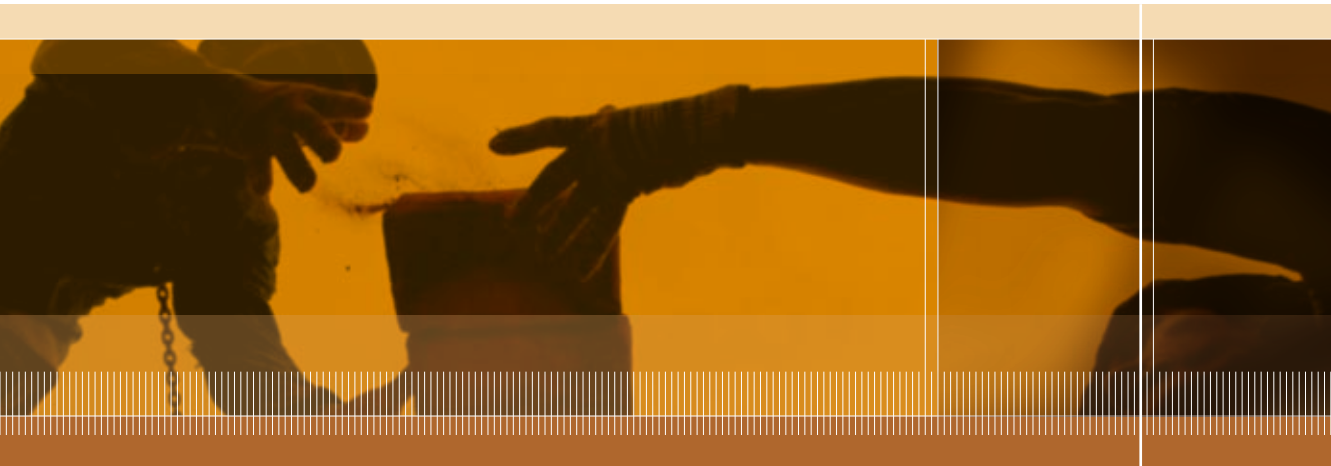


ANNUAL REVIEW OF DEVELOPMENT EFFECTIVENESS 2008

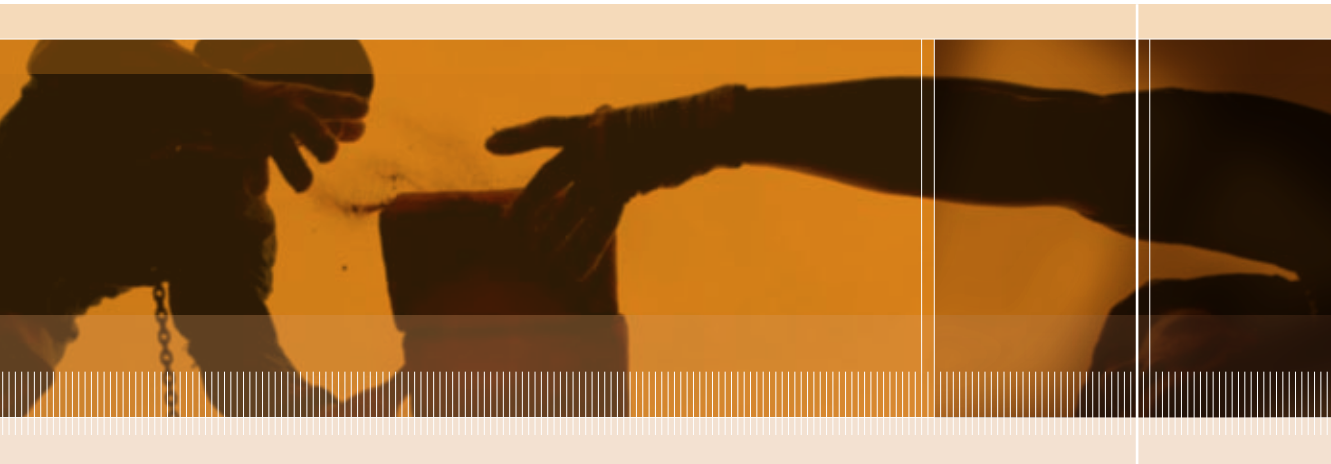


Australian Government

AusAID

Office of Development Effectiveness

ANNUAL REVIEW OF
DEVELOPMENT EFFECTIVENESS 2008
Scaling up in a deteriorating global environment



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ISBN 978-1-921285-71-4

Published by the Australian Agency for International Development (AusAID),
Canberra, 2009.

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

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Cover image: 'New Foundations' by Rob Maccoll courtesy of the Courier Mail

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ACKNOWLEDGEMENTS

This review was written by a team within the Office of Development Effectiveness led by Peter Versegi, with assistance from Simon Henderson, Amy Haddad, Aedan Whyatt and Jelena Zelenovic. Data were produced with the assistance of AusAID's statistics and budget units under the leadership of Richard Sisson. Valuable comments on early drafts were received from Michael Flint, Richard Manning and Howard White. The authors would like to thank those who provided technical information, and those who produced the performance reports on which much of this review is based. The authors would also like to thank Tim Vistarini, James Gilling and Amy Plowman for their advice and assistance.



GLOSSARY OF SELECTED TERMS

Activities: The individual components of aid, such as projects, multi-donor sectoral support, contributions to multilateral organisations and technical advisers.

Aid predictability: The extent to which disbursements promised and disbursements received differ during a defined period.

Aid transparency: The extent to which full, comparable and timely information about aid, including activity size and aims, type of aid, future aid spending and results is available.

Alignment of aid: Efforts by donors to base their support on their partner countries' national development strategies, systems and procedures.

Civil society: The nexus between the state, the private sector and the family or household, where society debates and negotiates matters of common concern and organizes to regulate public affairs. Civil society organisations include religious organisations, trades unions, community associations, non-government organisations, and social movements and networks.

Fragmentation: The negative impact caused by the **proliferation** of many donors and/or many aid activities in a partner country, each with a small share of aid, and often spanning multiple sectors.

Harmonisation of aid: Efforts by donors to work together to coordinate aid and share information to ensure that actions are transparent and collectively effective.

Managing for results: Managing and implementing aid in a way that focuses on the desired results (as opposed to focusing solely on outputs) and uses information from evaluations and reviews to improve decision making.

Program-based approaches: Ways of delivering aid based on the principles of coordinated support for a partner country's own program of development, such as a national development strategy, a sector-wide program or a thematic program.

Social protection: Public and private initiatives that provide income or consumption transfers to the poor, protect the vulnerable against livelihood risks, and enhance the social status and rights of the marginalized.

Technical assistance: The provision of knowledge, services and skills and technology to the partner country in the form of personnel, training and research as well as funding for associated costs.

Country (local) systems: Partner countries' systems for public financial management, procurement, audit, monitoring and evaluation, and social and environmental assessments.

EXECUTIVE SUMMARY

This is the second annual review of the development effectiveness of the Australian aid program. It draws largely on Australian aid program performance data from 2007-08. These annual reviews provide the Australian public with a balanced but frank assessment of the results of their aid program and identify areas where effectiveness could be strengthened. There are few comparable reports of this nature – either domestically or internationally. Only one other bilateral aid donor, the Netherlands, regularly produces such a review. These reviews also aim to promote better understanding of the challenges of reducing poverty and promoting sustainable development in the countries where Australia's aid program operates.

This annual review of development effectiveness was written against the background of two major developments that underline the importance of continued efforts to strengthen the effectiveness of aid. The global recession will increase the significance of aid for many developing countries, which face lower growth, reduced access to finance, and risks to poverty reduction efforts. At the same time, Australia is planning to scale up its aid program in line with government commitments. To maximise Australia's contribution to better development outcomes, ongoing efforts to strengthen the quality of aid must be maintained.

Operating environment

During the past twenty-five years there has been an unprecedented reduction in poverty, with progress during the period 2002-05 greater than in any other period in history. Currently the Millennium Development Goal to reduce the proportion of people living in poverty is on track to be met by 2015. Nevertheless, this progress has not been broad-based and 1.4 billion people are still living in extreme poverty. Much of the improvement is accounted for by China. Globally the number of people living just above the poverty line has increased to 1.2 billion—900 million of whom are in the Asia-Pacific region. The impact of the global recession on poverty numbers is not yet known, and while projections show that poverty rates will still fall in 2009, this is expected to be at a much slower pace. This may mean that some countries do not reach their poverty reduction target. Progress towards other Millennium Development Goals to improve health, education and the environment has been mixed.

The global recession is adversely affecting developing countries, and its impacts will vary across countries. For many developing countries, sources of external finance will contract, and slower economic growth will reduce government revenues, giving greater impetus to the case for more and better aid.

In 2008, international donor commitments to increase aid flows were reiterated at two major events—the United Nations High-Level Event on Millennium Development Goals and the International Conference on Financing for Development in Doha. Efforts to improve the quality of aid have had mixed success. At the 3rd High Level Forum on Aid Effectiveness held



in Accra in September 2008, donors, including Australia, and developing countries reinforced their commitment to the principles of the Paris Declaration on Aid Effectiveness and agreed to accelerate action to address major challenges facing the delivery of aid.

Australian aid in 2007-08

The Australian aid program was \$3.173 billion or 0.30 per cent of gross national income in 2007-08. Around 30 per cent of this went to Papua New Guinea and the Pacific, with slightly more going to Indonesia and East Asia. The significance of Australian assistance in terms of its size relative to partner countries' economies and other donors' contributions varies; in general Australian aid is much more prominent in Papua New Guinea and the Pacific island countries. The government's commitment in early 2008 to Pacific Partnerships for Development reflects an enhanced appreciation of the role of Australian aid in these countries.

The aid program is set to be scaled up in line with the Australian Government's commitment to increase official development assistance to 0.50 per cent of gross national income by 2015-16. The planned increases in Australian aid provide the opportunity for Australia to scale up its impact on poverty reduction in the region and elsewhere, but this needs to be underpinned by continued attention to effectiveness if the full potential is to be realised.

The performance of Australian aid in 2007-08

Overall, the aid program performed well in 2007-08, with 86 per cent of aid activities on track to meet their objectives—well above the 75 per cent program target. These activities are achieving a wide range of results. Quality tends to be better in technical sectors—for example, economic governance and infrastructure—than in the more demanding service delivery areas such as health. But across the program there is scope for improvement, particularly in terms of the sustainability of the results achieved.

Translating activity-level results into sustainable outcomes at country and sector levels is proving to be more difficult; in part because the information systems that are able to detect such changes are still being developed. This is also the experience of other donors. The importance of a positive policy and institutional environment in partner countries to the effectiveness of Australian aid is well understood. But the evidence available to this year's review points to three other factors that can increase the likelihood of Australian aid contributing even more effectively to lasting development outcomes in partner countries.

- > Strong ownership of the reform agenda by local stakeholders is essential; aid activities that do not establish the necessary base of support in partner countries have little chance for success.
- > Clarity about the role and contribution of Australian aid is important; both the role and contribution must be realistic and based on a sound understanding of the operating environment and the priorities for support.
- > The type of aid provided and how it is provided also matter; both need to be well matched to partner country needs and conditions and be capable of adapting as opportunities arise.

Aid management and delivery

Australia is changing the way it manages and delivers aid to improve its effectiveness and to reflect international as well as Australia's own experience. This involves a move from a heavy dependence on stand-alone projects to approaches that are more closely owned by partner countries, aligned with their systems and harmonised with other donors. There are many examples of where the aid program is successfully adopting these new ways of working and the recent peer review of the Australian aid program by the OECD Development Assistance Committee commented positively on progress in this regard.

Nevertheless, there is a need to maintain the pace of these reforms. Particular areas for attention include:

- > strengthening the aid program's approach to policy dialogue with partners
- > moving more consistently towards program-based approaches to delivering aid
- > developing approaches to risk management that are more suited to the newer ways of working, particularly delivering assistance through partner country systems and processes.

The aid program also needs to provide more predictable and focused support as well as strike a balance between large, multi-year programs and small, responsive activities that provide an opportunity to experiment and develop partnerships. Nevertheless scaling up should be based primarily on larger activities rather than a larger number of activities.

Scaling up effectively in a changing global environment

To meet the challenges of an expanding aid program as well as the demands emerging from the deteriorating environment for development, action is required on three fronts.

1. Ensure the aid program protects gains in poverty reduction

Australia can play a leadership role in helping partner countries in the Asia-Pacific region to identify the implications of, and respond to, the global recession, particularly to prevent the poor and near poor slipping into deeper poverty. The responses are likely to include:

- > short-term measures to protect the poor and vulnerable, such as social protection programs and finance for essential public services.
- > investing to establish the longer term conditions for broad-based economic growth and employment of the poor.

Such responses may require the aid program to readjust plans and provide assistance in some areas where it has had limited experience. It would be timely to strengthen the evidence base on the effectiveness of aid designed to protect the vulnerable and promote pro-poor economic growth and employment.



2. Update the aid program's operational framework

The Australian aid program would benefit from a more systematic approach to the way aid is delivered that embeds effectiveness principles and draws on Australia's own experiences. This would require the aid program's operational framework to be updated to:

- > set clear directions and criteria for determining the way aid should be delivered and when and how to work more closely with partner countries, including delivering more aid through partners' systems as circumstances permit
- > provide guidance on risk management to support the new ways of working
- > allow for more predictable funding levels to partner countries
- > apply a more rigorous approach to selecting programs and consolidating program portfolios, and to reduce the number of small-to-medium-sized activities.

This is a challenging agenda, with implications for capacity and skills in areas such as policy analysis, public financial management and risk management.

3. Redefine engagement with civil society

Communities and civil society organisations can be important in delivering basic services, increasing government accountability, broadening ownership of the development process and making government systems work better for the poor. The aid program needs to gain a better understanding of ways to engage effectively with communities and civil society organisations to inform program strategies.

These three fronts suggest further work for AusAID as well as the Office of Development Effectiveness. In addition to completing a major review of service delivery, the Office of Development Effectiveness will commence analyses on vulnerability, pro-poor growth and employment, and engaging with civil society organisations. A system to monitor progress in implementing changes in aid delivery, with the aim of tracking progress against the principles of the Paris Declaration on Aid Effectiveness, will be pursued. For AusAID to sustain its commitment to changes in the way aid operates will require a better evidence base on what is working as implementation proceeds. The Office of Development Effectiveness will provide ongoing support in this area.

CHAPTER 1: INTRODUCTION

This is the second annual review of the development effectiveness of the Australian aid program produced by the Office of Development Effectiveness (ODE), a team within AusAID that is separate from program management.¹ These annual reviews provide the Australian public with a balanced but frank assessment of the results of their aid program and identify areas where effectiveness could be strengthened. There are few comparable reports of this nature – either domestically or internationally. Only one other bilateral aid donor, the Netherlands, regularly produces such a review. These reviews also aim to promote better understanding of the challenges of reducing poverty and promoting sustainable development in the countries where Australia's aid program operates, many of which are fragile states.

This annual review draws largely on Australian aid program performance data from 2007-08 and was written against the background of two major developments that underline the continued importance of efforts to enhance development effectiveness. The first of these is the global recession. While the implications for individual developing countries vary, the overall prospects of slower or negative economic growth and increasing poverty make an even stronger case for aid that can deliver greater value. The second development is the scaling up of the Australian aid program in line with the Australian Government's commitment to increase official development assistance (ODA) to 0.50 per cent of gross national income by 2015-16.

The 2007 review found that half of Australia's country and regional spending on aid went to fragile states in the Asia-Pacific region - a function of Australia's geography and national interest. International evidence shows that results are more difficult to achieve in these environments. The 2007 review found that overall, individual activities were well managed and achieving a wide range of results, but it was difficult to determine whether these activities were leading to broader change; in large part because systems to identify such changes were still being developed. The review identified areas where efforts to improve the effectiveness of the Australian aid program could be focused. Progress in these areas is highlighted in Box 1.

1 The first annual review was tabled by the Australian Government in March 2008 and covered the 2006-07 financial year see Office of Development Effectiveness, *Annual review of development effectiveness 2007*, Australian Agency for International Development, Canberra, 2007, <www.ode.ausaid.gov.au/news/news01.html>.

The 2008 review builds on the previous one, drawing on a wider range of evidence generated by the aid program's new performance assessment systems and on analyses and evaluations of the program conducted by ODE and others. Although it will take time for the new assessment systems to become fully operational across the entire program, they are providing initial evidence about the factors that are likely to increase the effectiveness of Australian assistance. In preparing the review an outline and a draft version were commented on by an external group of international experts² and the Development Effectiveness Steering Committee.³

Box 1: Progress on issues identified in the 2007 annual review of development effectiveness

The five areas requiring improvements in aid effectiveness that were identified in the 2007 review of development effectiveness need sustained attention in the long term and, to varying degrees, are discussed further in this review. Action taken in these areas will continue to be assessed by ODE. Actions taken during 2008 are discussed below.

Broadening engagement with fragile states

Engagement with Papua New Guinea and small Pacific island countries was broadened through the new Pacific Partnerships for Development. This included collaboration between AusAID and Pacific countries to produce *Tracking development and governance in the Pacific*,⁴ compiled to inform partnerships and allow for joint monitoring. Joint work with the Government of East Timor on East Timor's experience with international aid to inform the 3rd High Level Forum on Aid Effectiveness held in Accra in September 2008 led to East Timor becoming a pilot country for monitoring international good practice in engaging with fragile states. ODE commenced major evaluations of service delivery in fragile environments, focusing on health, education, and water supply and sanitation.

Supporting reform in the larger economies of Asia

ODE completed an assessment of future support to Indonesia and the Philippines, looking at where Australian aid influenced policy change and drawing broad conclusions about the focus of future, expanded Australian aid to these countries, as well as areas for further analysis.⁵

- 2 The external group was Howard White, Executive Director of the International Initiative on Impact Evaluation 3ie, Richard Manning, former chair of the OECD Development Assistance Committee, and Michael Flint, aid effectiveness expert and co-author of the 2002 effectiveness review of the United Kingdom's Department for International Development.
- 3 The Development Effectiveness Steering Committee is chaired by the Director General of AusAID and is comprised of Deputy Secretaries from the departments of the Prime Minister and Cabinet, Finance and Deregulation, Foreign Affairs and Trade, and the Treasury.
- 4 AusAID, *Tracking development and governance in the Pacific*, Australian Agency for International Development, Canberra, August 2008, viewed January 2009, <http://www.ausaid.gov.au/publications/pdf/track_devgov.pdf>.
- 5 Office of Development Effectiveness, *Assessment of future support to Indonesia and the Philippines*, Australian Agency for International Development, Canberra, 2009, forthcoming.

Performance orientation

A new performance assessment and evaluation policy was implemented. Under the policy, annual performance reporting was rolled out across the aid program, and quality-at-entry reporting for aid activities was introduced. ODE conducted a number of analyses of these processes, including quality assessments of annual program performance reports and independent completion reports and a spot check of quality-at-implementation ratings. Performance orientation is discussed more fully in Appendix A.

Getting the most from technical assistance

Work on making technical assistance more effective is ongoing, with work in 2008 focused on improving AusAID's understanding of and approaches to capacity development, a key objective of most technical assistance interventions. This included capacity-building showcases held in Port Moresby and Canberra to consider recent AusAID-funded and commissioned research on capacity development and technical assistance. The Making a Difference Program, a 6-day workshop for advisors and counterparts, continued in Papua New Guinea and Solomon Islands and was extended to Vanuatu.

Meeting gender equality commitments

ODE completed a major evaluation of violence against women in Melanesia and East Timor in November 2008⁶ and an advisor on violence against women was recruited to AusAID's Gender Unit to coordinate implementation of the evaluation's recommendations. Tailored gender training was developed for staff based in Canberra and overseas, and a gender capacity coordinator was recruited to manage the rollout of this training. New reporting and accountability processes are being introduced, allowing program areas to monitor performance on meeting gender equality principles. The 2008 OECD DAC Peer Review found that gender was well integrated into the program, backed by strong leadership from senior management and appropriate resources.

6 Office of Development Effectiveness, *Violence against women in Melanesia and East Timor: Building on Global and Regional Promising Approaches*, Australian Agency for International Development, Canberra, 2008 <http://www.ode.ausaid.gov.au/publications/pdf/vaw_cs_full_report.pdf>.

