




Australian Government  
AusAID

# Annual program performance report 2008: China

November 2009



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# Abbreviations

ACEDP	Australia–China Environment Development Program
CAGP	China–Australia Governance Program
CAHHF	China–Australia Health and HIV/AIDS Facility
CPS	Country Program Strategy
DEWHA	Department of the Environment, Water, Heritage and the Arts
HAARP	HIV/AIDS Asia Regional Program
HRTC	Human Rights Technical Cooperation Program
IFC	International Finance Corporation
MDG	Millennium Development Goal
M&E	monitoring and evaluation
MOFCOM	the Ministry of Commerce of the People's Republic of China
MoH	Ministry of Health
ODA	Official Development Assistance
PAF	performance assessment framework
PEP-China	International Finance Corporation's Private Enterprise Partnership-China
SAS	Small Activities Scheme
SEEAW	System of Environmental–Economic Accounting for Water
SIC	State Information Centre
SIF	social impact framework
SPC	Supreme People's Court
WET	Water Entitlements and Trading framework

# Executive summary

## Overview

China has met most Millennium Development Goal (MDG) targets but faces ongoing poverty challenges relating to severely unbalanced development. More than 250 million Chinese continue to live in poverty. Income inequality is rising and hundreds of millions of poor rural and migrant workers lack access to basic services. If poverty is to be further reduced, there will need to be comprehensive institutional and legal reform, and improved basic service delivery.

As an international power and driver of regional and global economic growth, China is the catalyst for development in the Asia–Pacific and for the achievement globally of MDGs. China's influence on international development, including as a donor, underscores the importance of engaging China on these issues.

Australia's Official Development Assistance (ODA) to China in 2008–09 was approximately \$37.8 million, of which \$25 million was delivered bilaterally. The 2006–2010 Country Strategy, which is delivered extensively through partner government systems, supports China's reform agenda through policy engagement, high-level capacity building and partnerships in the governance, environment and health sectors. The Chinese government continues to endorse the program strongly as one that is consistent with its development priorities.

## Ratings

Objective	Rating	Review against previous rating
1. Support China's policy reform agenda in governance, environment and health	Green	n/a
2. Build capacity in selected sectors in China, in particular governance, environment and health	Green	Unchanged
3. Enhance Australia–China relationship through development cooperation	Green	Unchanged
4. Work collaboratively with China to strengthen the region	Amber	Improved

## Major results

### Policy reform

Policy reform activities are having an impact at relatively low cost, suggesting that this is an effective form of intervention for a small program. Australia has contributed to the enabling environment for reform, supported policy implementation through trials, and influenced the content of new policies or plans. In health, for example, the China–Australia Health and HIV/AIDS Facility (CAHHF) works through the Chinese Ministry of Health to address all five areas identified by China in 2009 as its top reform priorities for the next three years.

The program's policy reform work has assisted China to:

- > develop a budget management framework
- > implement a new Property Law Plan and Third Judicial Reform Plan
- > introduce multi-sectoral HIV/AIDS prevention and care models in Xinjiang, and
- > improve water resource planning and management of environmental flows policies.

### Capacity building

Capacity building activities have exposed Chinese counterparts to specialised concepts, technical skills and managerial approaches. Key results include:

- > improved technical capacity of China's State Information Centre to develop rural–urban migration and rural household income models
- > enhanced capacity of the Ministry of Foreign Affairs Human Rights Division to develop and implement human rights laws, policies and practices
- > strengthened capacity of financial institutions to undertake profitable lending to SMEs
- > strengthened infectious disease outbreak control systems in Tibet
- > increased use of improved protocols for infection control in Xinjiang and Tibet.

### Government-to-government partnerships

The health and environment facilities are showing signs of broadening government-to-government partnerships. CAHHF is directly supporting the relationship between the Chinese Ministry of Health and the Australian Department of Health and Ageing. The Australia–China Environment Development Program (ACEDP) is supporting new high level policy dialogue between Australia and China. ACEDP is assisting the Department of the Environment, Water, Heritage and the Arts (DEWHA) with a new High Level Australia–China Water Policy dialogue to take place in October 2009.

