back to square one or formulate completely fresh plans. It is more a matter of making sure that proposed funding allocations make sense and that the first crucial Four-Year Strategy and budget are as solid as possible. The budget will, in this way, have been properly shaped by strategic guidance from the Cabinet and practical guidance from the practitioners.

Third, funding would be considered and agreed in the budget process for 2012–2013 and appropriated normally.

At the same time, it is not for the Review Panel to be prescriptive about these government processes and the government will have its own wishes.

Whatever the process, the Review Panel's point is that the new system's first budget should be solidly informed by both the top-down guidance from ministers and the bottom-up perspective of practitioners.

C. FOUR-YEARLY REVIEWS OF THE AID PROGRAM

The Review Panel recommends instituting a regular four-yearly independent review of the aid program.

The next review would occur in 2015–16 and in every subsequent fourth year. It would look at results achieved, or not achieved, under the existing Four-Year Strategy and, more importantly, it would look ahead. It would try to keep Australia's Four-Year Strategies ahead of the curve. The outcomes of the review would inform the next Four-Year Strategy.

This would be a deeper and more extensive exercise than the annual assessments, which should be relatively quick and easy. Even so, the existing Four-Year Strategy would establish a strong basis for developing the next Four-Year Strategy. The review need not, therefore, be a 'root and branch' review, but a comprehensive stocktake.

It would undoubtedly involve significant consultation with stakeholders, and some well-targeted independent research. It would be overseen by an independent Review Panel.

D. BUDGET PROCESS

i) Current Budget Process

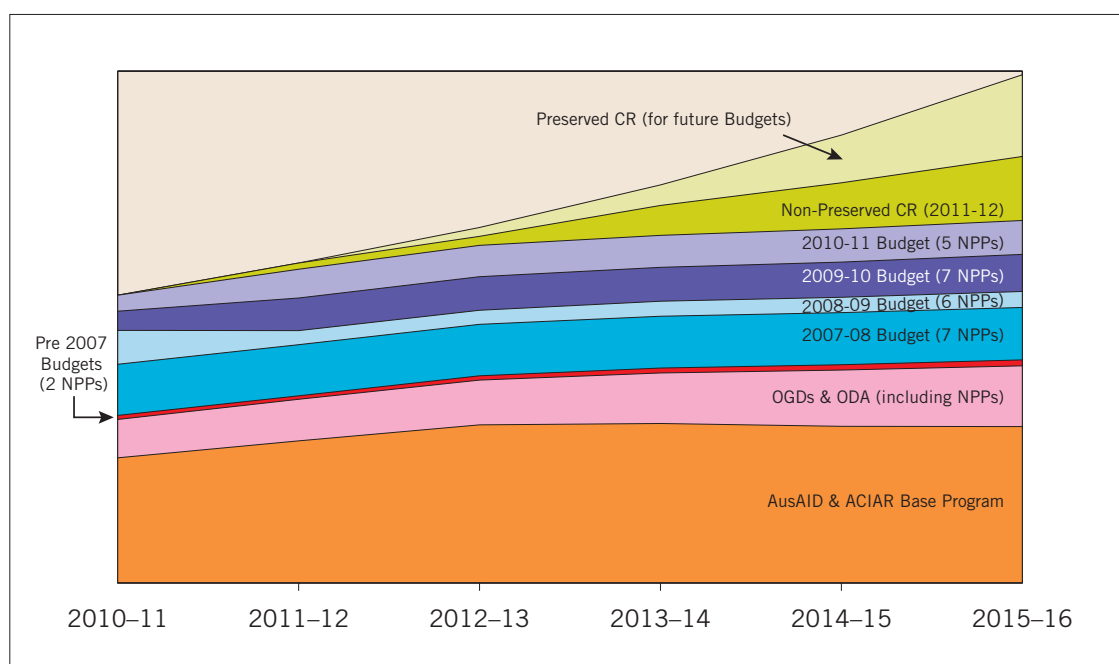
The current budget process has several problems. Indeed, it manages to be both excessively cumbersome and insufficiently rigorous:

- it does not give government a whole-of-ODA view
- it is too complex and creates unnecessary administrative headaches
- it does not give enough long-term funding certainty for planning and involves too many last-minute funding decisions

- it undermines country-based models of determining priorities
- it involves too much scrutiny of ‘new’ money and not enough scrutiny of the overall budget
- it contains excessive contingency amounts, which would not be needed if the budget had a firm strategic basis.

If the aid budget for the period through to 2015–16 were structured as the aid budget is structured now, it would be highly complex, as illustrated in Figure 13.1.

Figure 13.1: Existing Structure of the Aid Budget



The different layers in this structure are governed by many processes, with varying flexibility and scrutiny.

The ‘base’ part of the budget (shaded in yellow in Figure 13.1) is flexible and can be allocated to any program considered a priority by the Minister for Foreign Affairs. This part of the budget is not subject to any consideration in the annual budget process.

Allocations made to government departments other than AusAID for ODA-eligible activities are shaded in pink in Figure 13.1. There is currently an annual discussion by the DESC to prioritise new ODA-eligible proposals by departments other than AusAID and the Foreign Minister takes a whole-of-ODA submission to the Expenditure Review Committee of Cabinet. But under the current process, there remains the opportunity for individual departments to bring forward ODA-eligible activities that are not referenced in the Foreign Minister’s submission.

The blue and purple shaded areas in Figure 13.1 show past new policy proposals (NPPs). NPPs are a regular feature of the budget process for government departments. They involve funds being allocated for specific proposals. Some NPPs cease after a specified period. Others continue indefinitely (known as ongoing NPPs). Funds allocated to both specific and ongoing NPPs must be spent on what they were allocated for.

AusAID currently manages 27 ongoing NPPs. If this current process continues, this number would grow. To an extent, the aid budget has grown through the accumulation of NPPs rather than a holistic strategy and priorities.

The NPP process has not worked well for the aid budget over recent years. There are several reasons for this:

- NPPs have been allocated by sector. This has undermined country-level determination of priorities. Country programs have been pressured to spend money on NPP sectors, even if they do not fit country circumstances.
- NPPs have been allocated in small chunks. This has meant country programs have to manage many small buckets of money.
- NPPs have been allocated for quite specific purposes. This gives little flexibility to adjust for inevitable changes in priorities that occur when dealing with developing countries' circumstances over time.

Even leaving these specific problems aside, the NPP process does not work well for the aid budget. It leads to heavy scrutiny of new money flowing through NPPs, while no attention is paid to old money, freed up when programs funded from the base come to an end. This distinction between old and new money in the NPP process makes no sense in an aid budget. The NPP process also leads to ODA-eligible ideas from various government departments being considered in isolation. Again, this makes no sense when considering the strategic importance of having a whole-of-ODA budget.

Rigor and effectiveness in the multi-billion dollar aid program will not be delivered by annual ministerial scrutiny of small NPPs, but by ministers ensuring that the total effort conforms to a clear strategy.

The green shaded areas in Figure 13.1 relate to the contingency reserve, money that is yet to be allocated. Like NPPs, the contingency reserve is a normal part of the entire budget process.

Under the current process, part of the contingency reserve is allocated through the annual budget process in the form of NPPs. That is, as a new year approaches, NPPs are developed to deploy contingency money for that year. In this way, the contingency is progressively pulled forward, as it were, and converted into actual spending. This is the non-preserved contingency reserve.

However, in each budget year, a specific amount of the contingency reserve (generally between two and five per cent of the budget) is set aside for unforeseen events. The allocation of this needs Cabinet approval. As the year goes on, the money typically will not have been spent in full, but it must be spent in that year. As a result, decisions on how to spend this part of the budget are often made late in the financial year. Making such last-minute decisions on how to allocate aid is a major risk to effectiveness. It is bad practice.

Moreover, three and four years out from the current budget year, the ODA contingency reserve becomes very large. Under current arrangements, 15 per cent of the anticipated ODA level in four years time is unallocated. These levels of unallocated funds are well in excess of what is required to account for uncertainty. Holding back decisions on allocation of these funds undermines the good long-term planning needed for effectiveness.

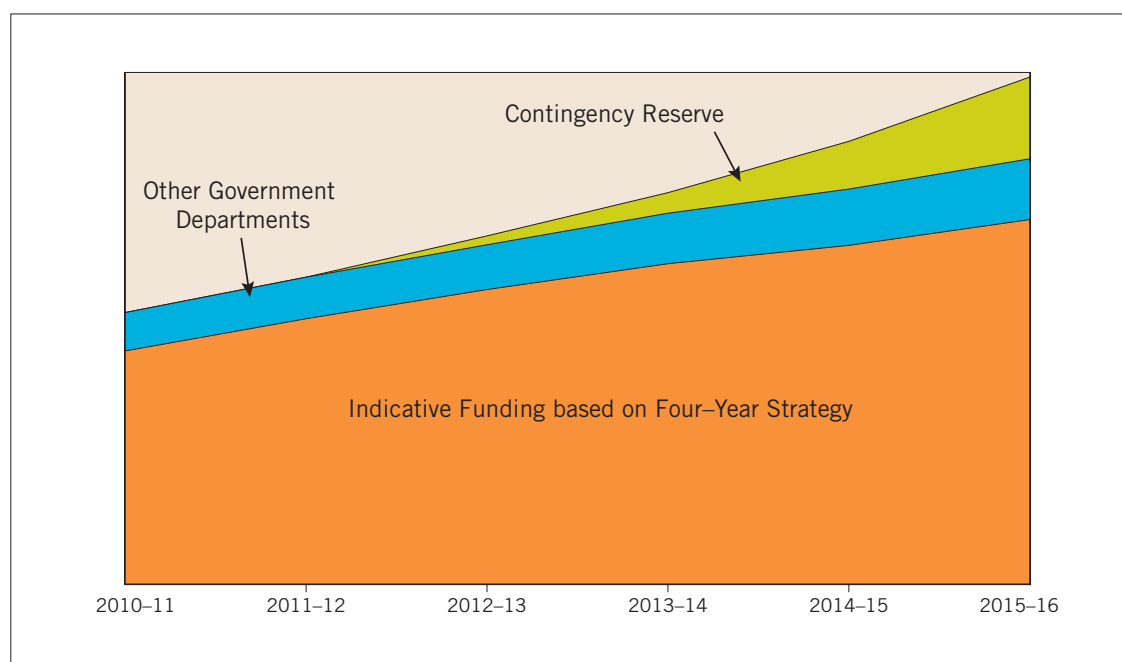
Some budget reforms are already under way or under consideration:

- NPPs in the 2011–12 Budget will be allocated by geographic region rather than by sector. This will reduce distortions at the country level.
- Discussions are also under way about ending all old NPPs and rolling this funding into AusAID's base appropriation.
- These would be welcome steps, but the Review Panel believes more fundamental changes are needed.

ii) Proposed New Budget Process

The Review Panel sees major effectiveness benefits in overhauling the budget process. The budget structure proposed by the Review Panel is outlined in Figure 13.2.

Figure 13.2: Proposed Structure of the Aid Budget



Other government department ODA is hard to predict. The forward estimates given in this graph are for illustrative purposes only.

Under the proposed process there would be the following major changes.

First, AusAID would receive funds in accordance with the budget allocations based on the Four-Year Strategy. A one-off process would see existing NPPs cease and the funds rolled into AusAID's overall appropriation. In effect, this would see the blue, purple and orange parts of Figure 13.1 rolled into one allocation. The Review Panel recommends that there be no new NPPs. Instead, funds would be allocated to AusAID activities according to the priorities outlined in the Four-Year Strategy and its annual updates. The same applies to agencies other than AusAID.

Second, the contingency reserve should be allocated in the budget process at the start of each year rather than in a rush at the end. On an annual basis, the contingency reserve would thus be appropriated to departments in accordance with the Four-Year Strategy and its annual updates.

This can be done while still preserving flexibility to adjust for unexpected circumstances throughout the year because the necessary flexibility already exists in the AusAID budget in a fund known as ‘mandated flexibility’. Mandated flexibility covers the three different contingency forms that can arise in a year:

- risk (which might not have been anticipated and might need attention, but not urgently)
- natural disasters and other humanitarian crises
- emerging or changed priorities that inevitably arise.

If, however, the government felt that it was essential to retain some contingency over and above the mandated flexibility provision, the Review Panel would recommend that the bulk, say 75 per cent, should be allocated before the beginning of the financial year in question, with the remainder required to be allocated at mid year, so as to get rid of the end of year rush.

The Review Panel is uneasy about the idea that the allocation of contingency might be done through the NPP process, for three reasons:

- This risks drawing public servants and ministers back into a mindset of considering only the NPP, rather than the allocation of contingency in its total strategic context. A fundamental theme of the Review is consolidation rather than fragmentation, and there is a danger in the NPP process of a mindset, which leads to fragmentation over time.
- Such an approach also virtually ensures two processes when a rational and less burdensome approach would dictate one. Strategy, annual assessment of strategy (including the judgment of whether hurdles have been met) and budget should be done in one hit. The proposed allocation of contingency before the beginning of the financial year would very desirably be the subject of one considered piece of advice to ministers across all of ODA and as part of the same submission as the annual assessment to Cabinet.
- In addition, the aid budget is different in principle from one which should grow through the accretion of NPPs. This is because there is already a target for 2015–16 which the government desires to reach. The fundamental process should be one of planning back from that target, not simply moving forward incrementally. For this fundamental reason, a different process is warranted.

Third, the amount set aside in the future year contingency reserve would be reduced. Rather than holding large slabs of money back, it should be allocated to the priorities in the Four-Year Strategy. So a smaller amount is left unallocated in future years (the green area is much smaller in Figure 13.2 than in Figure 13.1).

These reforms will significantly enhance aid effectiveness by simultaneously increasing rigor, accountability and ministerial oversight, and administrative simplicity for those who implement the aid program:

- The aid budget would be considered holistically, rather than as small parts. The entire budget would be subject to scrutiny, rather than just new money coming from NPPs and the contingency reserve.

- The distortions and high management costs associated with managing the budget in small chunks would be removed.
- The new process would create a better balance between a predictable budget (enabling long-term programs and projects to be planned and executed with more confidence) and flexibility to adjust to unexpected events and changed circumstances.

E. AID LEGISLATION

The United Kingdom and Canadian aid programs are founded on legislation. The content differs, but, taken together, the main elements are outlined below:

- Conceptual framework. Specifying what constitutes ODA and why it may be given.
- Types of aid. Authorising grants, loans and investments.
- Whole-of-government. Providing an umbrella for activities of all agencies, including a joint report to Parliament.
- Transparency. Defining the information to be made public.
- Target setting. Specifying 0.7 per cent of GNI (in the case of the proposed new legislation in the United Kingdom).

In favour of legislation, it would give the program a solid, predictable and non-partisan base by engaging the Parliament, across the political spectrum. It would demonstrate a commitment to consultation and public engagement. It would build confidence that there would be ongoing transparency. It would underline the status and importance of the aid program. It would give a powerful impetus for coherence across government.

Specific legislation to govern the aid program is not essential in Australia. The matters referred to above can be embodied in government policy, including statements and reports to the Parliament. The actual appropriation of funds takes place under the usual government and parliamentary powers and processes.

The Review Panel's view is that aid effectiveness can be achieved without legislation. There are many more important factors. Yet the existence of aid legislation in other comparable countries is a useful reminder that there is a legislative option. If Australia continues to settle for a policy rather than legislative basis for its aid program, this must include clear objectives and commitments to public and parliamentary consultation and transparency.

Recommendation 24: The government should develop and implement a Cabinet-endorsed Four-Year Strategy for the entire aid program for policy and funding clarity.

Recommendation 25: There should be a Cabinet discussion of an annual assessment of progress against the Four-Year Strategy and pre-determined hurdles, with consequences if hurdles are not met.

Recommendation 26: The budget process should be reformed to provide greater funding certainty, including allocating funds on the basis of the Four-Year Strategy and its annual updates, not through New Policy Proposals, as at present.

Recommendation 27: Four-yearly independent reviews of the aid program should be instituted to inform each new Four-Year Strategy.

Chapter 14: IMPROVING GOVERNANCE, LEADERSHIP AND MANAGEMENT

A. INTRODUCTION

This chapter examines issues related to the aid program's governance, leadership and management. While AusAID is central to this, the chapter also emphasizes the crucial importance of a more coordinated approach across the large number of agencies delivering aid.

B. DEPARTMENTAL AND MINISTERIAL ARRANGEMENTS

i) Ongoing Ministerial Leadership

The role of the Minister for Foreign Affairs and other ministers responsible for overseeing Official Development Assistance (ODA) expenditure has always been important to the effectiveness of the aid program.

With the growing aid budget and greater engagement in the program from many arms of government, the leadership role of ministers, particularly the Minister for Foreign Affairs, will be indispensable.

The aid program has always been prone to a strong focus on announcements by ministers and, to a lesser degree, Prime Ministers. Announcements are especially prevalent during ministerial visits to developing countries and when particular development challenges are subject to high levels of media attention.

To a certain extent, this is both inevitable and appropriate. For example, when a major natural disaster strikes, the public will expect to know what the government is doing to respond. Nevertheless, a heavy focus on announcements carries two risks. The first is that it can lead to fragmentation, through decisions being driven by immediate concerns instead of overall development priorities. The second is that a focus on announcements can divert attention from delivering results that improve development outcomes.

While announcements of future plans by ministers will inevitably continue, the Review Panel recommends greater ministerial attention in public statements to the results of Australia's aid program. An effectiveness culture focused on results, rather than an announcement culture leading to fragmentation, should drive the aid program.

This would provide the right incentives to those delivering the program and help reduce the pressure to find new announcements, which can lead to fragmentation. From a national interest perspective, highlighting the impact of the existing program will have as much resonance with stakeholders as announcing proposed new activities.

In addition to a greater focus on results in day-to-day decision making, the Minister for Foreign Affairs will need to play a leadership role in the development and implementation of the Four-Year Strategy. The Minister will need to have ownership over the major direction of the Strategy, both to argue the case in Cabinet and to oversee the implementation of necessary reforms.

This will require significant ministerial attention to the development and implementation of the Strategy. It will also require ministerial support for AusAID to be given the necessary resources to implement the reforms needed.

ii) Ministerial Arrangements

During consultations and in public submissions, many suggested the appointment of a minister responsible solely for the aid program. Several Organisation for Economic Cooperation and Development (OECD) countries, including the United Kingdom, Germany and most Nordic countries, have dedicated aid or development ministers. Australia also had this arrangement between 1993 and 1996, when Gordon Bilney was appointed Minister for Development Cooperation and Pacific Island Affairs.

The Review Panel understands the merits of the case for a dedicated aid minister. There would be more time devoted to ministerial oversight and management of the aid program, ministerial views would be injected into key documents like country strategies, and there would be greater ministerial engagement with stakeholders both in Australia and in developing countries. In terms of day-to-day management of the program, all these things would be positive.

The Review Panel considers that this would be desirable, subject to one proviso, namely, that the minister be in Cabinet.

A minister sitting outside Cabinet would carry less weight in whole-of-government considerations. Australia's foreign aid, especially as it increases rapidly, will be an important part of the mix in Australia's relationships with other countries. It is desirable that the minister responsible for foreign aid be involved in Cabinet to highlight the aid program alongside defence, migration, trade or other policy. Moreover, the minister responsible for aid needs to be able to contribute to discussion of these other arms of Australian policy because they will influence Australia's success in developing countries.

If there were not to be a dedicated minister for aid in the Cabinet, then the Review Panel believes the aid program should remain with an existing Cabinet minister. A number of OECD countries, including Belgium, Denmark, Finland, Ireland, Italy, Japan, Korea, Norway, Portugal and Spain, combine the trade and development portfolios. In New Zealand, foreign affairs and development are linked. In Australia's case, the Review Panel considers that the Minister for Foreign Affairs is most logically placed to retain responsibility.

One relatively simple measure the Review Panel would recommend to increase the ministerial profile of aid in government would be to add 'International Development' to the title of the Minister for Foreign Affairs. This would be a gesture rather than a substantial change, but it would not be a trivial gesture. The title, Minister for Foreign Affairs and International Development, would help remind all stakeholders, including those around the Cabinet table, that the Minister has responsibility to bring the development perspective into considerations of international policy issues.

It would also demonstrate to Parliament, NGOs, business and other stakeholders that the government is placing more importance on the effective administration of the aid program as it increases to 0.5 per cent of Gross National Income (GNI).

It would send a positive signal to overseas partners too.

iii) Departmental Arrangements

Many public submissions suggested that AusAID be elevated to the status of a department.

AusAID was elevated to the status of an Executive Agency in July 2010. Essentially, this gave AusAID the same status as departments, with the Director General of AusAID reporting directly to the Minister for Foreign Affairs. From a formal institutional perspective, there are no benefits to AusAID derived from an elevation to departmental status.

The question then turns to whether an elevation in institutional status would provide AusAID with increased clout within government due to changed perceptions. This is not a trivial issue. This report proposes that AusAID lead the preparation of a Four-Year Strategy for the aid program, annual reviews of the program and a whole-of-ODA approach to the measurement and reporting of aid effectiveness. All these measures will require greater whole-of-government engagement and clout than is currently the case.

There are very few executive agencies, in fact only five others, and most are considerably smaller than AusAID. This reinforces the question of whether perception problems are generated by AusAID's current institutional status.

There are three feasible institutional arrangements for AusAID:

- AusAID remains an Executive Agency: this has the attraction of simplicity. AusAID faces a big agenda over the next five years, and given there are no formal benefits arising from a change in status, this option avoids the hassle of institutional change on top of other challenges.
- AusAID becomes a statutory authority: this would elevate AusAID's status within government to that of a range of larger agencies such as Customs. This option would require legislation, significantly increasing Parliamentary and public attention to the aid program.
- AusAID becomes a department: this would further elevate AusAID's status within government, potentially providing slightly greater clout in the task of coordinating ODA across departments. This may face some bureaucratic hurdles, as the creation of new government departments is rare. More importantly, this option increases the risk that AusAID would be assigned a junior minister outside Cabinet. Although it would be theoretically possible for the Minister for Foreign Affairs to retain responsibility for AusAID if it were made a department, there are very few cases where a senior Cabinet minister has had two departments.