CHAPTER 2: THE OPERATING ENVIRONMENT OF THE AUSTRALIAN AID PROGRAM

This chapter presents the broader context in which the aid program operates. It starts by reviewing international progress in reducing poverty and considers recent challenges to continued progress. It then reflects on the latest developments in international aid and efforts to increase its effectiveness. Finally, the implications of the operating environment for Australian aid are discussed.

Progress in reducing poverty

In 2000 the international community signed up to the Millennium Development Goals (MDGs). The first of these, MDG 1, is to halve by 2015 the proportion of people living in extreme poverty—defined as those living on less than US\$1 a day. At the halfway mark the world was on track to meet the 2015 target, with the incidence of extreme poverty in the developing world expected to fall from 41.7 per cent in 1990 to 16.9 per cent by 2015.⁷ New research indicates that previous estimates of global poverty undercounted the absolute number of people living in poverty by some 400 million, implying that 1.4 billion people were living in extreme poverty in 2005.⁸ Nevertheless, the same research concluded that the progress in reducing poverty has been greater between 2002 and 2005 than in any other period.⁹

But the gains are fragile. Firstly, progress has not been even. Reductions in global poverty have been concentrated in East Asia—due mostly to China's success (Figure 1). Moreover, progress towards other MDGs for health, education, gender, and water supply and sanitation has been mixed. Overall both Sub-Saharan Africa and the Pacific are off track to meet many of the MDGs, although within those regions some countries are fairing better than others.¹⁰

Secondly, despite the progress in reducing the proportion of people living in extreme poverty, the world has been less successful in addressing poverty more broadly. The number of people living just above extreme poverty—on more than \$US1 but less than \$2 a day—has increased to 1.2 billion (Figure 2). In East and South Asia, about 900 million people fall into this category.¹¹

7 S Chen & M Ravallion, *The developing world is poorer than we thought, but no less successful in the fight against poverty*, Policy Research Working Paper 4703, World Bank, Washington DC, August 2008, p. 19.

8 Chen & Ravallion, p. 19.

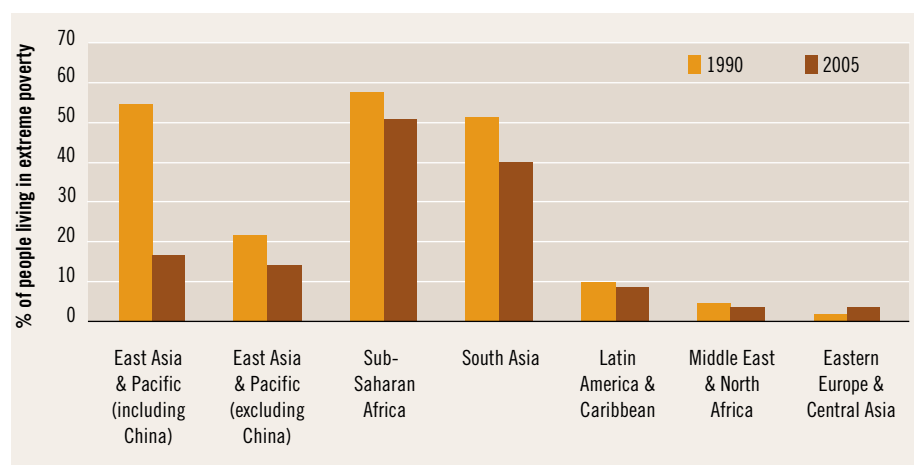
9 Chen & Ravallion, p. 20.

10 For a discussion of progress towards the MDGs in the Asia-Pacific region, see Appendix B.

11 Chen & Ravallion, p. 22.

Finally, the deterioration in the global economic environment resulting from the global recession and recent food and fuel price volatility threatens to undermine progress of the past decade. Evidence suggests that human development outcomes deteriorate more quickly during growth decelerations than they improve during growth accelerations. Experience from the Asian financial crisis highlights just how vulnerable poverty reduction in many developing economies is to such shocks (Box 2). The World Bank estimates that up to 90 million more people will fall below the extreme poverty line in 2009 alone, primarily due to reduced employment, incomes and remittances.¹² The World Bank also forecasts that an extra 200,000 to 400,000 infants will die every year in developing countries if the current recession persists.¹³ This comes on top of the effects of high food and fuel prices in 2008.

FIGURE 1: REGIONAL DISTRIBUTION OF PEOPLE LIVING ON LESS THAN US\$1 A DAY



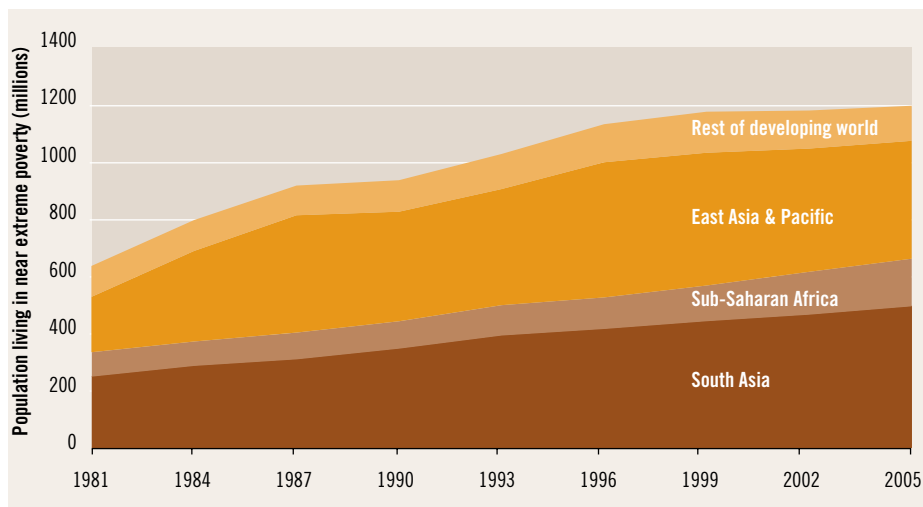
Source: S Chen & M Ravallion, *The developing world is poorer than we thought, but no less successful in the fight against poverty*, Policy Research Working Paper 4703, World Bank, Washington DC, August 2008, p. 33.

¹² World Bank *Global Monitoring Report 2009* World Bank, Washington DC, 2009

http://siteresources.worldbank.org/INTGLOMONREP2009/Resources/5924349-1239742507025/GMR09_overview.pdf

¹³ World Bank *Crisis Hitting Poor Hard in Developing World, Bank Says* Press Release No:2009/220/EXC viewed April 2009 <<http://go.worldbank.org/PGNOX87VO0>>.

FIGURE 2: POPULATION LIVING ON BETWEEN US\$1.25 AND US\$2 A DAY



Source: S Chen & M Ravallion, *The developing world is poorer than we thought, but no less successful in the fight against poverty*, Policy Research Working Paper 4703, World Bank, Washington DC, August 2008, pp. 35-6.

Box 2: The impact of the Asian financial crisis on poverty in Indonesia

The rapid shift of people from just above extreme poverty into extreme poverty was most evident in Indonesia during the Asian financial crisis in the late 1990s. Recent evidence indicates that extreme poverty more than trebled in the year of the crisis (1997), particularly as a consequence of the spike in food prices relative to the prices of other goods.¹⁴ While Indonesia subsequently achieved a sharp rebound in living standards, the effects of the downturn were not short-lived; five years after the crisis the number of people living in extreme poverty was still more than double the pre-crisis level.

¹⁴ M Ravallion & M Lokshin, 'Lasting impacts of Indonesia's financial crisis' *Economic Development and Cultural Change* 56 pp. 27-56, University of Chicago, Illinois, 2007.

The global economic environment

The global economy is experiencing unprecedented challenges due to the global recession. World Bank forecasts released in June 2009 indicate that world economic growth will contract by 2.9 per cent in 2009, compared to 1.9 per cent positive growth in 2008. Excluding China and India, growth in the rest of the developing world is expected to contract by 1.6 per cent in 2009, with a forecast drop in per capita income of 0.6 per cent. While there are some tentative signs of recovery, the global recession is proving deeper than previously expected, and there remain significant risks to poverty reduction efforts.

There has already been a sharp reduction in international financial flows to developing countries. Private financial flows to developing and emerging market economies halved in 2008 compared to 2007 and are expected to fall to US\$165 billion in 2009, compared to 2007 levels of US\$928 billion.¹⁵ The fall in overall flows may mean severe balance of payments problems for some developing countries in the near future, necessitating structural adjustment and a sharp reduction in government expenditure. Lower foreign direct investment (a key source of technological transfer and growth) and international lending are also reducing overall investment levels in developing countries which will constrain future growth potential. Funding for infrastructure in particular – both for new building and maintenance of the existing stock – is coming under pressure and this will exacerbate infrastructure bottlenecks in developing countries.¹⁶

World trade is expected to contract in 2009 in the face of falling global demand and restricted access to short-term credit for trade finance.¹⁷ Developing countries' volume of trade financing dropped 18 per cent in the last quarter of 2008.¹⁸ For many developing countries, these problems are exacerbated by the longstanding lack of progress in gaining access to developed country markets for their agricultural exports—the failure of the Doha Round of trade negotiations in 2008 being the latest demonstration of this.¹⁹ Declining commodity prices will affect developing countries that rely heavily on exports of primary products. In Papua New Guinea, recent price falls could reduce both agricultural and mining and oil export income by

15 World Bank *Global Development Finance: Charting a Global Recovery*, World Bank, Washington, 2009, viewed June 2009 <http://siteresources.worldbank.org/INTGDF2009/Resources/gdf_combined_web.pdf>

16 These impacts were displayed in the 1997 crisis when the East Asian “tiger” economies significantly reduced infrastructure investment. This contributed to sustained decline in economic growth over the following years; severe infrastructure backlogs emerged which slowed the recovery and reversed some of the gains made in poverty reduction.

17 DW te Velde, *Effects of the global financial crisis on developing countries and emerging markets: policy responses to the crisis*, conference note, INWENT/DIE/BMZ conference, Berlin, 11 December 2008, Overseas Development Institute, London, December 2008.

18 International Monetary Fund *The Implications of the Global Financial Crisis for Low-Income Countries* IMF, Washington DC, 2009 viewed March 2009 <<http://imf.org/external/pubs/ft/books/2009/globalfin/globalfin.pdf>>.

19 The Doha Development Round of trade negotiations is the current round of the World Trade Organization, which commenced in November 2001. Its objective is to lower trade barriers around the world. The most recent negotiations, in July 2008, broke down after failing to reach a compromise on agricultural import rules.

25 per cent in 2009.²⁰ Economies in the Pacific that depend on revenues from tourism and remittances are also likely to suffer as a result of the slowdown in rich economies. At the global level, the IMF is forecasting remittances to contract in 2009 as incomes and employment prospects for migrant workers increasingly come under pressure with the onset of recessions in host countries. For some of these countries, remittances are one of the most important sources of finance, particularly so for the poorest segments of society. Governments in countries that rely on offshore investments for revenue – Kiribati and Tuvalu, for example – are also facing fiscal problems as a result of falls in the value of these assets.²¹

These problems add further pressure on many developing economies already weakened by recent high fuel and food prices. Crude oil prices reached an all-time high of US\$147 a barrel in July 2008,²² which translated into record fuel prices, while world food prices rose by approximately 50 per cent from September 2006 to September 2008.²³ Globally, the higher food and fuel prices have cost consumers about US\$680 billion, and resulted in significant macroeconomic instability for many countries.²⁴ Poverty has increased as a result of these price rises. Poor households tend to spend 50 per cent or more of their income on food and the World Bank estimates that rising food prices between 2005 and the beginning of 2008 alone may have increased the poverty headcount by between 130 million and 155 million people.²⁵ Higher food prices in 2008 may have increased the number of children suffering permanent injury from malnutrition by 44 million.²⁶

Although world fuel and food prices have declined significantly in recent months, the effects of the high prices continue to be felt on wages and employment as inflation works through the developing economies. Moreover, in many developing countries the spike in the cost of food and fuel imports reduced the fiscal strength of governments, limiting their capacity to implement targeted policy responses to the global recession. Food prices are unlikely to return to their pre-spike levels in the long term, and greater price instability for both food and fuel can be expected in the future.

20 Asian Development Bank, *Navigating the global storm: a policy brief on the global financial crisis*, Pacific Study Series, Asian Development Bank, Manila, 2008, pp. 18-19.

21 Asian Development Bank, pp. 9-12.

22 World Bank, *Rising food and fuel prices: addressing the risks to future generations*, Washington, DC, October 2008, p. 2.

23 Food and Agriculture Organization of the United Nations, Food price indices, viewed 27 November 2008, <<http://www.fao.org/worldfoodsituation/FoodPricesIndex/en/>>.

24 World Bank, *Global economic prospects: commodities at the crossroads* 2009, Washington, DC, January 2009, p. 11, viewed January 2009, <http://siteresources.worldbank.org/INTGEP2009/Resources/10363_WebPDF-w47.pdf>.

25 World Bank, *Global economic prospects*, pp. 11-12. As a result of food price increases, the annual cost of lifting the incomes of all of the extreme poor to the international poverty line of US\$1 a day increased by US\$38 billion, or 0.5 per cent of the gross domestic product of developing countries.

26 World Bank, *Global economic prospects*, p. 12.

The severity and the duration of the impacts from these shocks on developing countries are uncertain. But two observations can be made at this stage. First, initial suggestions that the impact of the global recession might be limited to developed countries have proved to be wrong; developing countries are suffering. Second, the effects on individual developing countries will differ and are not well understood. This has created an important role for international assistance—to help individual developing countries understand the implications of the global recession and design appropriate policy responses.

It is also clear that for many developing countries development assistance will assume even greater importance as other sources of external financing contract or disappear, giving greater impetus to the case for both more and better aid. The next section reviews the latest developments in international aid and progress in improving aid quality.

The aid environment

Scaling up in a changing aid architecture

International aid volumes have steadily increased over the past decade, after stagnation during the 1990s. The increase in the period 2002–05 largely reflected debt relief, which is critical to enabling highly indebted poor countries to focus on future investments and priority spending. However, the upward trend stalled in 2006–07 and donor commitments made at the 2005 G8 summit in Scotland to increase aid by US\$50 billion by 2010 will not be met without a substantial increase.²⁷

Positive signs of a continued international commitment to aid were provided at two important events during 2008. In September, the United Nations High-Level Event on the Millennium Development Goals provided governments, the private sector, non-government organisations (NGOs) and civil society the opportunity to reaffirm their commitments to achieving the MDGs. Outcomes included US\$16 billion in new pledges, including US\$1.6 billion for food security, US\$4.5 billion for education and US\$3 billion for malaria-reduction initiatives, and the planning of an MDG summit in 2010 to assess progress.²⁸ At the Follow-up International Conference on Financing for Development held in Doha in December, UN member states acknowledged the profound changes in the international economic context since 2002 and the key steps needed to accelerate development outcomes. In particular, they highlighted the challenges posed by the global recession and climate change.²⁹ In April 2009, G-20 members,

27 An increase of almost US\$30 billion would be needed to meet these commitments. (OECD Development Assistance Committee, *Scaling up: aid fragmentation, aid allocation and aid predictability*, Report of 2008 Survey of Aid Allocation Policies and Indicative Forward Spending Plans, May 2008, p. iv, viewed 6 December 2008, <www.oecd.org/document/3/0,3343,en_2649_33721_40638238_1_1_1_1,00.html>).

28 United Nations, Commitments for achieving the Millennium Development Goals, viewed 25 November 2008, <<http://www.un.org/millenniumgoals/2008highlevel/commitments.shtml>>.

29 United Nations, Outcome of the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus, viewed February 2009, <<http://www.un.org/esa/ffd/doha/outcome.htm>>.

including Australia, recognised that the global recession will impact disproportionately on the vulnerable in the poorest countries and that there is a collective responsibility to mitigate its social impact.

The past decade has also seen a marked increase in the number of actors involved in development, including specialised agencies (known as ‘vertical’ funds) and the private sector (comprised of non-government and philanthropic organisations), and the emergence and increased profile of bilateral donors that are not members of the OECD Development Assistance Committee (such as China). As a group these ‘non-traditional actors’ are providing significant additional resources for development, but are also doing so in different ways. Much of the assistance from ‘vertical’ programs and the private sector is delivered outside of official structures, while aid from some non-traditional donors operates outside arrangements agreed by existing donors.

Efforts to improve the quality of aid

Efforts by both donors and developing countries to improve the quality and effectiveness of aid were formalised when the Paris Declaration on Aid Effectiveness was signed in 2005. The 2008 global monitoring survey of the implementation of the Declaration points to progress in improving the fit between the national priorities of developing country governments and the programs supported by donors in those countries.³⁰ The proportion of aid that is untied also increased from 75 per cent in 2005 to 88 per cent in 2006,³¹ offering the prospect of better value for money through greater competition.

But challenges remain. The growth in the number of international development actors has significantly increased the need for better coordination. Even if only the OECD Development Assistance Committee and multilateral donors are considered, a 2008 survey of aid allocation found that 38 developing countries each had 25 or more donors in 2005–06; in 24 of these countries, 60 per cent or more of the donors collectively accounted for less than 10 per cent of total aid.³² Donors providing small amounts of aid through many separate projects can lead to fragmentation and high transaction costs. Furthermore, trends indicate that the number of aid activities has increased while the average value has declined.³³ According to the OECD, more than 60 000 aid projects were active in 2005, with 85 per cent of these projects costing less than US\$1 million each.

30 OECD, *Better aid—2008 survey on monitoring the Paris Declaration: making aid more effective by 2010*, Organisation for Economic Co-operation and Development, Paris, 2008, viewed January 2009, <www.oecd.org/dataoecd/58/41/41202121.pdf>. See also Appendix C.

31 Australia fully untied all of its ODA in 2006.

32 OECD Development Assistance Committee, *Scaling up: aid fragmentation, aid allocation and aid predictability*, Report of 2008 Survey of Aid Allocation Policies and Indicative Forward Spending Plans, May 2008, p. vi, viewed 6 December 2008, <www.oecd.org/document/30/0,3343,en_2649_33721_40638238_1_1_1_1,00.html>.

33 H Kharas, *Trends and issues in development aid*, Working Paper 1, Wolfenson Center for Development, Brookings Institution, Washington, DC, November 2007, p. 17.

Predictable aid is important in helping developing country governments to plan and implement their policies. The costs of unpredictable aid can be significant; shortfalls can force partner countries into unplanned deficit and to cut investments in physical and human capital, while windfalls can encourage unsustainable consumption expenditure by government. Historically, the amount of aid disbursed to developing countries has differed widely from the amount promised, particularly for the poorest and most aid-dependent countries. From 1990 to 2005 annual aid to Sub-Saharan Africa deviated from actual commitments by an average of 3.4 per cent of the partner country's gross domestic product.³⁴ Recent survey data suggest that donors are getting better at fulfilling their aid commitments for a given year. However, the results also show scope to improve predictability in the medium and longer term by providing more reliable information about future commitments.³⁵

Progress in providing aid in ways that strengthen local systems has been limited. Work is still required to reduce the number of parallel implementation units established by donors in partner countries and to make greater use of partner countries' own systems. The 2008 monitoring survey found that there was generally no relationship between the quality of public financial management in partner countries and donors' willingness to use these systems.

International commitment to improve aid quality and effectiveness was reinforced in Accra in September 2008 at the 3rd High Level Forum on Aid Effectiveness.³⁶ Donors and developing countries agreed to accelerate action to address major challenges facing aid delivery by, for example, broadening the concepts of ownership beyond central governments, increasing the use of local systems for aid delivery to increase ownership and sustainability of development processes, reducing aid fragmentation through a more explicit division of labour among donors, and providing more transparent and predictable aid.

34 O Celasun & J Walliser, 'Predictability of aid: do fickle donors undermine aid effectiveness?' *Economic Policy*, vol. 23, no. 55, July 2008, p. 557.

35 World Bank & International Monetary Fund, *Global monitoring report 2008—MDGs and the environment: agenda for inclusive and sustainable development*, World Bank, Washington, DC, 2008, p. 105. Note that Australia has consistently met its aid commitments.