### Collaboration on regional development issues

Progress is being made towards closer collaboration with China on regional development issues. In 2009, the decision by MOFCOM (the Ministry of Commerce of the People's Republic of China) to choose Australia as the destination for its first ever overseas training visit by a group of aid officials reflects deepening engagement with China as a donor. The HIV/AIDS Asia Regional Program (HAARP) supports China's participation in collective efforts to address the regional threats of HIV/AIDS. The experience and techniques developed by the China

HAARP Country Flexible Program will be adopted by HAARP staff and health workers in neighbouring countries.

## Major challenges

The China program presents complex and resource intensive partnership challenges, given the diversity of the program's partners, implementing agencies and cross-cutting policy interests. A key challenge is the limited capacity of Australian government agencies to engage with Chinese counterpart agencies due to China's domestic pressures, shortage of policy and technical skills, and lack of dedicated resources.

The governance, health and environment facilities are demonstrating that the potential for sustainable linkages is strongest where there is clear mutual benefit to be derived by Australian and Chinese agencies. It is important to identify agencies that are ready to partner, to clearly define expected partnership outcomes, and to put the right incentives in place for the partnership to flourish. Adequate resources to support Australian involvement and a sufficient investment of time by senior personnel are also important.

China's interest in engaging with Australia on improving the effectiveness of development initiatives provides a good opportunity for further cooperation on regional and global development issues in the future. Progress against this strategy objective has been impeded by a lack of clearly defined expected outcomes and dedicated financial and human resources, and the need for an incremental, long-term approach to engagement.

## Summary of management consequences

- > A new Country Partnership Strategy from 2010–11 provides the opportunity to refine, define and advance Australian objectives for development engagement with China. In particular:
  - *policy reform engagement* should be a priority objective
  - *capacity building* should be defined in the sophisticated China context
  - *sustainable partnerships* should be defined in terms of what is achievable (this would cover the value that AusAID can add in a whole-of-government context)
  - *regional collaboration* should be defined in terms of what is achievable .
- > With around one third of Australian ODA delivered outside the bilateral program, a new strategy should also include consideration of how to integrate and leverage multiple sources of ODA.
- > In order to improve performance, the strategy needs to continue to build a shared understanding among stakeholders of the program's strategic objectives to ensure these are reflected consistently in activity design and monitoring and evaluation (M&E), and to develop effective approaches to engaging partners.
- > The resource implications of one less A-based position at Post from 2009–10 will need to be managed in the context of a new strategy and a widening programming gap<sup>1</sup> from 2010-11.

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<sup>1</sup> 'Programming gap' is the surplus annual program funds that remain after accounting for the total cost of activities in that year. The gap will open and accelerate from 2010–11 as current activities conclude and are not replaced.



## Country performance

2008 marked the 30th anniversary of China's 'reform and opening', which has transformed China into one of the world's largest economies and lifted some 500 million people out of poverty.<sup>2</sup> At the national level, China has met or exceeded most MDG targets and is on track to meet outstanding targets for maternal mortality, HIV/AIDS, tuberculosis, and water and sanitation.

China nonetheless faces ongoing poverty challenges, many of which relate to unbalanced development. The World Bank (2009) assesses that more than 250 million Chinese still live on less than US\$1.25 per day, with many more at risk of relapsing into poverty. China's remaining poor are widely dispersed and hard to reach. Income inequality is increasing and poor rural families and migrant workers are finding it harder than ever to access basic services. Under China's household registration system, some 225 million migrant workers are excluded from basic services in the urban areas where they live and work. Environmental challenges continue to constrain economic growth and public health, despite advances in key areas such as pollution control and water management.

The global recession has exacerbated China's development challenges. Despite a strong government response, including a RMB 4 trillion (US\$586 billion) fiscal stimulus package, the return of some 70 million migrant workers to their home towns has pushed communities back into poverty and further strained basic services and social security systems in rural areas.

Reducing poverty further in China demands comprehensive structural, institutional and legal reform, complemented by ongoing improvements in basic service delivery. The Chinese leadership is addressing these challenges through its long-term vision to achieve 'balanced development' between urban and rural areas and across regions; and between economic and social needs, economic growth and the environment, and domestic development and global engagement.

As an emerging international power and driver of regional and global economic growth, China has unequalled potential to catalyse development in the Asia-Pacific region and to contribute to global achievement of the MDGs. China's growing influence on international development, including as a donor, underscores the importance of engaging China strategically on these issues.

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<sup>2</sup> World Bank 2009, based on the US\$1 a day poverty line.