In considering the appropriate institutional status of AusAID, the Review Panel's primary concern is to ensure that the minister responsible for the aid program retain a seat at the Cabinet table. For this reason, consideration should be given to AusAID becoming a department only if the Prime Minister agreed to its minister being in the Cabinet.

The option of a statutory authority is worth further consideration. The associated legislation would provide an opportunity for a high profile launch of new management initiatives, such as

the Four-Year Strategies, greater transparency and annual performance reporting. But the government would have to consider the arguments for and against providing the program with legislative backing.

In the final analysis, AusAID's success in coordinating aid policy and programming across government will hinge on its professionalism, policy capacity and understanding of broader government agendas. These factors will be more important than any formal bureaucratic status in determining whether AusAID, on a day-to-day basis, can fulfil the required policy and coordination role.

The issue deserves consideration and should be kept open as the aid program grows in coming years. It is not a make or break issue for the effectiveness of the program at this stage.

C. THE WHOLE-OF-GOVERNMENT PERSPECTIVE

i) Multiple Organisations

The aid program is by no means restricted to AusAID, although AusAID is central and should have a leading role in coordination and formulation of overall strategy.

At a federal level, the following 55 government departments and agencies were involved in delivering ODA in 2009–10:

- Australian Centre for International Agricultural Research
- Australian Quarantine and Inspection Service
- Department of Agriculture, Fisheries and Forestry
- Australian Transaction Reports and Analysis Centre
- Attorney-General's Department
- Australian Customs and Border Protection Service
- Federal Court of Australia
- Australian Communications and Media Authority
- Australian Federal Police
- Australian Bureau of Statistics
- Department of Climate Change and Energy Efficiency
- Department of Broadband, Communications and the Digital Economy
- Department of Defence
- Department of Education, Employment and Workplace Relations
- Department of Environment, Water, Heritage and the Arts
- Bureau of Meteorology
- Great Barrier Reef Marine Park Authority
- National Library of Australia
- National Museum of Australia

- Parks Australia
- Office for Women
- National Archives of Australia
- Department of Families, Housing, Community Services and Indigenous Affairs
- Department of Finance and Deregulation
- Department of Foreign Affairs and Trade
- Austrade
- Australian Safeguards and Non-Proliferation Office
- Australian Sports Anti-Doping Authority
- Australian Sports Commission
- Food Standards Australia New Zealand
- Department of Health and Ageing
- Department of Immigration and Citizenship
- Department of Resources, Energy and Tourism
- Department of Infrastructure and Transport
- Australian Transport Safety Bureau
- Reserve Bank of Australia
- The Treasury
- Australian Institute of Marine Science
- The Commonwealth Scientific and Industrial Research Organisation
- Intellectual Property Australia
- National Health and Medical Research Council
- National Measurement Institute
- Airservices Australia
- Australian Maritime Safety Authority
- Civil Aviation Safety Authority
- Australian Nuclear Science and Technology Organisation
- Geoscience Australia
- Global Carbon Capture and Storage Institute
- National Offshore Petroleum Safety Authority
- Tourism Australia
- Australian Competition and Consumer Commission
- Australian Government Actuary
- Australian Prudential Regulation Authority
- Australian Taxation Office
- Productivity Commission

A further 37 state government departments and agencies were involved in delivering ODA.

This extensive list highlights two issues. First, the program is fortunate to be able to draw on an enormous breadth of skills across government, far in excess of anything that AusAID could develop in-house. Such engagement by government departments is a strength and a perfectly legitimate use of ODA. Second, there is a risk of fragmentation of effort by the Australian government and an obvious challenge in coordinating ODA efforts across this broad range of departments and agencies.

ii) Benefits

In the time available to the Review Panel it was unable to undertake a thorough evaluation of government departments and agencies involved in the delivery of the aid program other than AusAID. It had to rely to a large extent on self-evaluations by departments and agencies submitted to the panel.

The links government agencies have established with other countries under the aid program, particularly in the Asia-Pacific region, are impressive in their number, variety and, to varying degrees, seriousness of effort. The range of subjects extends from agricultural research, fisheries management, quarantine, sports development and civil aviation safety, through to policing and fighting money laundering, to policy advice in fields like economic management and law and justice.

In a number of cases, Australia has been a leader, for example through the creation of the Australian Federal Police (AFP) International Deployment Group, the world's first deployable civilian policing ability.

This situation poses significant benefits and challenges.

As a benefit, what stands out is that Australian agencies have, for the most part, a very practical agenda for collaboration, which helps developing countries and supports Australia's own interests.

The value of this can be looked at from four perspectives.

First, the best programs are directed towards development, not merely flag flying or relationship building. It is true that the poverty reduction connection is generally long-range, via the encouragement of pro-poor economic growth and good governance and the transfer of specialised skills, but the connection is there.

Second, from the foreign policy viewpoint of enhancing Australia's links and building networks across a range of specialised fields, the diversity of Australia's aid is good. It often builds connections between Australia and other countries at the highest level of professional expertise.

Third, from a management perspective, this pluralism of the program is a far better model in terms of value for money than building in-house capabilities in AusAID. Indeed, in many cases, the fields are so specialised that this would be impossible.

The fourth perspective is that of the Australian public. The interests of the Australian people are protected and advanced in very practical ways within the region, such as effective quarantine, civil aviation safety and law enforcement collaboration. For example, the Department of

Agriculture, Fisheries and Forestry (DAFF) points out that the Australian Fumigation Accreditation Scheme “has improved the standard of fumigations performed by developing country trading partners, helping to mitigate Australia’s quarantine risk and improve the clearance of cargo into Australia”.

It has not been adequately communicated to the public that the Australian aid program encompasses such an agenda. The failure to capture and communicate the overall picture should be corrected if the program is to achieve the public consensus which the Review Panel believes is needed.

That said, there is an obvious tension between the benefits of this diverse and often relatively small-scale aid, and the disadvantages of fragmentation. This is discussed later.

iii) Challenges

Turning to the challenges, Australian agencies have identified constraints to aid effectiveness both in partner countries and within Australia.

a) Recipient Countries

In partner countries, the list is an unsurprising one: limited capacity, unsatisfactory policy settings, lack of adequate connections between government, private sector and civil society, inadequate government coordination, local political and cultural sensitivities, barriers to particular initiatives achieving sustainability, inadequate funding in counterpart agencies from other countries, staff turnover, and inefficient internal processes.

As far as the Review Panel is aware, no agency sees these as other than the normal challenges to effective aid delivery, nor would they argue that, for these reasons, the effort should be discontinued. For instance, one agency, in commenting on the country in which it is working, refers to “the sheer size and inertia of the bureaucratic system and its deeply entrenched corruption, collusion and nepotism... coupled with a cultural reluctance to establish and maintain an effective enforcement regime”, but notes correctly that Australian interests leave no option but to continue to put in the maximum effort.

b) Coordination

Turning to the Australian side of the equation, it is worth noting that, although many agencies are involved in the aid program, it has been put to the Review Panel that the opportunities for government agencies other than AusAID to deliver aid are limited and ad hoc.

The Attorney-General’s Department (AGD) argues that other government agencies have demonstrated experience and expertise in specialised areas, which are of direct relevance to the aid program, but that this expertise is not routinely drawn upon. These comments are echoed by the Department of Resources, Energy and Tourism, which says that aid programs specific to these sectors have not been fully explored despite extensive Australian experience and expertise.

Australia’s principal challenge is to create the culture and the mechanisms for a unified, inclusive effort.

It would be wrong, however, to paint a picture of individual agencies pursuing their particular activities with little thought of the need for coordination with others.

AusAID has 13 strategic partnerships agreements in place with other government agencies: the Treasury, Department of Finance and Deregulation, Department of Defence, Commonwealth Scientific and Industrial Research Organisation, Australian Federal Police (AFP), AGD, Australian National Audit Office, Australian Public Service Commission, Department of Climate Change and Energy Efficiency, Department of Sustainability, Environment, Water, Population and Communities, Department of Health and Ageing and the Australian Broadcasting Corporation.

These agreements identify areas where AusAID and each agency share overlapping interests and outline means to promote collaboration. For example AusAID's agreement with the Department of Defence outlines responsibilities both for the delivery of the aid program and to coordinate policies around disaster response, maritime security, transnational security issues and engaging in fragile states.

The agreements also outline means to increased coordination and dialogue through senior-level meetings, generally at head of agency level, to set priorities and ensure effective coordination of activities. For partners such as AFP, Department of Defence and the Treasury, these meetings take place at least once a year.

There are also other examples of linkages across government. The Government Partnership Fund, under the Australia-Indonesia program, is a whole-of-government program involving 11 Australian government agencies. The recognition of the need for coordination led to the creation of Australia's Framework for Law and Justice Engagement with the Pacific and the reinvigoration of the Pacific Law and Justice Steering Group. This last framework is an example of a coordination mechanism to enhance information sharing between government agencies, and between government agencies and the private and non-government sectors.

So sensible coordination does happen. At the same time, comments made to the Review Panel suggest that coordination should be improved.

For example, although Australian interventions in fragile states such as East Timor, Solomon Islands and Afghanistan have been highly professional, multifaceted engagements, this is an area where the AFP, a key agency, would like to see closer alignment with AusAID and greater integration of a whole-of-government approach across agencies in planning, budget and implementation:

"There is more work to be done across this security-development nexus space to synchronise more effectively the programs of AusAID and other government development programs (e.g. the Defence Cooperation Program, AFP policing program, AGD rule of law program)."

These comments are important because it is not a peripheral objective, either in terms of the wellbeing of partner countries or the importance for Australia, that its neighbours enjoy security and the rule of law.

The Department of Foreign Affairs and Trade believes there is a greater need for its 'aid for trade' program, which is designed to help developing countries participate more effectively in international trade, to be recognised as having a legitimate role in the aid program.

To take another example, the Australian Transaction Reports and Analysis Centre (AUSTRAC) provides anti-money laundering and counterterrorism financing assistance to developing

countries. The Centre believes its efforts would benefit from enhanced coordination with Australian agencies. It proposes an operational group to discuss the details and issues in implementing programs, which would help to identify areas for practical collaboration among agencies and encourage a whole-of-government approach.

Understandably, coordination in-country is closer than in Canberra because people from different agencies are more or less together on the ground and are able to function as a team. Members of the Review Panel have seen excellent examples of such teamwork. The capacity of Australians from different areas of government to work together is a strength of the program.

This analysis suggests coordination is closer in delivery than on policy development and program design, and this is where most agency comments focus. AGD speaks for a number of agencies when it says that:

“Australia’s aid program could be improved through greater involvement of whole-of-government partners in policy and priority setting, as well as program and activity delivery.”

c) Monitoring and Measurement

Another challenge is adequate control of funds.

Other agencies face the same challenge as AusAID – ensuring that funds are used appropriately. Delivery through partner government systems can have advantages, but it amplifies the importance of transparency and monitoring. At the other end of the spectrum, DAFF assesses that where its financial systems and operating procedures are used, there is virtually no fund leakage. As the Department notes, however, this approach may not be consistent with the spirit of the Paris Declaration. This tension is inevitable and applies across the program.

All agencies involved in the aid program also face the challenge of measuring effectiveness.

The review of the Indonesia Transport Safety Assistance Package found that monitoring and evaluation arrangements were inadequate for an initiative of this magnitude. The Civil Aviation Safety Authority notes that it is difficult to accurately assess the success of aid efforts to improve safety systems in other countries.

It is not, of course, alone in this.

Where there are international standards in specialised areas, Australian agencies seem more comfortable because there is an adequate basis for measurement – for example, in some of the work of DAFF. AGD notes that there is a robust debate in international circles about the need to improve the tools for evaluating effectiveness in the area of law and justice assistance.

Generally speaking, Australian government agencies need to do more to measure the results of their aid activities, including using independent assessment. It is important that the same performance, management and reporting tools be used across the Australian aid program, regardless of the implementing agency. Chapter 16 makes a number of recommendations in this regard.

d) Funding Issues

In Chapter 13, improvements in the budget process are discussed. There are several other issues concerning the funding of aid by Australian government agencies.

An interesting aspect of this is what counts as ODA. This can become ambiguous outside the core business of AusAID and into the specialised areas of other agencies. For example, Australia's Asia-Pacific Civil-Military Centre of Excellence notes that the civil-military distinction is not directly compatible with ODA definitions. Equipment provided to civil authorities is ODA, while similar equipment provided to a nation's military is not, even though the purpose (for example humanitarian assistance and management) may be the same.

This is not a major problem; nor is it one Australia can resolve. Australia must obviously subscribe to the international definitions.

More significantly, a number of agencies share AusAID's experience that short funding periods work against effective long-term planning and completion of aid projects.

Comments by the Department of Resources, Energy and Tourism illustrate this point. This Department believes there is scope for more extensive development cooperation. The mining industries of other countries and Australia's interests would benefit, for example, from a mining centre of excellence in a partner country. This would clearly require a deeper partnership with AusAID and longer-term funding predictability.

Such views from other agencies reinforce the Review Panel's recommendations in favour of a whole-of-government strategy and budgetary reform.

iv) Coherence Versus Fragmentation

Australia should not deny itself or developing country partners the benefits of assistance in a wide range of specialised areas, led by the specialised agencies. But this should always be informed by the requirements not to operate at less than critical mass (which is simply a recipe for wasting money or sub-optimal outcomes) and not create administrative inefficiencies and headaches for either Australia or its partners.

So it is important to avoid the negatives. But it is also important to maximise the positives. There is under-utilised capacity in the Australian aid program to achieve greater effectiveness with the aid dollar if a more systematic effort were made to find and exploit the synergies between what different agencies are doing.

This applies, for example, in relation to governance, where there are obvious synergies between promotion of democratic institutions, support for civil society, improved gender balance, building of economic policy capability, financial management improvement and development of law and justice system – a space in which a number of agencies (including AusAID, the Treasury, the Department of Finance and Deregulation, AGD and AFP) operate.

Australia is not unique in having insufficient coordination of ODA across government. Many donors struggle with this issue. In fact, the 2008 OECD DAC Peer Review of Australia and evidence collected during the Review Panel's discussions with other donors suggest Australia's current coordination system is already better than most donors'.

The Review Panel does not favour an over-engineered process of coordination. Clearly coordination does not mean collaboration between every agency on every subject; nor does it mean complicated and ultimately stifling coordination requirements for the vetting and approval of projects, their design and implementation. The aid program will be most effective if agencies are able to get on with the job, work with partners in a responsive way and innovate in their specialist areas.

But there is a strong case for enhancing coordination in the following ways.

a) Strategy

This concerns the development of an overall concept and plan for the Australian aid program, and the comprehensive periodic review of it.

The proposed Four-Year Strategy would provide ministers with the opportunity to determine how best to deploy the full range of Australian government agency assets to achieve results in the aid program. This need not be a 'root and branch' review. It may be that it would result in no significant change because the government assesses the deployment to be about right, including the balance of effort and funding between AusAID and other government agencies. But clearly the aid activities of other government agencies have increased through a process that is largely ad hoc and incremental, and there is merit in a regular stocktake and adjustments as necessary.

It is worth spending some time on this before the scale-up of the aid program goes further. All government departments and agencies should provide input into annual reporting on the common three-tier evaluation framework for measuring effectiveness discussed in Chapter 16.

b) Policy Development

In developing the Four-Year Strategies, AusAID would take the lead, but other agencies would be consulted and engaged. They would have an opportunity to contribute to overall strategy and high-level policy.

In addition, it should be standard operating practice for agencies to coordinate on new policy development that overlaps agency boundaries. An example is provided above in the security/policing/law and justice area.

Such coordination would also be useful for management policies, for example, policies towards the scaling up of partnerships with multilateral organisations, NGOs and business.

c) Clusters

The idea here would be to create interagency groups, by sector or by region/country, to meet periodically to exchange information and ensure greater coherence in their approach.

The Review Panel certainly does not suggest the creation of interagency committees that simply meet as a matter of form. A committee would have to be genuinely useful. This is an issue that the Development Effectiveness Steering Committee (DESC) could examine.

The concept could have particular merit in the context of laying a solid foundation in the first year or two of expansion of the aid program.

All relevant government departments and agencies should be involved in the preparation of whole-of-ODA country strategies and in reporting results against those strategies.

All government departments and agencies should give advance notice to the senior aid official in-country of any intention to deliver an ODA-eligible activity.

d) Situation-Specific Coordination

This would involve the creation of interagency groups to coordinate efforts in particular situations. This already occurs in relation to humanitarian relief operations, but would be more widely applicable. Such a group was created, for example, to help coordinate the government's Kokoda Track activities.

e) Operational Coordination

This kind of coordination involves closely-related agencies designing common programs and working together to implement them. The comments by AUSTRAC above provide an example.

A small unit in AusAID should be established as a one-stop help desk for any government department or agency seeking guidance on how to improve the effectiveness of its planning, implementation or evaluation of ODA-eligible activities.

v) Cross Government Coordination

DESC is charged with overseeing the overall effectiveness of the aid program. At the moment it spends the bulk of its energy considering proposals for new aid activities from government departments and agencies apart from AusAID.

The Review Panel sees opportunities to extend the mandate, and possibly the membership of the DESC, to more strategically drive coordination of effort across government. This would include close engagement in the development and implementation of the Four-Year Strategy and oversight of whole-of-ODA annual performance reporting. If the DESC were to have a greater focus on substantive aid and development issues, and oversight of whole-of-government effectiveness, rather than simply budget and process, then it is worth considering the addition to DESC of the proposed independent chair of the evaluation committee (see Chapter 15).

Coordination and coherence of government policy need to extend beyond aid. Many of the government's international policies, including in the areas of trade, investment, migration, defence, foreign affairs, the environment and climate change, have a significant impact on developing countries.

As discussed in Chapter 4, many of these issues will be of growing importance to the development prospects of countries in the region. AusAID does not have responsibility for government policy in such areas, but as the agency responsible for development policy, it has an important role to provide the development perspective on relevant policy positions.

The development perspective will not, and should not, always prevail. But the development voice should be heard, and where appropriate, factored in. DESC should play a role in identifying policy issues across government where the development perspective is desirable.

D. AUSAID LEADERSHIP, ORGANISATIONAL CULTURE AND MANAGEMENT

i) The Challenge of Change

To fulfil its role, AusAID needs clear and decisive leadership, a culture geared towards delivering results and learning from experience, good systems and data that support decision-making, and skilled staff.

Making the transition to an effective aid program at 0.5 per cent of GNI can only be done with a significant program of organisational change. Everybody needs to understand the vision and the game plan, and staff need to be continuously informed and properly consulted. AusAID's staff representatives – like management – see the newly created Consultative Forum as a valuable mechanism, and the Review Panel agrees.

The 'steps to 2015' diagram outlined in the final chapter of this Report gives prominence to the importance of continuing corporate reform in AusAID. This is included as one of the hurdles which should be assessed each year in order to track the progress needed to effectively deliver a program of 0.5 per cent of GNI by 2015–16. Without their being met, as argued elsewhere in this Report, the trajectory of increase and/or the way the aid increase is disbursed would need to be reconsidered by the government.

ii) Strengths

Fortunately, change is under way.

Chapter 3 discussed some of the reform measures under way in AusAID to shift from an agency geared toward project delivery, to a large agency geared towards policy, learning and managing relationships. The Review Panel strongly supports these changes, and AusAID management will need continued focus to ensure AusAID is equipped to play the lead role in overseeing an effective scale-up of the aid program.

AusAID staff are generally highly motivated and capable. The organisation has shown flexibility in responding to a range of new challenges over the past few years, such as rapidly increasing the program in a difficult and dangerous environment in Afghanistan.

Box 14.1: AusAID Staff in Afghanistan

The role of AusAID in Afghanistan is integral to Australia's whole-of-government efforts, and sees AusAID staff working in a difficult and dangerous environment. AusAID staff in the Uruzgan Provincial Reconstruction Team live and work alongside the Australian Defence Force (ADF), including regularly travelling outside the secure military base at Tarin Kowt and spending periods of time at forward-operating bases. They encounter and are exposed to hazards on a regular basis. Staff in Kabul and Kandahar are also regularly exposed to risks, such as indirect rocket fire or attacks against major installations.

Staff live and work in very basic conditions in a harsh environment. Access to corporate services such as IT is poor, staff often share accommodation and living facilities, and there is very little freedom of movement. Ongoing insecurity, coupled with the very weak capacity of the Afghan government at national and provincial levels, constitute a difficult environment for delivering Australia's program of assistance.

AusAID is a classic case of an organisation whose effectiveness depends on achieving the right balance between central authority and devolution to country posts. It would be impossible for Australia to conduct an effective aid program if the command, control and communication system was not right.

Fortunately, this does not seem to be a significant problem with the administration of AusAID. The major thrust towards decentralisation of program management over the past decade has worked well, as is clear from the Indonesia study.

There are many examples across the agency where programs and relationships are well managed and are on a strong footing. The AusAID culture has also evolved to be far more focused on serving broader government interests and engaging in policy discussions across government. AusAID has invested heavily in quality assurance systems, many of which are working well.

iii) Difficulties

Nonetheless, AusAID faces a range of ongoing corporate difficulties. Senior AusAID managers have been frank in identifying some of these to the Review Panel.

Some of these relate to the lack of strategic clarity and problems in the budget process that should be addressed by the measures proposed earlier in this chapter. But others sit more firmly in AusAID's control and these are outlined below:

- Human resources. Workforce issues remain a key challenge for AusAID, as was identified in the 2009 Australian National Audit Office report. This report highlighted internal turnover, mixed skill levels and experience, inadequate sectoral expertise to meet demand from growing geographic programs, and shortfalls in workforce planning as critical obstacles to effective management of the aid program in the future. This is a serious situation, needing rectification if the program is to be further expanded effectively.
- Learning and development. This includes insufficient training of staff in skills required for postings, such as language and program delivery.
- Paperwork, reports and process. Often too much documentation hampers decision-making and actions, and takes up staff time.
- Risk management and accountability. This includes the need to entrench throughout the organisation clear and well-understood systems for managing risks, and also the need for a clear articulation of AusAID's appetite for/aversion to risk.
- In-house versus outsourcing. In the opinion of the Review Panel there can be a valuable role for outsourcing in a program of the scale, reach and complexity of the Australian aid program. It is a means of accessing capabilities and knowledge without having to build them in-house. But, as in any business, outsourcing is to be approached with care and with thought.

iv) Management Challenges

AusAID senior management is already moving on a number of these challenges.