36 See Appendix C.



Implications for Australian aid

Australia has an important role to play in ensuring that the poorer, smaller and more fragile developing countries in the Asia-Pacific region are not neglected in the international response to the global recession. As sources of external finance contract, aid will become increasingly important to these countries. However, increased aid flows may be directed through the international financial institutions to middle-income and emerging markets to address systemic problems arising from the global recession, and overlook the poorer and less internationally integrated economies.³⁷

To address this, Australian technical expertise can assist partner countries in the region to identify the implications of the global recession and develop appropriate policy responses. In particular, there is a strong case for pro-poor measures to protect the development gains of the past decade. Having helped to identify appropriate measures, the Australian aid program should also be in a position to support them. World Bank research demonstrates that economic shocks can create persistent poverty across generations unless short-term assistance is directed to the poorest among those whose livelihoods are under threat.³⁸ This may require the program to operate in different ways and to provide assistance for activities with which it has limited experience, such as social protection programs. As a lead donor in the region, Australia also has a role to promote the appropriate implementation of the effectiveness principles agreed in Paris and reaffirmed in Accra.

37 A Mold et al 'Fall out from the financial crisis (3): will aid budget fall victim to the credit crisis?' *Policy Insights no.85* OECD Development Centre, December 2008.

38 M Ravallion, *Bailing out the world's poorest*, Policy Research Working Paper 4763, World Bank, Washington, DC, October 2008, p. 5.

CHAPTER 3: THE AUSTRALIAN AID PROGRAM IN 2007-08

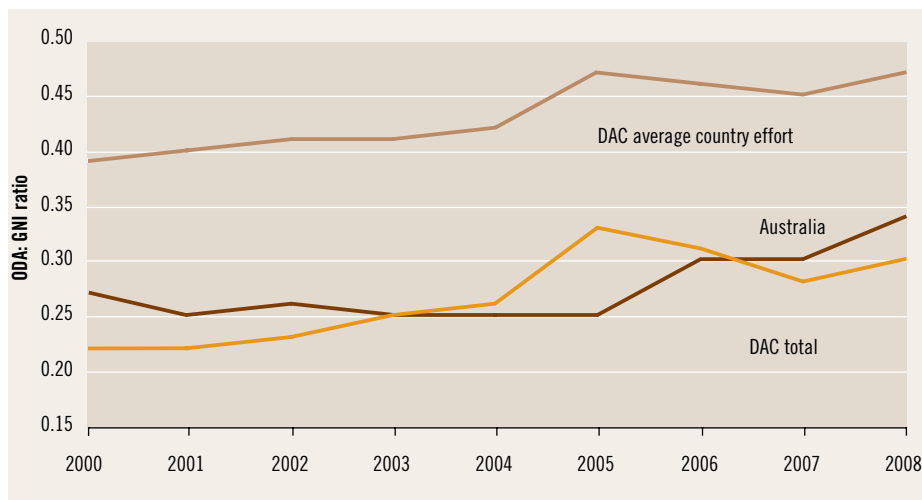
This chapter describes the Australia's aid program, including its geographic allocation and sectoral allocation and the proportion of Australian aid directed to multilateral organisations and non-government organisations. The future directions for Australian aid are also considered.

Aid volume

In 2007-08 Australia's ODA rose to \$3.173 billion from approximately \$3 billion in 2006-07, equivalent to 0.30 per cent of Australia's gross national income. AusAID was responsible for managing about 86 per cent of the ODA, approximately \$2.73 billion.

Preliminary OECD DAC figures for the calendar year 2008 show that the total ODA of DAC members was US\$119.8 billion, 0.30 per cent of the combined gross national income of DAC economies ('DAC total' in Figure 3). The comparable figure for Australia's ODA is slightly above this total, but below the 'DAC average country effort', which is the average of individual ratios of ODA to gross national income for DAC members.

FIGURE 3: RATIOS OF OFFICIAL DEVELOPMENT ASSISTANCE TO GROSS NATIONAL INCOME



Note: The 2008 results are preliminary. In calendar year 2008, Australian aid was 0.34 per cent of GNI.
 Data source: OECD DAC CRS database, accessed October 2008, <<http://stats.oecd.org/WBOS/Index.aspx?DatasetCode=CRSNEW>>.

The scaling up of the aid program will accelerate in line with the Australian Government's commitment to increase ODA to 0.50 per cent of gross national income by 2015-16. The planned increases in aid provide Australia with the opportunity to scale up its impact on poverty reduction in the Asia-Pacific region and elsewhere —a challenge that needs to be underpinned by continued monitoring of aid effectiveness to ensure the full potential of the investment will be realised.

Geographic allocation

The Australian aid program remained focused on the Asia-Pacific region, which accounted for around 58 per cent of Australian ODA in 2007-08. Africa accounted for 3 per cent and the Middle East and Central Asia received 6 per cent, while South Asia received 5 per cent. The remaining 28 per cent was largely core contributions to multilateral and international organisations.³⁹ In 2007-08 Indonesia was the largest recipient of Australian aid, receiving an estimated \$420 million, ahead of Papua New Guinea, which received an estimated \$374 million, and Solomon Islands, which received some \$237 million. Commitments for 2008-09 continue this trend with Australia continuing to focus its aid on fragile states and small island states, which form a large part of Australia's neighbourhood.

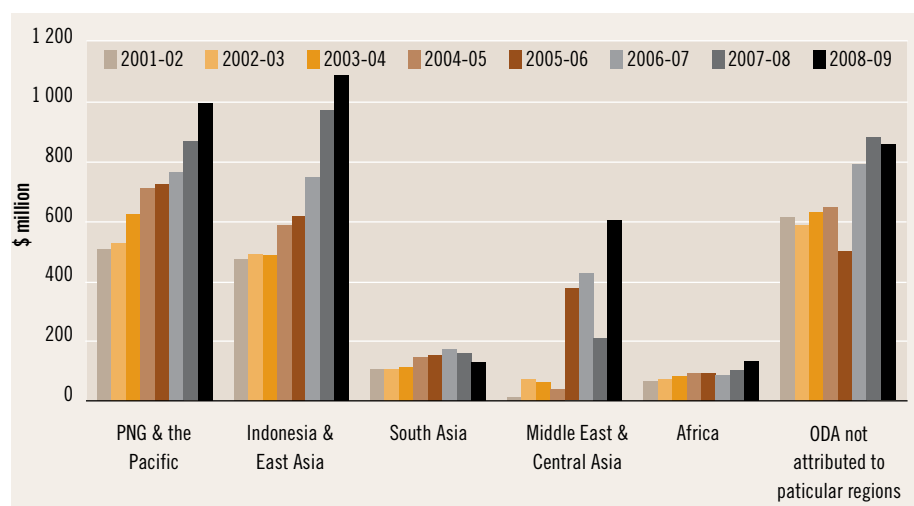
Box 3: Pacific Partnerships for Development

The Australian Government introduced Pacific Partnerships for Development in early 2008 to provide a new framework for Australia and the Pacific island nations to commit to jointly achieving shared goals. These new partnerships aim to strengthen mutual respect and mutual responsibility. The partnerships recognise Pacific island countries' leadership and ownership of their own development plans and require partner governments to commit to using aid effectively to promote development. Mutual responsibility will be facilitated through joint, long-term and measurable commitments to achieving better development results and through regular evidence-based reviews of progress. For Australia this will mean working more substantively through partner governments' finance, procurement and decision-making systems and committing to strengthening those systems over time. Australia has so far signed Pacific Partnerships for Development with Papua New Guinea, Samoa, Solomon Islands, Kiribati and Vanuatu, and expects to finalise partnerships with Tonga, Nauru and Tuvalu by mid-2009.

Since 2001-02, funding to Africa and South Asia has remained relatively static, with the slight decline in funding to South Asia due to the fact that Pakistan and Afghanistan were moved to the Middle East and Central Asia regional grouping over 2007-08 and 2008-09. All other regions have received increases (Figure 4). Indonesia and East Asia received the most significant increase in 2007-08, though this is estimated to level-out over 2008-09. The spikes in funding to the Middle East and Central Asia were due largely to Iraq debt relief.

³⁹ Australia provides assistance to multilateral and other organisations in two main ways: as core contributions, which are used at the discretion of the organisation, and as non-core contributions, which are used by the organisations to undertake specific activities for Australia.

FIGURE 4: REGIONAL ALLOCATION OF AUSTRALIA'S OFFICIAL DEVELOPMENT ASSISTANCE



Note: The 2008-09 data are estimated outcomes. 'ODA not attributed' includes the ODA-eligible components of core payments to multilateral organisations such as the International Development Association of the World Bank, the Asian Development Fund, the Global Environment Facility, the Heavily Indebted Poor Countries initiative and the Montreal Protocol Multilateral Fund, other ODA not attributable to particular countries or regions such as payments to some UN and Commonwealth organisations and ODA-eligible departmental expenditure. The fluctuations in expenditure in the Middle East and Central Asia are mainly the result of the timing in recognising the various tranches of Iraq debt relief. Decreases in South Asia in 2007-08 and 2008-09 are the result of changes to reporting structures for Pakistan and Afghanistan – these countries are now included in the Middle East and Central Asia regional grouping.

Data source: AusAID.

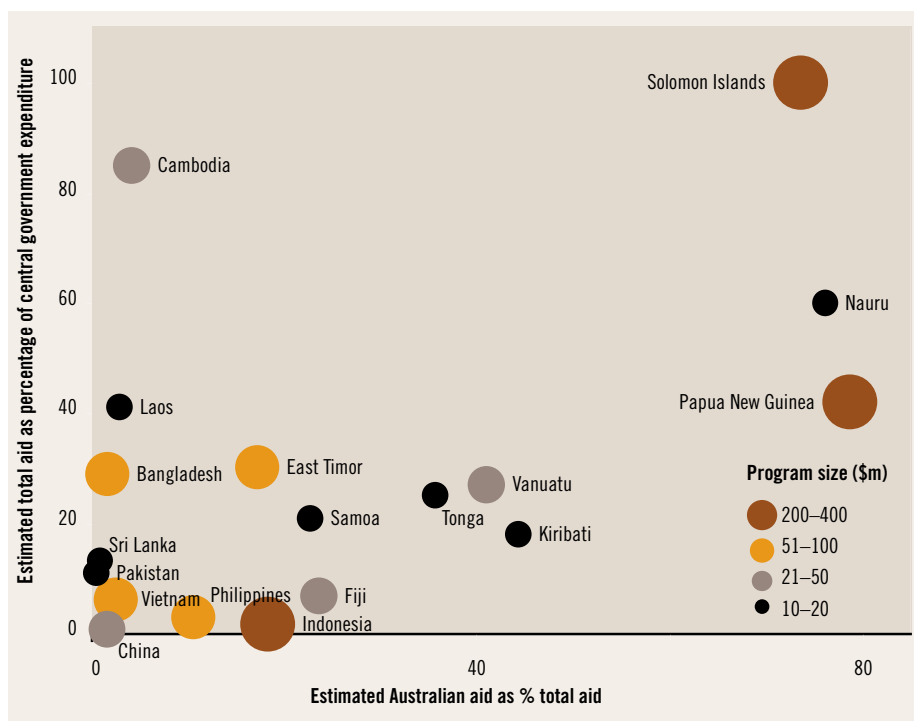
The significance of Australian ODA for a number of countries is illustrated in Figure 5. The horizontal axis indicates Australia's importance as a source of ODA, while the vertical axis shows the estimated importance of total aid in those economies. The figure shows that for a number of countries, predominantly in Asia, aid is a small part of the resources available to central government. For example, in Indonesia—the largest recipient of Australian aid—total aid amounts to less than 2 per cent of central government expenditure. In countries where total aid is not a significant proportion of government expenditure, the transfer of Australian financial resources is likely to be less critical than the contribution of ideas and expertise to influence how the much larger domestic resources are used.

In contrast, for those countries where aid represents a significant proportion of central government expenditure, the challenge is more likely to be how to use finances effectively to support basic services and development investment.

Figure 5 also indicates that in the majority of countries in Asia, Australian ODA is a very small percentage of total aid. By concentrating its aid in particular sectors, however, Australia can be much more influential in practice than the overall figures imply. But this does require assistance programs to be selective and focus on a limited number of issues in order to maximise the impact of Australian aid.

Finally, the figure also indicates that there are a number of countries, predominantly in the Pacific, where Australia is among the largest if not the largest source of aid. Whether this is in aid-dependent countries such as Solomon Islands or in countries not dependent on aid, such as Indonesia and Fiji, Australia has the potential to influence other donors' programs and promote greater aid effectiveness.

FIGURE 5: INDICATIVE SIGNIFICANCE OF AUSTRALIAN AID TO PARTNER COUNTRIES, 2007-08

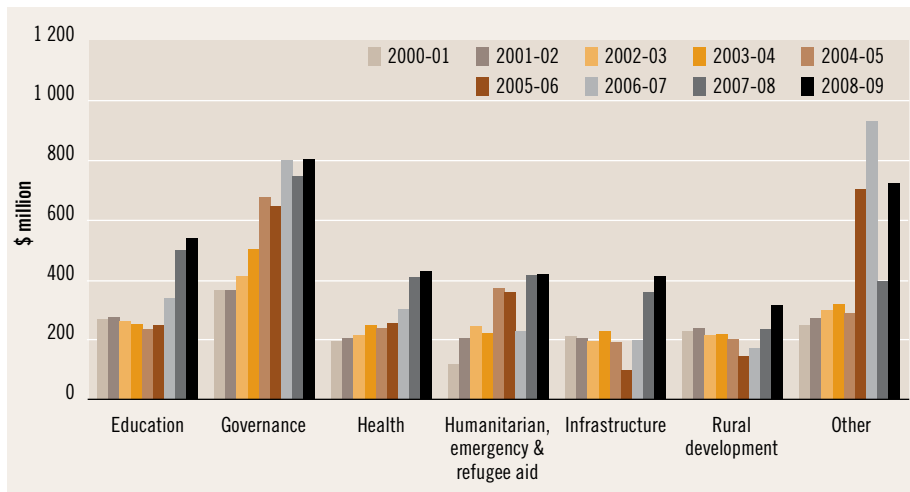


Data source: ODE analysis incorporating DAC statistics, World Bank World Development Indicators, AusAID financial data and annual program performance reports. Figures are illustrative only.

Sectoral focus

Spending in 2007-08 and commitments for 2008-09 largely continue existing trends, with increased support for health and education and reduced, as a percentage of total aid, support for governance. Governance remained the largest sector in 2007-08 (Figure 6), although its funding fell to a quarter of total spending—down from a third in the previous year. Since 2005-06, support for infrastructure has grown rapidly and the 2008-09 commitment maintains this recent trend. Funding for rural development also increased in 2006-07 and 2007-08 but it remains a relatively small part of the program. The large increases in the 'Other' category in 2005-06 and 2006-07 and for the 2008-09 commitment are due mostly to Iraq debt relief.

FIGURE 6: SECTORAL ALLOCATION OF AUSTRALIA'S OFFICIAL DEVELOPMENT ASSISTANCE



Note: The 2008-09 data are estimated outcomes. The significant change in 'other' in 2008-09 is due to a one-off payment relating to the final tranche of debt relief for Iraq scheduled to be recognised in 2008-09.

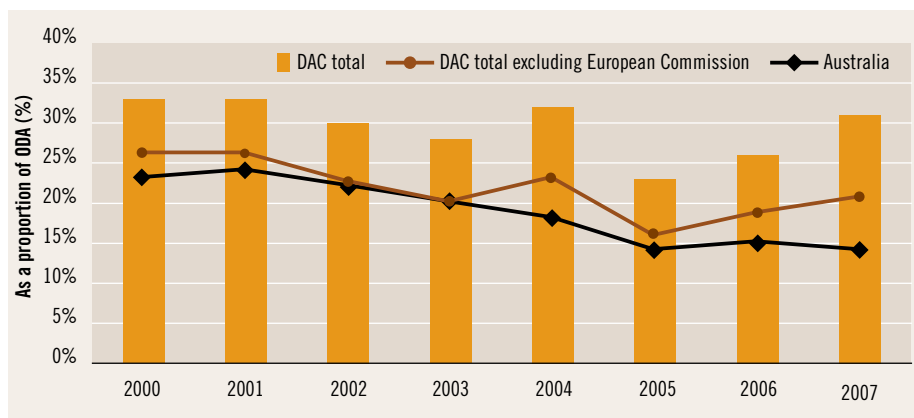
Data Source: AusAID.

Of Australian aid for the health sector in 2007-08, funding for basic health care accounted for 41 per cent while funding aimed at sexually transmitted diseases, including HIV/AIDS, accounted for another 28 per cent. Of Australian spending for education, basic and higher education together accounted for around 22 per cent, and a large proportion was directed towards strengthening education systems. Within the governance sector, there was a fairly even distribution of spending among the four major areas: public sector reform, legal and judicial development, civil society and human rights, and economic governance, with the latter taking up the largest part of the funding (31 per cent).

Allocations to multilateral and non-government organisations

Multilateral organisations include the multilateral development banks, agencies of the United Nations, and regional groupings. The OECD DAC collects data on the core contributions of its members to multilateral organisations—that is, funding that is not earmarked for a particular region or country and that is directed to multilateral organisations on the OECD DAC list. Comparison with the corresponding figures for all DAC members for the eight years 2000–07 shows that Australia has allocated proportionally less ODA as core funding to multilateral organisations than average among DAC members (Figure 7). If contributions from European countries to the European Commission are excluded, the difference is less stark, though Australia’s contribution is still below average.

FIGURE 7: CORE CONTRIBUTIONS TO MULTILATERAL ORGANISATIONS



Note: 2007 results are preliminary. This figure includes only contributions to multilateral organisations on the OECD DAC list.

Data source: DAC CRS database, viewed October 2008, <<http://stats.oecd.org/WBOS/Index.aspx?DatasetCode=CRSNEW>>.

Support provided to NGOs, both Australian and others, amounted to \$246 million in 2007–08, 8 per cent of the aid program.⁴⁰ This includes core funding for the NGOs’ own programs and non-core funding where AusAID provides support through NGOs to deliver activities as part of a country program or as part of a humanitarian or emergency response. Support in 2007–08 was spread across 202 NGOs.

⁴⁰ The NGO information covers not-for-profit organisations including non-government institutes, research institutions, centres, peak bodies and associations. Not included in the expenditure are some significant AusAID initiatives that are managed by contractors or multilateral agencies but that directly support the strengthening and funding of NGOs—for example, the Australian Community Development and Civil Society Strengthening Project in Indonesia.

CHAPTER 4: THE PERFORMANCE OF AUSTRALIAN AID IN 2007-08

This chapter considers the performance of Australian aid, drawing on reviews and assessments of various aspects of the aid program. The first section considers progress to date in improving the evidence base for assessing the effectiveness of Australian aid. The chapter then reviews the available evidence on the performance and quality of individual activities supported by country and regional programs and of support channelled through multilateral organisations. The final section considers the lessons regarding ways to increase the effectiveness of Australian aid and achieve lasting development outcomes in partner countries.

Progress in assessing performance

During the past two years the Australian aid program has invested significant effort in improving its ability to systematically assess the performance of individual activities and understand how activities contribute to positive change in partner countries. This annual review of development effectiveness has been able to draw on a wider range of evidence generated by the aid program's performance assessment systems, including expanded coverage of activities by the Quality Reporting System and annual performance reports for country and regional programs and for key sectors. It also makes use of analyses and evaluations of the aid program conducted by ODE and others, as well as international studies undertaken by other donors, including the World Bank.

There are still aspects of the performance assessment systems that are work in progress. Appendix A discusses developments to date and the implementation challenges faced. Of these, perhaps the most important is to ensure the new systems are fully embedded in the aid program's management and business processes—a shift that lies at the heart of managing for results. Nevertheless, an external review of progress to date by an international expert organisation, found that:

... the Australian aid approach compares favourably [with other donors] and moreover signals a corporate commitment that if sustained and intensified could become an important example of best practice.⁴¹

41 Office of Development Effectiveness *Quality review of annual program performance reports 2007-2008*, Australian Agency for International Development, (forthcoming).