## Australian overseas development assistance to China

Australian ODA represents an extremely small proportion of resources available to China. In 2008–09, total ODA is estimated at \$37.8 million, of which \$25 million is delivered bilaterally. This represents some 0.03% of total ODA to China and 0.001% of GDP. The impact of this support exceeds its quantum. With China's capacity to direct large-scale resources to identified priority areas, the potential development benefits of providing Australian public policy experts to assist ministries set these priorities – on a low-cost and long-term basis – are significant. The high-level entrée into the Chinese system provided by our development assistance engagement will also advance Australian interests.

The 2006–2010 China Country Program Strategy (CPS) focuses on supporting China's development and reform agenda through targeted policy engagement, high-level capacity building and partnerships in the three key sectors of governance, environment and health. The CPS's goal is to 'further mutual national interest by supporting China's balanced development policies and working together in the region'. The objectives of the CPS are to:

- > build capacity in selected sectors in China, in particular governance, environment and health
- > enhance the Australia–China relationship by building institutional linkages
- > work collaboratively with China to strengthen the region.

The CPS has guided a shift in the focus of Australian development cooperation from poverty alleviation projects at the local level to national level policy reform engagement. With the exception of Tibet and the AusAID regional HIV/AIDS program, provincial projects have been phased out. The program is now centred on three funding facilities designed to respond to Chinese priorities and draw on Australian expertise.

### Governance

The China–Australia Governance Program (CAGP) works with China's national ministries (and through them, provincial authorities) to support China's governance reform and development agenda in fiscal reform, balanced rural–urban development and social security for migrant workers. The Human Rights Technical Cooperation Program (HRTC) works with Chinese government agencies and NGOs to strengthen the administration, promotion and protection of human rights in three key areas: women's and children's rights, ethnic and minority rights, and legal and judicial reform.

### Health

The China–Australia Health and HIV/AIDS Facility (CAHHF) works through the Chinese Ministry of Health to address reform priorities, to make the health system and workforce more skilled and responsive to health needs, and to protect the population against HIV/AIDS and emerging infectious diseases. Facility activities are directly supporting the five key reform areas identified by China in 2009 as its top reform priorities for the next three years.

### Environment

ACEDP brings together nine national-level program partners to help China improve its environmental protection and natural resources management, particularly in relation to water.

ACEDP's current and pipeline activities support Chinese resource conservation and environment protection policies outlined in the 11th Five Year Plan (2005–2010).

# What are the results of our aid program?

In response to the management recommendations of the 2008 APPR, this year the program has reviewed the CPS's performance assessment framework (PAF) so that the program's objectives and outcomes are more fully described and the M&E frameworks more robust. The review identified policy engagement to support China's policy reform agenda as the key focus for the China program. Although a theme of the original CPS, it was not previously a separate objective. This APPR treats policy engagement as a distinct strategic objective, an approach that that will developed further from 2010.

## Objective 1: Support China's policy reform agenda in governance, environment and health

■ The objective is on track to be fully achieved within the timeframe.

### Assessment of results and performance

Although the China program covers all stages of policy development, from agenda setting to policy formulation, implementation and evaluation, it has worked mainly at the policy formulation and implementation levels. Chinese policymakers have been exposed to Australian and international knowledge and experience to support evidence-based policymaking through policy research and operations/pilot research, and to introduce Australian concepts into their policy debates.

Activities have ranged from one-off study tours focused on specific policy processes or systems through to multi-year partnerships between Australian and Chinese agencies developing evidence-based policy. Though both these activities may attract the same performance rating in the following sections, their impact and effectiveness will differ. Australian policy engagement activities are having a strong impact on Chinese policy reform for a relatively low cost, suggesting that such activities are an effective and efficient intervention for a small country program. Evaluations have found that, for around \$250,000, Australia has helped build an enabling environment for reform, supported policy implementation through trials, and influenced the content of new policies or plans. In doing so, Australia has added to its reputation as a trustworthy, flexible and welcome facilitator of reform.

### Governance

- > Influencing budget reform – CAGP supported the Budget Affairs Commission's reform agenda by facilitating research on sustainable fiscal reform and comprehensive budget management. The research, conducted by Chinese institutes with technical input from the Australian Productivity Commission, assisted China in developing a framework for budget

management and performance budgeting, and informed proposed budget law amendments.