A new Workforce Plan and Learning and Development Strategy were launched in April 2011 to roll out new processes to address human resource and learning and development needs.

A comprehensive business process reform exercise is under way to streamline paperwork. Developing a more sophisticated approach to risk management is on the agenda of the new Program Effectiveness and Performance Division.

The Review Panel believes these reforms are headed in the right direction and does not wish to attempt to micromanage the AusAID corporate reform process.

Nevertheless, it is appropriate to provide a perspective on the most pressing corporate reforms.

The Review Panel recommends AusAID senior management give attention to the points outlined below.

a) Staffing

The Workforce Plan identifies key challenges to strengthening the workforce, including the following: a young and at times inexperienced workforce, the need for greater capability in policy work, better learning and personal development, improved people management, enhanced leadership, better handling of overseas-based staff roles and responsibilities, and more efficient use of staff resources.

Perhaps the most consistent feedback the Review Panel received was that AusAID's effectiveness was undermined by rapid staff turnover. For example, JTA International in its submission described the impact of staff turnover upon the building and maintaining of relationships in the Pacific, and stated that such rapid turn over "is an obstacle to continuity of relationships, nuanced contextual understandings and steady progress". This is a perennial problem, which has been highlighted by various reviews over the last two decades.

The ANAO Report identified high staff turnover as a "long-running problem for AusAID" and one which has "compromised the quality of AusAID's program management". The ANAO found that only 49 per cent of Australian Public Sector (APS) staff remained in the same section throughout 2008 (ANAO 2009:,48–49).

Recently, management imposed a requirement that all staff stay in position for at least two years. Measures such as the increased number of staff posted overseas will help, as will AusAID's recent decision to increase the minimum length of most postings from two to three years. However, such requirements will have little influence if underlying causes are not addressed. The only real solution is an end to the fragmentation of the aid program and an expansion of staffing resources.

b) Gender

A point which deserves particular attention is the low number and proportion of women in AusAID senior management. Around 60 per cent of the total AusAID workforce is women. Women, however, comprise just 28 per cent of the senior management, compared to the APS average of 37 per cent, and fill just one of the 12 positions at SES Band 2 and above. With the

emphasis on gender as a fundamental cross-cutting issue in the Australian aid program, AusAID needs to apply the same emphasis in its own management.

c) Specialist Streams

The Review Panel supports the initiatives in the Workforce Plan to encourage greater staff specialisation, including moves to establish formal specialist streams.

While people should be free to move in and out of these specialist streams, they would provide a clear career path for staff wanting to specialise.

Specialist streams should be headed by a Senior Executive Service officer or Principal Adviser. Specialist recruitment and learning and development programs should be encouraged within these streams.

As noted in Chapters 9–11, AusAID will need to recruit and develop staff with expertise in engaging with and influencing a range of partners.

The principle is correct; the difficulty of implementation should not be underestimated. It will require strong leadership and persistent effort.

d) Developing a Learning and Knowledge Culture

This will require a strong commitment by management to professional development.

AusAID should consider developing a new two-week intensive course on development and aid for new staff.

AusAID could work with the Australian Public Service Commission on tailoring courses for new staff without public sector backgrounds.

Training for staff going on overseas postings should be intensified, including through a greater focus on language training.

The various volunteer programs should be encouraged to develop more opportunities for public sector placements in developing countries in the region for Australian graduates (along the lines of the Overseas Development Institute Fellowship Program in the United Kingdom) as these would provide an invaluable grounding for a career in AusAID or elsewhere in aid. AusAID could consider a program for inexperienced staff along the lines of the Australian Youth Ambassadors Program, where interested AusAID staff work for a few months in in-line positions in developing countries.

The peer review process for new aid initiatives should be reinvigorated, with strong support from senior management, to promote rigorous analysis and contestability, and learning across the agency.

Again, it is worth noting the potential of the Workforce Plan to deliver useful results provided it is robustly implemented. The plan aims to deepen two kinds of development capabilities. The first involves the ability to deliver aid results in-country, through skilled management of complicated aid programs. The second involves more in-depth and specific skills and experience, particularly in areas such as economics, education, health, infrastructure and monitoring and evaluation. The plan also aims to give AusAID access to geographical knowledge – including language – for example in relation to the Pacific and Indonesia.

e) Ensuring Paperwork is Reduced and Informs Decision-Making

AusAID's systems should be examined and streamlined to limit unnecessary paperwork and ensure clear links between all paperwork and decision-making processes.

Greater clarity around the strategic direction of the aid program, the budget process and the evaluation process should help streamline this paperwork.

AusAID's new performance division has been tasked by the Director General with streamlining processes and reducing paperwork, which the Review Panel strongly supports.

Chapter 16 includes comment on streamlining the reporting involved in monitoring and evaluation.

f) Greater Capacity for Implementation

Especially given its relatively young and inexperienced workforce, AusAID should consider ways of promoting more consistent approaches to program and relationship management among country teams.

It is important that there be experienced officers able to provide support in the design and implementation of activities to staff at post.

g) Clear Risk Management Systems

AusAID needs to get the balance right between managing various forms of risk, including the risk of development ineffectiveness.

Balancing these risks should be a priority for senior management. The process that has been initiated by AusAID management to improve the agency's overall approach to strategic risk management will be vital. Given the importance of this issue it is addressed separately in the next chapter.

h) Greater Attention to New Ways of Doing Business

The Study of AusAID's Approach to Assessing Multilateral Effectiveness (the Multilateral Study) commissioned by the Review Panel identified that AusAID's resources and systems have not kept pace with the scale-up of funding and engagement with multilateral organisations over the past five years. The same is true with other partnerships.

Although important and welcome steps have been taken by the Director General and the agency in recent years, greater senior management attention and resourcing are needed to making the most of partnerships.

On the related question of outsourcing, AusAID needs to build its core capabilities while being open to the possibility of outsourcing matters which are not core. The demarcation is, therefore, important.

In essence, the Review Panel sees AusAID's core business as being the Australian government's principal source of knowledge about what constitutes good aid policy in a changing international environment, and to provide good aid program design and good implementation. It cannot outsource its core knowledge and capacity to think.

v) Investing for Success

In 2010–11 AusAID's departmental appropriation (for administrative costs) is \$250 million, which is 5.8 per cent of ODA. This is a large increase from the previous year, partly reflecting real growth and partly a change in accounting rules. Absent the change in accounting rules, the figure would have been 3.8 per cent. The 2009 OECD DAC average for administrative costs was 4.4 per cent, but there is large variation across donors and international comparisons are extremely difficult due to differences in definition.

AusAID's total staff numbers have grown by 40 per cent since 2007, against growth in the budget of 70 per cent. Certainly, attention to economies needs to be maintained and a number of the Review's recommendations should promote internal efficiency. For AusAID to effectively manage the expansion of the program will require improved productivity – consolidation, focus, skills, learning, process redesign and continuous improvement.

At the same time, the organisation is under stress and is not adequately positioned at this stage to implement the planned expansion of the aid program. AusAID will need to be adequately resourced – and, in particular, adequately staffed – to meet the challenge. Otherwise the scale-up is risky and will almost certainly be accompanied by a decline in effectiveness and a proliferation of administrative problems in coming years.

Recommendation 28: Ministers should continue to provide leadership to the aid program, and particularly the strengthening of the program for the crucial and challenging period of scaling up over the next five years. An effectiveness culture focused on results, rather than an announcement culture leading to fragmentation, should drive the aid program.

Recommendation 29: The words 'International Development' should be added to the title of the Minister for Foreign Affairs.

Recommendation 30: A 'whole-of-ODA' approach should be strengthened by creating uniform standards across government departments to planning, delivery, monitoring and reporting, overseen by the Development Effectiveness Steering Committee.

Recommendation 31: Corporate reform efforts within AusAID should be accelerated to promote a culture geared towards delivering results and enhancing productivity, especially by reducing staff turnover, streamlining business processes and reducing paperwork.

Recommendation 32: AusAID should be provided with adequate resources to manage effectively the increasing program.

Chapter 15: MANAGING RISK

A. INTRODUCTION

An effective aid program which achieves value for money requires sound systems for managing risk.

Risk – both financial risk and operational risk – is inevitable in an aid program. The criterion of good management here is not to wring all risk out of the system, or even try to do so, but to form sound and conscious judgments about what level and kinds of risks are acceptable, to manage them effectively and to learn from experience.

There are a number of different kinds of risk, discussed below.

B. EXISTING POLICY AND SYSTEMS

AusAID's risk management policy contains guidance for risk identification and management.

The policy recognises that “effective risk management...requires AusAID personnel to make informed decisions about managing identified risks and harnessing potential opportunities”. The policy sets out the points below:

- The context of risk in AusAID given that the agency “is working in an environment of considerable complexity, change and challenge”.
- The three levels of risk within AusAID: risks to AusAID as a whole, to the performance of specific business units and programs, and to the development and implementation of new policies, programs and activities.
- The importance of considering and weighing the level of risks involved in particular programs, strategies and methods of delivery, and the potential opportunities and benefits that can be achieved.

Formal risk management plans are required to cover most AusAID activities, as outlined below:

- Posts. Every Post is required to prepare an annual fraud and risk management plan.
- Country strategies. These documents are prepared every three to five years in consultation with other Australian government agencies.
- Program units. All program units, both in Canberra and at post, prepare a detailed strategic plan on an annual basis. This identifies potential risks and details proposed management responses to mitigate them.
- Activities over \$500,000. All new initiatives, activities or procurement processes with a value over \$500,000 must have a risk management plan that includes addressing the implementation risks.
- AusAID as an agency. AusAID prepares a corporate strategic risk management plan every three years. It identifies the risks to AusAID as a whole and what actions may affect the achievement of AusAID's outcomes and its reputation.

Where no formal requirement exists, AusAID staff must determine whether to undertake a formal risk assessment of particular activities or tasks.

Risks are monitored and reported on by quarterly reports on the status of very high and high risks. All risks are required to have close management oversight by Branch and Division Heads and to be reported on as a part of their Quarterly Business Unit Reviews.

AusAID's risk management guide provides guidance to AusAID staff. It identifies the following key steps for staff in preparing risk management strategies:

- communicate and consult with internal and external stakeholders
- assess the operating environment and internal and external context
- identify the risks to develop a comprehensive understanding of the events that will prevent AusAID from achieving its objectives
- analyse the risks – the likelihood, the consequences if they occur, and AusAID's existing risk controls
- evaluate the risks – assess the likelihood and consequences of identified risks
- treat the risks – what additional strategies can be implemented to reduce the likelihood of the risk occurring or mitigate the consequences if the risk did occur
- document, monitor and review the risk management strategy.

All this clearly demonstrates commitment to understanding and managing risk within AusAID. The Review Panel's concern is that the risk management system be widely communicated and well understood within the organisation as the aid program grows.

C. RISK OF FRAUD

From time to time there has been a particular focus on whether the aid program is adequately managing the risk of fraud and corruption.

i) Incidence of Fraud

There has been fraud within the Australian aid program, but the incidence appears to be very low.

AusAID is currently investigating 175 cases of suspected or detected fraud in 26 countries, dating back to 2004, with total potential losses of \$3.413 million (as at December 2010).

While all fraud is serious, these cases are a very small proportion of the thousands of aid activities and billions of dollars that AusAID manages.

The potential loss from the 175 active cases is estimated to represent 0.017 per cent of the \$20 billion appropriated to AusAID since 2004–05. The estimated potential losses as a consequence of fraud in 2009–10 equated to just 0.028 per cent of \$3.046 billion in aid funds appropriated to AusAID.

AusAID has so far recovered \$833,882 of the misappropriated funds in the 175 cases and expects to make further recoveries as investigations continue.

In 33 cases, there is no potential loss to AusAID because the fraud was prevented, or because AusAID has already recovered the funds involved. In 62 cases, the potential loss to AusAID in each case is less than \$10,000. Many other active cases, upon full investigation, may be found not to involve fraud, but may be the result of accounting discrepancies, poor record keeping or vexatious allegations.

The cases occurred in 26 countries, most in countries with the largest Australian aid programs: 71 cases occurred in PNG, 31 in Indonesia, 20 in the Philippines and 19 in Solomon Islands. The potential loss from these cases represents between 0.014 and 0.055 per cent of the four country programs' expenditure since 2004–05.

The cases are spread across a number of different areas of the program, such as bilateral and multilateral elements, small activity schemes, or partnerships with NGOs.

More than one-third of the total potential loss was incurred in a single incident in 2006, when the Eritrean government failed to account for some \$1.2 million worth of food and equipment funded by Australia. This was part of a larger \$31 million stockpile of World Food Program assistance that remains unaccounted for.

The cases currently under investigation typically relate to the following types of alleged, suspected or detected fraud:

- falsification of documentation relating to small grants applications and acquittals
- alteration of payee and payment amount/s on cheques
- collusion among tenderers and falsification of quotes submitted in tender processes
- theft of vehicles, laptops, project materials etc.
- falsification of qualifications relating to scholarship applications.

A number of the ongoing cases are expected to result in the prosecution of offenders. Thus far two offenders have been prosecuted, both in Solomon Islands. Two AusAID staff have been disciplined or had their employment terminated as a result of fraud investigations.

ii) Trends

Table 15.1 below compares the number of new fraud cases reported over the past four financial years.

Table 15.1: Alleged, Detected or Suspected AusAID Fraud Cases by Year, Amount of Potential Loss and as a Percentage of Appropriation

Year	Reported Allegations	Cases that Proceeded to be Classified as Involving Suspected or Detected Fraud	Potential / Actual Loss to AusAID (\$)*	Amount Appropriated to AusAID (\$)	Loss as a Percentage of Appropriation
2007–08	53	36	107,340	2.8 billion	0.004%
2008–09	70	55	1,809,053	3.2 billion	0.056%
2009–10	87	68	853,054	3.0 billion	0.028%
2010–11	72**	69**	390,457	4.1 billion	0.010%
Total	282	228	3,159,904	13.1 billion	0.024%

* Potential loss is the amount still outstanding after recoveries and prevented losses.

** 1 July 2010 to 14 January 2011 only

While there has been an increase in the number of new cases of alleged, suspected or detected fraud reported to AusAID in recent years, the potential fraud loss as a proportion of AusAID's appropriation is reasonably consistent.

There are likely to be two main reasons for this. The first relates to the increase in the size of the aid program. It has doubled in size over the past five years.

The second is the increased awareness of fraud by AusAID staff and partners of the aid program, and heightened emphasis on detection and reporting requirements. In particular, AusAID has intensified the training that it delivers to organisations involved in implementing the aid program. In other words, the detection and reporting systems have improved.

iii) Fraud is Inevitable

It is unsurprising that there is some fraud within the aid program given its size and nature. Many of the countries where AusAID currently delivers aid are inherently difficult environments in which to operate. There can be no doubt that these environments are very different from Australia's own. Governance arrangements are often weak, local law enforcement is under-resourced and focused on more important priorities, and attitudes towards accountability and transparency can be very different to those in Australia.

The top nine recipients of Australian aid are all ranked in the bottom 50 per cent of 178 countries on Transparency International's 2010 Corruption Perception Index. Four of these nine recipients are ranked in the bottom 25 per cent. Of the top 15 recipients of Australian aid, three (Iraq, Burma and Afghanistan) are seen as having the most corrupt public sectors in the world, ranking 175th and equal 176th respectively.

Given these realities, some level of fraud is inevitable. What matters is the robustness of the Australian government's approach to preventing, detecting and rapidly responding to fraud. It is important to stress that robust, fiduciary risk-management should not be equated to zero risk.

iv) Comparison with Other Donors and Agencies

There is no common approach among donors to fraud reporting. Some international donors, such as Denmark, do not report on their active fraud cases. The only published information is on cases that have been investigated and concluded. Other donors, such as Germany, do not even record the incidence of fraud. AusAID's recent release of information on active cases of suspected, detected and alleged fraud may well place the Australian program ahead of its peers. It is to be noted however, that this was prompted by a Freedom of Information request, whereas – in line with the Review Panel's belief in the need for maximum transparency (Chapter 17) – it should henceforth happen as a matter of course.

The level of fraud in Australia's program appears lower than many comparable agencies. The European Court of Auditors found that for 2009, the material error rate in the accuracy of financial transaction records for EuropeAid, the agency responsible for administering the European Union's aid program, was between two and five per cent.

The Australian Health Insurance Commission (Medicare) has estimated its experience of fraud through non-compliance to be less than one per cent of its expenditure. An Australian National Audit Office (ANAO) audit reported that in 2009–10, customer debts identified by Centrelink through fraud investigations accounted for \$113.4 million (0.13 per cent) of its expenditure that year. AusAID's figure of identified potential losses through fraud in 2009–10 was just 0.028 per cent.

v) Fraud Management Systems

How much comfort can be taken from these figures depends upon the quality of the fraud management systems operating within AusAID and other relevant government agencies.

AusAID has a Fraud Control Policy which:

- outlines AusAID's approach to the principles of fraud
- outlines AusAID's response to suspected incidents of fraud against the Commonwealth
- describes the roles and responsibilities of AusAID personnel in averting incidents of fraud
- outlines reporting requirements.

A number of systems seek to control the incidence of fraud:

- AusAID's Fraud Control Plan: This is the main strategic and operational plan for the management of the risk of fraud (updated every two years). It complies with the Australian Government's mandatory Fraud Control Guidelines.
- Post Fraud and Risk Management Plan: Every overseas post is required to establish and annually update a fraud and risk management plan to facilitate the identification and management of the risk of fraud.
- Selection of partners: Financial risk assessments and other analysis are required in every AusAID program to minimise the risk of fraud through the careful selection of contractors, NGOs and other government agencies with responsibilities for implementing the program. The Review Panel shares the opinion of the Independent Chair of AusAID's Audit Committee that this threshold due diligence is crucial to the effectiveness of fraud control.

- **NGOs and contractors:** All AusAID contracts with NGOs and service providers including commercial contractors and tertiary institutions include provisions for the detection and immediate reporting of suspected fraud (such as inconsistencies in payments or storage of physical assets). The requirements for the contractor to report suspected fraud survive beyond the life of the contract. There are also due diligence checks as to whether a partner appears on certain fraud blacklists. In addition, AusAID, through its annual audit program, reviews the specific fraud control mechanisms of partner NGOs, contractor firms and tertiary institutions to ensure they comply with fraud reporting and risk management requirements. Major contractors have committed to disclose the results of other donors' audits of them. Many contractors are publicly listed companies and subject to additional domestic regulations to control fraud.
- **Multilateral organisations:** Australia is on the governance boards of all major multilateral organisations of which it is a member. Australia's engagement with their control systems and ability to exert influence vary. For example in the World Bank, the current Australian Executive Director is chair of the Audit Committee. As proposed elsewhere in this Report, the Review Panel believes enhanced Australian funding for multilateral organisations should go hand-in-hand with enhanced engagement and influence.
- **Partner government systems:** Special assessments are made of the risk of fraud when aid funds are spent through partner government systems. These include detailed assessments of both the procurement and financial management systems in the overseas government. These assessments also make recommendations for steps that Australia can take to minimise fraud or corruption risk. The Director General is required to endorse these assessments before partner systems can be used.

In addition to reducing the risk of fraud at the project level, the aid program targets a significant part of the budget to assisting countries and communities to develop and implement governance and accountability reforms. This includes strengthening partner governments' budgeting, procurement and financial management systems as well as direct strengthening of national audit functions.

- **AusAID internal audit section:** The audit section undertakes several types of audit as agreed by the AusAID Audit Committee. There are audits of IT systems, overseas posts and management functions. AusAID has recently strengthened its audit function. It has created new positions of Chief Auditor, Director of Fraud Control and Director Risk Management, and has appointed an independent Chair and financial statements expert to AusAID's Audit Committee.¹⁵
- **Auditor General annual reports and other ANAO audits:** The ANAO conducts the annual financial statement audit of AusAID and targeted performance audits. In November 2009 it published a performance audit titled *AusAID's Management of the Expanding Australian Aid Program*. This report made six recommendations, all of which AusAID agreed with and has implemented. The ANAO is currently finalising a performance audit titled *AusAID's Management of Tertiary Training Assistance*.

¹⁵ The independent Chair of the AusAID Audit Committee is somebody with extensive knowledge and experience in the field, Oliver Winder PSM, who also chairs the audit committees of other major, complex agencies, namely Centrelink and the Department of Health and Ageing.

- Staff training: Fraud control training is a two-hour session that all staff are required to complete at least once (staff are encouraged to attend a refresher course every two or three years).

A survey conducted in 2008 in the development of the 2009–11 AusAID Fraud Control Plan identified that staff attendance at fraud control training was not high and identified the need to intensify the fraud control training program.

In 2010, 278 staff members attended 22 fraud control training sessions held in Canberra (7), Port Moresby (5), Honiara (3), Dili (2), Hanoi (2), Manila (2) and Port Vila (1). In completing the course evaluation forms, almost all the participants either 'agreed' or 'strongly agreed' with the statement: 'overall the program was of good quality'.

- Partner training: Specific training on fraud control and reporting is provided to NGOs, contractors and bilateral partners. Fraud training materials developed by AusAID are also made available to NGOs, contractors and bilateral partners to assist them with their own in-house training. In 2010, partner training sessions were held in Port Moresby, Honiara, Dili, Hanoi and Manila.
- Procurement review: AusAID's current procurement review will consider how to improve internal reporting on the integrity of partners. This will allow program managers to better assess the risk of fraud before entering into contracts.
- Reporting requirements: Any case of alleged, suspected or detected fraud, including suspected instances of bribery of foreign public officials, must be reported immediately to AusAID's Fraud Control Section. Prosecution of offenders for fraud cases is considered in each case. AusAID also pursues the recovery of proceeds of fraudulent activity and considers the application of appropriate civil, administrative or disciplinary penalties.

vi) Assessment

In summary, the Review Panel assesses that there is a serious and systematic approach within AusAID to fraud management, including the following key elements:

- Policy. There is a solid base document at the heart of the system in the form of the fraud policy.
- Plans. Policy is translated into agency-wide fraud control plan and country program plans.
- Due diligence. This involves careful selection of partners, including NGOs and contractors.
- Caution with recipient governments. Particular care is taken before using partner government systems.
- Scrutiny. This includes assessment of every program, and internal and external audit.
- Resourcing and awareness. This includes not only the management and staff specifically directed towards fraud control, but training of all staff about its importance.