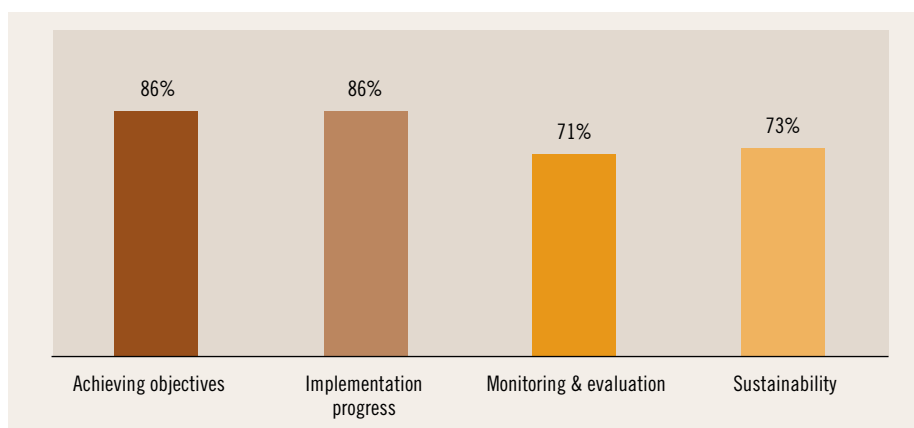
Quality of individual activities in 2007-08

The quality of aid activities being implemented is assessed at least annually by activity managers as part of the aid program's Quality Reporting System. The system covers all aid activities costing more than \$3 million each.⁴² These quality-at-implementation assessments provide a comprehensive⁴³ and up-to-date snapshot of current performance against four important criteria:

- 1 whether activities are achieving or likely to achieve their objectives
- 2 how implementation is progressing
- 3 the appropriateness of monitoring and evaluation arrangements
- 4 the likely sustainability of achievements after the activity is completed.

Program-wide, 86 per cent of aid activities being delivered by AusAID in 2007-08 were assessed as being on track to meet their objectives (Figure 8).⁴⁴ This result exceeds AusAID's corporate requirement of 75 per cent of activities making satisfactory progress towards their objectives. Weighting the results by size of activities makes no significant difference to this finding.

FIGURE 8: PROPORTION OF ACTIVITIES WITH A QUALITY-AT-IMPLEMENTATION RATING OF 'SATISFACTORY', 2007-08



Data source: AusAID, Quality-at-implementation reports 2007-08.

⁴² Activities costing less than \$3 million that are important for other reasons are also included.

⁴³ For this analysis, ODE reviewed implementation reports for more than 330 ongoing activities, covering more than 85 per cent of the program in 2007-08.

⁴⁴ Activities rated 4 and above on a scale of 1 to 6 are considered to be performing satisfactorily. Activities rated 1-4 are considered to be in need of improvement.

While the results indicate the large majority of activities are generally being well implemented and achieving their objectives, they also suggest challenges in ensuring that achievements have a lasting impact and that efforts to monitor and evaluate progress provide activity managers with relevant information. These broad conclusions are further supported by the findings of independent evaluations of completed activities in the three years 2006–08.

There is no doubt that some activities face difficulties identifying data for monitoring and evaluation purposes that are cost-effective to collect. However, the more general issue appears to be that managers are not always clear themselves what information is needed to track performance. This situation can be expected to improve as managers' confidence and experience with activity performance assessment and reporting increases.

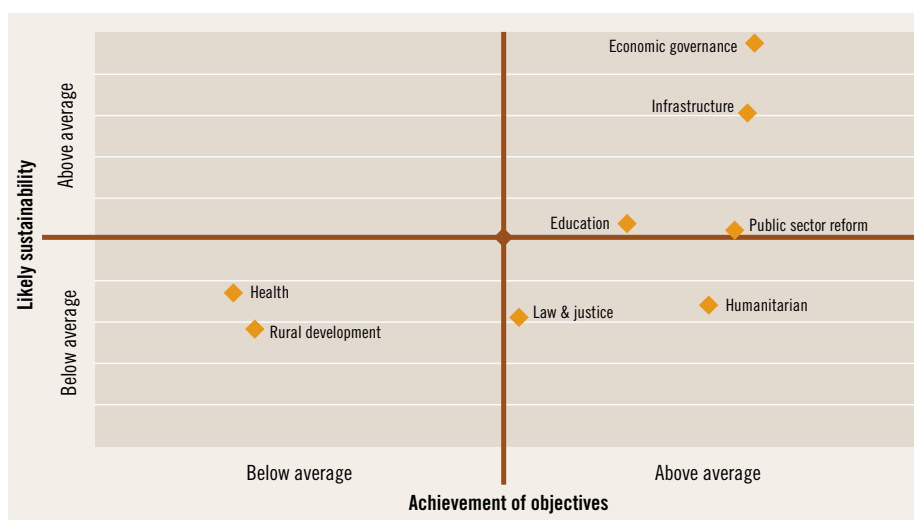
The results for sustainability reflect in part the need to be more realistic about what can be achieved during the course of an activity, particularly in fragile environments. However, they also highlight the importance of ensuring that aid activities are part of the domestic development agenda in partner countries, so that achievements are recognised and owned locally. The issue of sustainability is considered further in the sections that follow.

The quality of activities by sector

In every sector, the performance of the large majority of activities was rated as satisfactory in 2007–08. However, the assessments identified scope for improvement in half of all activities. ODE compared the scope for improved performance—based on the two criteria of achieving objectives and sustainability—across a number of sectors. Figure 9 shows the results relative to the average. Activities in the sectors in the top-right quadrant of the figure were of above-average quality in terms of both achieving objectives and sustainability. Those in the sectors in the bottom-right quadrant had scope to improve sustainability, while those in the bottom-left quadrant also had scope to improve their achievement of objectives, noting again that the large majority of activities in these sectors were rated as satisfactory.



FIGURE 9: COMPARATIVE ASSESSMENT OF THE PERFORMANCE OF ACTIVITIES BY SECTOR, BASED ON 2007-08 QUALITY-AT-IMPLEMENTATION ASSESSMENTS



Note: Governance is represented by the subsectors economic governance, public sector reform, and law and justice.
Data source: AusAID, Quality-at-implementation reports 2007-08.

The distribution of sectors in Figure 9 is broadly in line with the finding in the World Bank's 2003 review of development effectiveness that progress can be easier in the more technical sectors, where there is greater agreement about what steps are required and reforms can be implemented by a relatively small number of well-placed people. In contrast, in the social sectors there is generally less consensus about the appropriate policy responses, larger numbers of stakeholders may be involved and reforms may take many years to implement.⁴⁵

The performance of activities addressing issues of **economic governance** was strong in 2007-08, with some notable successes achieved (Box 4). But beyond the technical nature of the sector, the results also point to the benefits of aligning Australian aid closely with partner governments' priorities and providing assistance in a way that builds local ownership of results at a senior level.

45 Operations Evaluation Department, 2003 *annual review of development effectiveness: the effectiveness of bank support for policy reform*, World Bank, Washington, DC, 2004.

Box 4: Economic governance support in Vanuatu and Indonesia

The mandate of the Governance for Growth Program in Vanuatu is broad, covering public financial management and economic policy reform. The Government of Vanuatu and donors jointly oversee the direction of the program, while the government manages the activities under the program and the procurement and placement of technical assistance centrally within its own systems. Results so far have been good and the approach may provide a model for similar programs elsewhere in the Pacific.

The Technical Assistance Management Facility in Indonesia has had similar success. There has been strong input from the Government of Indonesia in design, implementation and review and, like the approach in Vanuatu, the key areas of support are determined jointly and activities are implemented using the government's systems. The facility is able to provide technical assistance at very senior levels to assist ministers to implement agreed actions.

The average quality of **infrastructure** activities was also high. More than half of infrastructure spending is directed towards road and other transport infrastructure, with water and sanitation the next largest area of expenditure (around 10 per cent). Examples of results in both subsectors are included in Box 5.

Factors that have contributed to the overall strong performance of activities in the infrastructure sector include the increased use of partner government systems to deliver assistance, which in turn helps to build local institutional capacity and ownership. Attention has also been given to policy reform where needed, to ensure that necessary operation and maintenance arrangements are in place. Australian assistance has also made more use of partnerships with multilateral organisations. When opening economic corridors, particularly through transport infrastructure, there can be increased transmission of diseases such as HIV/ AIDS and women and children can be at greater risk of trafficking, but by providing assistance alongside the larger credits and loans of the development banks, Australian aid has been able to raise the profile of health and gender issues. For example, by working with the World Bank and the Asian Development Bank, AusAID has influenced the quality of road infrastructure investments in the Mekong region by applying better design and monitoring to address the risks of greater gender inequality and the spread of HIV/AIDS. Australia's partnership with the development banks led directly to a range of activities to reduce HIV risk behaviours among the construction workforce, sex workers, commercial and entertainment establishments and affected local communities. The partnership also resulted in the development and implementation of context specific human trafficking awareness and prevention programs, and strengthened monitoring and evaluation systems to accurately measure the impact of these interventions.



Box 5: Infrastructure investments in Papua New Guinea and Vietnam

In Papua New Guinea, road rehabilitation has contributed to significant increases in household income in those villages close to improved roads, primarily because of better access to markets and greater wage-earning opportunities. Coffee processors in the highland provinces reported that they have been able to establish a new high-value organic coffee trade as a result of the rehabilitation of the Highlands Highway. Work on the Bougainville coastal road, which reduced journey times between the major towns of Buka and Arawa from 8 hours to 3 hours, has not only contributed in economic terms but also helped to demonstrate the state's capacity to deliver public services in a post-conflict situation.

In Vietnam, around 390 000 people have access to improved water and sanitation facilities as a result of the Cuu Long Delta Rural Water Supply and Sanitation Project in Vietnam. The Three Delta Towns Water Supply and Sanitation Project, also in Vietnam, supplied clean piped water to an additional 140 000 people and improved sanitation facilities for some 100 000 people. During the past five years, AusAID's support for water and sanitation infrastructure in Vietnam has enabled around 760 000 people to access safe water and 530 000 people to access improved sanitation facilities.

The quality of activities in **public sector reform** was good in 2007-08 in terms of achieving objectives but there is scope to improve performance in terms of sustainability. This conclusion is in line with the findings of a recent evaluation by the World Bank, which points to the political nature of civil service and administrative reform.⁴⁶ Recent AusAID and independent reviews of Australian funded public sector linkage programs highlight how flexible approaches have successfully built relationships with partner governments and been responsive to changing circumstances. However, they note that this flexibility, in the absence of high-level dialogue about program direction, can result in support for smaller scale activities that address lower priority objectives, without adequately taking into account the political environment and resource constraints.

In **education**⁴⁷ Australian aid is focused on improving access to and the quality of education, with some notable results achieved (Box 6). Although education is rated positively, a recent performance report identified ways to increase the quality of activities and the sustainability of results, including:

- > conducting more thorough analysis to ensure assistance addresses priority constraints
- > improving the coordination of donor activities and their alignment with national priorities
- > rationalising the large number of small activities.

⁴⁶ Independent Evaluation Group, *Public sector reform: what works and why? IEG evaluation of World Bank support* World Bank, Washington, DC, 2008.

⁴⁷ Note that scholarships are excluded from this analysis.

Box 6: Improving access to and the quality of education

In 2007-08 the Australia Pacific Technical College was established with campuses in Fiji, Papua New Guinea, Samoa and Vanuatu, reducing the need for students to travel outside the Pacific to gain internationally recognised qualifications. More than 500 students enrolled in courses providing skills in demand in the labour market.

Australia improved access to education in Asia by supporting the construction of more than 380 primary and junior secondary schools in Indonesia in 2007-08, and has helped to increase literacy rates in targeted districts from 42 per cent to 63 per cent in four years. In Laos support has led to increases in student retention rates to grades 3 and 5 in project areas that are around double the increases nationally, and clean water and sanitation systems have been installed in more than 500 schools.

Contributions to improve the quality of education included supporting the production and dissemination of about one million textbooks to schools throughout Asia and the Pacific, the training of more than 9000 teachers and government officials, and the improvement of teacher-training organisations in a number of partner countries.

Activities in the **law and justice** sector recorded good performance in 2007-08 in terms of achieving objectives but were rated below average in terms of their sustainability. The complex nature of law and justice reforms and their sensitivity to political instability help to explain this result. But areas of good practice can be found among the larger scale and more integrated programs, particularly the Papua New Guinea Law and Justice Sector Program and the Law and Justice Program of the Regional Assistance Mission to Solomon Islands (Box 7). The strength of the PNG program, for example, comes from a number of factors including a home-grown law and justice policy that identifies clear goals and guides the allocation of both government and donor resources. Australian aid also uses PNG government systems and processes, which appears to have contributed to a high degree of local ownership and accountability for reform.



Box 7: Law and justice reform in Papua New Guinea and Solomon Islands

Australian support to the law and justice sector in Papua New Guinea has evolved over several years from project-based assistance to a program approach that directly supports the country's policies and objectives. Australia's Law and Justice Sector Program has helped to develop the policy reform agenda of the Government of Papua New Guinea, and the program's recent achievements include greater court efficiency, increased services for survivors of domestic and sexual violence, and improved access to legal aid. There have also been reductions in the number of children held on remand, sentenced to detention and detained in adult prisons.

Since mid-2003 the Regional Assistance Mission to Solomon Islands (RAMSI) has contributed significantly to restoring the state's justice institutions in a post-conflict situation, working across courts and correctional services and in partnership with the RAMSI Participating Police Force. These achievements have resulted in improvements in the rule of law (as measured by the World Bank), which have exceeded improvements in comparable countries. Attention is now turning to the longer term—developing the capacity of institutions and achieving more affordable and sustainable outcomes.

In the **humanitarian** sector, lower than average quality with respect to sustainability reflects in part the nature of emergency responses, which are designed to meet short-term and temporary needs rather than long-term goals. That said, support provided to this sector also faces challenges in fostering ownership of activities to improve prevention and preparedness for emergencies and to reduce risk, given that these areas may not be viewed as a high priority by partner governments.

While the performance of the majority of activities in health and rural development was satisfactory in 2007-08, these sectors have the most scope for improvement in both achieving objectives and sustainable outcomes.

More than 80 per cent of activities in the **health** sector were rated as satisfactory in terms of progress towards their objectives and a number of these were assessed as very high quality. Examples of the results achieved in maternal and child health are provided in Box 8.

But the ratings also highlight significant scope for improvement. This reflects the challenges in this sector, including shortages of financial and human resources and the inequitable and inefficient allocation of these resources. Australian efforts aimed at strengthening overall health systems through broad multi-donor initiatives can take time to demonstrate results. Projects aimed directly at the delivery of services can achieve more immediate results but often these are not sustained in the absence of systemic reform.

Box 8: Support for maternal and child health

In Papua New Guinea in 2008 children received for the first time immunisation against *Haemophilus influenzae* type b, which causes meningitis and pneumonia, two of the most common causes of death in children in the country. As a result of long-term Australian support, there are now fifteen provinces with paediatricians, compared with only five in 1996.

In the Philippines, Australian aid provided through the United Nations Children's Fund has contributed to the immunisation of 213 000 children (82 per cent of those aged 0-11 months) against common vaccine-preventable diseases in Australian-supported provinces and a further 700 000 children in high-risk areas.

In Ethiopia, Australian assistance has doubled the capacity of the Hamlin Addis Ababa fistula hospital and in Indonesia, contributed to high-quality and affordable training for midwives at three hospital sites in the country's east.

Assistance provided for **rural development** is relatively small, accounting for just under 8 per cent of Australian aid in 2007-08, but it covers a wide range of activities. As in the health sector, a high proportion of rural development activities being implemented in 2007-08 were rated as satisfactory but had scope for improvement. In contrast to other sectors, rural development is dominated by the private sector rather than government. It also lacks clear sectoral boundaries, which in turn complicates government action, and it covers a large and heterogeneous population. Although positive results have been achieved in particular areas (Box 9) the risk is that small-scale, isolated activities struggle to have lasting impacts.

Box 9: Land policy reform

Australian support in the Philippines, Laos and Vietnam has helped to build the capacity of institutions, which has enabled them to enact reforms and streamline land administration processes, thereby increasing the number of land titles issued and improving access to land for women and ethnic minority groups. In the Pacific, support has focused less on land administration and more on land policy reform. During 2007-08, AusAID published a detailed analysis of land policy reform issues in the Pacific.⁴⁸ The publication is a resource for policymakers and has proved valuable to implementers of the land reform program in Vanuatu. In Papua New Guinea initial low-key efforts to stimulate discussion and debate about land reform have led to the government establishing a new policy framework and reform program.

⁴⁸ AusAID, *Making land work*, vols one and two, Australian Agency for International Development, Canberra, June 2008.

The performance of multilateral assistance

The role of multilateral organisations in the aid program

Historically, the aid program's engagement with multilateral organisations has been low compared with other donors. OECD DAC estimates indicate that Australia ranks 19th out of 22 DAC member countries in terms of its combined core and non-core contributions to the multilateral system and tracks well below the DAC-wide average of 29 per cent for core contributions as proportion of total aid. The Australian Government has expressed interest in engaging more with the multilateral system across a number of areas, including the environment and development. For example, in 2007-08 the government committed an additional \$200 million in core funding over four years to support the UN Partnership for the Millennium Development Goals.⁴⁹

As a channel for Australian development assistance, the multilateral system offers a number of potential advantages (Box 10). However, there are also a number of challenges that need to be addressed. The multilateral system has become increasingly complex; there are now 263 international organisations compared with just 47 in 1960. It has also become more fragmented. The proportion of multilateral aid received by regional development banks and UN agencies has been steadily declining, while aid received by specialised or 'vertical' funds such as the Global Fund to Fight AIDS, Tuberculosis and Malaria and the Global Environment Facility has grown in recent years.

In response to these challenges, donors are attempting to reform the multilateral system. A number of promising initiatives are under way, such as the 'Delivering as One' reforms in UN country-level operations⁵⁰ and steps to enhance developing countries' participation and voice in the governance of the World Bank Group. However, it is too early to determine the success of these reforms.

⁴⁹ The partners are the UN Children's Fund, the World Health Organization, the UN Population Fund, the UN Development Fund for Women, the UN Development Programme, the UN Office for the Coordination of Humanitarian Affairs and the Joint UN Program on HIV/AIDS.

⁵⁰ Under this initiative, the United Nations uses one leader, program, budgetary framework and office at the country level in order to improve the coordination of UN operations and advocacy efforts. Eight 'Delivering as One' pilot country teams were established in January 2007 to trial this new approach, and now more than 30 countries are implementing elements of the approach.

Box 10: Advantages of multilateral organisations in delivering aid

Multilateral organisations can ‘help to contain competition ... among donors and so provide a mechanism for collective action’, and are able to increase the legitimacy of unpopular policies, such as macroeconomic reform. Due to their economies of scale, multilateral organisations can help to reduce the costs and increase the credibility of policy-relevant information, and have a greater capacity for research, advice and development innovation. Evidence shows that multilateral organisations tend to balance their aid allocations somewhat better than bilateral aid agencies, and their governance structures, however flawed, give recipient governments some say in decision making.

Source: Simon Burall & Simon Maxwell with Alina Rocha Menocal, *Reforming the international aid architecture: options and ways forward*, Working Paper 278, Overseas Development Institute, London, October 2006, p. 5.

The results of multilateral assistance

ODE’s review of development effectiveness in 2007 found that there was no reliable information on the performance of multilateral assistance. In 2008 the aid program took steps to address this, including reviewing core funding to a number of multilateral organisations and reporting on the effectiveness of engaging with the World Bank, the Asian Development Bank and the UN system.⁵¹

A sample of assessments of core funding in 2008 found good performance, with all assessments rating progress towards objectives as satisfactory and more than half rating progress as good or very good. These assessments reflect in part the development results achieved by the multilateral organisations funded, but also Australia’s success, in cooperation with other donors, in influencing the practices of those organisations. Examples of this include encouraging the World Bank to increase its budgets and staff in the Pacific and alter its assistance thresholds to enable increased funding for small and fragile states in the region. Australia has also worked with both the World Bank and the Asian Development Bank to influence their country assistance strategies for Papua New Guinea and Tonga respectively.

Quality assessments of non-core support, where Australia funds multilateral organisations for specific purposes, also demonstrated the potential advantages of the multilateral system as a mechanism for collective action and source of expertise (Box 11). However, compared with core contributions, the assessments of non-core contributions yielded more mixed results. Common factors adversely affecting the quality of the activities included unrealistic objectives given the scale of support, inadequate presence in the field and longer than expected set-up processes. Notably, the assessments indicated that performance varied between activities rather than agencies, suggesting that careful appraisal is required to assess the strengths and weaknesses of potential multilateral partners in each case.

⁵¹ Based on the five main UN organisations, which account for three-quarters of Australia’s assistance to the United Nations—the World Food Programme, the UN Children’s Fund, the World Health Organization, the UN Development Programme and the UN Refugee Agency, UNHCR (United Nations High Commissioner for Refugees).

Box 11: Using multilaterals to coordinate assistance in difficult environments

With more than 30 bilateral donors operating in Afghanistan, the Afghanistan Reconstruction Trust Fund was established in 2002 to coordinate funding for reconstruction in line with the Government of Afghanistan's national objectives. The fund is managed by a committee of multilateral organisations—which includes the World Bank, the Asian Development Bank and the Islamic Development Bank—that liaises with the government to agree annual investment priorities based on the national budget. AusAID has contributed A\$66 million to the fund since 2003.