- > Supporting efforts by the National Development and Reform Commission (NDRC) to reform intergovernmental relations – Under CAGP, Chinese and Australian officials and researchers drafted a policy report that sought to clarify institutional arrangements governing Chinese Government revenue and expenditure. The NDRC plans to give the report to the CPC Central Committee and State Council (the Chinese equivalent of the Cabinet).
- > Supporting the implementation of China's new property law – Support was provided to Chinese financial institutions to develop a national credit reporting system and accounts receivable registry. Co-funded by AusAID, the Department for International Development and the International Finance Corporation (IFC), the Private Enterprise Partnership–China (PEP–China) project helped China establish an internet-based accounts receivable registry following the passage of its new property law. During 2008, all major national banks registered accounts receivable in the registry, which guaranteed an estimated RMB 2.19 trillion in credit. The PEP–China mid-term review found the credit reporting system and accounts receivable registry helped improve China's ranking in the global Doing Business Indicator.
- > Supporting the development of the Supreme People's Court's (SPC) third Judicial Reform Plan (2009–13), approved in March 2009 – According to the SPC, an HRTC victims of crime study visit to Australia in 2008 fed directly into SPC guidelines on compensation for victims of crime. An SPC judicial accountability study visit to Australia in 2009 was a basis for reforms on the relationship between higher and lower courts, public participation in the judicial system and re-hearing and appeals processes. In respect of the latter, the SPC said that special leave procedures in the High Court of Australia, the Supreme Court of New South Wales, and the Administrative Appeals Tribunal had been a basis for guidelines for implementing a new law on re-hearing procedures.

## Health

- > Supporting the introduction of multi-sectoral HIV/AIDS prevention and care models in Xinjiang through the Xinjiang HIV/AIDS Prevention and Care Project. Models developed by the project were introduced to government agencies and international organisations for adaption and scale-up of HIV prevention activities elsewhere in China. Project outcomes across sectors and agencies contributed to decisions taken by the central and regional governments to allocate a budget specifically for HIV/AIDS prevention in Xinjiang.

## Environment

- > Influencing national policy on water resource planning and management of environmental flows through development of a Water Entitlements and Trading framework (WET). The WET Project brought together China's Ministry of Water Resources (MWR), the Queensland Department of Natural Resources and Water and the Australian Department of the Environment, Water, Heritage and the Arts to develop and pilot a framework for water resource allocation. The framework has been published in a book used for MWR national training programs. Policy guidelines developed under the project have been incorporated into ministerial guidelines and used in amending the regulation of water permits.

- > By supporting the China Council for International Cooperation on Environment and Development (CCICED), a high level international advisory board to the Chinese government, Australia contributed to policy debate and donor harmonisation on environment and development at the highest level. China's recent decision to upgrade its environmental protection agency to ministerial level was based on a CCICED recommendation. The appointment of an Australian representative to the council and to a task force on sustainable coal use has raised the profile of Australian expertise in this field.


### New activities

Health and environment facility activities are in the early stages of implementation but progress to date suggests that, with effective M&E, they will demonstrate strong policy reform outcomes.

- > Senior Ministry of Health (MoH) officials have stated that CAHHF is directly supporting all the priority areas identified in China's 2009 National Health Reform Plan. The plan borrowed heavily from Australian practice, including the Pharmaceutical Benefits Scheme and general practitioner/community health policies. All facility activities have been initiated by MoH and endorsed by panels of Chinese and international experts. Activities include working with the Chinese Health Economics Institute to develop China's *Health 2020* strategy, China's first mid-long term health development plan, and working to strengthen China's medical insurance safety net by building interoperability between the national rural Cooperative Medical Scheme and subsidy schemes for the poorest layers of Chinese society.
- > An ACEDP trans-jurisdictional water pollution management project is helping China assess policy, legal and technical options for trans-jurisdictional pollution management as a basis for policy reform, focusing on a river sub-basin which crosses four provinces and has been the subject of serious disputes over river pollution. Chinese specialists engaged by the project are preparing a policy and technical assessment report, supported by field visits to the Zhangweinan Basin and discussions with representatives of the four partner provinces. National and provincial level agencies participated in a study tour to Australia in April 2009 in which they explored Australian approaches to trans-jurisdictional water management issues.
- > An ACEDP river health and environment flow activity is assisting China to revise its river basin master plans. The activity is likely to contribute directly to a framework for environmental flows to assist updating of river basin master plans and river basin plans more generally, and to the development of guidelines for determining environmental flows and for indicating the health of rivers.