In forming its conclusions the Review Panel has not only taken stock of these fraud management systems, but been taken through case studies in order to better understand how they function in practice. It has also benefited from discussion with the Chair of AusAID's Audit Committee.

Regarding the use of **partner government systems**, the schools program in Indonesia provides a useful example of how the systems work in practice. Salient points are as follows:

- A careful and deliberate decision was made as to whether Indonesian government systems could be used in terms of financial risk. Australia not only made its own assessment but drew upon that of the World Bank, which already had extensive experience in school building in Indonesia.
- This threshold decision also correctly took into account that the outcome could be achieved faster, at lower cost and with greater community oversight than if Australia undertook the program directly using a managing contractor.
- To make the threshold judgment on other aspects of the program, such as training, AusAID drew on European Union (EU) and World Bank Assessments, and, finding that these did not provide sufficient detail, contracted its own expert.
- There was no blanket decision by Australia that any Indonesian government agency system could be used. The decision was specifically for the Ministry of National Education and use of another government system was indeed specifically rejected by AusAID. In other words the threshold decision was discriminating and careful.
- The design of the program including the financial management aspects was subject to the peer review process.
- Australian funds were granted under agreements with the Indonesian government that contained audit and reporting requirements. The financial procedures manual used within the Indonesian system was worked on and signed off by AusAID. Procedures were put in place to check that funds flowed through the government channels to the bank accounts of community construction committees. The funds were released in tranches.
- Field monitoring, audit, complaint procedures and community training were put in place to check that funds were appropriately used for the schools construction.
- In the final analysis, also, the unit cost of school building is well known and the output achieved from Australian funding was therefore able to be checked against this benchmark.

Regarding aid delivered through **managing contractors** (that is, companies contracted directly by AusAID), the checks and balances against fraud are rigorous and in line with those in any major commercial transaction. These include standard contract fraud control provisions and AusAID's right to audit. Audits are undertaken, both in case of suspected problems and randomly. The approach seems clearly to be thorough and professional.

AusAID also has a very clearly stated position that any firm listed by the World Bank as being ineligible to bid for World Bank financed projects, because it has been found to engage in corrupt or fraudulent practices, is also ineligible to bid for AusAID work. No other bilateral donor has as strong a position on this issue. With the recent negotiation of a cross-debarment agreement between the five major Multilateral Development Banks (World Bank, Asian Development Bank, Inter American Development Bank, African Development Bank and the European Bank for Reconstruction and Development), the reach of AusAID's policy on this has been significantly extended.

In addition, it is worth noting the protection which exists from donor governments and multilateral organisations sharing information on concerns in relation to contractors. This is not

merely theoretical – it happens in practice – and major contractors are aware of it. AusAID's recent negotiation of a Memorandum of Understanding with the Integrity Vice Presidency of the World Bank is designed to facilitate information exchange on investigations and issues of mutual interest.

NGOs fall into two categories, accredited and non-accredited.

In the case of accredited NGOs, there is a rigorous system of checking their financial management and other processes as a condition of accreditation, and obligations to report any detection of misuse of funds. This is backed up by audit.

In the case of non-accredited NGOs, the financial arrangements governing work done for AusAID are akin to normal commercial arrangements, with the usual contractual and audit requirements.

In the case of earmarked funding, an additional check is that the Australian government can verify whether the specified output has been delivered to the quality commensurate with the funds provided.

Checking is harder on the flow of funding from an NGO to its own suppliers in developing countries, although AusAID does check that financial controls cascade down. The Review Panel understands that Australian experience has been that NGOs are generally conscientious in controlling funds and reporting cases of misuse which they detect. In addition to their obligation to do so, they are clearly conscious of the reputational risk of not doing so.

NGOs also take seriously their own Australian Council for International Development Code of Conduct and it is noteworthy that they have, at their own initiative, recently strengthened the compliance provisions. Likewise, AusAID has strengthened its agreements with NGOs to whom funding is provided.

The Review Panel has therefore found that AusAID is very alert to the dangers of fraud and corruption. Risk of fraud is also low in other government departments as they largely implement aid programs through their own departmental systems. Officials operating in-country are knowledgeable about the local circumstances and consult frequently with other donors. Rightly, they do not see guarding against fraud and corruption as peripheral to their work, but a consideration that needs to be built into policies and programs at the outset.

Considerations of fraud and corruption influence the choice of mechanism by which aid is delivered. As discussed in Chapters 9 to 11, Australian agencies have available a portfolio of such mechanisms. There is a good understanding that some of these are inherently more fraud and corruption proof than others. For example, Australia's directly delivering a project or program using its own contractors is, as a general rule, likely to be safer than providing budget support.

It is important to recognise that, because of this, Australian agencies also pay particular attention to being able to monitor how money is used and how it flows before entering into any new commitment. In short, the issue is taken seriously and addressed practically, as it must be. Reported fraud is low not because of lax systems, but because the program has been able to successfully control the extent of fraud.

It is very important that the Australian aid program be alert to the dangers of fraud and corruption, because they certainly have the potential to erode the kind of public consensus the Review Panel believes is necessary for a sustainable and effective aid program.

The Review Panel considers that three areas will be of crucial importance as the program grows:

- the rigor of the threshold assessment about the modes of delivery to be used for each particular activity, and in particular the assessment of partner government systems
- in-country checks on use of money, particularly in remote and complex locations
- staff training backed up by financial management support as required.

D. COST RISKS

Over the past year, AusAID has taken a number of important steps to improve the efficiency of the aid program.

A new Adviser Remuneration Framework has been put in place, which applies to all commercially-contracted advisers funded by AusAID. The framework has been benchmarked against other major donors and the Australian labour market. A similar review is under way for advisers engaged through other government departments.

In the opinion of the Review Panel, bearing down on the remuneration of technical assistance experts is important but needs to be approached with care. As discussed in Chapter 11, Indonesia is an example where provision of world class technical assistance is extremely important and high rates may need to be paid.

AusAID is also conducting a review of agreements and procurement processes. This review will ensure AusAID's practices keep pace with the changing aid market and continue to deliver value for money.

Recommendations from the review are expected to seek improvements in a range of areas affected by current arrangements for managing procurement and agreements. This includes increasing skills of AusAID staff in procurement and grant management, improving cost benchmarking at the activity design phase and expanding the information sought on potential implementing partners before contracts are entered into.

Sound, market-based procurement practices with contestability wherever possible are a key to ensuring that the taxpayer gets value for money in the aid program. The Review Panel therefore strongly welcomes the use of international competitive bidding.

E. RISKS TO DEVELOPMENT EFFECTIVENESS

Development effectiveness risks do not generate the headlines that cases of fraud or waste do, but they are nevertheless real. Indeed, in the judgment of the Review Panel, they constitute the greatest risk for the taxpayer in relation to the aid program.

In Chapter 3, it was noted that AusAID's performance management system indicates that 17 per cent of projects are at risk of not delivering their objectives.

The 2010 Review of the PNG–Australia Development Cooperation Treaty noted that technical assistance constituted up to half of the Australian aid program, but found that “formal evaluations and other feedback suggest much technical assistance has had little impact in key areas” and that “the evidence suggests that much technical assistance has simply made little difference.” (Independent Review Team 2010)

Australia has acted on the problem of the limited impact of advisory support, not only in PNG but more broadly. AusAID recently completed a review of Australian-funded advisers with its partner governments and has identified up to 257 positions to be phased out in two years, the majority in East Timor and PNG. The review has also put in place measures to guide AusAID staff when selecting advisers to ensure the most effective response.

This is to be commended. However, the risk of development ineffectiveness is not confined to any one aid modality or region. In its travels to Uruzgan, Afghanistan, the Review Panel was told that the focus of Australian aid had shifted from ‘vertical infrastructure’ (schools) to ‘horizontal infrastructure’ (roads) because a large number of schools had been built with aid funds, but not used.

Reducing the risk of development ineffectiveness goes to the heart of the aid effectiveness challenge, which the Review Panel has been asked to advise on. The recommendations of this Report are made precisely with this objective in mind. There are, however, four points specifically relating to risk management.

The first is that not every project should be expected to succeed. Clearly not. Development is a risky business and aid often has the highest returns when it is used to innovate. A number of submissions suggested AusAID was too risk averse and this meant it could miss out on opportunities to improve effectiveness. The submission from the ChildFund took this view:

“Current arrangements for the management of risk should be reviewed to ensure that they do not create overly cautious and conservative programming. The current results framework approach, likewise, should be reviewed to ensure that it does not preclude the kinds of creative design, and qualitative monitoring and evaluation tools which often lead to the most effective and accountable programs, most accountable to aid beneficiaries and the public.”

The Risk Management Policy encourages AusAID staff to identify and harness potential opportunities. But this point should be given greater weight. The policy should discuss the scope for greater innovation. As Patrick Robinson said in his submission to the Review, “high-risk strategies can be justified if the potential rewards of success are great enough”.

It is also important to note that an innovative culture will only work if there is also a strong results orientation, so that good innovations are scaled up and ineffectual ones discarded.

Second, it is important to recognise the trade-offs involved in managing different types of risk. Over emphasis on the reduction of fraud can increase the risks related to development effectiveness. In particular, overly-restrictive rules around the use of and accounting for funds increase transaction costs to the extent that development effectiveness is threatened (if the funds are not used because of the hassle factor). This is more than a hypothetical risk.

It was a key finding of the ANAO 2009 review of AusAID's management of the program. ANAO found that:

“AusAID's cautious approach to fund provision, while minimising the risk of corruption, has sometimes prevented resources getting to where they are most needed. Where efforts have been made to allocate resources to service delivery, the imposition of complicated financial management controls has often restricted the use of those funds for the intended purpose.” (2009: 102)

Third, in managing various risks, greater weight should be given to strategies that attempt to leverage recipient government expenditure. If aid is mixed with government spending, it might be more subject to fraud. But the dialogue and negotiations around this mixing might also tighten up government systems. This will reduce overall fraud. Given that government funding normally dwarfs the aid spend, this positive impact might outweigh any heightened risk of aid fraud and produce bigger development returns.

This too is more than a hypothetical. Of course, leverage cannot be taken for granted, but the Review notes that the multi-donor budget support in Afghanistan, to which Australia contributes, results in external scrutiny of the entire Afghan budget, not just the aid-funded part. The Review Panel has already noted in Chapter 11 the positive experience from working through government systems in Indonesia. On the issue of systemic impact, the Independent Completion Report on the Australia–Indonesia Basic Education Project (AIBEP) notes that:

“Working through Government of Indonesia systems has been highlighted as a key design feature of AIBEP... Existing.... [Indonesian] government departments are seen to have benefited from improved monitoring and quality assurance developed within AIBEP” (AusAID 2010b: 25).

Fourth, fungibility is a risk to development effectiveness if aid displaces government expenditure, which is then used for less productive ends. This can especially be a problem in aid-dependent economies. Fungibility can undermine support for the aid program, especially if the recipient government is seen to be misusing its own resources. Fungibility is difficult to measure and control, but a number of measures can be taken based on the principle of mutual accountability. These include agreements on co-financing, and steps to improve public expenditure management.

Overall, the aim must be to manage rather than avoid risks. During the Review Panel's visit, the United States Agency for International Development (USAID) explained they were moving from a 'risk averse' to 'risk management' approach, particularly in relation to working through partner government systems.

To summarise, the Review Panel has several recommendations to manage development effectiveness risk:

- The development of a culture that is focused on results, but accepts the possibility of failure and rewards innovation. Being up-front about this, and prepared to argue the case when failures occur, is an important part of reinforcing the message that not all aid can or should be expected to succeed.
- The recognition of possible trade-offs between minimising the risk of fraud and that of development ineffectiveness. If fraud risks have been contained at the expense of putting

development effectiveness at doubt, then a new approach is needed. Innovation may reveal alternative approaches that trade slightly increased risks of fraud for greater development effectiveness.

- The need to give greater weight to leverage as a risk management technique for the aid program. Where possible, use of the aid program to influence government spending carries with it high returns and should be encouraged. This will require more working through government systems, which the Review Panel recommends be increased (Chapter 11).
- Attention to the problems of fungibility, which, when a concern, can best be addressed through agreements based on mutual accountability.

F. REPUTATIONAL RISK

The final risk to the aid program is reputational. Fraud or failure to obtain value for money (including failing to secure development outcomes) will all harm the reputation of the program. But simply working in countries with governments that are corrupt and incompetent can also damage its reputation. The Australian public will, correctly, not be comfortable should Australia provide aid to governments that misuse their own resources or which are extravagant.

Even if aid is effective, the argument will still be made that it is inappropriate for Australia to provide, say, basic health and education services to the poor in a particular country when the government of that country should be doing so rather than wasting its own resources.

In response, the aid program can certainly attempt to improve governance and encourage reform, for example, by making aid conditional on necessary policy actions or reforms. This is often done by working with other donors. However, it is important to be realistic about the often limited scope of any aid program to influence the overall level of governance in a country.

The more important mitigating measure will simply be the ability of the aid program to demonstrate results. It is important that a sense of realism be maintained about what aid can achieve. But if aid can be shown to benefit people in need, wherever they are, this will help sustain public support and provide a strong argument for the continuation of aid, even in contexts where overall governance is poor. The proposed objective of the aid program to help poor people, rather than countries or governments, should help drive home the message that if aid can be made to work in poor governance environments then that is of tremendous value as it is typically in these countries where the poorest live.

Recommendation 33: The aid program should foster a culture of risk management rather than risk aversion by balancing various forms of risk and ensuring they are well understood across AusAID as the aid program grows. It should increase the relative importance of risks to development effectiveness as compared to other risks. There should be a greater focus on results and reward for innovation and acceptance that in a big program some activities will fail.

Chapter 16: MANAGING FOR RESULTS

A. INTRODUCTION

The Australian government and the Australian people need to know how successful the aid program is at reducing poverty. Performance management and evaluation are important for three reasons:

- **Accountability:** to demonstrate to stakeholders in partner countries and Australia whether or not effective results have been achieved, and the extent of value for money.
- **Management:** to give managers real-time information about how activities are doing so they can make informed decisions.
- **Learning:** to identify what is working and what is not, build on success and ensure mistakes are not repeated.

The measurement of aid effectiveness is unquestionably harder than in many businesses. The aid program is not producing hamburgers or widgets. In the first place, the product is not standardised, but highly varied according to the purpose.

In the second, the delivery mechanism is not standardised. A wide range of different approaches are adopted depending upon circumstances.

Third, whereas all businesses can calculate their financial outcomes, and relatively easily calculate the satisfaction of their customers, the definition, quantification and data collection on outcomes are all problematic for an aid program.

It can be difficult to measure:

- fraud (where aid funds are misused)
- poor efficiency (where aid is given but at too high a cost)
- lack of development impact (where aid is given, but outcomes are not achieved or sustained)
- fungibility (where aid funds free up recipient government resources to be spent on other things).

Poor governance is often the underlying cause of risk, but the quality of governance is something donors have little influence over. Improvements in governance can also be intangible and are difficult to assess, especially in the short term.

If anything, measuring the effectiveness of aid is becoming more challenging. Many donors, including AusAID, are working through partnerships more. This makes sense, but it also makes measuring success harder.

There is a balance to be struck between doing and measuring. But, as aid budgets grow, the public and partners will demand greater accountability and evidence of results.

AusAID has been reporting on the effectiveness of the aid program for years. At times, rhetoric has exceeded reality. But over the past five years, AusAID has invested heavily in performance management and has increased the focus on results.

This chapter looks at what has been done in the past five years to better measure success, and considers what has and has not worked. It then looks at what needs to be improved as the aid program scales up. Recommendations are informed by international trends, lessons and innovations.

Importantly, the overall aim is to strengthen and streamline the current system, rather than add new layers or more bureaucracy. Simple, rigorous systems that are widely understood and practised will be of greater value than complex systems understood by a few, and likely to be misused, if used at all.

B. PERFORMANCE MANAGEMENT AND EVALUATION

AusAID's key aid effectiveness reporting tool is the Performance Management and Evaluation Policy, last updated in 2009. It has two core components: a self-rating of project and program performance, and independent evaluation. The Office of Development Effectiveness (ODE) also plays an important performance reporting role.

i) Rating the Performance of Projects and Country Programs

AusAID managers are responsible for tracking the quality and effectiveness of all projects and programs.

Mandatory requirements apply for programs worth more than \$3 million at particular stages during the life of the activity, including at the design and implementation stages.

The performance of each program is assessed against eight criteria: relevance, effectiveness, efficiency, impact (where feasible), sustainability, monitoring and evaluation, analysis and learning, and gender equality. The first five criteria are based on the Organisation for Economic Cooperation and Development's Development Assistance Committee (OECD DAC) criteria for evaluating programs and projects, and the last three are (to its credit) unique to AusAID. Managers rate projects themselves, though at design these are subject to independent input and review.

Every program is given a score against each of the criteria from one to six, ranging from 'very high quality' (6) to 'less than adequate quality' (3) to 'very low quality' (1). At the design phase, programs must score a five rating or, if lower, identify actions to raise the rating to five in order to be eligible to proceed to implementation. During implementation, programs that receive lower ratings must identify measures to improve results.

The individual assessments are not made public, but they are reported at the aggregate level. The number of assessments completed at the initial stage is only one-third, but tends to increase as the program progresses so that 97 per cent are subject to regular assessment.

These assessments also help inform overall country assessments in the Annual Program Performance Reports. Objectives for each major country program are reported to be either fully achieved, partially achieved, or not achieved (known as the ‘traffic light’ system). Management responses to improve program performance are outlined where necessary.

The assessments are made by the senior official responsible for each country program, but are subject to quality control by senior AusAID management. These assessments are made public (though often after long time periods).

Major thematic sectors in AusAID do self-assessments in Annual Thematic Performance Reports. These are subject to quality control by senior AusAID management and are also made public.

This system is also the basis for AusAID’s overall performance reporting. Both the Annual Report (released each September) and the Annual Review of Development Effectiveness (ARDE) are based on these self-rating systems at the country, sector and project level. For example, the two most important targets in the Annual Report are that all major programs have:

- 75 per cent or more activities with a satisfactory or higher rating
- 75 per cent or more strategic objectives partially or fully achieved.

Actual ratings achieved are discussed in Chapter 3.

The Australian National Audit Office (ANAO) and OECD DAC have positively assessed AusAID’s self-rating system with its easy-to-understand ‘traffic light’ and one to six rating systems. It puts AusAID at the forefront of bilateral donors.

This reporting system aims to help AusAID’s management identify what is and is not working, and what needs special attention. Feedback and reports received by the Review Panel suggest the system is having the desired impact.

The simplicity of the system also has downsides. Aggregated reporting can sometimes conceal achievements and failures and the definition of ‘success’ used to make assessments of country program or projects can be ill-defined, unrealistic or lack ambition.

The Review Panel received feedback that the performance system was onerous and lengthy for staff. Another limitation was the focus of the system on AusAID bilateral programs.

ii) Independent Evaluations

AusAID’s Independent Completion Reports and Independent Progress Reports are another key part of its Performance Management and Evaluation Policy.

Under current guidelines, a report must be completed for an activity every four years, either during its implementation (a progress report) or at completion (a completion report). Reports are required for projects above \$3 million and are meant to be made public. They are independent in that they are done by individuals not involved in the project. Typically, but not always, they are written by non-AusAID staff.

By international standards, this policy is thorough. For example, at the World Bank, independent completion reports are done only for a sample of projects.

But a study of AusAID evaluation reports commissioned by the Review Panel found that implementation of AusAID's evaluation policy is patchy:

- Of 547 projects that should have had a completion or progress report in 2006–10, only 170 were recorded as having been done.
- Of the 170, only 118 could be found.
- About 26 per cent of the completion and progress reports were assessed to be too low quality to publish.
- Only about 20 have been published on the AusAID website.

Clearly, the policy is not being fully followed. Other problems were also evident. None of the 118 completion or progress reports reviewed provided an unsatisfactory rating. This raises questions of credibility. In comparison, 20 per cent of World Bank projects are rated unsatisfactory by its independent evaluation group.

There is also a structural issue with the policy: AusAID program managers must approve the publication of an independent report. This risks conflicts of interest and long delays in publication. The low rate of publication suggests these problems may be occurring.

Independent completion reports, when done and published, can be very useful. For example, the completion report on the first phase of the Indonesia Basic Education Project is in the public domain and helped to inform recent public debate about the second phase of the project (AusAID 2010b). In contrast, several useful completion reports have recently been done for the PNG program, but only one has been released.

Given the problems described above, it is not surprising that the Review Panel has seen little evidence that these reports inform and improve aid delivery.

iii) The Office of Development Effectiveness (ODE)

ODE sits in AusAID and reports directly to the Director General. It produces the ARDE, which is tabled by the Minister for Foreign Affairs in Parliament, as well as a number of thematic and country evaluations.

Annual reports on development effectiveness were pivotal to the creation of the ODE in the 2006 White Paper. It lay at the heart of efforts to improve effectiveness as the aid budget increased.

ODE and its ARDE have no doubt been important initiatives that have helped prioritise aid effectiveness. No other bilateral donor has an equivalent to the ARDE. Overall, however, the ARDE has been a limited success.

The ARDE was intended to link to the budget cycle, yet only three such reports have been produced in a five-year period, and with increasing delay. The 2008–09 ARDE was finished at the start of 2010, but not issued until December 2010.

The ARDEs provide a commentary on aspects of the aid program, including its performance management and reporting system, with some direct and some muted criticisms.

There is ambiguity around the role of the ODE, especially in regard to the ARDE. The ODE sits within AusAID, yet is expected to provide an independent commentary.

The ARDE to some extent duplicates the AusAID Annual Report, the longest section of which (pages 15–176 for the 2009–10 Report) is a ‘report on performance’ (ODE 2010).

Other work done by ODE is useful, but the initial focus on country evaluations has been lost. Only two country evaluations have been published since the ODE was created in 2006.

The ODE played an important role in establishing the current performance management and reporting systems discussed above, and plays an ongoing, useful role as an ‘internal think tank’ within AusAID on issues of aid effectiveness.