A recent external review⁵² concluded that the fund was operating effectively, minimising transaction costs for the government and contributing to improvements in public financial management systems. The programs supported by the fund had achieved important results in community development, rural infrastructure and education. For example, more than 440 000 Afghans (64 per cent of whom are females) have accessed microfinance services in 24 provinces, and the school enrolment of children in grades 1-12 has increased from 3.1 million to just over 5 million.

Notwithstanding the positive steps taken in 2008, the aid program's overall approach to assessing the performance of working through multilateral organisations is still work in progress.

The program has clarified its objectives in supporting particular organisations, but there would be value in developing an overarching framework that outlined the program's expectations when engaging with the multilateral system and provided strategic guidance on issues such as Australia's approach to reform and the use of core and non-core support. An agency-by-agency approach is unlikely to provide this overarching framework, and may risk increasing the management burden for both the aid program and multilateral partners. There is also scope to improve the links between core and non-core support to maximise the value of partnerships with multilateral organisations.

In the end, the aid program needs to be able to demonstrate that it supports multilateral organisations that are contributing to progress towards the MDGs, that are becoming more efficient and effective over time and are improving the way they measure and report performance. Given the relative size of Australia's contributions and the number of other donors, the challenge is to work with donors and multilateral partners themselves to move towards better and more comparable performance assessment collectively. Australia took a positive step towards this when it became a member of the multi-donor Multilateral Organisation Performance Assessment Network (MOPAN) in December 2008. MOPAN is

52 Scanteam Analysts and Advisers, *Afghanistan Reconstruction Trust Fund: external evaluation*, final report, Oslo, August 2008, viewed January 2009, <<http://www.scanteam.no/reports/2004/AFGHANISTAN%20Trust%20Fund%20Assessment.pdf>>.

an informal network of like-minded donor countries with a common interest in assessing the organisational effectiveness of the major multilateral organisations they fund.⁵³

Achieving sustainable results at the country level

Australian development assistance is ultimately effective only if it produces results that have a lasting, positive impact in partner countries. International experience confirms that successful activities are the building blocks for this but they are not sufficient.⁵⁴ Activities have to address priorities and be sufficiently large or influential to make a difference. They also need to be undertaken in an environment conducive to sustaining the results. This in turn may require the aid program to extend beyond individual activities to engage in analytical work to inform the development debate, in dialogue with partner governments to influence policy directions and in relationships with other development partners to build coalitions for change. How well individual activities relate to one another within a program of assistance is also important in determining their collective impact within a particular sector. And, of course, significant and lasting improvements depend crucially on the actions of local stakeholders in partner countries.

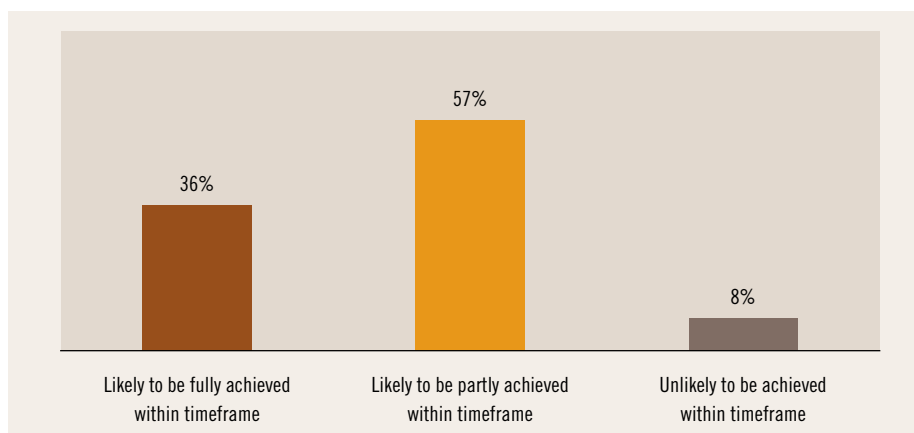
Australia is no different from other donors in facing challenges in translating successful activities into country-level results. In 2008, as part of their annual program performance reports, the managers of fifteen country and four regional programs rated progress towards their strategic objectives.⁵⁵ These represent the higher level, program objectives to which individual activities contribute. The results of this exercise indicate that achieving objectives at the country and regional levels is much less certain than at the activity level (Figure 10).

53 MOPAN comprises Austria, Canada, Denmark, Finland, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom.

54 See, for example, Independent Evaluation Group, *Annual review of development effectiveness 2008: shared global challenges*, World Bank, Washington, DC, 2008, p. 14, viewed January 2008, <http://siteresources.worldbank.org/EXT2008ANNREVDEVEFFE/Resources/arde_o8.pdf>.

55 Annual program performance reporting is discussed in Appendix A.

FIGURE 10: PROGRESS TOWARDS COUNTRY AND REGIONAL PROGRAM OBJECTIVES IN 2007-08



Data source: AusAID program performance assessments for 2007-08. Figures are rounded.

This year's annual review of development effectiveness has been able to draw on a much wider range of performance information than last year's review. This includes nine reviews of country strategies⁵⁶ and a number of evaluations and reviews conducted by ODE and other areas within AusAID, in addition to the activity-level assessments and country and regional program reports already mentioned. As a result, this year's review is better placed to identify common issues across activities influencing the likelihood of success. This analysis points to three basic issues that require careful attention in order to increase the contribution of Australian aid to lasting development outcomes in partner countries:

- > the level of ownership of aid activities by partner countries
- > clarity around the role and contribution of Australian development assistance
- > the fit between assistance, objectives and partner country context.

Establishing ownership in partner countries

The level of commitment of key stakeholders in partner countries to the development agenda is a significant factor influencing the success of any donor support. Where opposition to change is deep rooted, progress can be extremely difficult to achieve, but rarely is lack of commitment clear cut.

⁵⁶ Reviews of country and regional strategies are external assessments of program performance, conducted soon after the end of each strategy period (every 3-5 years). The reviews completed in 2007 and 2008 covered the regional strategies for Africa, South Asia and Asia, and the country strategies for Cambodia, Fiji, Laos, Samoa, Solomon Islands and Vietnam.

The experience of economic governance support in Vanuatu and Indonesia (see Box 4) highlights the importance of putting partner governments in the driving seat by ensuring they exercise leadership and decision-making roles, supported by high-quality, appropriate assistance. The aid program faces a challenge in this regard in the more fragile countries in the Asia-Pacific region, which historically have received significant amounts of technical assistance in the form of people deployed to fill shortfalls in capacity. In many cases, this assistance played an essential role in addressing the most pressing needs for stability at the time and in re-establishing basic functions of government, but shifting from providing capacity to developing capacity over the longer term requires different ways of working. There is scope for whole-of-government learning across the Australian aid program from those activities that have achieved success in this regard.

It is important that aid activities are designed with ownership in mind, particularly where aid is being used to develop new approaches to development. In Laos, for example, the recent review of the country strategy found that Australia's assistance has been successful in assisting the government to improve the investment climate and increase economic integration but that some systems developed under the program represented potentially parallel operating structures far removed from the government systems, which makes it difficult for government to adopt them.

However, the principle of ownership does not imply acceptance of poor policy or practice in partner countries. In these environments, where it is felt that assistance can be effective, Australia has an important role in influencing and promoting positive change, particularly where it is a lead donor. For example, the ODE evaluation of the delivery of health services in Melanesia⁵⁷ found that where government commitment to a sector strategy, plan and budget was at times shallow and temporary, establishing arrangements for dialogue within and outside government to develop wider ownership of key policies is valuable.

Being clear about what Australian assistance can achieve

The prospects for supporting lasting improvements in a sector are increased when there is a clear understanding of the contribution Australian aid can make, based on good analysis of the context and nature of the development challenges. Overly general objectives in country and regional programs are the most common manifestation of weaknesses in this regard. The recent reviews of country and regional strategies found almost all areas of Australian support were relevant to the development needs of partner countries; however, program objectives were often too broad or poorly defined (or both). For nearly 20 per cent of program objectives, slower than expected progress could be attributed in part to inadequate analysis of context and need; the scale of support provided was too small to achieve the objective or unexpected difficulties in establishing activities delayed implementation.

57 Office of Development Effectiveness, *Evaluation of Australian aid to health service delivery in Papua New Guinea, Solomon Islands and Vanuatu*.



A majority of program management teams also acknowledged this issue in their annual program performance reports, noting that it was frequently difficult to judge the likelihood of success because objectives were too general or overly ambitious.

A lack of clarity about what can be achieved often manifests itself in objectives that do not distinguish sufficiently between the development outcomes being pursued in a partner country and the role of Australian aid. The former are important in judging the success of all stakeholders' development efforts, but without a clear understanding about how Australian aid contributes to those outcomes, assistance may end up focusing on lower development priorities. The need to clearly identify the role of Australian aid may be most obvious in countries where Australian aid is a very small proportion of total public and donor expenditure, but it is no less important in those countries where Australian aid plays a more significant role. (Box 12).

Box 12: Setting realistic objectives in the Vietnam country program

Although Vietnam is one of the largest recipients of official development assistance, aid accounts for less than 10 per cent of central government expenditure. Australia provides less than 5 per cent of all assistance. Previously, the Australian program in Vietnam included general objectives such as: 'Increase agricultural productivity' and 'Enhance the benefits of international integration'. No specific indicators were identified to define the focus or scope of ambition of Australian support meant to meet these objectives.

For the new strategy, program staff have given much greater attention to defining the role of Australian aid and identifying the logic underlying Australian support—that is, how the different activities are expected to contribute to overall objectives. For example, under the Government of Vietnam's own program to reduce poverty among ethnic minority households, the new strategy identifies where Australia will add value in terms of improving the targeting of assistance to ensure pro-poor and gender-sensitive allocations, establishing better links between national and local decision making and ensuring that adequate maintenance arrangements are established for infrastructure investments.

The importance of setting clear objectives extends to scholarship programs, which account for between 5 and 8 per cent of the aid program. Evaluations undertaken by other aid agencies suggest that the contribution and impact of scholarship programs are likely to be greater if they are closely aligned to aid program priorities and integrated with longer term capacity-building activities in a particular sector or organisation.

Ensuring Australian assistance fits the context

Ensuring there is a good fit between the type of assistance provided and the development needs being addressed is important but selecting the appropriate form of assistance is not always straightforward. Often, all aspects of a sector may need assistance. What is required therefore is a good understanding of the critical constraints and an appropriate matching of assistance to the needs (Box 13).

Box 13: Support for health service delivery in Solomon Islands and Papua New Guinea

During the early 2000s, conflict in Solomon Islands resulted in a collapse in government revenue available for essential health services. ODE's recent evaluation of health services in Melanesia found that Australia's support for operating costs was crucial in sustaining the health system during this time. There are many examples around the world of health systems collapsing during periods of instability because of shortages of essential commodities, facilities falling into disrepair and disuse, patients deserting the system, staff leaving, absenteeism and large-scale misappropriation of resources. None of these things happened to a significant extent in Solomon Islands, and the Australian aid program deserves a significant share of the credit for this outcome.

Although much less dramatically than in Solomon Islands, Papua New Guinea has also experienced declining government spending per person on health services since the early 2000s. Australia, along with other donors, committed to provide funds to support health system operations, but in practice provided much more technical assistance (around half of total assistance) for capacity building in the public health system. Although this had some positive effects, overall it has not produced the anticipated improvement in performance or capacity. ODE's evaluation concluded that results have been modest because, in part, assistance was not well matched to the fundamental problems affecting provincial health services: deep-seated incentive and institutional problems, limited access to drugs and other essential supplies, and inadequate finance. Building capacity in an environment where people lack resources to use their new skills is unlikely to be effective. The evaluation argued that a better balance between technical assistance and support for operating costs would have achieved more.

Source: Office of Development Effectiveness, *Evaluation of Australian aid to health service delivery in Papua New Guinea, Solomon Islands and Vanuatu: main report*, Australian Agency for International Development, Canberra, 2009, forthcoming.



Ensuring assistance is matched appropriately to needs is particularly important in the context of technical assistance, given the Australian aid program's heavy reliance on this form of aid. Findings from an ODE survey in 2008⁵⁸ were in line with estimates that Australia provides around double the DAC average in technical assistance. How effectively technical assistance is being used will continue to be analysed by ODE.

Aid agencies also face choices in deciding the right way to deliver their support. Although the appropriate approach will differ in different contexts, available evidence suggests that activities designed essentially as stand-alone one-off projects—unconnected to broader reform programs—struggle to achieve country-level results. (Box 14).

Where the aid program is engaged in a broader reform agenda, discrete activities can have significant value in providing flexible and dedicated support in piloting new approaches, supporting large-scale capital investments and building specific areas of capacity. The 2007 review of the Vietnam country strategy highlighted how Australian project-based activities in support of government-led programs have been able to demonstrate results and solutions that can be applied to improve the effectiveness and sustainability of government expenditure as well as donor spending.

Box 14: Stand-alone and connected projects in Cambodia

Under the broad objective of reducing the vulnerability of the poor, the Australian aid program in Cambodia supported activities in food security, disaster management and land mine clearance. The projects were well implemented but the activities to improve food security and disaster preparedness were small and isolated and results at the program level were limited. For example, in spite of successful projects in disaster management there was little evidence of disaster management strategies being implemented at district and provincial levels. This was in contrast to the support for land mine clearance, which was more selective, tightly focused and better resourced. The approach pursued was aligned with an agenda led by the Cambodian Government. Australia's contribution to progress and reform has been significant and the program in Cambodia on land mine clearance is now recognised globally as best practice.

⁵⁸ ODE surveyed the aid program's largest twenty contractors and found that technical assistance, in the form of personnel, accounted for almost 50 per cent of the contracts with these organisations.

Furthermore, evidence points to the value of adapting the type of assistance and approach taken in line with new opportunities. In Vietnam and Cambodia, the Australian program initially provided most assistance through separate projects because of the perceived lack of accountability and transparency in government systems. However, the programs in both countries adapted over time to support and promote government-led programs. Reviews of both programs found that this shift had been instrumental in improving aid effectiveness, maintaining the relevance of Australian assistance and ensuring achievements were institutionalised and replicable.

The evidence suggests that increasing the coherence between Australian assistance and partner governments' programs can raise effectiveness at the program level. But because conditions in partner countries differ, there is no simple blueprint on how this should be done. What is clear, however, is that the way aid is provided is a strategic choice for programs. The rationale for that choice should be clear and based on a solid analysis of context and need, not driven by historical precedent. Furthermore, to ensure continued effectiveness, programs need to be able to adapt their approach as new opportunities arise from changes in country circumstances.



CHAPTER 5: AID MANAGEMENT AND DELIVERY

The previous chapter identified three key issues that have important implications for the way Australian aid is managed and delivered. This chapter considers these implications in more detail.

Australia is reforming its approach to managing and delivering aid to improve effectiveness, consistent with the Paris Declaration on Aid Effectiveness and its own aid experience. The new ways of working are designed primarily to build local ownership of aid activities by supporting partner countries' plans and policies and by using their systems to deliver aid. These changes are also aimed at strengthening donor coordination, improving predictability of aid, and reducing fragmentation of aid programs. Australia's progress to date was recently reviewed by an independent OECD DAC peer review (Box 15).

Box 15: OECD DAC peer review of the Australian aid program

The review by the Development Assistance Committee of the OECD, released in February 2009, found that Australia had made substantial and positive changes to the aid program since 2004. The DAC commended Australia for a reinforced strategic focus on poverty reduction and the Millennium Development Goals and for renewed commitment to multilateralism. The DAC particularly welcomed the decision to engage further in Africa while maintaining a focus on the Asia-Pacific region and on fragile states, with the review noting Australia's special responsibility to the region.

The review complimented Australia's strong commitment to improving the effectiveness of the program as evidenced by the complete untying of the aid program in 2006, the creation of ODE and the Parliamentary Secretary's participation in the Accra High Level Forum on Aid Effectiveness. The review noted the considerable efforts to incorporate gender equality into the aid program, suggesting that Australia should share this good practice with other donors, while drawing on this experience to integrate environmental considerations into the aid program.

The review noted AusAID's comprehensive corporate reforms, including devolution of the program to the field and the considerable strengthening of field office capacity over the last four years. The role of ODE in fostering a results-based and learning culture was also noted, with the review stating that it could be a model for other donors. The review also stated that the program's rigorous whole-of-government approach facilitates policy coherence; however, it recognised that whole-of-government stakeholders need to share the same development perspective when implementing the Australian aid program.

Other challenges identified included the need to increasingly work through partner governments' systems, and the importance of maintaining focus and pursuing effective approaches to aid delivery while scaling up the aid program. The review noted that, while it is understandable that Australia needs to adapt the way it engages in the aid effectiveness agenda to its specific context, it is important that the Paris commitments remain a focus of the overall program.⁵⁹

Source: OECD, *Australia: Development Assistance Committee (DAC) peer review*, Organisation for Economic Co-operation and Development, Paris, 2009, viewed February 2009, <http://www.oecd.org/document/55/0,3343,en_2649_34603_41877687_1_1_1_1,00.html>.

ODE shares the peer review's overall positive assessment of progress and believes that the pace of reform needs to be maintained as the program increases in size. With the aim of maximising aid effectiveness in an expanding program in mind, ODE has identified four areas where reform efforts should be sustained or enhanced:

- > influencing policy
- > providing more focused and predictable support
- > working through program-based approaches
- > ensuring that program managers are supported by appropriate systems to manage risk.

Influencing policy

While partner countries' ownership of their development processes is central, the importance of good policy settings in partner countries for aid effectiveness is similarly well documented.⁶⁰ Australia can play an important role in helping partner governments to establish sound policy and budget settings, particularly where capacity to develop such frameworks is weak. This role will become more important as Australia seeks to help partner countries respond to the worsening economic environment.

Australia has demonstrated its ability to help partner governments develop sound policies and budgets on the back of high-quality analytical work (Box 16). The recent AusAID publication *Tracking development and governance in the Pacific* has been a key reference document for high-level discussions between Australia and its Pacific neighbours in the development of the new Pacific Partnerships for Development.⁶¹ Similarly, the publication *Making land work* is helping to create broad consensus in the Pacific region about approaches to land reform and is informing countries' own reform programs.⁶²

59 A discussion of Paris and Accra commitments and progress is in Appendix C.

60 World Bank, *Assessing aid: what works, what doesn't, and why*, Oxford University Press, New York, November 1998, viewed January 2009, <<http://www.worldbank.org/aid/aidtoc.htm>>.

61 AusAID, *Tracking development and governance in the Pacific*.

62 AusAID, *Making land work*.

Box 16: Influencing reform through analytical work

Australia is a relatively small donor in Vietnam but participates effectively in policy engagement, and has taken a leading role in supporting influential analytical work. Examples include:

- > analyses of the infrastructure sector, particularly in relation to the My Thuan Bridge, that contributed to the World Bank sponsored Poverty Reduction Support Credit
- > technical assistance to develop donors' approaches to the 'Beyond WTO' reform agenda
- > assistance in preparing the Vietnam Government's national program for rural water supply and sanitation.

The recent ODE analytical work on violence against women in East Timor and Melanesia⁶³ seeks to provide solid and credible evidence and analysis to partner governments as a basis for policy change and action. The participatory approach used in each country sought to establish broader local ownership of the findings and recommendations of the study. The extent to which the report influences how partner governments and the aid program engage on this issue will be assessed by ODE over the coming years.

Australia's capability to engage in dialogue with partner countries has been enhanced as a result of the devolution of aid staff to country offices since 2000. The development of a cadre of principal advisers and thematic networks has increased AusAID's in-house technical capacity, which has been bolstered by the involvement of other specialist Australian government agencies, particularly in law and justice and economic governance.

However, as the aid program is scaled up, opportunities for policy engagement will increase and demands on senior managers and advisory experts will rise. Building up in-house capacity and access to key sources of expertise, as well as greater investment in research and analysis, will need to continue if Australia is to fully exploit these policy openings. A recent ODE assessment noted that the types of programs that are emerging in Indonesia require staff to have an increasingly detailed knowledge of development issues and capacities in the country.⁶⁴ At the moment some of this knowledge is sourced from the World Bank and the Asian Development Bank, but as Australia's relative importance as a donor increases, efforts rightly are under way to increase the capacity of the country office (Jakarta) and to develop links with relevant national think tanks.