Under CAGP, a new Social Security for Migrant Workers Project will provide the Ministry of Human Resources and Social Security with policy research, analysis of funding models and their implications, database and fund management expertise, and a comparative reference to Australian social security systems. This is expected to assist in the formulation of policy relevant to a draft national social security law, issued in December 2008, and a draft regulation on migrant old-age insurance, issued in February 2009.

## Objective 2: Build capacity in selected sectors in China, in particular governance, environment and health

 The objective is on track to be fully achieved within the timeframe.

### Assessment of results and performance

Capacity building has been less of a focus for the China program than envisaged in the CPS. China's capacity building needs are fewer and more specific than those for many other Asia-Pacific developing countries. Australia is working in China with highly skilled individuals in institutions which already have high levels of capacity. This requires a different paradigm of capacity building – one in which the emphasis is less on promoting sustained behaviour change or skills enhancement, and more on exposing Chinese counterparts to highly specialised concepts, technical skills and managerial approaches. Long-term study, training, study tours and secondments have provided counterparts with the opportunity to access Australian expertise and adapt it to their specific needs.

### Governance

- > Improved technical capacity of the State Information Centre (SIC) to develop rural-urban migration models, rural household income models and regional economic models for future policy simulations. CAGP supported a job attachment for a team of four SIC officials to the Centre of Policy Study, Monash University, and provided technical assistance in computable general equilibrium modelling. In 2008, the SIC established a virtual policy laboratory and finalised its own general equilibrium model with support from CAGP.
- > Enhanced capacity of the Ministry of Foreign Affairs' Human Rights Division to develop and implement human rights laws, policies and practices through the provision of long-term study awards under HRTC. Eighteen officials have completed studies in Australia and returned to the ministry. According to the Media Federation of Australia, graduates are now using their knowledge in influential positions within the ministry.
- > Strengthened capacity of local financial institutions to undertake profitable lending to SMEs. AusAID funding for the International Finance Corporation's (PEP-China) program provided technical assistance to selected financial institutions to improve internal risk management procedures and expand financing for SMEs. For example, PEP-China worked with the near bankrupt Leshan City Commercial Bank (LCC) to revamp its risk management procedures, resulting in a drop in LCC's default rate from 7.27% in 2006 to 1.95% in 2008 and a RMB 129 million profit in 2008. LCC increased its market share from 5% in 2003 to 12% in 2009 and is now cited by the China Banking Regulatory Commission as a model for other banks.

### Health

- > AusAID support for the Chinese government's China HIV/AIDS Roadmap Technical Support Program (CHARTS) has extended the capacity of national multi-sectoral agencies and provincial level AIDS working committees to plan and manage comprehensive HIV/AIDS responses in line with a national strategy. A national M&E framework on HIV/AIDS control and prevention has been developed through CHARTS.
- > In terms of more traditional capacity building, the Tibet Health Sector Support Program helped the Tibetan Bureau of Health and Centre for Disease Control to achieve national accreditation standards for the regional blood centre and infection control system. It has




trained laboratory staff to conduct HIV screening at national standards and has demonstrably strengthened outbreak control systems – evidenced by the containment of recent infectious disease outbreaks in Tibet.

- > In partnership with the Xinjiang Bureau of Health, the Xinjiang HIV/AIDS Prevention and Care Program and the Clinton Foundation, AusAID:
  - achieved a 70 % increase in the number of patients receiving anti-retroviral treatment (ART) at targeted sites
  - assisted with the establishment of a paediatric ART program
  - contributed to the increased management capacity of multi-sectoral agencies to design and plan projects
  - increased community based care
  - reduced discrimination against people living with HIV/AIDS
  - contributed to the increased use of improved protocols for infection control.