C. EXTERNAL SYSTEMS OF REVIEW

AusAID, and to some extent the broader aid program, is also subject to a variety of external performance reviews: ANAO reports, peer reviews by the OECD DAC, parliamentary oversight and government-commissioned reviews.

i) ANAO Reports

Traditionally, the ANAO has audited AusAID every two years, with reports in 1996, 1998, 1999, 2002, 2003, 2005, 2009, and one planned for publication this year.

A 2007 audit focused on the overseas deployment of the AFP. This is a rare example of evaluation of aid by departments other than AusAID.

Since 2010, the ANAO has committed to do annual performance evaluations of AusAID.

These audits provide important external scrutiny of how well government policy has been implemented, but not of government policy itself. Thus, the 2009 report says nothing about the aid budget being fragmented despite this being one of the most important issues facing the aid program.

ii) Peer Reviews by the OECD DAC

Members of the OECD DAC have their aid programs peer reviewed by other members every four years. These peer reviews give a useful big-picture perspective on Australia’s performance.

Assessments can be gentle, as donors take it in turn to review each other. For example, the 2008 DAC Peer Review gives a more positive view of the aid program’s capacity-building efforts than the independent PNG–Australia Development Cooperation Treaty Review of 2010.

iii) Parliamentary Oversight

Senate Estimates hearings are a regular forum for parliamentary questioning of AusAID and, at least in principle, other government departments that deliver ODA.

There have been very few parliamentary inquiries into aid. There are often inquiries that examine particular regions and include aid as part of their examination (for example, the recent inquiry into Australia’s relations with the Pacific and the ongoing inquiry into Australia’s relations with Africa).

iv) Government–Commissioned Reviews

Reviews of the overall aid program have been infrequent: the Jackson Review (1983), the Simons Review (1997), the Core Group Report (2005), and the current Independent Review of Aid Effectiveness (2011).

There have been external reviews of parts of the program (for example the review of the PNG program in 2010 and the *Power to the People* review of democratic governance in 2009).

These reviews have played a useful role, but they have probably been too infrequent.

D. INTERNATIONAL INNOVATIONS

Innovation in other donors' measurement and reporting of effectiveness can be grouped under two main headings.

i) Results Frameworks

Increasingly, aid agencies are trying to use results frameworks to assess their overall performance. These frameworks rely on clearly-defined objectives and success indicators so that potential biases introduced by self-rating are, if not eliminated, at least contained.

The four-tiered Asian Development Bank (ADB) model is probably the best example of this approach. Its top tier reports against the overall development performance of partner countries, the middle tier on the ADB's contribution, and the two lowest tiers on the ADB's inputs under effectiveness and efficiency headings. The annual report, which ADB management produces against the pre-agreed targets, is easily understood and welcomed by shareholders and recipients alike.

A similar approach has now been adopted by the World Bank.

ii) Independent Evaluation

The other key trend is a move to independent evaluation. Multilateral organisations have strengthened their independent evaluations. Rather than reporting to the president, independent evaluation bodies are increasingly reporting to the board of shareholders. The ADB and World Bank follow this approach.

Bilateral donors have traditionally shied away from independent evaluation, but some are now embracing it. Sweden has established an independent evaluation body, while the United Kingdom and Germany have announced plans to do so. The United States has long had an Office of Inspector General.

This push among some bilateral donors to do independent monitoring and evaluation is quite new. It is unclear whether it will continue in the political environment that bilateral donors inhabit. In Sweden, which has the most extensive experience, the independent office has had limited success, though there were clear design problems in this case.

E. DIRECTIONS FOR REFORM

The Review Panel believes Australia should build on what works and take the reforms of the last five years further.

As noted earlier, AusAID has made a lot of improvements to its results management and reporting system. The Performance Management and Evaluation Policy is sound. The Review Panel wants to see it strengthened rather than replaced.

The Review Panel's proposals are based on the reform directions set out below:

- Reduce the compliance burden. There should be fewer reports, fewer systems and less duplication. The overall aim should be less but better. There is currently too much measurement and not enough learning.
- Lift compliance. A system with limited compliance undermines confidence in the aid delivery system as a whole. Reducing the burden of compliance helps.
- The self-rating system works well; the independent evaluation system does not. Both components are important and both need to work.
- More reports should be published in a timely manner. This is consistent with the Review Panel's call for greater transparency of the aid program.
- Improve evaluations. If evaluations are of poor quality, and many appear to be, they will not be published and will certainly not be used.
- Apply the effectiveness reporting system to all ODA. Currently, the systems that AusAID uses are not generally used by other government departments responsible for ODA expenditure.
- The reporting system needs to cover core funding arrangements. Core funding for NGOs and multilateral organisations will expand as the aid program grows.
- Remove ambiguity around the role of the ODE. ODE sits at the heart of existing measurement and reporting arrangements. It has an extremely important role to play, but has been given an impossible task. A clearer and narrowed mandate will allow its potential to be fully realised.

F. PROPOSALS FOR PERFORMANCE MEASUREMENT AND REPORTING

The Review Panel assumes the ANAO will continue regular audits of the aid program and the OECD DAC's four-year peer reviews will continue.

In Chapter 17, the Review Panel suggests Parliament consider establishing a committee or sub-committee on aid. This is a way to increase awareness and engagement rather than oversight.

i) Apply a Single set of Measurement and Reporting Rules Across Government

At present, other Australian government departments, with the exception of the Australian Federal Police (AFP), do not generally apply the effectiveness measurement and reporting systems AusAID uses.

In the future, all departments that spend ODA should fully participate in the aid measurement and effectiveness reporting system for ODA funds and activities.

This would mean they would follow the same self-assessment processes at the project level, they would participate in the country-level annual assessments, and, from time to time, their projects would also be subject to independent evaluation by ODE.

AusAID and other government agencies should adopt a single and consistent approach to measuring effectiveness of ODA expenditure. If agencies wish to measure in other ways, it should be supplementary, for their own purposes and not a substitute.

The three-tier results framework system, proposed later in this section, should be used for whatever assessments AusAID or other agencies feel they need (and they should be kept to a minimum). This includes country reports, thematic reports and division and branch reports.

A danger to avoid is reporting for the sake of reporting. The system will not work if it is regarded as being of no real benefit. Managers must understand that reports should be short, clear and rigorous. The system must be easily understood, practical and useful to those administering the aid program and those to whom they are accountable.

The Review Panel suggests the Development Effectiveness Steering Committee (DESC) should give high priority to the development of this streamlined and consistent whole-of-government system for measuring effectiveness. DESC should also ensure the system is effectively communicated to those who must use it.

ii) Streamline and Extend the Self-Rating System

The self-rating system, which is widely supported, should continue, but with two changes.

First, it needs to be streamlined and its administrative burden reduced. The burden is high in part because the aid program is too fragmented. But the Review Panel also received a lot of feedback that the current system is too bulky and time-consuming. Poor compliance with the requirement to have quality ratings at entry suggests that managers do not find this useful. Quality ratings at design are not undertaken by the World Bank and may not be needed by AusAID.

Second, more analysis of project ratings should be undertaken. Results should be reported, not only in aggregate, but also by region and over time. Explanations should be sought for trends and patterns, so that lessons can be learnt about which projects (and where) work better and why. Averages should be tracked, as the aim should be not only to have fewer unsatisfactory projects, but to make good projects better.

This analysis could be used, for example, to examine how different partners are performing across the aid program.

iii) Produce an Annual Assessment of Aid Effectiveness

The Review Panel recommends that there should be an annual assessment of aid effectiveness that covers all ODA and serves two purposes: public accountability; and informing the annual review and budget process.

As detailed below, this assessment would use the proposed three-tier framework to provide an overall evaluation of the entire ODA program at a strategic level. It would include a summary scorecard supported by reports on the effectiveness of major country and other programs.

The Minister for Foreign Affairs should be the coordinator of this assessment. AusAID, on the Minister's behalf, would coordinate with the various agencies. The DESC would drive this process at the officials level.

The assessment would be a self assessment of progress, but it would be made public and subject to full scrutiny from Parliament, the Auditor General, civil society and so on.

This annual assessment could be included as a part of AusAID's Annual Report. The Annual Report's second chapter is already a long report on the performance of the Australian aid system, with reference to the entire aid program, not only AusAID programs; this assessment could replace that chapter. Use of the Annual Report would be consistent with the Review Panel's aim to avoid duplication. It would also entrench the practice. Even if it is not practical to include the assessment as part of the Annual Report, the work done for the one should be a major input for the other.

This annual assessment would replace the ARDE, which would be discontinued.

iv) Adopt a Three-Tier Reporting System

There is currently no satisfactory aggregate framework by which the results of Australia's aid program can be effectively managed and communicated. Earlier in this chapter, the Review Panel commended the approach pioneered by the ADB for reporting of aggregate results. An Australian approach could be built along these lines with three tiers:

Tier 1: progress against development goals

Tier 2: the contribution of Australian aid

Tier 3: operational and organisational effectiveness.

A simple 'traffic light' rating system would rate performance against indicators in each tiers: green would indicate good progress, amber mixed, and red poor progress.

This approach would provide the framework for the annual assessment of aid effectiveness. The assessment would be in the form of a summary scorecard (an example of which is given below) with supporting text and data.

At the highest (first tier) level, the summary scorecard would provide an assessment of global progress towards the Millennium Development Goals (MDGs).

The second tier would provide an assessment of the contribution of Australian aid using the four themes of the organising framework proposed in Chapter 8.

The third tier would include an assessment of performance at the operational and organisational level. The summary scorecard provides examples of the sorts of criteria against which performance would be reported, such as partnerships, aid quality, staff development, transparency and evaluation, and financial management.

Table 16.1: Australian Whole-of-ODA Summary Scorecard

AUSTRALIAN WHOLE-OF-ODA SUMMARY SCORECARD	
	Rating (green/amber/red)
Level 1: Progress Towards Development Goals	
<i>Objective: To achieve the MDGs</i>	
Poverty and human development outcomes	
Other development outcomes	
Level 2: The Contribution of Australian Aid	
<i>Objective: The fundamental objective of Australian aid is helping people overcome poverty. We work to improve the lives of those living in conditions far below what Australians find acceptable. We focus our resources and effort on areas of national interest, and where Australia can make a real difference.</i>	
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	
Level 3: Operational and Organisational Effectiveness	
<i>Objective: To manage our resources so as to maximise value for money.</i>	
Partnerships	
Aid quality	
Staff development	
Transparency and evaluation	
Financial management	

The summary scorecard would be supported by background analysis and text. This would provide the data and judgments which justify the ratings given. The supporting text would provide analysis, as discussed earlier, in relation to trends and patterns, so that lessons can be learnt and remedial actions taken.

In the third tier, for example, aid quality ratings would be based on the average project rating under the Quality Reporting System (QRS) and the average project size (as a measure of aid fragmentation). Staff development ratings would be based, in part, on the average time staff are in position.

The annual assessment would also include scorecards for major programs. A scorecard should be prepared for the same grouping of countries and regions used in this report. Each country and/or region would report against the three tiers: how the country/region is progressing relative

to the MDGs, the contribution of the aid program to each of the four themes of the organising framework, and how the country/region program is tracking in the key areas of operational and organisational effectiveness. Scorecards would also be produced for key partnerships. These should be separate scorecards for multilaterals, NGOs and humanitarian assistance.

Other government departments would contribute to the relevant program scorecard, each of which should be a whole-of-ODA assessment.

As recommended earlier, the three-tier system would be used not only for the annual assessment but across the aid program for reporting purposes. For example, it would also be used for sectoral programs and operational areas, and by other government departments in relation to their use of ODA. In each case, the report would be in the form of a summary scorecard and supporting text and data.

As noted earlier, a key risk for the aid program as it expands is the proliferation of different systems of measuring and reporting. What is needed is a system that can be quickly and easily understood by those responsible for measuring and reporting, and which presents information in a standard and user-friendly format. The three-tier approach meets these requirements.

The Annual Program Performance Reports and the Annual Thematic Performance Reports currently being produced by AusAID would continue with the scorecard format.

This system would not require changes to how country program strategies are prepared. However, country strategy reporting would need to be in the scorecard format. Comparisons could then be made and reporting would be streamlined and simplified.

Aside from a consistent base for monitoring and evaluation, the three-tier approach is also realistic and practical. It recognises that measuring aid effectiveness is neither easy nor perfect. It is hard to disentangle the impact of aid from other factors that influence development. A good approach to monitoring has several different dimensions. For example, the difficulty of measuring how much of a country's success can legitimately be attributed to Australian activity, is partially overcome by measuring improvement in the aid program's organisational effectiveness. In this way, a reasonably reliable overall picture can be created.

G. PROPOSALS FOR EVALUATION

While AusAID's self-rating system has taken great strides in recent years, the evaluation system, though equally important, is not working well, and requires an overhaul.

i) Undertake Fewer, but Higher Quality Independent Evaluations and Publish them all

The compliance burden of the current system is too high. The number of projects that require an independent evaluation should be reduced.

Every substantial project should have a completion report of some form or another. This should be a management responsibility, and it would be a management decision as to whether these reports were done independently or not.

A smaller number of projects, themes and country programs should be chosen for mandatory independent evaluation.

The aim should be to do about 10–20 of these independent evaluations every year. Maintaining an annual independent evaluation plan, implementing it and ensuring quality and publication would be the responsibility of ODE.

Centralising quality control in this way is critical to improve report quality. This will help AusAID feel more comfortable about publishing them. The current system is decentralised, leading to variable quality.

Under the new system, as described below, ODE would have to vouch for the quality of the evaluation, even if not endorsing the contents. ODE could also sign off on evaluation teams and ensure the quality of consultants eligible to be contracted to write evaluation reports.

ii) Sharpen the Focus of ODE and Increase its Independence

ODE needs to maintain its focus on aid effectiveness, but give more emphasis to evaluation. It would have four main responsibilities.

First, it would be responsible for the independent evaluations program: from creating an annual evaluation plan, to carrying out evaluations, controlling quality, to publication and distribution.

Second, it would quality assure the new ODA effectiveness reporting system described above, and make suggestions for improvement.

Third, each year it would publish a synthesis of the evaluations conducted, the lessons learned and its assessment of the ODA effectiveness reporting system.

Fourth, it would foster a culture of aid evaluation and effectiveness within the aid program.

The importance of learning from experience and absorbing lessons into new programs was highlighted in a submission by BaKTI–Yayasan Bursa Pengetahuan Kawasan Timur Indonesia (the Eastern Indonesia Knowledge Exchange):

“There are so many development initiatives, funded by various donor organisations and governments at a national and local level, in eastern Indonesia. Based on our observation, often a new project will use similar approaches as a previous project did, working on the same issue, with similar objectives and community targets. This repetition happens not because the previous program was successful in achieving its objectives and delivering benefits to the community, but more because of the unavailability of information on previous projects and inadequate consultation with local stakeholders. Unsurprisingly, often the ‘repeated’ project fails and achieves similar results.”

To improve learning, ODE would share lessons from complete evaluations and encourage evaluations of ongoing projects. ODE would help AusAID staff build evaluations into project design. It is now recognised that evaluations are not effective if initiated purely after the fact; effective evaluations build on pre-existing baselines and control groups, and collect data throughout an activity. ODE would continue its ‘internal think tank’ role, promoting discussion and learning on aid effectiveness issues.

Other tasks now allocated to ODE would be given to other parts of AusAID, such as servicing the DESC.

To recognise this new role, the Review Panel recommends that ODE be renamed the Office of Aid Effectiveness.

Many submissions recommended ODE have more independence, which would be in line with international trends. The argument made by AID/WATCH in their submission was representative of many:

“The Office of Development Effectiveness is the government body responsible for monitoring the quality and evaluating the impact of Australian aid. However, the ODE is answerable to the Director of AusAID, rather than the parliament. This undermines the ODE’s ability to voice a genuine critique of Australia’s aid program... By contrast, the United Kingdom government has committed to establishing an Independent Commission for Aid Impact, which ‘will be totally independent from government’, ‘will report directly to Parliament’ and ‘will have completely separate decision-making powers, staff and location from the Department for International Development.’ The Commission’s ‘reports will be published on their website directly with no interference from government’. AID/WATCH believes that the Office of Development Effectiveness should be made into an independent body separate from AusAID, following the example of the United Kingdom’s Independent Commission on Aid Impact.”

The Review Panel does not agree with ODE being taken out of AusAID. A disconnected evaluation agency is one with little influence.

But increased independence is important, especially given AusAID’s long-term support of independent evaluation. External consultants should not be asked to compile an independent report only to have their evaluation subject to management clearance.

Evaluations need to be contested (by program areas and others) but should ultimately reflect the independent and informed views of the experts who write them. A more independent ODE will be able to control the quality of evaluations without negotiating content.

Therefore, the Review Panel recommends current reporting arrangements for ODE remain. But just as AusAID has put in place an Independent Audit Committee (with several external members including the Chair), so it should put in place a small Independent Evaluation Committee (including both AusAID staff and several external members, including the Chair).¹⁶

Positioning ODE so that it sits administratively within AusAID, but is responsible to an expert panel for evaluations and quality assurance, would cement the independent status of its evaluations.

All draft independent evaluations and the new annual synthesis report would be discussed and then cleared by the Independent Evaluation Committee (not AusAID), and then published. Importantly, the Committee would not act as a censor for independent evaluations. It would vouch, not necessarily for every recommendation in each evaluation, but for its overall quality. The Committee would also guide ODE’s forward evaluation plan.

¹⁶ Note this is similar to the recommendation of the Simons Review of 1997.

H. STREAMLINING

The net effect of the Review Panel's proposals is streamlining.

There will be the additional requirement for an annual Cabinet submission to consider progress against the Four-Year Strategy. But it is obviously necessary to have such a Strategy, and to review it periodically across the whole of government. This is a small price to pay for the government and the public to have confidence that the growth in aid is organised and under control.

Ministers and officials will be able to deal in one single, coherent exercise with an assessment of aid effectiveness, a judgement of progress against the Four-Year Strategy (including whether hurdles have been met), the need for adjustments if necessary, and the allocation of contingency to determine the budget for the coming year.

The same assessment of aid effectiveness which forms part of the internal advice to Cabinet will also be made public, as the scorecard report to the Australian community, partners, stakeholders and the Parliament. It will therefore serve a dual purpose as the fundamental annual document of public accountability.

The Review Panel recognises that individual Annual Reports of agencies are required to be structured in accordance with each agency's budget. However, the Review Panel believes that the whole-of-government aid effectiveness review will break the back of this task for AusAID. It will not be necessary to duplicate commentary and analysis.

The scorecards which are prepared for countries to underpin the annual scorecard for the aid program as a whole will double as the basic monitoring document for those countries. They will not need to do any separate annual review.

Instead of the approximately 100 project and program evaluations which are now mandated, there will be only 10 to 20 well targeted and high quality evaluations, and an easily prepared annual synopsis. Again, these will be made public and therefore serve a dual purpose in terms of accountability and transparency.

The adoption of a simple but powerful three-tier approach to evaluation of aid effectiveness will, as it is picked up by and used through AusAID and other agencies, make it a good deal easier for government to come to a judgement on the effectiveness of all ODA expenditure.

As regards any other concerns about layers of reporting and accountability, the Review Panel notes that the ANAO and the Parliament will – and should – under any system do what they believe necessary to scrutinise the aid program. The adoption of the Review Panel's proposed system should make effective scrutiny easier and less burdensome all round.

I. EMBEDDING A PERFORMANCE ORIENTATION INTO PROGRAMS AND PROJECTS

Managing for results is not only about measuring effectiveness, but also about having robust and contestable planning and design processes. AusAID's design processes start with country strategies, which include country situation analysis, an overall partnership strategy, and more detailed delivery strategies. These provide a good basis for subsequent performance reporting.

The design process for individual activities is built around a number of mandatory quality assurance steps, such as peer review, including by external experts. These processes represent international best practice. The main challenge is to embed these processes through the aid program and ensure high compliance.

More could be done to embed a performance orientation into individual projects. Under an output-based aid approach, for example, projects disburse funds only if the outputs are delivered. Under incentive-based projects, funds are disbursed only if agreed conditions are met. Some agencies are starting to pilot 'cash-on-delivery' aid in which governments will be paid on the basis of, say, the additional number of children they enrol in school each year. The design of such projects automatically ensures that, if funds are disbursed, results are achieved.

With the increased focus on results, such types of interventions are getting increased attention. For example, Richard Curtain in his submission to the Review argued in relation to some Pacific countries that:

“Development assistance in the form of a payment for literacy results at the end of primary school and end of high school would be a highly effective way of addressing a major development goal...”

Of course, results-based approaches are not panaceas. In some cases, tangible results are very difficult to measure; in others, there is not enough certainty to link performance to payments. But they should be further explored.

AusAID has started to embrace these results-based types of interventions. Australia has joined the Global Partnership for Output-Based Aid, and is supporting a very successful intervention in Indonesia where companies are paid for every household they connect to the water mains (see Chapter 8). Similar interventions are under consideration in other countries.

Australia has also adopted incentive-based funds, especially in the Pacific, where additional funds are released on the basis of agreed policy reforms. A full evaluation of these is yet to be undertaken, but the initial experience could be described as mixed, but promising.

The Review Panel recommends that, as part of a general orientation towards performance and results, results-based aid modalities receive growing attention and emphasis.

As a possible example of the potential of this approach, it could be applied to the chronic problem of severe gender inequality in the Pacific. For instance, a challenge could be put to individuals, community groups, the private sector or even nations to come up with the best new ideas on how to reduce gender inequality and/or to show the biggest improvements in gender equality. The corresponding commitment from Australia would be to fund these ideas, and

reward the improvements. This could lead to breakthroughs in an area which is critical for development and poverty reduction, but which has so far proved resistant to progress. This is an idea worth further consideration.

Recommendation 34: A three-tiered reporting system should be adopted by all Australian government departments and agencies in relation to their use of ODA funds.

Recommendation 35: An annual assessment of aid effectiveness of all of ODA should be prepared using the three-tier system. This should inform the annual reviews of the Four-Year strategy provided to Cabinet.

Recommendation 36: A small number of high quality evaluations and an annual synthesis and quality assurance report should be produced annually, overseen by an Independent Evaluation Committee.