Developing the right mechanisms for policy engagement is also critical. In those partner countries where government capacity is limited due to institutional and political fragilities and where Australia is by far the largest donor and provides a significant share of public

63 Office of Development Effectiveness, *Violence against women in Melanesia and East Timor: Building on Global and Regional Promising Approaches*.

64 Office of Development Effectiveness, *Assessment of future support to Indonesia and the Philippines*.

expenditure, it can be difficult to obtain the necessary level of engagement. Yet, the importance of doing so may be greatest in these countries. In this context, the recent ODE evaluation of health service delivery in Melanesia highlighted the importance of developing effective channels for broader policy dialogue (Box 17).

Box 17: Building channels for policy dialogue in difficult contexts

The ODE evaluation of health service delivery in Melanesia found that there is a strong case for donors to encourage greater dialogue between government and civil society. Civil society organisations can play a constructive role in policy advocacy and in increasing accountability, which would help to broaden ownership of reforms and improve their chances of surviving changes in government. A particular role, for example, would be to stimulate rigorous debate on the importance of health systems having a poverty and gender focus. There is also potential value in regular consultation forums where government and non-government service providers can exchange experience.

Source: Office of Development Effectiveness, *Evaluation of health service delivery in Papua New Guinea, Solomon Islands and Vanuatu: main report*, Australian Agency for International Development, Canberra, 2009, forthcoming.

Providing more focused and predictable support

Although Australia enjoys a reputation with partners for its flexibility and responsiveness in development assistance, its experience is that being flexible and responsive can lead to a proliferation of small activities across many sectors, which reduces the overall impact of assistance.⁶⁵ Such proliferation also creates a management burden for both the Australian aid program and its partners. The transaction costs for partner countries in managing an increasing number of aid activities are prohibitive. For example, at one time in Ghana there was an estimated 1300 donor-financed projects requiring 2400 reports each quarter.⁶⁶ For Australia, large numbers of small activities reduce the time available for dialogue with partners and strain quality assurance processes.

Available data suggest that the average value of individual activities funded by donors is decreasing and the average value of activities funded by the Australian aid program is lower than the overall average for all DAC donors.⁶⁷ To some extent this can be explained by the small

65 Reviews of country strategies have found that large numbers of isolated activities militate against greater impact, while increasing management costs. The recent review of the Australia–Indonesia Partnership for Reconstruction and Development found the early decision to concentrate nearly two-thirds of the program on two infrastructure programs was important in explaining the successes achieved.

66 C Kenny, 'What is effective aid? How would donors allocate it?' *European Journal of Development Research*, vol. 20, no. 2, 2008, p. 334.

67 Obtaining comparable data for donors on activity size is difficult because of the different definitions and methodologies used. Recent OECD DAC statistics suggest the average activity size for Australia is US\$0.88 million and for all DAC members US\$1.12 million (source: <<http://stats.oecd.org/WBOS/Index.aspx?DatasetCode=CRSNEW>>, viewed September 2008).

size of Australia's partner countries, where larger activities are more difficult to develop and by the tendency for Australia to be seen as the donor of last resort for all sectors. There is also a need to strike a balance between large, multi-year programs and small, responsive activities that provide an opportunity to experiment and develop partnerships. Nevertheless, from an effectiveness perspective, scaling up should be based primarily on larger activities rather than a larger number of activities.

As outlined in Chapter 2, predictable aid flows are important for partner countries to plan and execute budgets. This is particularly the case for those countries in the Asia-Pacific region where Australian aid is a significant proportion of total public expenditure. In many instances, Australia does provide estimates of forward expenditure in one form or another but a recent DAC OECD monitoring survey found that only 30 per cent of the Australian aid program was recorded in partner country budgets, compared with a DAC donor average of 48 per cent.⁶⁸ One possible reason for this is that information provided to partners on aid expenditure and forward estimates may not be in the most useful form or furnished to coincide with budgetary planning. It may also reflect a lack of capacity on the partner government side. In providing estimates, the effects of exchange rate volatility also need to be taken into account.

In addition to greater predictability in aid flows, greater transparency in aid spending and results can increase the accountability of partner governments to their citizens. To this end Australia has joined the International Aid Transparency Initiative (Box 18), which should strengthen Australia's performance in this regard.

Box 18: International Aid Transparency Initiative

In September 2008 Australia joined the UK-led International Aid Transparency Initiative as a founding member. The initiative aims to promote greater aid effectiveness and accountability through more timely and accurate data on aid spending, and responds to the growing calls from taxpayers, civil society organisations, partner governments and the private sector for greater transparency of aid (spending and results).

In total, fourteen donors and development institutions endorsed the initiative, including Germany, the United Kingdom, the World Bank, the European Commission, the UN Development Programme, the Hewlett Foundation and the Global Alliance for Vaccines and Immunisation. Membership is expected to grow and the aim is for the initiative's reporting standard to be adopted by all donors, including multilateral organisations, non-traditional donors, non-government organisations and private charities.

⁶⁸ OECD, *Better aid—2008 survey on monitoring the Paris Declaration*.

Working through program-based approaches

Program-based approaches have become a key vehicle for donors to address many of the challenges to aid effectiveness already discussed (Box 19).

Australia engages in program-based approaches in one form or another in most country programs—for example, the Vietnam poverty reduction program. But comparatively, Australia makes less use of these approaches; the 2008 global monitoring survey indicates Australia provides around a third of its aid through program-based approaches, compared with the average for all DAC donors of almost a half.⁶⁹

To some extent, Australia's comparatively slower adoption of program-based approaches can be explained by the weaker capacity of the countries that Australia supports. The design and transition to program-based approaches are technically demanding. Australian and international experience suggests that poorly designed program-based approaches replicate the problems of stand-alone activities, largely by bypassing country systems and establishing complicated financial management mechanisms.⁷⁰ Although program-based approaches provide opportunities for donors to harmonise and coordinate their activities and procedures more, the different organisational requirements of donors can make adopting common approaches difficult in practice.

Box 19: Program-based approaches

Program-based approaches deliver aid based on the principles of coordinated support for a locally owned program of development, such as a national development strategy or a sectoral program. In principle, they should provide a stronger basis for engaging in policy dialogue and progressing partner ownership and alignment, donor harmonisation and results management. Program-based approaches share the following features:

- > leadership by the host country or organisation
- > a single comprehensive program and budget framework
- > a formalised process for donor coordination and for harmonisation of donor procedures for reporting, budgeting, financial management and procurement
- > efforts to increase the use of local systems for program design and implementation, financial management, monitoring and evaluation.

69 OECD, *Better aid—2008 survey on monitoring the Paris Declaration*.

70 Office of Development Effectiveness, *Evaluation of Australian aid to health service delivery in Papua New Guinea, Solomon Islands and Vanuatu*.

These experiences point to the need for consistent and concerted effort to develop and move to program-based approaches across country programs, and to have access to the right skills and knowledge to implement these approaches. There has been some progress on this front, with AusAID in the process of conducting a comprehensive stocktake of Australia's use of local systems and program-based approaches, with the outcomes to inform the updating of operational guidance and diagnostic tools to support program areas.

Managing risk

Being able to deliver the right sort of assistance to a developing country is central to aid effectiveness. To do this requires innovation and the adoption of new ways of working, which need to be supported by appropriate risk management approaches. There is evidence that the way the aid program manages risk has a significant bearing on the effectiveness of Australian aid (Box 20).

Box 20: Managing financial risks in delivering health services in Papua New Guinea

Australia has used a multi-donor trust account to channel support for the delivery of health services in Papua New Guinea. Unfortunately, spending from this pooled fund has been at less than 40 per cent of levels assumed in the budget, and it has proved to be particularly difficult to spend money at the provincial level. ODE attempted to find out why.

The pooled fund is based on an advance and replenish system. With one quarter's funding in hand, cost centres are visited by accountants from the central secretariat who review original documents for all pool funds spent. No new funds are released until acquittals are complete. This is onerous in a situation where pool funds are accounted for by health sector staff rather than by provincial or district treasuries. Most of those who do the work lack formal accounting or bookkeeping training. The approach has a built-in disincentive to use funds for expenditure at the district level and below, where remoteness makes it difficult to obtain the original receipts and other documents required to account for expenditure.

Some provinces have proved unable to provide the necessary accounting discharge to enable them to continue drawing on pool funds, while others have been reluctant to incur the work involved and the risk of attracting criticism for being unable to account for funds.

Source: Office of Development Effectiveness, *Evaluation of health service delivery in Papua New Guinea, Solomon Islands and Vanuatu: main report*, Australian Agency for International Development, Canberra, 2009, forthcoming.

A major issue for the Australian aid program is how to manage the risk associated with using partner country systems, including public financial management systems, to deliver aid. This issue is a key consideration in the aid effectiveness agenda and Paris Declaration commitments. Australia has provided considerable support to strengthen public financial management systems with notable success. For instance, Australian support to strengthen Vanuatu's public

financial management system led to the European Commission and the US Millennium Challenge Corporation using this system for the delivery of millions of dollars in assistance, and provided sufficient confidence for part of the Australian aid program to be delivered this way.

However, like many donors, Australia has generally been reluctant to use the systems of partner governments to deliver aid. While the scope to rely on local systems is not the same in every country,⁷¹ the long-term and consistent use of alternative, parallel systems developed by donors will not build local management capacity in this essential area. In a number of cases, Australia has used country systems supported by appropriate risk management (Box 21).

Box 21: Australia–Indonesia Basic Education Program

The Government of Indonesia aims for all Indonesian children to receive a minimum nine years of quality basic education. To support this, Australia is helping to construct 2000 schools, around three-quarters through the government's own school construction system. Australian government funds are transferred to the Indonesian Ministry of Finance and then in tranches to community school construction committees after demonstrated progress and independent audits. A complaints-handling system is in place and independent quality review teams work with communities to ensure that the schools are built to the required standards.

By implementing most of the assistance through Indonesia's own systems, the program is increasing the construction skills and management capacity in local communities, generating economic activity within local communities and streamlining management for the government.

Other schools being constructed are the responsibility of the Ministry of Religious Affairs, which does not possess the same quality systems for school construction as the education ministry. For these schools, AusAID has adopted a more traditional project approach, contracting an Australian firm to manage the flow of funding to the local community-based construction committees. While appropriate in the circumstances, this approach is less efficient, with a higher average cost per school than under the Ministry of Education system.

⁷¹ An overview of the rationale and the experience in strengthening and using the public financial management systems of partner governments is contained in Working Party on Aid Effectiveness, Joint Venture on Public Financial Management, *Report on the use of country systems in public financial management*, 3rd High Level Forum on Aid Effectiveness, Accra, Ghana, 2–4 September 2008, viewed 27 November 2008, <www.oecd.org/dataoecd/29/20/41085468.pdf>.

Channelling aid funds through partner country systems is not a simple undertaking, particularly in the more fragile environments in which the Australian aid program operates. This suggests the need for quick learning and guidance on how to answer three main questions.

- > How can program managers judge whether partner government systems are sufficiently developed to permit the channelling of Australian aid through them?
- > When using local systems, what controls are necessary to ensure funds are adequately protected from misuse without compromising the efficiency and effectiveness of those funds?
- > How can weaknesses within local systems be strengthened and what type of assistance and engagement is required to do this?



CHAPTER 6: SCALING UP EFFECTIVELY IN A CHANGING GLOBAL ENVIRONMENT

Drawing on the preceding analysis, this chapter seeks to identify areas where Australia can enhance the effectiveness of its aid program.

The Australian aid program will be scaled up significantly in the period to 2015-16. To ensure that it is well placed to meet both this challenge and the challenges presented by the global recession, ODE believes that the aid program needs to focus on:

- > rethinking the role of aid in protecting poverty reduction gains
- > updating the aid program's operational framework
- > redefining the program's engagement with civil society.

Protecting poverty reduction gains

While the impacts of the global recession are yet to play out for partner countries, it is becoming increasingly apparent that poverty reduction gains achieved during the past two decades are at risk. Recent shocks have their greatest impact on the poor, with many of the 'near poor' vulnerable to slipping back into extreme poverty—a growing concern in the light of the revised poverty estimates outlined in Chapter 2. It is highly likely that emerging needs will require a rethink of assistance programs to most countries in the Asia-Pacific region and for the aid program to engage in some areas where it has had limited experience.

Australia will be expected to take on a leadership role in helping partners to grapple with the economic and social implications of the global recession and develop appropriate policy responses. The help is likely to centre around:

- > **implementing short-term measures to protect the poor and vulnerable.** Such measures include programs to maintain financing for service provision and to generate public employment. The financial and economic impacts of the global recession are also likely to raise the need for greater social protection to help vulnerable people to cope more effectively with crises and the need to discourage governments from taking potentially economically damaging measures, such as food and fuel subsidies.
- > **establishing longer term conditions for generating economic growth and employment for the poor.** Such conditions include an enabling environment for economic growth and private sector investment. To maintain or strengthen this environment, partner countries will need help to resist protectionist tendencies that may arise, and to stimulate those sectors that traditionally generate growth and employment for large numbers of lowly educated and semi-skilled workers—infrastructure and rural development.



Australia will also need to be in position to support such policy responses. To a large extent, by continuing to reform aid management and delivery Australia should have a flexible platform from which to respond. To complement these improvements in the capacity of the Australian program to respond, ODE believes it would be timely to improve the evidence base on the effectiveness of aid support in areas likely to be given higher priority by partner governments because of the deteriorating economic environment. In particular, assessments of efforts to reduce vulnerability, and promote pro-poor economic growth and employment (an area where the aid program has a long history) would be useful to decision making.

Updating the aid program's operational framework

The planned scaling up of the Australian aid program provides an enormous opportunity to contribute to even greater reductions in poverty in the Asia-Pacific region and elsewhere.

To maximise this impact, ODE believes there is scope to strengthen the aid program's operational framework and its capacity to scale up effectively.

Evidence shows that the way aid is managed and delivered has a bearing on how effectively it contributes to reducing poverty. To increase its effectiveness, an expanding aid program needs to operate differently. More than doubling the number of individual activities is not an option. And in a global recession, the aid program can anticipate increased demand for different types of assistance—for example, sector financing to address budget shortfalls as partner governments' ability to fund services shrinks.

In this respect, recent reforms have positioned the aid program well for an increase in its scale. Organisationally, there has been a major devolution of staff and responsibility to the field, which has improved the capacity of AusAID to engage in policy dialogue and deliver more responsive and effective assistance. A cadre of principal advisers has been created, which is increasing access to expertise and up-to-date learning. The ongoing engagement of other Australian government agencies in the program deepens this pool of expertise. In program terms, innovations and newer ways of working that are based on lessons from past assistance, and which are consistent with the effectiveness principles of the Paris Declaration have been introduced across most country programs. This progress now needs to be broadened and accelerated.

While there is high-level political commitment to the principles of aid effectiveness agreed in Paris and Accra, translating this commitment into systematic action on the ground is not a simple task. To maximise effectiveness, ODE believes that the aid program's operational framework should be revised to provide:

- > **updated direction and guidance for managing and delivering aid.** The rationale for delivering aid in new ways is clear but implementing the change needs updated direction and guidance on the merits of different types of aid (including recurrent cost funding) and the use of program-based approaches and partner country systems. In upgrading this guidance there is scope to build on recent international experience as well as the experience Australia has in implementing assistance in the unique environments in which it operates. The guidance should state that participating in program-based approaches and delivering aid through partner government systems should be the preferred approach if circumstances permit, and that country programs of assistance should be working systematically towards this goal. Efforts to monitor progress to this end should also be developed.
- > **better approaches to risk management.** Risk management needs to suit the new ways of working, reflect smarter ways of managing risk and strike a better balance between fiduciary risk and the risk of not achieving development outcomes.
- > **greater focus and program coherence.** Increasing focus and program coherence requires greater control over the spread of activities undertaken by country programs. There is a need to strike a balance between large, multi-year programs and small, responsive activities that provide an opportunity to experiment and develop partnerships. Nevertheless, scaling up should be based primarily on larger activities rather than a larger number of activities. This also means ensuring continuity between existing and new programming to avoid gaps in support.
- > **fuller disclosure of aid levels.** To the extent possible, estimates of assistance, at both a country and individual activity level, should be provided in a form and at a time of most use to partner countries. In this respect, Australia should continue to participate in the International Aid Transparency Initiative, which aims to develop a common approach for donors to use to address this issue.

These requirements present a challenging agenda. They have implications for capacity and skills in areas such as policy analysis, public financial management and risk management. The implications will be greatest for those country programs where Australia is expected to play a leadership role—in Indonesia, East Timor, Papua New Guinea, the Pacific island countries and increasingly the Philippines. It will be critical for AusAID to promote cross-agency learning and knowledge management.

Sustaining the commitment to improving the way aid is managed and delivered will require more and better evidence on what is working as the aid program is implemented. This is an area where ODE will provide ongoing support.



Redefining engagement with civil society

Most discussion in this year's report on development effectiveness centres on the aid program's engagement with partner governments. However, growing evidence on aid effectiveness, changes to the way aid is being delivered and the challenges presented by the changing environment are casting the role of communities and civil society organisations in a new light. These organisations often fill gaps in service delivery, especially in weaker states, by delivering services to some of the poorest and most marginalised people. They engage in making aid more transparent and government more responsive to community needs and more accountable. They advocate on behalf of the most vulnerable. Their work can provide an additional safeguard for donors delivering aid through partner government systems and bring new perspectives to development dialogue.

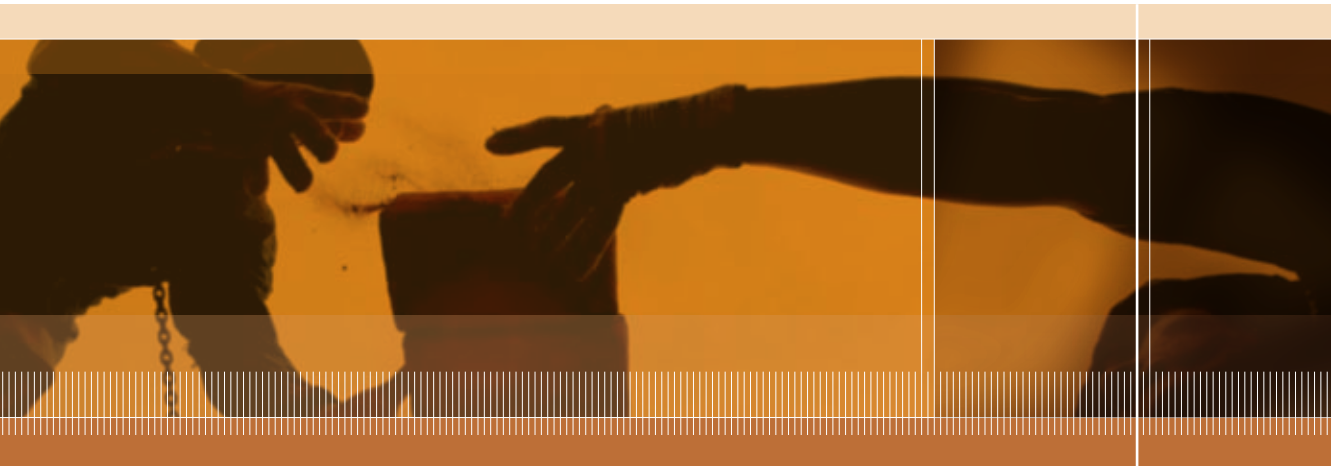
By engaging with communities directly, or through local government or civil society organisations, the aid program can contribute to broader ownership of the development process—beyond central governments—and make partner systems work better. Current approaches by the aid program to engaging with communities have evolved country by country, or issue by issue. This suggests the need for a stocktake and review of effective approaches to inform the aid program.

In response

The responses required to meet the challenges of an expanding aid program and difficult operating environment suggest further areas of work for AusAID. For its part, in 2009 ODE will:

- > complete its review of service delivery for the poor covering health, education and water supply and sanitation, and continue work on the effective use of technical assistance
- > commence effectiveness analyses of support for pro-poor economic growth and to reduce vulnerability
- > participate in international efforts to build the evidence base to demonstrate that changes in aid delivery are resulting in improved development outcomes
- > commence a review of the program's engagement with communities and civil society organisations.