#### New activities

- > By requiring Chinese implementing agencies to manage funds and partnerships with Australian institutions, as well as meet international standards of activity design, implementation and reporting, CAHHF is helping Chinese implementing agencies sharpen their skills and engage professionally with the international scientific community.
- > ACEDP's Lake Tai Basin water resources management and pollution control activity focuses on capacity development for specific technical and institutional issues that are central to good governance and decision making for integrated river basin management. These include improved monitoring for assessing nutrient loads and load sources, market instruments for nutrient trading and technical measures for algae control. It is too early in the implementation phase to assess the project but its goal is well-defined: to support the improved implementation of the Taihu Restoration Plan endorsed by the State Council.
- > Building on the earlier Qinghai Forestry Project, ACEDP is bringing together Australian government agencies/universities and Chinese government policy development and research bodies to conduct two pilot activities in Qinghai Province to provide national policy makers with a scientific monitoring and evaluation tool on which to base recommendations for forestry ecological interventions, and to develop ecological compensation mechanisms and carbon trade market policies.

### Objective 3: Enhance Australia–China relationship through development cooperation

 The objective is on track to be fully achieved within the timeframe.

#### Assessment of results and performance

As its major outcomes, Objective 3 is expected to build:

- > durable links between Australian and Chinese government institutions
- > technical capacity within Chinese ministries.

The program is based on a partnership in which Australian and Chinese policy makers and experts meet as equals to share knowledge and experience. This approach is valued by Chinese



counterparts and underpins strong demand from Chinese line ministries and other organisations for direct relationships with Australian counterparts, often with AusAID playing a facilitating role. As China's develops further, the potential of activities to produce mutually beneficial outcomes to both Chinese and Australian partners will increase.

Results for this objective have been enhanced by the program's increased focus on national level strategic engagement and consequent flow-on benefits for provincial- and lower-level authorities. The program's success in building stronger relationships with stakeholder ministries and associated agencies is producing significant achievements in terms of trust and access. Through the CAHHF, for example, Australia enjoys unprecedented access to the Ministry of Health and is the only donor collaborating with China on HIV/AIDS in the sensitive Democratic People's Republic of Korea border region. MOFCOM's decision to choose Australia as the destination for its first ever overseas training visit by a group of aid officials reflects deepening engagement with China as a donor. The Ministry of Foreign Affairs has described HRTC as its most successful and valued human rights program. HRTC has succeeded in progressively deepening relationships between Australian and Chinese organisations, and in working on increasingly sensitive issues such as juvenile justice and reintegrating former prisoners into society.

### Governance

- > A potentially sustainable relationship has been developed between the Federal Court of Australia (FCA) and the Supreme People's Court of China (SPC). Working visits and seminars under a CAGP Judicial Exchange Project provided opportunities to discuss respective approaches to maritime law, competition law, labour law and intellectual property law. This led to subsequent independent contact between participating agencies, with both the FCA and SPC seeking funding to continue the relationship.
- > Penitentiary administration policy consultations under HRTC brought together senior Australian and Chinese personnel to exchange information and experience on policy measures for protecting and promoting the rights of detainees. Participants discussed sensitive administrative and policy issues and identified further activities to support Chinese reform.

### New activities

There are promising signs of broadening government-to-government cooperation through the health and environment facilities. CAHHF is directly supporting the relationship between the Chinese Ministry of Health and the Australian Department of Health and Ageing (DoHA), both of which are Program Management Committee members for the facility. Eleven Australian institutions are partnering Chinese implementing agencies in 21 activities. In subsequent funding rounds CAHHF will focus on the most productive partnerships that have the most potential to be self-sustaining.

ACEDP is supporting a new Australia–China high-level policy dialogue mechanism. Following ACEDP's first high level roundtable in September 2008, DEWHA initiated a high level Australia–China water policy meeting, which is scheduled to be held in Canberra in October 2009 and which will be supported by ACEDP. The facility is well placed to support any agreed follow up activities.

Managing ACEDP is challenging given the large number of program partners (nine), implementing agencies and cross-cutting policy interests. Chinese agencies have demonstrated a strong interest in establishing relationships with Australian agencies. On the Australian side,

key federal government agencies are supportive of the program but their capacity to engage is sometimes limited by a lack of financial resources and technically expert staff. Various state and territory government agencies and the non-government sector (universities, education, research and training organisations, and environmental service and technology providers) have also shown an interest in participating in the program.

ACEDP is demonstrating that the potential for linkages and policy outcomes is strongest where there is clear mutual benefit to be derived by both Australian and Chinese agencies (for example, on a policy issue where both sides are looking to improve policies or performance) and where jointly developed practical technical exchanges can be devised to support tangible engagement.