Chapter 17: ENHANCING TRANSPARENCY, SCRUTINY AND COMMUNITY ENGAGEMENT

A. INTRODUCTION

Transparency, scrutiny and informed debate are critical to improving effectiveness and value for money. Australian taxpayers have a right to see exactly how and where aid money is being spent, just as citizens in poor countries do. This helps them hold AusAID and recipient governments to account for using money wisely.

The Review Panel believes Australia's aid program has made significant strides in this area, but there is still room for improvement. This chapter discusses how Australia can better communicate and provide greater transparency on its aid activities and spending.

But this is not sufficient. There also needs to be consideration of how to give the Australian community a greater sense of ownership of, and engagement with, the program. Achieving an aid program that is effective and sustainable requires national consensus. This does not mean that there should not be vigorous debate about the program; on the contrary, this is one of the best guarantees of long-term quality. However, it is important that the debate be well-informed.

Transparency, scrutiny and public engagement are not, therefore, nice-to-have optional add-ons to the aid program; they are part of its foundation.

B. TRANSPARENCY

The Report has discussed how Australia could lead more on some carefully-selected focal points or 'flagships' of the aid program. Another area where the program could demonstrate leadership is transparency.

It is important to note the aid program has taken significant strides towards greater transparency in recent years. Australia already rates well compared to other bilateral donors on some measures of transparency. The Quality of Official Development Assistance Assessment, developed by the Centre for Global Development, ranks Australia as the best bilateral donor in its commitment to transparency and learning.

Some of the work done by Office of Development Effectiveness (ODE) shows the aid program is willing to be more self-critical of its development efforts than it was five years ago.

Australia is also a founding member of the International Aid Transparency Initiative (IATI), a joint effort of 18 donors and 19 partner countries to promote common standards for greater transparency. Australia has agreed to a global standard and is developing an implementation plan for the IATI.

Box 17.1: International Aid Transparency Initiative and Setting a Global Standard

On 9 February 2011, at a meeting of the IATI Steering Committee, a global standard was agreed to make project information, budgets, expenditure, conditions and results more public. The standard includes common definitions, requires donors to make this information available on their websites, and links this information to a central registry in a common format. This should make it possible for partner countries to better coordinate their plans and activities. It should also make it possible to reconcile data from a variety of sources, reducing inconsistencies, double counting and missing data.

Nonetheless, there is room for greater transparency. As noted in the 2009 Australian National Audit Office (ANAO) Report, most country strategies were not publicly available. (Since January 2011 the strategies have been available on the website). The Annual Program Performance Reviews that assess the effectiveness of major country programs have often been released up to 18 months after the time period the review focuses on. The vast majority of Independent Completion Reports for program activities have not been publicly released.

World Vision Australia summed up the development benefits of increased transparency in its submission to the Review:

“World Vision believes that a more open and transparent aid program is probably the single biggest step that can be taken to improve the effectiveness of AusAID’s programs: it will increase the range and quality of voices feeding into aid program design and implementation, it will allow more rapid learning from experience, quicker corrections to implementation problems and fraud, and will improve the relevance and sustainability of activities by including the voice of project communities.”

Transparency leads to more informed discussion and debate, which leads to a more effective aid program. In developing countries, partner governments, civil society groups and other donors will have easier access to information about what AusAID is trying to achieve and how well it is performing. In Australia, Australian NGOs, academics and other stakeholders will be able to better analyse and provide more informed commentary about the strengths and weaknesses of the program. Transparency will help them make suggestions on how to improve it.

The Review Panel recommends the program adopt a ‘warts and all’ approach to transparency. This is important in maintaining Australian taxpayers’ confidence in a growing aid program. It also means AusAID staff, contractors and partners need to produce better quality products since the work they produce will become publicly available.

The Review Panel believes AusAID should be a leader in openness of information. That is, it should publicly and promptly release all information, unless there is a specific and compelling reason not to do so. Obviously there would be exceptions for documents that are classified for national security, Cabinet processes or commercial-in-confidence reasons. But public release should be the rule, not the exception, for all the agencies involved in giving Australian aid.

Transparency is about releasing data as well as documents. As other donors are now starting to do, up-to-date data about what the aid program is spending in which countries and sectors, and with which partners should be easily accessible from the AusAID website. This will provide greater opportunity for feedback both from within Australia and, importantly, from recipient countries.

Data can only be released if and when it is collected. Given the growing importance of partnerships within the aid program, more needs to be done to collect and aggregate data on the mode of delivery – whether it is through contractors, multilateral organisations, NGOs or partner governments.

Finally, Australia's aid projects should themselves be models of transparency and communicate, especially at the local level, to communities about spending commitments and intended outputs.

i) Transparency Charter

One option for greater transparency would be for the government to adopt a Transparency Charter. This charter would list the documents and data the government pledges to release within specified timeframes.

Box 17.2: The United Kingdom Aid Transparency Guarantee

The United Kingdom Aid Transparency Guarantee was launched on 3 June 2010. It commits the Department for International Development (DFID) to publish detailed information in a way that is comprehensive, accessible, comparable, accurate and timely. The guarantee aims to make United Kingdom aid completely transparent to citizens in the United Kingdom and partner countries.

The guarantee states that DFID will:

- publish detailed information about all new projects and programs on its website, in a common standard with other donors
- publish in a comprehensive, accessible, comparable, accurate and timely manner
- publish in English and with summary information in major local languages, in a way that is accessible to citizens of countries where DFID works
- allow anyone to reuse DFID's information, including through the creation of new applications that make it easier to see where aid is being spent
- provide opportunities for those directly affected by projects to provide feedback on the performance of projects.

Greater transparency would, of course, increase the amount information available about what is not working in the aid program. Negative stories about the program are inevitable, but more transparency means the successes would be more accessible too.

The Review Panel heard from several politicians who stated they could counter negative press stories when talking to their constituents if they had more information on the impact Australia's aid had on poverty.

The Review Panel believes a more transparent approach could, over time, help generate a more sophisticated and balanced public debate about Australia's aid program.

That debate needs to include: the activities not only of AusAID, but also of other government agencies like the Australian Federal Police and Australian Defence Force; the work of Australian and overseas NGOs and community groups; UN agencies like United Nations Children's Fund (UNICEF), United Nations Development Program and the World Food Program; and other agencies such as the World Bank and Asian Development Bank.

Ultimately, public support will hinge on whether the aid program is able to demonstrate results. The Review Panel believes more transparency is essential to demonstrate credible results to all stakeholders, especially the Australian public.

C. PARLIAMENTARY ENGAGEMENT

Parliamentarians are a critical audience for the aid program and important contributors. The Review Panel has been impressed by the well-informed views and suggestions from Parliamentarians. Their interest in the subject and unique role representing public views are, of course, already respected by managers of the aid program. But the information flow to Parliamentarians and dialogue with them could improve. This would benefit both public accountability and the quality of the program.

Several parliamentary groups currently look at development issues: the UN Parliamentary Association, the UNICEF Parliamentary Association, the Parliamentary Friends of the Millennium Development Goals (MDGs), the Joint Standing Committee on Foreign Affairs, Defence and Trade, and Senate Estimates Committees. There are ties between these groups and AusAID, but there is scope to strengthen these.

A way to strengthen parliamentary engagement would be to establish a parliamentary committee or sub-committee on aid and development. This could either be a sub-committee of the Joint Standing Committee on Foreign Affairs, Defence and Trade or separate. This would be a matter for Parliament to decide. During consultations, several Parliamentarians expressed interest in and support for this idea.

D. PUBLIC ENGAGEMENT AND DEBATE

Chapter 5 discussed how the aid program is anchored in Australia's national character.

The aid program never will, and never should, be above criticism. There is no contradiction between this and the aspiration that the program be a source of national pride for Australians.

This is not just rhetoric. The government's aid program, together with private donations to NGOs, is Australia's most direct and tangible contribution to poverty reduction in developing countries. It is legitimate to aspire to Australians having pride in the aid program.

To help build a sense of national pride, greater effort should be placed on highlighting how many Australians already participate, to varying degrees, in overseas development activities. The \$800 million Australians donate each year to Australian NGOs' international activities is evidence of this participation and interest, as are the 1,200 Australians who volunteer their time and skills each year to work in developing countries on government-funded volunteer programs.

Box 17.3: Australians' Charitable Nature

According to the World Giving Index, Australia and New Zealand are the most charitable countries in the world. Launched by the Charities Aid Foundation in 2010, the index is based on a global survey that measures three charitable behaviours: donating money to an organisation, volunteering time to an organisation and helping a stranger. Australasia is also the region with the highest scores for giving money and volunteering time, and the second highest scores for helping a stranger, following North America.

i) Grants for Small Development Activities

The Review Panel sees room for the aid program to respond to this community interest more actively through a new grants scheme for community-based organisations. As Australia for UNHCR said in its submission:

“By broadening the Australian government's level of engagement with civil society in Australia, we submit that public support will be increased for the government's aid objectives and Australia will maximise aid and development outcomes.”

There is currently no mechanism under the aid program to fund the development-related activities of community groups, such as Rotary Clubs or Girl Guides units. These groups often do not have the capacity or inclination to go through the rigorous accreditation process required to secure ongoing funding.

This gap was highlighted in the submission from the Victorian Local Governance Association:

“I am certain that members of the panel are aware of the program initially promoted by the Local Government Association in Victoria and supported by many city councils in both Victoria and NSW. There are now more than 30 friends groups in Victoria alone who raise funds, visit East Timor, and manage projects in many districts of Timor-Leste. My own group was created with the help of the City of Kingston in Victoria in 2002 ... despite the support provided to the Friendship relationships at the local government, and to a limited extent, the state government level (particularly in the case of Victoria), there has been little concrete support available for this important initiative from the Commonwealth Government, apart from contributions to the funding of some conferences.”

The Review Panel recommends that the gap in support for such initiatives be filled by a program that could give grants of a maximum of \$20,000 for small development activities. On a pilot basis, a total provision of \$1 million could be made in the first instance.

To be eligible, community groups would need to have a local partner in a developing country. They would need to pass a basic due diligence test and provide referees. The scheme would be oriented towards smaller groups rather than major NGOs.

A small grants scheme supporting activities overseas obviously contains risks that would need to be managed and comes with administrative costs. The management arrangements of such a scheme would require careful thought. One option would be to contract out the management of the scheme to a contractor or NGO, with funding decisions made by an independent board. A model for effectively functioning small grants programs of this kind could be the various councils established by the government to promote cultural relations with countries such as Indonesia, China and India.

ii) Schools

The Review Panel considers that there would be particular merit in identifying ways of reaching out to children in schools to engage their interest in the situation of developing countries and the role of the aid program. The means of doing this could range from the development of curriculum material with aid and development themes through to distribution of factual information through new media.

This is an area in which the government could perhaps work with NGOs such as Caritas, who are already active in this field (discussed in Box 17.4), and other groups seeking to promote Australia's links with the Asia-Pacific region.

Box 17.4: Development Education – the Caritas Approach

Caritas Australia is the official aid and development agency of the Catholic Church. Its activities include not only overseas aid work, but also development education here in Australia. Caritas works with the Catholic Education Offices, who manage the majority of Australian Catholic schools, to educate their students on international development.

The Caritas development education program includes:

Resource development: Caritas produces educational resources for students, including printed materials, DVDs, and online multi-media resources. These assist educators to integrate international development into the school curriculum.

Professional development: Caritas Global Education Advisors conducted more than 40 professional development sessions for educators and community groups during 2009–10, with over 1,700 people participating.

'Just Leadership Days': students ranging from Years 5 and 11 from Catholic schools come together to explore, discuss and act upon issues of human development, human rights, poverty and injustice. The students are then provided with a 'toolkit' of information and ideas to share amongst their school communities.

Immersion programs: Caritas teachers and educators visit Caritas partners in developing countries to experience development in action.

Project Compassion: Caritas' annual Lenten Project Compassion campaign showcases stories of successful development. It encourages an informed approach to fundraising for development projects by telling stories and integrating awareness raising activities for entire school and parish communities.

iii) Promoting Informed Public Debate

The Australian public has a right to know their aid program is making a difference to people's lives. The size of the program is a legitimate point of public debate. The recent Queensland floods resulted in media attention to the size of the aid program and public commentary regarding whether 'charity begins at home'.

Interestingly, fewer than one per cent of the submissions received by the Review called for a cut in the aid program. But the Review Panel would not doubt that the view expressed by Trevor Hudson is indicative of a wider sentiment. Mr Hudson was one of those to call for a temporary cut in the aid program:

"I would also like to see our overseas aid temporarily cut by an amount equal to the recent flood damage in Australia so that we don't need to have a flood levy."

The Reverend Leanne Baker put the contrary view in her submission:

"Despite the recent devastation our own nation has experienced, we must not let our own misfortune impact on the ongoing, relentless misfortune of those who are less powerful and in the grip of poverty."

Such debates regarding relative priorities are both inevitable and appropriate. The government has a role to play in ensuring this public debate is as informed as possible.

Good communication is an important way to make sure debate is informed, but communication should not be confused with advocacy. The government will help inform public debate by providing timely and balanced information about the effectiveness of the program. As noted by Cardno in its submission to the Review:

"Importantly, the Australian aid program needs to engage the Australian public to a greater extent on what the aid program does and on what Australia's development priorities are. The Australian taxpayer expects to be able to identify where our money is going, on what it is being spent, and what results from our contributions."

iv) Embrace New Media to Improve Communications

In order to promote public debate, the Review Panel recommends the aid program fully embrace new media and other innovative technology to clearly communicate the impact of the program.

The AusAID website is clearly a critical source of information. The quality and timeliness of website information have improved dramatically in recent years. Nevertheless, further

investment is required to ensure information is kept up-to-date. The website should have links to projects funded by Official Development Assistance (ODA) and delivered by other government agencies, NGOs and multilateral organisations.

The website should also include interactive technology that enables easy access to information about the progress of the program and its activities. Documents released under the recommended Transparency Charter should also be easily accessible online.

This Review has used blogs and found them to be a good way to exchange information and gather views. A permanent blog on the aid program, run by either AusAID or a trusted partner, would be a good investment in public communication.

It is worth reiterating that public communication and public engagement are not peripheral add-ons to the aid program. They are an investment in a solid, long-term foundation for it, all the more important as the program is poised for unprecedented growth.

Recommendation 37: A Transparency Charter should be developed, committing the aid program to publishing documents and data in a way that is comprehensive, accessible and timely.

Recommendation 38: Public engagement should be improved through a new community grants scheme, embracing new media technologies and promoting development education.

Part 5

THE WAY AHEAD





Chapter 18: THE STEPS AND HURDLES TO 2015–16 AND BEYOND

A. INTRODUCTION

The Review Panel has presented a vision of an aid program to which Australia should aspire in 2015–16 and beyond. It is a vision that covers the geographical allocation of Australian aid, sectors and flagships, and the use of the various channels available.

This should now guide action, centred on AusAID but also involving other government agencies who contribute to the aid effort.

B. KEY STEPS: THE BIG PICTURE PLAN

The table below sets out the Review Panel's suggested plan of action. It is deliberately at a high level. Detailed planning should be left to management.

The Review Panel hopes this plan, or a modified plan adopted by government and based on this one, can serve as a communications tool for all staff involved. AusAID and other agencies will walk a difficult journey over the next five years, which will see unprecedented:

- growth in Australian Official Development Assistance (ODA)
- public interest and scrutiny
- need for consolidation
- need for government agencies to pull together
- need to work with partners.

All staff, from the most senior to the most junior, across all relevant agencies, will perform best if they understand the big picture, the multi-year plan as set out below.

The multi-year plan summarises in bullet point form the key steps, elaborated in detail through the Report, that need to be taken each year to 2015–16. In interpreting these, reference needs to be made to the relevant text in the Report.

C. HURDLES AND SAFEGUARDS

These steps should also be regarded as hurdles. The Review Panel believes it is in the interests of the Australian public, the government and its partners, that these steps be mandatory and completed as the aid program scales up to 2015–16.

In this regard, the Review Panel makes its views clear on four key points.

First, while an important purpose of the annual review each year in will be to allow government to reach a judgement about whether the hurdles have been met, this is not intended as a

detailed, forensic review of AusAID or other agencies involved in the aid program. It is strategic. It is designed to enable the government to make high-level judgements on aid expenditure during the annual budget process. It should be presented to the Cabinet, or the appropriate budget review committee. It is not an external review.

Second, the purpose of this recommendation to establish hurdles is not to introduce doubt, but to introduce discipline. The Review Panel advocates that the government should plan and budget for the long term and provide greater predictability than exists now. Aid effectiveness is compromised by scaling up through an annual increase of new policy proposals, while holding large amounts back in contingency. It is also compromised by the lack of a strategic framework that allows managers to plan multi-year country programs.

Rather, treating the key steps as hurdles provides a safeguard. It is sensible to recognise that the upward trajectory to 0.5 per cent of GNI is steep and challenging. It makes sense that budget appropriations each year be contingent on things going to plan and existing monies being spent effectively.

Third, failure to achieve a hurdle, or to fully achieve it, must have consequences. For example, the government could reduce the rate of increase or withhold all or part of the funding unless and until the hurdle is achieved.

Alternatively, if one of the management reforms needed for the effective scaling up of the aid program were not achieved in time, the government could instead provide more core funding to high-quality and reliable multilateral organisations. In other words, the government could make adjustments to how the aid is delivered.

Fourth, the Review Panel advocates a single, coherent annual review process and not multiple processes using multiple methodologies. This will provide an accurate and annual picture of progress, enabling ministers to make sound decisions. It will also give the right level of analysis and reporting without bogging the people administering the program down in paperwork.

The Review Panel has advocated earlier in this Report that the annual review be directly connected to the budget process. It also suggested the annual assessment of aid effectiveness (a critical input to the annual review) have three tiers to measure results: country progress towards development outcomes, particularly as measured against the MDGs; Australia's contribution to this progress; and improvements to how Australia manages and administers the aid program.

Assessing whether the hurdles have been met would constitute an important part of measuring the aid program's progress, with particular relevance at tier three.

This methodology would apply to the aid program as a whole, as well as its parts, and it would also, of course, be supported by deeper measurement and analysis.

D. ADVANTAGES OF THE APPROACH

The multi-year plan approach is a prudent approach to accomplishing an ambitious objective. It is bold and also smart.

The best way forward for all involved is to have a clear idea of what needs to be achieved each year until 2015–16.

It will allow ministers to drive the program effectively and agencies to get on with the job. It creates a path towards a very large, high-quality aid program, while at the same time providing necessary checks, balances and accountability.

It offers the best chance at building the public consensus that is crucial to a sustained aid program.

The bottom line may be described as follows: proceed with confidence and also caution.

Recommendation 39: The scale-up of the aid program to 0.5 per cent of GNI should be subject to the progressive achievement of predetermined hurdles.

Increasing Australian Aid – Steps and Hurdles – A High-Level View

2010–11 Preparation	2011–12 Setting the Foundations	2012–13 Year one of Strategy	2013–14 Year two of Strategy	2014–15 Year three of Strategy	2015–16 Year four of Strategy
<p>Panel report</p> <p>Response</p> <p>AusAID corporate reforms to continue and be reported on by Director General as part of annual reviews of aid effectiveness</p>	<p>Adoption of Four-Year Strategy (2012–13 to 2015–16) by Cabinet</p> <p>Reform budget process</p> <p>2012–13 budget adopted with three-year Forward Estimates to conform with Four-Year Strategy</p> <p>Budget to agree on phased scale-up of AusAID resources</p> <p>Three-tier measurement adopted</p> <p>Transparency Charter</p> <p>New evaluation structure</p> <p>Enhanced oversight role for DESC</p> <p>Multilateral organisation strategies</p> <p>Key consultations with NGOs and multilaterals on core funding, Pacific microstates</p>	<p>First annual review by Cabinet, including assessment (scorecard) of ODA effectiveness</p> <p>First products from new evaluation arrangements</p> <p>Policy statements on private sector and civil society</p> <p>Commence community engagement (small grants, schools outreach)</p> <p>Complete process of joining African Development Bank</p> <p>AusAID Workforce Plan substantially implemented</p> <p>Scale up research program in agriculture and medicine</p>	<p>Second annual review by Cabinet, including assessment (scorecard) of ODA effectiveness</p> <p>Spread three-tier system across government</p> <p>Partnerships with multilateral organisations, NGOs and business upgraded</p> <p>Africa program consolidated</p>	<p>Third annual review by Cabinet, including assessment (scorecard) of ODA effectiveness</p> <p>Enhanced whole of government coordination (DESC, three-tier measurement) working well</p> <p>Appoint independent panel and commence External Review</p>	<p>External Review of aid program and fourth annual review considered by Cabinet</p> <p>New Four-Year Strategy adopted 2016–17 to 2019–20</p> <p><u>0.5 per cent target achieved</u></p>

Annexes





ANNEX A: TERMS OF REFERENCE

1. BACKGROUND

The Australian aid program aims to assist developing countries reduce poverty and achieve sustainable development, in line with Australia's national interests. The program has doubled in size over the last five years to an estimated \$4.3 billion in 2010–11 and, on current economic projections, will double again to meet the Government's commitment to increase Australia's aid to 0.5 per cent of gross national income by 2015–16.

The Government, Parliament and taxpayers need to be confident that this significant investment is both effective and efficient in fulfilling its objectives.

The Government has taken a range of measures to improve the effectiveness and efficiency of the aid program. The Office of Development Effectiveness (ODE), which was established in 2006, has completed a number of reviews and evaluations of the program, including the Annual Review of Development Effectiveness, which is tabled in Parliament. The findings of this analysis are used to improve aid program planning and implementation. AusAID, the lead agency within the Government on the aid program, has rigorous systems and processes in place to ensure that the aid program is well managed and prioritised. These systems are reviewed and improved regularly. A review of advisers engaged under the aid program is currently being conducted jointly with developing country partners, and a review of procurement and agreements processes has commenced. An audit of the aid program by the Australian National Audit Office in 2009 found that AusAID had effectively managed the increases in the program up to that time.

To ensure that the further increase in the aid budget to 2015–16 is well managed and meets the Government's objectives, a review of the aid program will be conducted. This will be the first independent public review of the aid program commissioned by the Australian Government since the Simons Review in 1996.