APPENDIXES



APPENDIX A: AUSAID'S PERFORMANCE AND QUALITY ASSESSMENT SYSTEMS

AusAID's Performance Assessment and Evaluation Policy,⁷² launched in December 2007, followed an extensive trial and review of the agency's performance assessment framework during the previous 18 months. The policy marks the beginning of a systematic approach to improve how the aid program is managed to achieve results, and outlines how information on performance across the aid program will be collected and used to report on the program's overall performance. Figure A1 outlines the different levels of performance reporting and the division of responsibility between AusAID management and ODE.

There has been significant improvement in performance reporting across AusAID, with particularly impressive progress in institutionalising reporting on the implementation progress of activities and on the performance of country and regional programs as a whole—a significant achievement given that strategy-level reporting in particular is a relatively new endeavour for AusAID.

Activity-level reporting

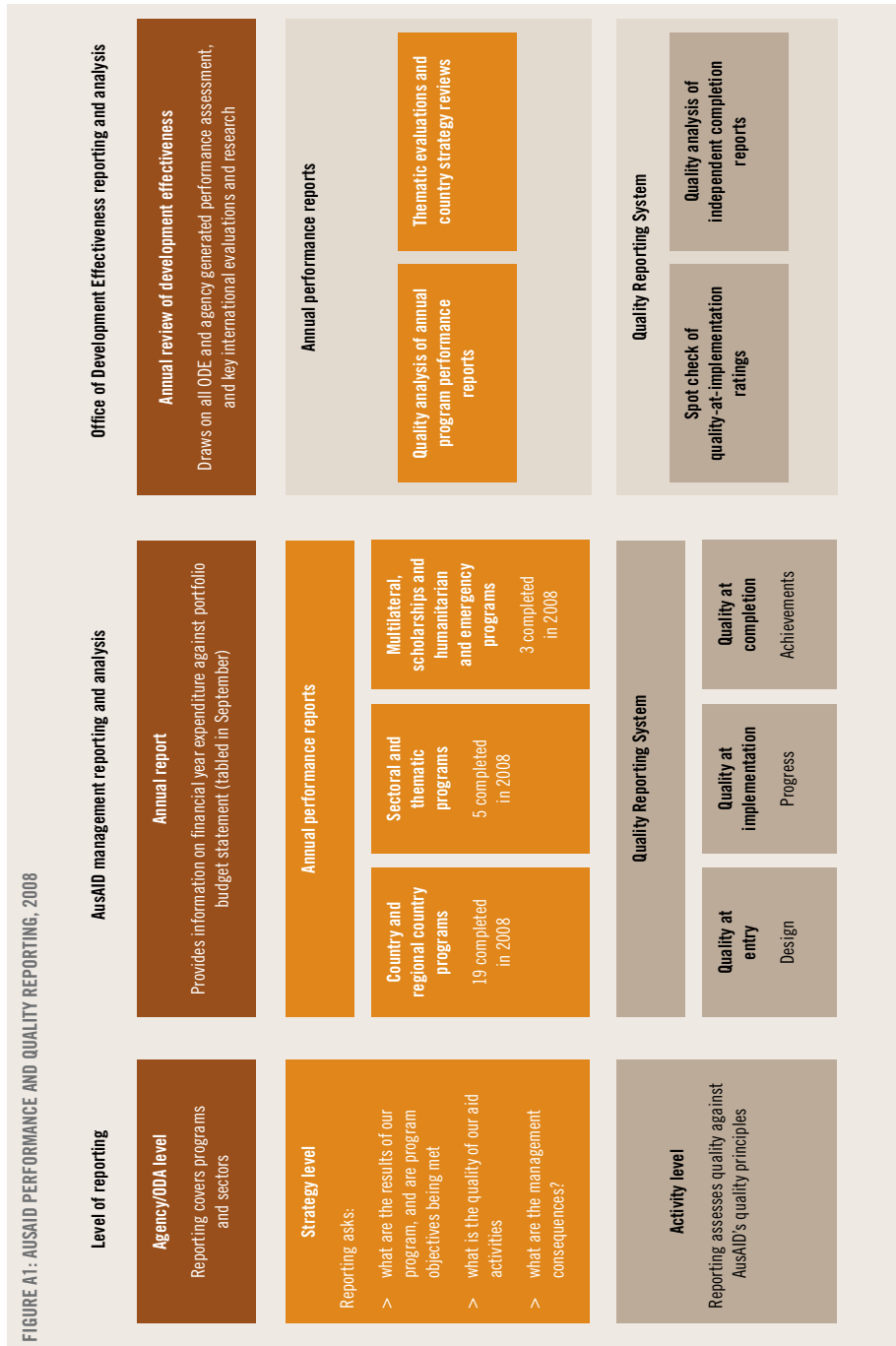
The most developed part of the performance system is the activity-level Quality Reporting System. Activity-level reporting is concerned with assessing the quality of individual aid activities.

Activity-level reporting applies to 'monitored' activities, each of which expend \$3 million or more of ODA during their lives or are of strategic importance. The Quality Reporting System generates quality reports on activities at entry (when the quality of design is rated), at least annually during implementation, and at completion. The activities are rated against quality criteria, including achievement of objectives, sustainability of results and usefulness of monitoring and evaluation systems.

Their success is rated on a six-point scale, with a score of 4 and above deemed to be satisfactory, and a score of 3 and below deemed to be unsatisfactory. Activities rated 1–4 at entry or during implementation are classed as requiring further improvement.

72 AusAID, *Policy: performance assessment and evaluation*, Canberra, viewed 27 November 2008, <www.ausaid.gov.au/ode/pdf/performance_policy.pdf>.

FIGURE A1: AUSAID PERFORMANCE AND QUALITY REPORTING, 2008



Quality in 2007-08

The main sources of information generated by the Quality Reporting System are quality-at-implementation reports—self-rated reports produced at least annually for all monitored activities being implemented. These reports provide the data used to assess whether AusAID has met its corporate target of 75 per cent of activities rated as satisfactory in terms of achieving objectives.

In 2007-08, 86 per cent of AusAID activities were rated as making satisfactory progress towards their objectives (Table A1). Although the corresponding figure in 2006-07 was 89 per cent, ODE considers that this is a positive sign of more realistic ratings rather than a decline in quality. To further test the credibility of the ratings ODE undertook an independent spot check of a sample of reports. The spot check found that, based on the text in the reports, approximately a quarter of the activities with ratings 4 and above were slightly overrated, but if those ratings were adjusted they would still fall within the satisfactory range. Unclear objectives, which make assessing progress difficult, and a lack of evidence were the primary reasons identified as compromising the credibility of a rating.

TABLE A1: QUALITY-AT-IMPLEMENTATION SCORES FOR 2007-08 (358 ACTIVITIES) AND 2006-07 (315 ACTIVITIES)

Quality ratings	Achieving objectives		Monitoring & evaluation		Sustainability		Implementation progress	
	%		%		%		%	
	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07
6 Very high quality	3	4	2	3	1	2	8	10
5 Good Quality	44	46	23	20	23	22	45	39
4 Adequate quality, some work to improve needed	39	38	46	36	49	52	33	36
Satisfactory (4,5,6)	86	89	71	60	73	77	86	87
3 Less than adequate quality	11	8	23	28	22	17	13	11
2 Poor quality	3	1	5	10	4	5	1	2
1 Very poor quality	0	0	1	1	1	0	0	0
Requires improvement (1, 2, 3, 4)	53	47	75	75	76	74	47	49

Though fewer in number, independent completion reports, which are produced towards the end of an activity, also offer an overview of the quality of activities. Because they are undertaken by independent reviewers, these reports provide another benchmark of quality. Independent completion reports for 2007-08 rated a slightly higher proportion of activities as satisfactory in terms of their achievement of objectives (93 per cent) than did the 2007-08 quality-at-implementation reports (86 per cent). These findings give increased confidence that the

self-assessed ratings provide a fairly accurate picture of the quality of activities, at least with regard to the achievement of objectives. A summary of activity ratings in independent completion reports for 2007-08 is in Table A2.

TABLE A2: INDEPENDENT COMPLETION REPORT SCORES FOR 2007-08 (29 ACTIVITIES)

Quality ratings	Achieving objectives	Monitoring & evaluation	Sustainability	Management effectiveness	Technical quality
	%	%	%	%	%
6 Very high quality	17	10	7	14	24
5 Good Quality	31	14	28	42	45
4 Adequate quality, some work to improve needed	45	35	45	31	21
Satisfactory (4,5,6)	93	59	80	87	90
3 Less than adequate quality	7	31	14	10	10
2 Poor quality	0	3	7	3	0
1 Very poor quality	0	7	0	0	0
Requires improvement (1, 2, 3, 4)	52	76	66	44	31

Quality-at-entry assessments of activities are also independent. However, as this is the newest part of the Quality Reporting System, the number of activities that have been through this process is too small to enable significant conclusions to be made or allow for a comparison of ratings with those in either quality-at-implementation reports or independent completion reports. The findings from quality-at-entry assessments are presented in Table A3.

TABLE A3: QUALITY-AT-ENTRY SCORES FOR 2007-08 (47 ACTIVITIES)

Quality ratings	Achieving objectives	Monitoring & evaluation	Sustainability	Implementation & risk	Analysis & lessons
	%	%	%	%	%
6 Very high quality	6	2	0	2	6
5 Good Quality	62	36	43	28	64
4 Adequate quality, some work to improve needed	30	47	57	64	30
Satisfactory (4,5,6)	98	85	100	94	100
3 Less than adequate quality	2	11	0	6	0
2 Poor quality	0	4	0	0	0
1 Very poor quality	0	0	0	0	0
Requires improvement (1, 2, 3, 4)	32	62	57	70	30

Compliance

Compliance with the Quality Reporting System is uneven across the reporting cycle. In 2007-08, compliance was highest at implementation (90 per cent of activities) and lowest at completion (15 per cent). Completion of the reporting processes for quality at entry and for independent completion reviews remains low, with large numbers of activities recording an exemption from these processes. Compliance is expected to improve as staff become more familiar with the system and as guidance and compliance reporting become increasingly institutionalised.

Strategy-level reporting

Annual performance reports enable country program managers to make decisions for future programming and management, and provide senior managers with information across the whole aid program, which helps to identify agency-wide priorities and areas for attention. Reporting on the effectiveness of aid program strategies for countries and sectors has substantially expanded since it was first trialled in 2007, and now covers almost all ODA delivered through AusAID. Strategy-level performance information for 2007-08 is provided in the program performance reports of 19 bilateral and regional programs,⁷³ the thematic performance reports of five sectoral programs⁷⁴ and the performance reports for humanitarian and emergency responses, multilateral organisations, and scholarships. Annual performance reports draw on a range of information sources, including activity-level quality information as well as program performance frameworks, and present the results of the aid program—assessing the achievement of program objectives, the overall quality of the activities that contribute to those objectives, and the management implications of this assessment.

ODE examined a sample of 2007-08 performance reports for country and regional programs to determine the progress these programs had made in introducing a greater focus on results. It found some good use of evidence, and an international expert on performance commented that AusAID's approach could become best practice.⁷⁵ However, further work is needed to clarify program-level objectives; currently for most programs it is unclear what program success looks like, which in turn hinders assessments of achievement. In 2007-08, only a limited number of reports drew on an established set of performance indicators and milestones to assess progress towards their program's objectives, reflecting the general 'work in progress' nature of program performance frameworks.

⁷³ For Africa, Asia regional, Cambodia, China, East Timor, Fiji, Kiribati, Laos, Mekong subregional, Nauru, Papua New Guinea, the Philippines, Samoa, South Asia regional, Solomon Islands, Tonga, Vanuatu and Vietnam.

⁷⁴ For governance, infrastructure, education, health and environment.

⁷⁵ ODE, *Quality review of annual program performance reports 2007-2008*.

Evaluation

Evaluations and reviews, which generate evidence to demonstrate the effectiveness of aid at activity and program levels, help AusAID management to make informed decisions about future programming. The evaluation of activities is the responsibility of program areas. Large-scale thematic evaluations are conducted by ODE on a range of effectiveness issues. Evaluations of country and regional strategies are also undertaken as a key part of the development of new country strategies; ODE conducts evaluations of major strategies.

Ensuring that evaluation findings are used to inform program design is a challenge, particularly the findings of independent completion reports as they can be perceived by program staff as having limited relevance to ongoing program management. New measures to address this challenge were put in place in late 2008 and included the introduction of an independent evaluation every four years for all monitored activities being implemented and requirements for programs to develop management responses and plans for learning from and disseminating the findings of independent evaluations.

Like other development agencies, AusAID is gradually building up resources and expertise in evaluating the long-term impacts of development assistance, though currently impact evaluations are being conducted by only a small number of programs.

Challenges with performance assessment

While the recent OECD DAC peer review of the Australian aid program commented favourably on Australia's approach to performance assessment, ODE has identified five challenges that AusAID will need to manage as it beds down its performance systems:

- 1 **Clearly express objectives:** A lack of clarity and realism in the objectives set at activity and program levels continues to obfuscate performance assessment. While this points to deeper issues in terms of strategy and design, from a performance reporting perspective, vague objectives hinder performance assessments and make comparisons across programs or over time problematic.
- 2 **Involve other government departments in performance assessments:** It will take some time before consistent performance reporting expands to the entire program, particularly to ODA administered by other government departments. Annual performance reports are a useful tool for engaging partner governments and these departments are increasingly participating in reporting processes on jointly managed activities and at a program level, though this has been confined largely to a contestability role; other government agencies are yet to be heavily involved in making initial assessments of performance. AusAID's engagement with partners as part of the reporting process is improving, but there is scope for earlier engagement and for building up the skills necessary to facilitate and engage in frank discussions of performance. Increased engagement earlier in the reporting cycle, and changes in the design of country and regional strategies should help other ODA-delivering agencies to report on the performance of their programs.



- 3 **Improve staff capacity:** Performance reporting needs to be supported by improved capacity and confidence in monitoring and evaluation. Staff need to be able to identify appropriate objectives and identify when a monitoring and evaluation framework is adequate or appropriate for generating the information required to support an assessment of achievement. This means they need to be able to improve the utility of strategy performance frameworks.
- 4 **Reduce the number of activities:** The number of monitorable activities is growing as the aid program is scaled up. This creates a management burden that is limiting the capacity of programs to comply fully with the processes necessary to design, implement and evaluate activities, particularly in relation to independent completion reporting. At the same time, more than 60 per cent of activities, accounting for less than 15 per cent of spending, are below the \$3 million monitorable threshold, contributing to a management burden that compromises effectiveness. While there is a need to strike a balance between large, multi-year programs and small, responsive activities that provide an opportunity to experiment and develop partnerships, scaling up should be based primarily on larger activities rather than a larger number of activities.
- 5 **Manage for results:** Perhaps the greatest challenge is in bridging the gap between performance reporting and managing for results. Program areas are identifying constraints to aid performance such as activity proliferation and lack of skills, but the link between constraints and activity plans and management has yet to be embedded in institutional processes and incentives. Although the progress made in implementing the performance assessment policy is significant, the gap between performance reporting and managing aid activities to achieve sustainable results will require ongoing leadership. The continual process of updating country and regional strategies, together with the recently released guidance to help program areas develop more robust and explicit strategies, should help to bridge this gap.

APPENDIX B: REGIONAL PROGRESS ON THE MILLENNIUM DEVELOPMENT GOALS

This appendix draws on AusAID's 2008 baseline study *Tracking development and governance in the Pacific*⁷⁶ and *The Millennium Development Goals: progress in Asia and the Pacific 2007*⁷⁷ to outline progress towards the MDGs in the Asia-Pacific region. Data paucity and reliability of information present a significant challenge to effectively monitoring progress. To remedy this, Australia has undertaken a number of activities to improve data collection and analysis in the Pacific region,⁷⁸ including the baseline study mentioned above, which found the Pacific region as a whole to be seriously off track in achieving the MDGs. The situation is worst in Papua New Guinea, Solomon Islands and East Timor—countries that account for three-quarters of the region's population.

Goal 1: Eradicate extreme poverty and hunger

The significant reduction of global poverty since 1990 has been concentrated predominantly in East Asia, mostly due to China's success. Although the world as a whole is on track to achieve MDG 1, many regions are significantly off track, including Sub-Saharan Africa, South Asia and the Pacific. Of particular concern is the increasing number of people living between extreme poverty (on US\$1 a day) and near poverty (on US\$2 a day). This group is very vulnerable to external shocks and falling back into extreme poverty. This vulnerability is of most concern in East and South Asia, where approximately 900 million people are in this category.

In the Pacific region, extreme poverty is thought to have increased significantly during the past decade, and it is estimated that at least 3 million people live below the poverty line of US\$1 a day. The overwhelming majority of these poor are concentrated in Papua New Guinea (due to its size), though East Timor has the highest proportion of people living below the poverty line. Trends in East Timor for the period 2001–07 show rising levels of poverty; now 45 per cent of the population live on less than US\$1 a day.

⁷⁶ AusAID, *Tracking development and governance in the Pacific*.

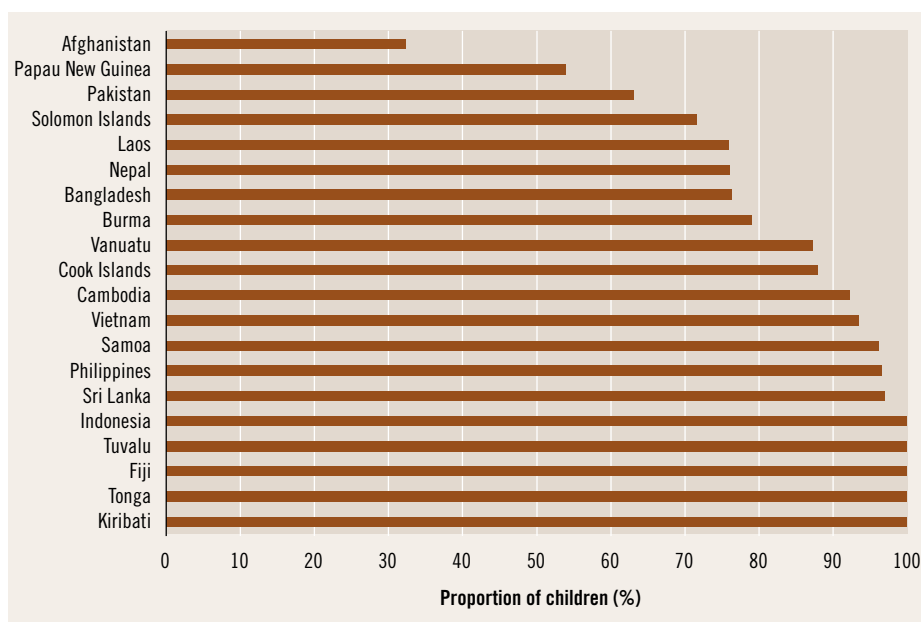
⁷⁷ ESCAP, *The Millennium Development Goals: progress in Asia and the Pacific 2007*, Asia-Pacific MDG Study Series, ESCAP/ADB/UNDP joint project on MDGs in Asia and the Pacific, United Nations Economic and Social Commission for Asia and the Pacific, Bangkok, 2007.

⁷⁸ In this appendix, Pacific island countries, Papua New Guinea and East Timor are broadly referred to as the Pacific region or simply the Pacific.

Goal 2: Achieve universal primary education

Progress towards universal primary education in the Asia-Pacific region is mixed, with the Pacific off track to achieve this target and Asia off track for boys. It is estimated that in the Pacific up to a million children are not in primary school, meaning that much more needs to be done to increase access to education and the quality of education. This is particularly the case in Papua New Guinea and Solomon Islands (Figure B1). Children in geographically remote communities, those with disabilities and those engaged in labour activities are at particular risk of not completing primary school. A significant number of countries in South and South-East Asia are also not progressing fast enough towards this target.

FIGURE B1: PERCENTAGE OF CHILDREN STARTING GRADE 1 AND REACHING THE LAST GRADE OF PRIMARY SCHOOL, LATEST YEAR



Data source: ESCAP, *The Millennium Development Goals: progress in Asia and the Pacific 2007*, Asia-Pacific MDG Study Series, ESCAP/ADB/UNDP joint project on MDGs in Asia and the Pacific, United Nations Economic and Social Commission for Asia and the Pacific, Bangkok, 2007.

Goal 3: Promote gender equality and empower women

The Asia-Pacific region has improved the ratio of girls to boys in primary and secondary education, although progress has been uneven. Progress towards gender equality in tertiary education has also varied, with significant gaps remaining in South Asia, Cambodia, Papua New Guinea and Vanuatu. In the Pacific, women's participation in political leadership is very low; their average representation in national parliaments (excluding French territories, Australia and New Zealand) stood at 3.5 per cent in 2006. Five of the ten countries in the world with no female representation are in the Pacific. This is in contrast with many Asian countries, where women hold 20 per cent or more of the national parliamentary seats.