- > Through mutual exchanges and field visits, ACEDP's Water Ecology Compensation Policy and Mechanism activity aims to improve Australian and Chinese agencies' understanding of existing and potential policy levers for payment of environmental services, an area in which both countries are at the learning stage. This knowledge will be tested in a pilot location to profile the ecosystem and value its services.
- > ACEDP is supporting the shared interest of the Australian National Water Commission and the Chinese Ministry of Water Resources in acquiring the capability to develop and implement a national System of Environmental–Economic Accounting for Water (SEEAW, the United Nations Statistics Division's benchmark system). A SEEAW capacity building and partnership activity is enhancing the capacity of Chinese officials dealing with SEEAW at national, provincial and river-basin levels, while at the same time helping Australia acquire specialised knowledge of the theory and application of SEEAW in the Australian context. Both sides have indicated their strong interest in continuing to talk about policy in this area.

## Objective 4: Work collaboratively with China to strengthen the region

- The objective will be partially achieved within the timeframe.

### Assessment of results and performance

The program's approach to working collaboratively with China is being developed across three broad objectives:

- > building a common understanding on development issues
- > strengthening China's engagement in regional issues and initiatives
- > exploring both countries' interest in working jointly to support development priorities in third countries.

In the absence of dedicated resources to support this objective, the China program has worked through the facilities, where this has been agreed to by Chinese counterparts. Progress in working more closely with China has been incremental, but there have been some positive results against this objective:

### Regional collaboration

- > The HIV/AIDS Asia Regional Program (HAARP) supports China's participation in collective efforts to address the regional threats of HIV/AIDS. HAARP is helping to build

information-sharing mechanisms and raise HIV awareness among health, law enforcement and transport workers in southern China border zones. In addition, HAARP is undertaking comprehensive harm reduction activities among injecting drug users. The experience and techniques developed by the China HAARP Country Flexible Program will be adopted by HAARP staff and health workers in neighbouring countries. For example, the Yunnan Police Academy is delivering a training package to police from regional countries in drug control incorporating HIV/AIDS awareness raising and harm reduction.

### Engaging China as a donor

- > AusAID has made significant progress in the past year in building trust and understanding through high-level dialogue between AusAID and MOFCOM. AusAID has met with MOFCOM's Department of Aid to Foreign Countries twice in 2009.
- > In early 2009, AusAID hosted a two-week International Development Cooperation Workshop in Canberra for a high level Chinese aid delegation. The workshop highlighted the importance of coordinating donor approaches to aid delivery and effective aid, particularly in the Pacific and Mekong regions. Building on the long-term Australia-China relationship and acknowledging China's emergence as a significant aid donor, the workshop was comprehensive and focused, covering aid effectiveness, performance management and evaluation, Australia's disaster and emergency preparedness and management, and volunteer programs. MOFCOM has since agreed in principle to a second workshop.
- > The Post has secured the agreement of China's pre-eminent international development think tank, the International Poverty Reduction Centre, that an Australian intern should be placed at the centre to assist it to expand its engagement with Pacific Island developing countries.

A World Bank Trust Fund to support the sharing of analysis and knowledge by China, Australia and Pacific Island countries is being considered.

# What is the quality of our aid activities?

**Table 1 Quality at implementation**

Initiative	Implementation progress	Achieving objectives	Monitoring and evaluation	Sustainability
Human Rights Technical Cooperation	Green, 5	Green, 5	Green, 5	Yellow, 4
Tibet Health Sector Support Program	Amber, 3	Yellow, 4	Amber, 3	Yellow, 4
China Governance Program to 2011	Yellow, 4	Yellow, 4	Amber, 3	Yellow, 4
Environment Program 2006–2013	Yellow, 4	Yellow, 4	Yellow, 4	Yellow, 4
IFC China Project Development Facility, Phase 2	Green, 5	Green, 5	Yellow, 4	Yellow, 4
China Health Program to 2013	Yellow, 4	Yellow, 4	Amber, 3	Green, 5
China Multi-sector Programs 2008–09	Yellow, 4	Yellow, 4	Amber, 3	Yellow, 4
<b>Unsatisfactory (1,2,3)</b>	1 (14%)	0	4 (57%)	0
<b>Satisfactory achievement (4,5,6)</b>	6 (86%)	7 (100%)	3 (43%)	7 (100%)
<b>Special Category – Requires improvement (1,2,3,4)</b>	5 (71%)	5 (71%)	6 (86%)	6 (86%)

Program implementation is largely on track. Although delays occurred due to the Beijing Olympics and May 2008 Sichuan earthquake, overall implementation was not significantly affected. The global recession had a significant unexpected impact in terms of a 30% depreciation of the Australian dollar against the renminbi in the second half of 2008. Where possible, activities were recalibrated to ensure key objectives could be met.