This review will draw on the experience of the last five years and relevant international experience and make recommendations regarding the structure of the program and the planning, implementation and review arrangements needed to support delivery of a substantially enlarged aid investment. This review will make a strong aid program even better.

2. OBJECTIVE

To examine the effectiveness and efficiency of the Australian aid program and make recommendations to improve its structure and delivery.

3. SCOPE

In particular the review will focus on:

The structure of the program, noting in particular:

- a. the appropriate geographic focus of the program, taking into account partner country absorptive capacities;
 - the appropriate sectoral focus of the program, taking into account Australia's area of comparative advantage and measured development effectiveness results;
 - the relative focus of the aid program on low and middle-income countries;
 - the relative costs and benefits of the different forms of aid, including the role of non-government organisations and the appropriate balance between multilateral and bilateral aid funding arrangements.
- b. The performance of the aid program and lessons learned from Australia's approach to aid effectiveness.
- c. An examination of the program's approach to efficiency and effectiveness and whether the current systems, policies and procedures in place maximise effectiveness.
- d. The appropriate future organisational structure for the aid program, including:
 - AusAID's organisational structure for aid delivery;
 - arrangements for the coordination of ODA across the public service; and
 - coordination of Australia's ODA with other donors and institutions.
- e. The appropriateness of current arrangements for:
 - review and evaluation of the aid program, including an examination of the role of the Office of Development Effectiveness and options to strengthen the evaluation of the aid program; and
 - the management of fraud and risk in the aid program.

The review will involve an examination of broader international thinking on aid effectiveness and will draw on work by the OECD DAC (including the most recent peer review of the Australian aid program), work on the approach and experience of non-state donors (such as the Clinton and Gates Foundations and non-government organisations) and the range of audits undertaken by the ANAO.

4. MANAGEMENT ARRANGEMENTS

The review will be conducted by a panel consisting of:

- Mr Sandy Hollway, AO, (Chairman), former secretary of two Australian Government departments and CEO of the Sydney Organising Committee for the Olympic Games, previously, an official of the Australian Department of Foreign Affairs and Trade for 16 years, an Australian diplomat at four overseas posts and Head of the International Division and Deputy Secretary of the Department of Prime Minister and Cabinet with responsibility for foreign aid and other international matters;

- Dr Stephen Howes, Director, International and Development Economics, Crawford School of Economics and Government at the ANU, previously worked as the Lead Economist for India for the World Bank and as Chief Economist at AusAID;
- Ms Margaret Reid, AO, has extensive experience with Australian non-government organisations (NGOs) working in international aid as the former President of the Executive Committee of the Australian Council for International Development. Ms Reid is also the first female President of the Australian Senate, and former World President of the Commonwealth Parliamentary Association;
- Mr Bill Farmer is a former senior diplomat. Mr Farmer was Head of Mission in the two largest recipients of Australian aid, Indonesia and Papua New Guinea. Mr Farmer was also the Deputy Permanent Representative of Australia to the United Nations;
- Mr John Denton, CEO and Partner at Corrs Chambers Westgarth is a Prime Ministerial appointee to the APEC Business Advisory Council and a member of the Boards of the Business Council of Australia and the Commonwealth Business Council. He has firsthand experience of development and conflict through postings to Bangladesh and Iraq. He is Chairman of Australia for United Nations High Commission for Refugees Australia.

The panel will be supported by a secretariat led by AusAID and drawn from a range of other Government agencies, including central agencies and agencies involved in the delivery of the aid program, as necessary. The panel will draw on expert advice as required.

5. APPROACH

The review will consult extensively across the Australian Government, non-government organisations and other key stakeholders in the Australian community. Fieldwork will be conducted to consult with a selection of Australia's bilateral and multilateral partners.

6. TIMING

The review will commence in November 2010 and be completed by April 2011.

ANNEX B: SUBMISSIONS RECEIVED

1GOAL Young Ambassadors
A and C Phillips
ActionAid Australia
AIDWATCH
Alan Irvine
Alison Leemen
Andrew & Jody van Burgel
Andrew Harris
Anglican Public Affairs Commission
Anne Yuille
Anthony Carr
Ashleigh Jones
Asialink
Associate Professor James Goodman – University of Technology Sydney
Associate Professor Shashidhar Venkatesh Murthy – James Cook University
Astrid Herlihy
Australia for UNHCR
Australia PNG Business Council
Australian Academy of Science
Australian Bahá'í Community
Australian Broadcasting Corporation
Australian Catholic Religious Against Trafficking in Humans
Australian Centre for Leadership for Women
Australian Coalition for Education and Development
Australian Conservation Foundation
Australian Council for International Development
Australian Disability and Development Consortiums
Australian Doctors for Africa
Australian Federal Police
Australian Human Rights Commission
Australian National Committee for UN Women
Australian Paralympic Committee
Australian Red Cross
Australian Reproductive Health Alliance, Burnet Institute, CARE Australia, International Women's Development Agency, Marie Stopes International Australia and Sexual Health and Family Planning Australia
Australian Sports Commission
Australian Volunteers International
Barbara Short
Belinda Marchesiello
Bertram Jenkins
Brendan Rigby
Brian and Jill Polkinghorne

Brian Fairman
 Brian Robertson
 Burma Campaign Australia
 Burnet Institute
 Burnet Institute, CARE Australia, International Women's Development Agency and Marie Stopes
 International Australia
 Business Council of Australia
 Business for Millennium Development
 BWR Management Pty Ltd
 Cardno Emerging Markets
 CARE Australia
 Carol O'Donnell
 Carolyn Marsh
 Catherine McGowan
 CBM Australia and CBM–Nossal Institute Partnership for Disability Inclusive Development
 Cecily Dignan
 Centre for Accident Research and Road Safety
 Cheryl Peck
 ChildFund Australia
 Christina O'Brien
 Christina Pitt and Grant Benvenuti
 Christine Cass
 Christopher Moore
 Colin Sinclair
 Committee to Protect Vietnamese Workers (CPVW)
 Community and Public Sector Union
 Compassion Australia
 Co-operation in Development Australia
 CSIRO
 Dan Musil
 David Barnden
 David Karr
 Deborah Rhodes and Christopher Dureau
 Debra Chapman
 Deidre Christie
 Department of Agriculture, Fisheries & Forestry
 Diplomacy Training Program
 Don Stokes
 Don Veitch
 Doug Flanders
 Douglas Everingham
 Dr Anthony Austin
 Dr Charles Kick
 Dr Helen M Hill
 Dr John Blair
 Dr John Conroy – ANU
 Dr John Philip Lea – University of Sydney

Dr Julie King and Jenni Mays – Queensland University of Technology
 Dr Leighton Vivian
 Dr Michael Wilson
 Dr Patrick Kilby – ANU
 Dr Peter Devereux
 Dr Peter Graham
 Dr Peter M. Sales
 Dr Roger B. King
 Dr Ruth Jackson
 Dr Scott MacWilliam – University PNG/ANU
 Dr Simon Batterbury – University of Melbourne
 Dr Tahmina Rashid – University of Canberra
 Eastern Indonesia Knowledge Exchange (BaKTI–Yayasan Bursa Pengetahuan Kawasan Timur Indonesia)
 Eddie Ozols
 Effective Development Group
 Elizabeth Chase
 Elizabeth Stewart
 Ella Feeney
 Emma Henderson
 Eric Garner
 Ernest Antoine
 Families and Friends for Drug Law Reform
 Foreign Economic Relations Department of the Ministry of Planning and Investment – Government of Vietnam
 Foundation for Effective Markets and Governance
 Frances D'Ambra
 GAVI Alliance
 Gemma Lotha
 Geoff and Cherylle Stone
 Geoscience Australia
 Glyn Davis, Vice-Chancellor – University of Melbourne
 Greenlight Technology Group
 Greg Cutbush – ANU
 Haines Centre for Strategic Management
 Heather Smith
 Heike Lautenschlager
 Human Rights Council of Australia
 Human Rights in Asia
 Human Rights Law Resource Centre
 Ian Anderson
 Ian Peebles
 Impact Investment Group
 Institute for International Trade – University of Adelaide
 International Development Contractors
 International Finance Corporation

International Help Fund Australia
International Labour Office
International Planned Parenthood Federation
International Society for Human Rights Australia
International Women's Development Agency
Internews Network
Jaime Serpanchy
James Franks
James Godfrey
James Ricketson
James Tedder
Jan Morgan
Jan O'Leary
Jenna Weston
Jenni Downes
Jesse Wynhausen
Jim Belford
Jo Thomson
Joan Gibbs
Joanna Brislane
John Blunt
John Crook Consulting
John Godwin
John Jablonka
John Piper
Jonathan Schultz
Joseph Philippa
JTA International
Jubilee Australia
Judith Blyth
Judith Odgaard
Kate Jeffery
Kathy Popic
Katie Livingstone
Keith Stebbins
Knowledge Hubs for Health Initiative
Kolinio Meo
Land Equity International and Strategic Planning and Management Services
Laura Smelter
Lorien Vecellio
Lorinne du Toit
Make Poverty History
Marg Kennedy
Mario Hasanakos
Matt Hilton
Matthew Edgerton
Medicines for Malaria Venture

Melissa Jones
Micah Challenge Australia
Michele Freeman
Nathalie Saldumbide
National Disability Services
National Health and Medical Research Council
Nicholas Goodwin
Nicholas Maclellan
Nick Pastalatzis
Nigel O'Connor
Nishan Disanayake
Nizza Siano
Norton Rose Australia
Office for the Coordination of Humanitarian Affairs
Office of the United Nations High Commissioner for Refugees
One Laptop per Child
Opportunity International Australia
Otto Mueller
Oxfam
Pacific Institute of Public Policy
Palms Australia
Patricia Jennings
Patrick Robinson
Paul Oates
Paul Woods
Pauline Tyrrell
People In Aid
People's Health Movement
Peter D Masey and Professor David Durrehim – University of New England and
University of Newcastle
Peter Goldsworthy
Peter Gringinger
Petrus Heyligers
Phil Jones
Philippine Council for Agriculture, Forestry and Natural Resources Research and Development
Pia Harkness
Plan International Australia
Planning Institute of Australia
Principles for Social Investment Secretariat
Professor Anthony Zwi – University of NSW
Professor Bruce Young
Professor Dennis Altman, AM – LaTrobe University
Professor Ian Everall – University of Melbourne
Professor Richard F Heller
Quaker Services Australia
Rani Pramesti
RedR Australia

Rene Provis
 RESULTS International Australia
 Reverend Leanne Baker
 Richard Curtain
 Richie Nichols and Kristina Hedin
 Robert Cannon
 Robert Wesley-Smith
 Robin Nair
 Rodney Stephens
 Rosie Wagstaff
 Roxanne Naylor
 Royal Life Saving Society
 Sails Ocean Sails
 Sally and Ken Wylie
 Sam Byrne
 Sam Porter
 Samantha Chung
 Sarita Hales
 Save the Children
 Secretariat of the Pacific Community
 Sexual Health and Family Planning Australia
 Solway Sager-Nutting
 South Pacific Chief Nursing and Midwifery Officers Alliance
 Southern Cross Permaculture Institute
 St James Ethics Centre
 Stephen Baker
 Susanna Price – ANU
 Susie Newman
 Sustainable Population Australia
 Sustineo
 Tanner James Management Consultants
 TB Alliance
 TEAR Australia
 The Australian APEC Study Centre – RMIT University
 The Crawford Fund
 The Foundation for Development Cooperation
 The Fred Hollows Foundation
 The Global Fund to Fight AIDS, Tuberculosis and Malaria
 The Global Poverty Project
 The Institute for Ethics, Governance and Law
 The Institute of Chartered Accountants in Australia
 The International Centre of Excellence in Water Resources Management
 The National Directorate for Aid Effectiveness (NDAE) Ministry of Finance – Democratic Republic of Timor-Leste
 The Oaktree Foundation
 The Royal Australian & New Zealand College of Psychiatrists
 Tony Baker

Transparency International Australia
Trevor Freestone
Trevor Hudson
UN Secretariat of the International Strategy for Disaster Reduction
UNAIDS
Union Aid Abroad
United Macedonian Diaspora
United Nations Volunteers
Vic and Bev Romanyshyn
Victorian Local Governance Association
Vietnamese Community in Australia
Vikki John
Vision 2020 Australia
VSO International
WASH Reference Group
Weh Yeoh
WHO Collaborating Centre for Nursing, Midwifery and Health Development
Women and Children Crisis Centre Tonga
Women's International League for Peace and Freedom Australia
World Health Organisation
World Vision Australia
WWF Australia
YWCA Australia

ANNEX C: GLOSSARY

Accra Agenda for Action: an international agreement reached in Accra, Ghana, in 2008 by a broad range of donor and recipient governments. It aims to improve the delivery, management and use of aid, building on the commitments made in the 2005 Paris Declaration.

Annual Assessment: The Review Panel recommends that there be an annual assessment of aid effectiveness that covers all ODA. This assessment would use a three-tier framework to provide an overall evaluation of the entire ODA program at a strategic level.

Annual Program Performance Report (APPR): provides an overall assessment of the Australian aid program's performance at the country or regional level. APPRs are undertaken by Australian government (usually AusAID) staff.

Annual Review: The Review Panel recommends that there be an annual review of the program's progress, considered by Cabinet. The most important input to the annual review would be the annual assessment (see above), but the review would go beyond the assessment to include, for example, a review of progress against pre-determined hurdles.

Annual Review of Development Effectiveness (ARDE): a report produced by the Office of Development Effectiveness designed to provide an overall account of the aid program's performance. The first ARDE was published in 2008.

Annual Thematic Performance Report (ATPR): provides an overall assessment of the Australian aid program's performance at the sectoral level (eg health, education and infrastructure). ATPRs are undertaken by Australian government (usually AusAID) staff.

Asian Development Bank (ADB): established in 1966, the ADB is a multilateral development bank focused on the Asian and Pacific Island Country regions. The ADB provides grants, concessional loans and non-concessional loans for development activities.

The Australian Agency for International Development (AusAID): the Australian Government agency responsible for managing Australia's overseas aid program. AusAID is an Executive Agency within the Foreign Affairs and Trade portfolio and reports to the Minister for Foreign Affairs.

Australian Civilian Corps (ACC): a register of Australian civilian specialists (e.g. lawyers, humanitarian workers) who can be deployed at short notice into overseas disaster or conflict-affected countries. The ACC was announced in October 2009.

Australian Council for International Development (ACFID): the peak body for Australian not-for-profit aid and development organisations. The Council has 69 member organisations including both large and small NGOs.

Bilateral Aid: as defined in Chapter 6, a bilateral donor funded activity that is delivered by private contractors or partner governments, or through other government departments.

Bilateral Donor: a donor that provides funds on behalf of a country government.

Budget Support: funding from official donors to partner governments not earmarked to particular expenditures, often on the basis of policy conditions.

Cairns Compact on Strengthening Development Coordination in the Pacific: established by Pacific leaders at the 2009 Pacific Islands Forum, the Compact sets out actions designed to improve the coordination and use of development resources in the Pacific, in line with the Paris Declaration and the Accra Agenda for Action.

Catholic Relief Services (CRS): founded in 1943, CRS is the official international humanitarian agency of the U.S. Catholic community.

Civil Society: ‘intermediary institutions’ such as professional associations, religious groups, labour unions and citizen advocacy organisations, that give voice to various sectors of society and enrich public participation in democracies. (Civil Society International 2011)

Commonwealth Secretariat: an organisation headquartered in London that implements development-related plans agreed by Commonwealth Heads of Government through technical assistance, advice and policy development.

Concessional Loan: a loan provided by multilateral development banks and some bilateral donors, with lower interest rates or longer grace and maturity periods than market-based loans. To be counted as Official Development Assistance a concessional loan must be at least 25 per cent cheaper than market-based loans.

Conditional Cash Transfers: transfers of cash to poor individuals or households with payments subject to certain conditions being met, such as attendance of children at school.

Consolidation: the process of focusing aid resources (funding and/or staff) on a smaller range of countries, sectors or activities.

Contingency Reserve: an unallocated allowance in the Australian government budget to provide flexibility to respond to unanticipated events.

Core Funding: funding to an organisation such as a multilateral organisation or NGO that is not tied to a specific purpose and can be used by an organisation for any purpose within its agreed strategy/workplan.

Corporate Social Responsibility: a commitment by a company to meet social outcomes as well as commercial goals in its operations.

Corruption Perception Index: produced by Transparency International on an annual basis to measure the perceived levels of corruption across 178 countries.

Country Allocation: aid funds delivered by a country program (see below) plus the amount of a donor’s contribution to core funding of a multilateral organisation or NGO which is estimated to be distributed to the country in question.

Country Program: all activities within the control of a donor that specifically target a country, including bilateral aid and earmarked funding to multilateral organisations and NGOs, plus core funding to partners who only operate in one country.

Cross-cutting Issue: an issue that is relevant and important across all sectors and should be considered in the design and implementation of all activities (eg gender).

Delegated Cooperation: a bilateral donor providing funding through programs managed by another bilateral donor.

Department for International Development (DFID): is the United Kingdom government department that manages the United Kingdom's overseas aid program.

Development Effectiveness Steering Committee (DESC): the Australian government senior officials committee tasked with strengthening the coordination of the aid program and playing an advisory role to the government on major ODA strategy and budget proposals. The DESC is chaired by the AusAID Director General and comprises deputy secretaries from the Departments of Prime Minister and Cabinet, Treasury, Finance and Deregulation and Foreign Affairs and Trade.

Direct Aid Program: a flexible fund used to support small (usually community-based) development activities in countries that are eligible for Official Development Assistance. The Direct Aid Program is managed by Ambassadors and High Commissioners at Australia's overseas posts.

Disaster Risk Reduction: reducing vulnerability to disasters and improving the resilience of communities and countries to disasters.

Donor Burden: the burden on recipient governments (often with low capacity), from having to deal with many different donors.

Earmarked Funding: funding provided to multilateral organisations and NGOs for a specific purpose. Funds can be earmarked for specific activities, sectors, countries or regions.

Education for All Fast-track Initiative: a global partnership between donors and developing countries with the aim of accelerating progress towards the Millennium Development Goal of universal primary education by 2015.

Enterprise Challenge Fund: provides grants to assist business projects in designated developing countries that would not be viable without start-up support. Companies bid competitively for grants through a series of rounds.

Food and Agriculture Organisation: a UN agency established in 1945 with a mandate to help developing countries modernise and improve agriculture, forestry and fisheries practices and improve nutrition.

Fragile States: a classification used to characterise countries that suffer from conflict or very weak governance.

Fragmentation: small aid activities scattered over a large number of countries and sectors where the potential development benefits are low considering the resources required to manage them.

Fungibility of Aid: aid displacing recipient government expenditure.

Global Alliance for Vaccines and Immunisation (GAVI): a multilateral organisation that promotes immunisation in developing countries and has representation from both the private and public sectors, including donor and recipient governments.

Global Environment Facility (GEF): a multilateral fund that provides grants to developing countries for projects related to biodiversity, climate change, international waters, land degradation, the ozone layer, and persistent organic pollutants. The World Bank provides the secretariat to the GEF.

Global Fund to Fight AIDS, Tuberculosis and Malaria (the Global Fund): a public–private partnership that raises and disburses funds to prevent and treat HIV/AIDS, tuberculosis and malaria.

Global Program: core funding to multilateral organisations or NGOs that operate in more than one country.

Grant: a transfer made in cash, goods or services for which no repayment is required (OECD DAC 2011b).

Green Revolution: the technological development of agriculture designed to increase the productivity of crops through more efficient agricultural processes. The Green Revolution began in Mexico in the 1940s, and then spread worldwide in the 1950s and 1960s.

Gross National Income: measures economic performance in terms of a country's income. GNI is equal to GDP (economic performance in terms of a country's production) less incomes payable to non-residents plus incomes receivable from non-residents.

Humanitarian and Emergency Assistance: development assistance provided in times of conflict and natural or other disasters to protect the lives, health, subsistence and physical security of vulnerable populations (AusAID 2005b).

Independent Completion Reports: an assessment undertaken at the end of an Australian aid activity by an expert not otherwise involved in the activity.

Independent Progress Report: an assessment undertaken during the implementation of an Australian aid activity by an expert not otherwise involved in the activity.

International Aid Transparency Initiative (IATI): designed to provide those involved in aid programs with information to better track what aid is being used for and what it is achieving. The initiative was launched in September 2008 in Accra.

International Committee for the Red Cross (ICRC): an international organisation established in 1863 that works worldwide to provide humanitarian help for people affected by conflict and armed violence and to promote the laws that protect victims of war.

International Development Association (IDA): the concessional lending arm of the World Bank. Established in 1960, IDA aims to reduce poverty by providing interest-free credits and grants for programs that boost economic growth, reduce inequalities and improve people's living conditions.

International Monetary Fund (IMF): an intergovernmental organisation of 187 countries that oversees the global financial system. The IMF promotes macroeconomic stability and helps countries to minimise and mitigate the impacts of negative economic shocks such as debt or currency crises.

International Labour Organisation (ILO): the international organisation responsible for drawing up and overseeing international labour standards.

Low-income Countries: countries with per capita GNI of less than US\$935 in 2007.

Mandated Flexibility: a fund within the AusAID budget which covers three different contingency forms that can arise in a year: risk; natural disasters and other humanitarian crises; and emerging or changed priorities.

Managing Contractors: companies directly contracted by AusAID to deliver activities under the Australian aid program.

Médecins Sans Frontières (MSF): established in 1971, MSF is an international NGO which provides medical humanitarian aid around the world.

Microfinance: microfinance attempts to address lack of access to financial markets. It focuses on providing microcredit – small, collateral-free loans – to the very poor for self-employment. It also provides other financial services such as savings and insurance.

Middle-income countries: countries with per capita income of between US\$935 and US\$11,455 in 2007.

Millennium Development Goals (MDGs): development commitments for 2015 agreed to by the world's nations in the wake of the 2000 Millennium Summit. The MDG targets include halving extreme poverty, getting all children into school, closing the gap on gender inequality, saving lives lost to disease and lack of available health care, and protecting the environment.

Multilateral Development Banks: institutions that provide financial support and professional advice for economic and social development activities in developing countries. The main multilateral development banks are: the World Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank and the African Development Bank.