Goal 4: Reduce child mortality

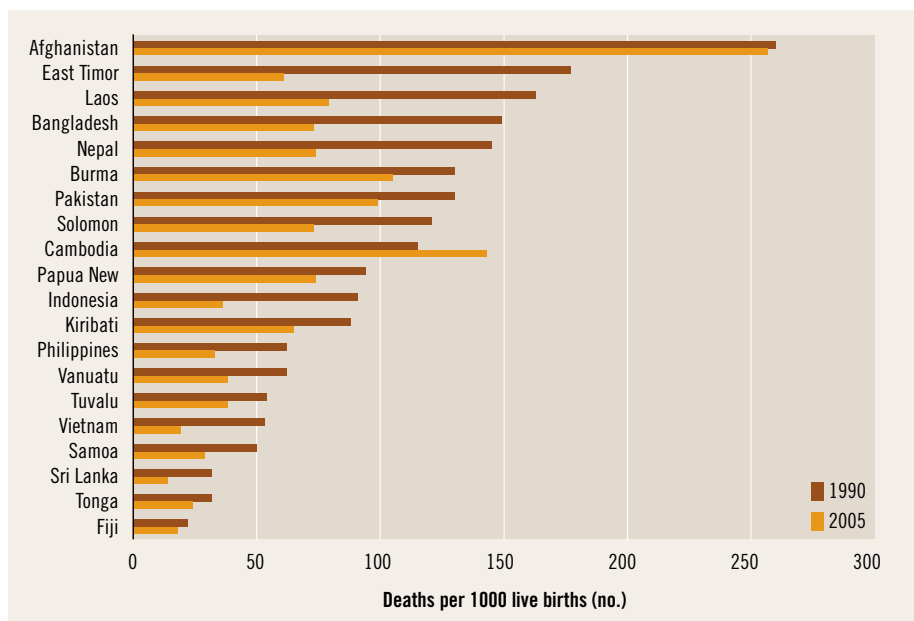
In the Pacific, almost 18 000 children under five years of age die each year, many during their first month or from preventable causes such as diarrhoea and pneumonia. The numbers are highest in Papua New Guinea (almost 13 000) and East Timor (about 2500).⁷⁹ Although the Pacific region has made progress on reducing child mortality, the MDG target of reducing the rate by two-thirds from the 1990 levels is unlikely to be met in any Pacific country except East Timor (Figure B2). While East Timor has reduced the mortality rate from an extremely high level in 1990, the country still has a very high rate of children dying before the age five.

In the Asia region, Afghanistan, Pakistan, Burma and Cambodia are all off track and recording persistently high rates of under-five mortality. On the other hand, projected reductions in infant mortality by 2015 are particularly significant for a number of Asian countries, including Bangladesh, Laos, Nepal and Mongolia.

79 AusAID, *Tracking development and governance in the Pacific*.



FIGURE B2: MORTALITY RATE OF CHILDREN UNDER FIVE YEARS OF AGE, 1990 AND 2005



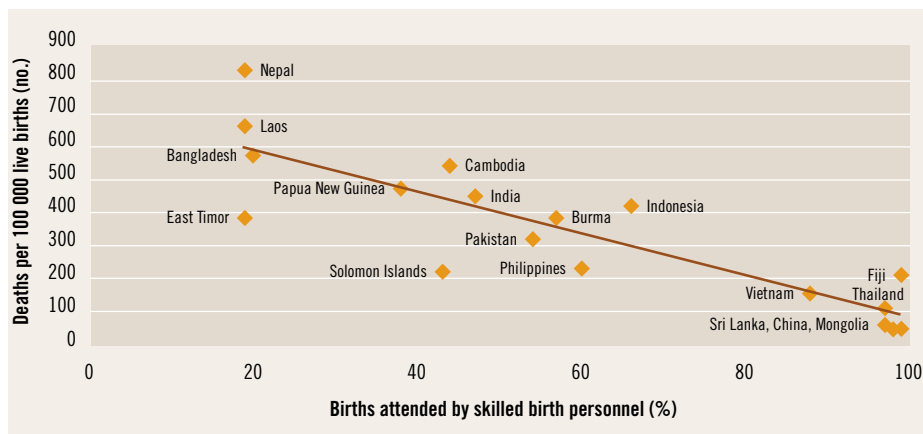
Note: The data for Solomon Islands were drawn from Asian Development Bank, Key indicators for Asia and the Pacific 2008, 39th edn, Manila, 2008.

Data source: ESCAP, The Millennium Development Goals: progress in Asia and the Pacific 2007, Asia-Pacific MDG Study Series, ESCAP/ADB/UNDP joint project on MDGs in Asia and the Pacific, United Nations Economic and Social Commission for Asia and the Pacific, Bangkok, 2007.

Goal 5: Improve maternal health

In the Pacific, about 1000 women die every year from pregnancy and childbirth complications. The number of births attended by skilled health personnel is especially low in South Asia, Sub-Saharan Africa and the Pacific, despite their attendance having been shown to dramatically improve the survival of mothers. Maternal deaths are very high in Papua New Guinea, where only two of every five births are attended by skilled health personnel. The situation is even more extreme in Afghanistan, where for every 100 000 live births approximately 1800 women die as a result of giving birth, and where fewer than one in seven women receives care by skilled health personnel while giving birth. Figure B3 suggests that more than 80 per cent of the variation in maternal mortality ratios across the Asia-Pacific region is explained by whether skilled health personnel were in attendance.

FIGURE B3: MATERNAL MORTALITY RATIO AND BIRTHS ATTENDED BY SKILLED HEALTH PERSONNEL, 2005 OR LATEST YEAR



Source: Asian Development Bank, *Key indicators for Asia and the Pacific 2008*, 39th edn, Manila, 2008.

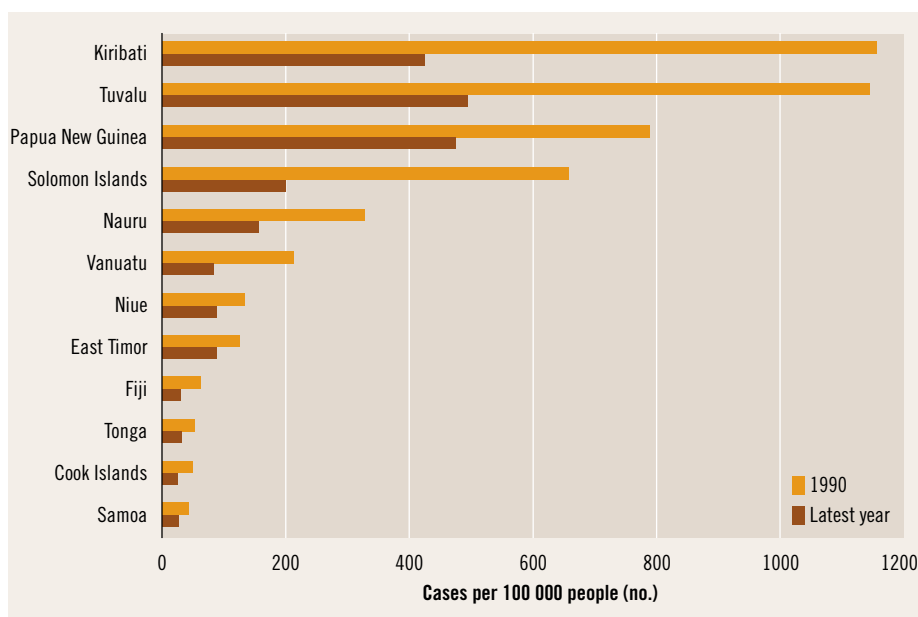
Goal 6: Combat HIV/AIDS, malaria and other diseases

Between 50 000 and 150 000 people have HIV/AIDS in the Pacific region, with the majority living in Papua New Guinea. There has been an increase in the rate of new infections, particularly in rural areas, partly because at-risk populations lack access to information on prevention and to condoms. In Papua New Guinea the proportion of people living with AIDS who receive antiretroviral treatment is lower than in most African countries. In Asia the national incidence of HIV is recorded as more than 1 per cent in Cambodia, Burma and Thailand.

Malaria is highly prevalent in a number of Pacific countries. It is estimated that each year in the Pacific more than 230 000 people contract malaria and more than 800 die as a result.⁸⁰ The prevalence of malaria is particularly high in Solomon Islands—reportedly almost one in six people.

Each year in the Pacific at least 4000 people die as a result of tuberculosis, mostly in Papua New Guinea. The incidence is particularly high in East Timor (7 per cent of the population). Between 1990 and 2006 several countries in the Pacific (Kiribati, Solomon Islands, East Timor and Tuvalu) and Asia (Afghanistan, Mongolia, Nepal and the Philippines) achieved large reductions in prevalence (Figure B4).

FIGURE B4: PREVALENCE OF TUBERCULOSIS IN THE PACIFIC REGION, 1990 AND LATEST YEAR



Data source: AusAID, *Tracking development and governance in the Pacific*, Australian Agency for International Development, Canberra, August 2008.

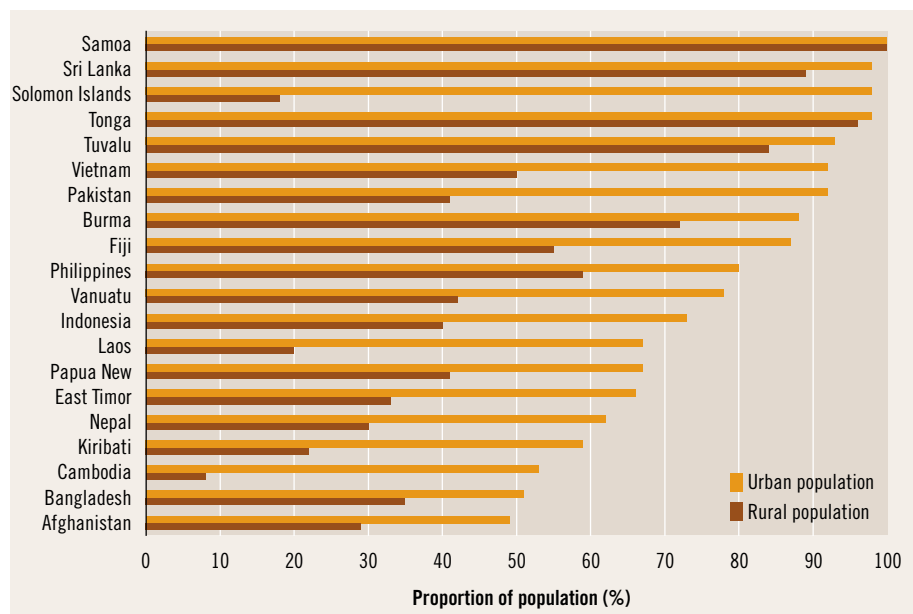
80 AusAID, *Tracking development and governance in the Pacific*.

Goal 7: Ensure environmental sustainability

Diarrhoea is the leading cause of child mortality in the Pacific, a direct result of a lack of clean water, which also causes many others to suffer from sickness or malnutrition. Poor hygiene and sanitation practices often lead to the contamination of groundwater, rivers and other water sources, further reducing access to safe drinking water. The year 2008 was marked as the International Year of Sanitation to raise awareness and accelerate progress towards the MDG target to reduce by half by 2015 the proportion people without access to basic sanitation.

The majority of the 2.6 billion people without access to basic sanitation live in rural areas. Trends suggest that there has been some improvement in access in these areas, particularly in South and South-East Asia, but progress is stagnating in many Pacific island countries. As Figure B5 shows, significant disparities in access to improved sanitation exist for urban and rural dwellers, particularly in Solomon Islands, Laos and Cambodia.

FIGURE B5: DISPARITY BETWEEN URBAN AND RURAL POPULATIONS USING IMPROVED SANITATION FACILITIES, 2006



Data source: ESCAP, *The Millennium Development Goals: progress in Asia and the Pacific 2007*, Asia-Pacific MDG Study Series, ESCAP/ADB/UNDP joint project on MDGs in Asia and the Pacific, United Nations Economic and Social Commission for Asia and the Pacific, Bangkok, 2007.

APPENDIX C: PARIS AND ACCRA COMMITMENTS AND PROGRESS

Paris and Accra commitments

The Paris Declaration on Aid Effectiveness, signed in 2005, and the Accra Agenda for Action, signed in September 2008, define the principles and commitments by which donors and developing countries aim to ensure aid is as effective as possible – that is, delivers concrete, sustainable outcomes for the poor, including the achievement of the Millennium Development Goals (Boxes C1 and C2).

The Paris Declaration and Accra Agenda for Action reflect the increase in recognition that past approaches to aid delivery have at times undermined the achievement of durable development outcomes. Experience has shown that:

- > providing aid through projects using systems that parallel partner government systems can make it difficult to build local capacity to continue the work once the project team leaves
- > stand-alone projects are not good at tackling the root causes of poor service delivery or bringing about structural or systemic change
- > managing and reporting on numerous individual donor projects strains limited local capacity and distracts staff from core government work
- > donor-driven aid programs can undermine the accountability of partner governments to their citizens.

This evidence highlights that the way in which aid is delivered can have an important impact on whether it contributes to development results.

The 3rd High Level Forum on Aid Effectiveness, held in Accra, Ghana, on 2–4 September 2008, reviewed global progress in implementing the Paris Declaration. It culminated in the Accra Agenda for Action, calling on donors and development partners to undertake specific actions to accelerate progress in making aid more effective.

The Accra Agenda for Action confirms a major reform process in aid delivery: a move from unsustainable, stand-alone, donor-driven projects to approaches that support the plans of developing countries, support policy reform, use government systems to deliver aid, and focus on development outcomes and partnerships.

Box C1: Paris Declaration on Aid Effectiveness

The Paris Declaration focuses on five key principles for achieving more effective aid.

Ownership Partner countries should lead their own development policies and strategies, and coordinate development actions.

Alignment Donors should base their overall support on their partner countries' national development strategies, institutions and procedures, and on periodic reviews of progress in implementing their strategies. This includes systematically strengthening and using partner country institutions and systems (including financial systems), reporting aid spending to governments, increasing local capacity through coordinated advice and training ('technical assistance'), avoiding parallel implementation systems, making aid more predictable by disbursing aid on schedule, and untying aid.

Harmonisation Donors' actions should be harmonised, transparent and collectively effective. More aid should be provided through program-based approaches rather than individual projects, and more donor missions and analytical work should be conducted jointly.

Managing for results Aid should be managed and implemented in a way that focuses on the desired results and uses information from evaluations and reviews to improve decision making.

Mutual accountability Donors and partner governments should be mutually accountable and transparent in how development resources are used. This will strengthen public support for national policies and development assistance. All countries should have the systems to achieve this accountability.

Source: Paris Declaration on Aid Effectiveness: Ownership, Harmonisation, Alignment, Results and Mutual Accountability, High Level Forum, Paris, 28 February – 2 March 2005, viewed January 2009, <<http://www.oecd.org/dataoecd/11/41/34428351.pdf>>.



Box C2: Key commitments of the Accra Agenda for Action

Strengthening and using developing country systems to the maximum extent possible:

The agenda calls on donors to use country systems as the ‘first option’ for delivering aid and, when working outside these systems, to clearly state their reasons for doing so, to jointly assess country systems and regularly review their assessments, to strengthen country systems through country-led processes, and to increase the use of program-based approaches.

Developing the capacity of partner countries: The agenda calls on donors to make capacity development more effective by being more responsive to the needs of partner countries, promoting national ownership of the development processes, jointly selecting and managing technical assistance, promoting local and regional resources and south–south cooperation and considering other means of building capacity apart from technical cooperation.

Reducing fragmentation of aid: The agenda calls on donors to reduce the fragmentation of aid by improving the complementarity of aid activities and the division of labour between donors, allowing partner countries to take the lead in determining the optimal roles of donors.

Increasing the medium-term predictability of aid: The agenda calls on donors to increase the predictability of aid flows, in the spirit of mutual accountability, by providing full and timely commitments and disbursements and providing regular and timely information on three- to five-year forward expenditure.

Increasing accountability and transparency for results: The agenda calls on donors to make aid more transparent, to implement mutual assessment reviews between donors and partner countries and to fight corruption.

The Accra agenda also calls on donors to untie their aid, to engage with civil society and other development actors, to reduce conditions imposed on partner countries and to work on adapting aid effectiveness principles to the context of fragility and conflict.

Source: Accra Agenda for Action, 3rd High Level Forum on Aid Effectiveness, Accra, Ghana, 2–4 September 2008, viewed January 2009, <http://siteresources.worldbank.org/ACCRAEXT/Resources/4700790-1217425866038/ACCRA_4-SEPTEMBER_FINAL_16h00.pdf>.

Global progress in implementing the Paris commitments

A number of recent reports by the OECD DAC and others that measure global progress in implementing the Paris commitments indicate that, unless efforts are greatly increased, international commitments and targets for improving the quality of aid will not be met by 2010 as envisaged in the Paris Declaration.

The OECD 2008 survey on monitoring the Paris Declaration indicates that several indicators are off track to meet their targets (Figure C1). Those most seriously off track include the use of country systems and program-based approaches (indicators 5 and 9), the use of joint missions and joint analytical work (indicator 10), monitoring of progress (indicator 11) and mutual accountability mechanisms (indicator 12).

FIGURE C1: PROGRESS OF 33 COUNTRIES TOWARDS 2010 TARGETS IN THE PARIS DECLARATION, AS AT 2007

Indicator	2005 baseline		2010 targets
1 Operational development strategies	17%	24% ← Distance to target (in 2007) →	75%
2 Reliable public financial management (PFM) systems	—	36%	50% of countries improve score
3 Aid flows are recorded in country budgets	42%	48%	85%
4 Technical assistance is aligned and co-ordinated	48%	60%	50%
5a Donors use country PFM systems	40%	45%	(80%)
5b Donors use country procurement systems	39%	43%	(80%)
6 Donors avoid parallel implementation units	1817	1601	611
7 Aid is more predictable	41%	46%	71%
8 Aid is untied	75%	88%	Progress over time
9 Donors use co-ordinated mechanisms for aid delivery	43%	47%	66%
10a Donors co-ordinate their missions	18%	21%	40%
10b Donors co-ordinate their country studies	42%	44%	66%
11 Sound frameworks to monitor results	7%	9%	35%
12 Mechanisms for mutual accountability	22%	26%	100%

Source: OECD, *Better aid—2008 survey on monitoring the Paris Declaration: making aid more effective by 2010*, Organisation for Economic Co-operation and Development, Paris, 2008, p. 22, viewed January 2009, <www.oecd.org/dataoecd/58/41/41202121.pdf>.

Australia's progress in implementing the Paris commitments

According to the 2008 survey on monitoring the Paris Declaration, Australia was performing comparatively well on the harmonisation agenda, including the use of common procedures with other donors and shared analysis. Australia is also better positioned on mutual accountability than many other donors as a result of the Pacific Partnerships for Development, which includes a commitment to mutual respect and responsibility. At the same time, Australia was below the global average for aid flows recorded in partner governments' budgets, technical assistance implemented through coordinated and aligned programs, the use of partner country financial management and procurement systems, and the proportion of aid disbursed in the year for which it was scheduled.

However, it is important to note that the results of the monitoring survey do not tell the whole story. Despite the usefulness of the survey as a monitoring tool, it has a number of acknowledged methodological issues affecting the findings, such as its reliance on unchecked self-assessments. Also, in Australia's case, only some of Australia's partner countries participated in the 2006 and 2008 surveys, which compromises conclusions about Australia's performance.

Finally, Australia provides more aid to fragile states as a proportion of total aid than any other DAC donor. The Paris Declaration recognises that aid effectiveness principles need to be adapted in such environments.

ABBREVIATIONS

AIDS	Acquired Immune Deficiency Syndrome
AusAID	Australian Agency for International Development
DAC	OECD Development Assistance Committee
HIV	Human Immunodeficiency Syndrome
MDGs	Millennium Development Goals
PNG	Papua New Guinea
ODA	official development assistance
ODE	AusAID's Office of Development Effectiveness
OECD	Organisation for Economic Co-operation and Development
RAMSI	Regional Assistance Mission to Solomon Islands
UK	United Kingdom
UN	United Nations
US	United States



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