Multilateral Organisations: those international institutions with governmental membership which conduct all or a significant part of their activities in support of development and aid recipient countries (OECD DAC 2011b). For the purpose of this Report global funds and trust funds count as multilateral organisations.

Multilateral Organisations Performance Assessment Network (MOPAN): an association of 17 bilateral donors, including Australia, that regularly assess the organisational effectiveness of major multilateral organisations. This involves a comprehensive survey of how efficiently and effectively multilateral organisations are delivering on their mandate.

New Policy Proposals (NPPs): a regular feature of the budget process, NPPs are proposals for new spending brought forward for consideration for funding in the budget.

Non–Government Organisation (NGO): a not–for–profit group which is organised on a local, national or international level and dedicated to a cause. As used in this Report, a local (or in–country) NGO is based in the developing country receiving aid and an international NGO is not based in Australia and operates in multiple developing countries.

Organisation for Economic Cooperation and Development (OECD): established in 1961 and with 31 current member countries, the OECD is a forum for the world’s industrialised countries.

OECD Development Assistance Committee (DAC): a committee of the OECD which helps to define and monitor global standards in aid. The DAC also helps donors share views and exchange lessons. Each committee member’s aid program is peer reviewed by other members every four years.

Official Development Assistance (ODA): funding given for development purposes to countries with per capita income in 2007 of less than US\$ 11,455. ODA funding is given by government agencies (federal, state and local). It does not include funding from non–government organisations or other private charitable organisations. Net ODA refers to outgoings in assistance less repayment of loans.

Office of Development Effectiveness (ODE): established in 2006 to monitor the quality and evaluate the impact of the Australian aid program, ODE is a unit within AusAID that reports to the AusAID Director General and is separate from program management.

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

Partner Government: the government of an aid recipient country.

Partner Government Systems: the legal and institutional frameworks within which a partner government spends its funds.

Quality of Official Development Assistance (QuODA) Assessment: an assessment undertaken by the Centre for Global Development and the Brookings Institution on the quality of aid delivered by 31 countries and multilateral institutions.

Quality Reporting System (QRS): an AusAID management system designed to track the quality of activities at the stages of project start–up, implementation and completion.

Recipient/Recipient Government: see Partner Government.

Technical assistance: the knowledge, services, skills and technology provided to a partner country through personnel, training and research as well as the funding for associated costs. Also known as technical cooperation.

United Nations Children’s Fund (UNICEF): a UN agency with a mandate to work exclusively with children. Guided by the United Nations Convention on the Rights of the Child, UNICEF works to overcome poverty, abuse and disease afflicting children.

United Nations Development Program (UNDP): a UN agency which is mandated to work with countries to reduce poverty, promote democratic governance, prevent and recover from crises, protect the environment and combat climate change.

United Nations High Commissioner for Refugees (UNHCR): a UN agency which leads and co-ordinates international action to protect refugees and resolve refugee problems worldwide.

United Nations Office for the Coordination of Humanitarian Affairs (UN OCHA): a UN agency with responsibility for bringing together humanitarian agencies and donors to ensure a coherent response to emergencies.

United States Agency for International Development (USAID): the United States Government aid agency.

World Bank: a multilateral development bank made up of two development institutions owned by 187 member countries: the International Bank for Reconstruction and Development and the International Development Association. The World Bank provides low-interest loans, interest-free credits and grants to developing countries for a variety of purposes, including investments in education, health, public administration, infrastructure, financial and private sector development, agriculture and environmental and natural resource management.

World Health Organisation (WHO): a UN agency responsible for providing leadership on global health matters, shaping the health research agenda, setting norms and standards, providing technical support to countries and monitoring and assessing health trends.

World Food Program (WFP): a UN agency mandated to combat global hunger.

ANNEX D: REFERENCES

- Alkire, Sabina and Santos, Maria Emma (2010). *Multidimensional Poverty Index: 2010 Data*, Oxford Poverty and Human Development Initiative.
<www.ophi.org.uk/policy/multidimensional-poverty-index/> accessed 22 April 2011.
- ALNAP (2004). *ALNAP Review of Humanitarian Action in 2004*, Overseas Development Institute, London.
- ANAO (2009). *AusAID's Management of the Expanding Australian Aid Program*, Australian National Audit Office, Barton.
<www.anao.gov.au/~media/Uploads/Documents/2009%2010_audit_report_15.pdf> accessed 29 March 2011.
- APSC (2004). *Connecting Government: Whole of Government Responses to Australia's Priority Challenges*, Commonwealth Government, Canberra.
<www.apsc.gov.au/mac/connectinggovernment.pdf> accessed 25 April 2011.
- Asian Development Bank (2002). "Draft Recommendations on Disability", *Regional Workshop on Disability and Development*, October, Manila.
- Asian Development Bank (2007). *Key Indicators 2007: Inequality in Asia*, Manila.
<www.adb.org/Documents/Books/Key_Indicators/2007/default.asp> accessed 22 April 2011.
- AusAID (2000). *Good Governance: Guiding Principles for Implementation*, Commonwealth Government, Canberra. <www.ausaid.gov.au/publications/pdf/good_governance.pdf> accessed 24 April 2011.
- AusAID (2005a). *Australian Aid: Approaches to Peace, Conflict and Development*, Commonwealth Government, Canberra.
<http://ausaid.gov.au/publications/pdf/ausaid_peace.pdf> accessed 24 April 2011.
- AusAID (2005b). *Humanitarian Action Policy*, Commonwealth Government, Canberra.
<www.ausaid.gov.au/publications/pdf/humanitarian_policy.pdf> accessed 25 April 2011.
- AusAID (2006). *Australian Aid: Promoting Growth and Stability. A White Paper on the Australian Government's Overseas Aid Program*, Commonwealth Government, Canberra.
<www.ausaid.gov.au/publications/pdf/whitepaper.pdf> accessed 1 February 2011.
- AusAID (2007a). *Australian Aid: Approaches to Building Demand for Better Governance Summary*, Commonwealth Government, Canberra.
<www.ausaid.gov.au/publications/pdf/better_governance.pdf> accessed 20 April 2011.
- AusAID (2007b). *Pacific 2020: Challenges and Opportunities for Growth*, Commonwealth Government, Canberra.
<www.ausaid.gov.au/publications/pdf/pacific2020.pdf> accessed 26 April 2011.
- AusAID (2008a). *Economic Governance: Annual Thematic Performance Report 2006–07*, Commonwealth Government, Canberra.
<www.ausaid.gov.au/publications/pdf/economic_atpr_2007.pdf> accessed 21 April 2011.

AusAID (2008b). *Development for All: Towards a Disability-Inclusive Australian Aid Program 2009–2014*, Commonwealth Government, Canberra.

<www.ausaid.gov.au/publications/pdf/dev-for-all.pdf> accessed 1 April 2011.

AusAID (2009a). *Tracking Development and Governance in the Pacific*, Commonwealth Government, Canberra.

<www.ausaid.gov.au/publications/pdf/track_devgov09.pdf> accessed 1 April 2011.

AusAID (2009b). *Annual Thematic Performance Report 2009: Rural Development*, Commonwealth Government, Canberra.

<www.ausaid.gov.au/publications/pubout.cfm?ID=4574_5470_9223_3839_9631&Type=963> accessed 1 April 2011.

AusAID (2009c). *Cambodia Annual Program Performance Report 2008–09*, Commonwealth Government, Canberra.

<www.ausaid.gov.au/publications/pdf/appr-0809-cambodia.pdf> accessed 20 April 2011.

AusAID (2009d). *Investing in a Safer Future a Disaster Risk Reduction Policy for the Australian Aid Program*, Commonwealth Government, Canberra.

<www.ausaid.gov.au/publications/pdf/disasterriskreduction.pdf> accessed 26 April 2011.

AusAID (2010a). *Australian Agency for International Development: Annual Report 2009–10*, Commonwealth Government, Canberra.

<www.ausaid.gov.au/anrep/rep10/pdf/anrep09-10entirereport.pdf> accessed 22 April 2011.

AusAID (2010b). *Australia – Indonesia Basic Education Program Independent Completion Report*, Commonwealth Government, Canberra.

<www.ausaid.gov.au/publications/pdf/2010indoaibepicr.pdf> accessed 1 April 2011.

AusAID (2010c). *Power to the People: Australia's Support in Strengthening Political Governance in Developing Countries*, Commonwealth Government, Canberra.

<www.ausaid.gov.au/publications/pubout.cfm?ID=9742_5949_4436_8120_49&Type=PubKAG> accessed 26 April 2011.

AusAID (2011). *Governance: The Role of Governance in Development*, Commonwealth Government, Canberra.

<www.ausaid.gov.au/keyaid/gover.cfm> accessed 27 April 2011.

Australian Government (2010). *2010–11 Budget Overview*, Commonwealth Government, Canberra.

<www.budget.gov.au> accessed 18 April 2011.

Bertelsmann Stiftung (2009). *BTI Vietnam Country Report 2010*, Gütersloh Bertelsmann Stiftung.

<www.bertelsmann-transformation-index.de/124.0.html> accessed 14 April 2011.

Birdsall, Nancy and Homi, Kharas (2010). *Quality of Official Development Assistance Assessment*, Center for Global Development.

<www.cgdev.org/content/publications/detail/1424481/> accessed 14 April 2011.

- Campbell, K; Gulledge, J; McNeill, J; Podesta, J; Ogden, P; Fuerth, L; Woolsey, J; Lennon, A; Smith, J; Weitz, R; and Mix, D (2007). *The Age of Consequences: The Foreign Policy and National Security Implications of Climate Change*, Center for Strategic and International Studies.
<www.csis.org/media/isis/pubs/071105_ageofconsequences.pdf> accessed 20 April 2011.
- Chandy, Laurence and Gertz, Geoffrey (2011). *Poverty in Numbers: The Changing State of Global Poverty from 2005 to 2015*, The Brookings Institution, Washington.
- Chen, Shaohua and Ravallion, Martin (2008). *The Developing World is Poorer Than We Thought, But No Less Successful in the Fight Against Poverty*, Policy Research Working Paper 4703, The World Bank Development Research Group, Washington.
- Civil Society International (2003). *What is Civil Society?*
<www.civilsoc.org/whatisCS.htm> accessed 21 April 2011.
- Collier, Paul (2007). *The Bottom billion: Why the Poorest Countries are Failing and What Can be Done About it*, Oxford University Press, Oxford.
- DARA (2010). *The Humanitarian Response Index 2010: The Problems of Politicisation*, Development Assistance Research Associates, Madrid.
<<http://reliefweb.int/node/25687>> accessed 22 April 2011.
- DFID (2011). *Multilateral Review: Ensuring Maximum Value for Money for UK Aid Through Multilateral Organisations*, United Kingdom.
- Dyer, Geoff and Anderlini, Jamil (2011). "China's lending hits new heights", *The Financial Times*, 17 January 2011.
<www.ft.com/cms/s/0/488c60f4-2281-11e0-b6a2-00144feab49a.html#axzz1GG1jLsyR> accessed 1 April 2011.
- Elliott, David; Barlow, Sarah and Bekkers, Harald (2009). *Enterprise Challenge Fund – Mid-Term Review: Final Report*, AusAID. <www.ausaid.gov.au/publications/pubout.cfm?ID=2179_5123_9221_7348_509> accessed 22 April 2011.
- FAO and WFP (2010). *Crop and Food Security Assessment Mission to the Democratic People's Republic of Korea*, FAO Global Information and Early Warning System on Food and Agriculture, Rome.
<www.fao.org/docrep/013/a1968e/a1968e00.htm> accessed 22 April 2011.
- Garnaut, Ross (2008). *The Garnaut Climate Change Review: Final Report*, Commonwealth of Australia, Cambridge University Press, Australia.
- Grazella, Mariel (2011). "Reality reveals harsh flaws in govt's fuzzy statistics", *The Jakarta Post*, 5 January 2011.
<www.thejakartapost.com/news/2011/01/05/reality-reveals-harsh-flaws-govt%E2%80%99s-fuzzy-statistics.html> accessed 1 April 2011.
- Gulasan, Nergis (2010). "Official Development Assistance: The Status of Commitments, Projections for 2010, and Preliminary 2009 Figures", Office of Development Studies, United Nations Development Programme, New York.

Hanson, Fergus (2010). *The Lowy Institute Poll 2010: Australia and the World Public Opinion and Foreign Policy*.

<www.lowyinstitute.org/Publication.asp?pid=1305> accessed 1 April 2011.

Harding, Matthew; Jiang, Tingsong and Pearce, David (2009). "Analysis of ACIAR's Returns on Investment: Appropriateness, Efficiency and Effectiveness", *ACIAR Impact Assessment Series*, Vol 63, Commonwealth Government, Canberra.

Hogan, Margaret C; Foreman, Kyle J; Naghavi, Mohsen; Ahn, Stephanie Y; Wang, Mengru; Makela, Susanna M; Lopez, Alan D; Lozano, Raphael; and Murray, Christopher JL (2010). "Maternal mortality for 181 countries, 1980–2008: a systematic analysis of progress towards Millennium Development Goal 5", *The Lancet*, Vol 375, Issue 9726, 1609 – 1623.

Howes, Stephen (2011). "An Overview of Aid Effectiveness Determinants and Strategies," *Discussion Paper 1*, Development Policy Centre, Crawford School, Australian National University, Canberra.

International Monetary Fund (2007). *World Economic Outlook*, April 2007.

International Monetary Fund (2010). *World Economic Outlook Database*, October 2010.
<<http://imf.org/external/pubs/ft/weo/2011/01/weodata/index.aspx>> accessed 24 April 2011.

IEG World Bank (2009). The Independent Evaluation Group, *Annual Review of Development Effectiveness: Achieving Sustainable Development*.

IEG World Bank (2010). *An Evaluation of World Bank Support, 1997–2007 Water and Development*, Volume 1, Washington.

Independent Review Team (2010). *Review of the Australia–PNG Development Cooperation Treaty*, Report to the Governments of Australia and Papua New Guinea.

Lingán, Jeannet; Cavender, Amy; Lloyd, Robert; and Gwynne; Beris (2009). *Responding to NGO Development Effectiveness Initiatives*, One World Trust, World Vision, Briefing Paper Number 122.

<www.oneworldtrust.org/csoproject/images/documents/Responding-to-NGO-Development-Effectiveness-Initiatives-OWT-WV-122-2009.pdf> accessed 24 April 2011.

Liu, M (2010). *Human Development in East and South East Asian Economies: (1990–2010)*, UNDP–HDRO, New York.

Lloyd, Robert; Calvo, Virginia; and Laybourn, Christina (2010). *Ensuring Credibility and Effectiveness: Designing Compliance Systems in CSO Self-Regulation*, Briefing Paper 127, One World Trust.

<www.oneworldtrust.org/csoproject/images/documents/SRI_Compliance_Mechanisms.pdf> accessed 24 April 2011.

Lomborg, Bjørn (2004). *Global Crises, Global Solutions*, Cambridge University Press, Cambridge.

McCawley, Peter and Jayasuriya, Sisara (2010). *The Asian Tsunami: Aid and Reconstruction After a Disaster*, Asian Development Bank, United Kingdom.

Milanovic, Branko (2009). "Global Inequality Recalculated: The Effect of New 2005 PPP Estimates on Global Inequality," *World Bank Working Paper*.
<http://siteresources.worldbank.org/INTDECINEQ/Resources/Global_Inequality_Recalculated.pdf> accessed 24 April 2011.

Mitchell, Andrew (2011). "Aid spent well has the power to improve millions of lives", *British Embassy Khartoum*, 1 March 2011.
<<http://ukinsudan.fco.gov.uk/en/news/?view=PressR&id=558771082>> accessed 6 April 2011.

Moss, Todd and Leo, Benjamin (2011). *IDA at 65: Heading Toward Retirement or a Fragile Lease on Life?*, Centre for Global Development, Washington.

Mungcal, Ivy (2010). "Cameron, Mitchell Defend Rise in UK Foreign Aid Budget", *Devex*, 22 October 2010.
<www.devex.com/en/articles/cameron-mitchell-defends-rise-in-uk-foreign-aid-budget?source=ArticleHomepage_Headline> accessed 6 April 2011.

ODE (2010). *Annual Review of Development Effectiveness 2009: Improving Basic Services for the Poor*, Commonwealth Government, Canberra.

OECD (2001). *Glossary of Statistical Terms*.
<<http://stats.oecd.org/glossary/detail.asp?ID=1176>> accessed 18 March 2011.

OECD DAC (2000). *Net Official Development Assistance Flows in 2000*.
<www.oecd.org/dataoecd/50/37/1912521.pdf> accessed 20 March 2011.

OECD DAC (2009). *Net Official Development Assistance Flows in 2009*.
<www.oecd.org/dataoecd/17/9/44981892.pdf> accessed 20 March 2011.

OECD DAC (2010). "Development aid rose in 2009 and most donors will meet 2010 aid targets", *Development Co-operation Directorate*.
<www.oecd.org/document/11/0,3343,en_2649_34487_44981579_1_1_1_1,00.html> accessed 20 March 2011.

OECD DAC (2011a). *Net ODA from DAC countries from 1950 to 2010*.
<www.oecd.org/document/11/0,3746,en_2649_34447_1894347_1_1_1_1,00.html> accessed 18 April 2011.

OECD DAC (2011b), *DAC Glossary of Key Terms and Concepts*.
<www.oecd.org/document/32/0,3746,en_2649_33721_42632800_1_1_1_1,00.html#Multi_Agencies> accessed 23 April 2011.

Over, Mead (2010). "Sustaining and Leveraging AIDS Treatment", *Centre for Global Development Discussion Paper*.
<www.cgdev.org/content/publications/detail/1424173/> accessed 26 April 2011.

Oxfam International (2009). *The Right to Survive: The Humanitarian Challenge for the Twenty-First Century*, Oxfam International.
<www.oxfam.org/sites/www.oxfam.org/files/right-to-survive-report.pdf> accessed 26 April 2011.

Ravallion, Martin (2001). "On the Urbanization of Poverty", *World Bank Policy Research Working Paper*, No. 2586.

Riddell, Roger C (2007). *Does Foreign Aid Really Work?*, Oxford University Press, Oxford.

Roche, Chris (2011). “New Directions in Non–Government Action”, Draft Paper for the *Doubling Australian Aid Conference*, Australian National University, Canberra, 7 February 2011. <http://devpolicy.anu.edu.au/pdf/2011/20110207/ppp/Chris_Roche_paper.pdf> accessed 26 April 2011.

Rodrik, D (2003). “Introduction” in Rodrik, D (ed) *In Search of Prosperity: Analytical Narratives on Economic Growth*, Princeton University Press, Princeton.

Ruff, Tilman; Taylor, Kate; Lester, Rosemary; and Nolan, Terry (2011). *Australia’s Contribution to Global Immunisation*, The University of Melbourne and the Nossal Institute for Global Health. <www.ni.unimelb.edu.au/_data/assets/pdf_file/0007/435940/gavi_nossal_policy_brief_march_2011.pdf> accessed 26 April 2011.

Sumner, Andy (2010). “Global Poverty and the New Bottom billion: What if Three–Quarters of the World’s Poor Live in Middle–Income Countries?”, *Working Paper, Institute of Development Studies*. <www.ids.ac.uk/go/idspublication/global-poverty-and-the-new-bottom-billion-three-quarters-of-the-world-s-poor-live-in-middle-income-countries> accessed 26 April 2011.

TASOET (2005). “Aid Harmonization and Alignment – Don’t leave out Creditors! The case of Tanzania”, *TASOET Briefing Paper*, 8 January 2005. <www.donorplatform.org/load/3649> accessed 18 April 2011.

Transparency International (2010). *Corruption Perceptions Index 2010*. <www.transparency.org/policy_research/surveys_indices/cpi/2010/results> accessed 26 April 2011.

United Nations Development Group (2003). “The Human Rights Based Approach to Development Cooperation: Towards a Common Understanding among UN Agencies”. <www.undg.org/index.cfm?P=221> accessed 21 April 2011.

United Nations (2010). “We Can End Poverty 2015: Millennium Development Goals”, *United Nations Millennium Development Goals*. <www.un.org/millenniumgoals> accessed 18 April 2011.

Volunteering Australia (2009). *The latest picture of volunteering in Australia*. <www.volunteeringaustralia.org/html/s02_article/article_view.asp?id=2962&nav_cat_id=222&nav_top_id=50> accessed 11 April 2011.

Winters, A and Martin, P (2004). “When comparative advantage is not enough: business costs in small remote economies”, *World Trade Review*, Vol 3 No 3.

Winters, L Alan; Lim, Wonhyuk; Hanmer, Lucia and Augustin, Sidney (2010). *Economic Growth in Low Income Countries: How the G20 Can Help to Raise and Sustain It*, Presidential Committee for the G20 Summit of the Republic of Korea.

World Bank (2002). *Evaluation of World Bank Support to Low–Income Countries Under Stress (LICUS) – an approach paper*, World Bank.

World Bank (2006). *World Development Report: Equity and Development*, The World Bank and Oxford University Press, New York.

World Bank (2009a). *International Development Association Country Performance Ratings 2009*, 1 July 2010.

<<http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/0,,contentMDK:20948754~menuPK:2607525~pagePK:51236175~piPK:437394~theSitePK:73154~isCURL:Y,00.html>> accessed 18 April 2011.

World Bank (2009b). *Global Economic Prospects 2009*.

World Bank (2009c). "Girls' Education", *Education Human Development Network*.

<<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTEDUCATION/0,,contentMDK:20298916~menuPK:617572~pagePK:148956~piPK:216618~theSitePK:282386,00.html#how>> accessed 3 April 2011.

World Bank (2010). *World Development Report: Development and Climate Change*, The World Bank and Oxford University Press, New York.

World Bank (2011a). *Why is women's economic empowerment important for development?*

<http://siteresources.worldbank.org/INTGENDER/Resources/womens_economic_empowerment.pdf> accessed 21 April 2011.

World Bank (2011b). *World Bank Development Indicators and Global Development Finance*.

<<http://databank.worldbank.org/ddp/home.do>> accessed 21 April 2011.

World Vision Australia (2010). *WorldVoice*.

<www.worldvision.com.au/WorldVoice/results/Results_WorldVoiceSurvey3.aspx> accessed 2 April 2011.

United Nations (2010). *The World's Women: Trends and Statistics*, Department of Economic and Social Affairs, New York.