A strong focus of the China program's work in 2008 has been to ensure that all activities have clear objectives, define what constitutes 'success', and have adequate M&E arrangements. AusAID's Beijing office reviewed the CPS PAF in October 2008 with the assistance of an independent consultant. Implementation teams were given training on how to prepare an

operational CPS PAF and a QAI reporting plan and to provide them with an understanding of the key concepts of the CPS and PAF.

The review process found that M&E was generally weak across the program, including for the health, governance and environment facilities. The predominance of the facility form of aid posed particular M&E challenges because designers and M&E specialists tried to apply project level M&E rather than develop approaches that took account of actual objectives and desired outcomes. M&E for both Australian Development Scholarships and the Small Activities Scheme (SAS) is weak. Following an independent review in late 2008, work is under way to develop objectives for these programs that more closely align with the objectives of the facilities and country strategy and to design more appropriate M&E systems.

The program is now positioned to begin developing a PAF capable of quality reporting. The current focus is on improving the consistency of M&E frameworks across the facilities, working with facility teams to develop M&E implementation strategies, and improving the quality of facility progress reports and analytical work. Plans are under way to establish a virtual M&E help desk to support Post officers and implementation teams and further training.

## Sustainability

Although satisfactory overall, the sustainability of partnership and capacity building outcomes remains a challenge across the program. In general, concepts of sustainability are not well understood, strategies to enhance sustainability have not been fully implemented, and notions of sustainability are not routinely integrated into M&E plans.

Sustainability is a selection criterion for proposals in all three facilities. Under CAHHF, prospects for sustainability are good, given strong ownership and engagement by the Chinese Ministry of Health and the use of Chinese national systems in activity design and implementation.

In governance, sustainability results have been mixed. The CAGP mid-term review found that in three of the five case studies examined, there was a reasonable expectation of sustainability beyond AusAID's involvement due to project activities directly meeting the needs of counterparts, high-level executive support from both the Australians and Chinese, and a high degree of participation by partners in design, implementation and capacity building in research and policy development. Overall, the most significant factor undermining sustainability was the Australian partner agencies' limited time and resources.

## Gender

The China program directly promotes gender equality in China through two activities.

The multi-donor China Gender Facility contributes to improving gender equality in Chinese policies, laws and regulations. Outcomes include the inclusion of gender equality perspectives in China's 2008 employment promotion law as a result of successful advocacy by the China Association for the Promotion of Employment.

Women's and children's rights are one of three thematic areas under HRTC. In 2008, HRTC conducted a women's labour rights workshop to combat discrimination and other unfair treatment of women in the workplace and a women's law workshop to enhance the capacity of women's rights coordination groups to fulfil their mandate effectively.

Each of the facilities has a gender strategy. ACEDP is working to incorporate gender issues throughout the activity implementation cycle, including in selection criteria, activity design, implementation and reporting. The program has developed a social impact framework (SIF) with three interconnected themes: anticipating and managing the potential social impacts of different policy directions; public participation in policy formulation and implementation; and mainstreaming gender. A social impact and gender mainstreaming package has been developed to implement the SIF.

The CAGP mid-term review (2008) concluded that the CAGP was performing well in engaging with gender equality issues within the program, although the focus on gender equality remained donor driven and was not always communicated well to Australian or Chinese counterparts. CAGP did not, however, have a clear vision of what it aimed to achieve in regard to gender equality and the indicator used to assess gender equality results for the program needed improvement. A review of CAHHF's gender strategy found it was not operating as effectively as it should due to a lack of clearly identified gender outcomes and a high risk that the gender strategy would not be fully implemented without the provision of additional resources.

## **Working through partner government systems**

The China program works extensively through partner government systems. The program integrates Chinese government views into all decision-making processes. Program activities therefore align strongly with the Chinese government's own policies and strategies.

In terms of integrating with partner systems, partner government agencies are putting in place partners for all facility activities. Chinese agencies design, implement and monitor activities using Chinese systems. As Chinese agencies typically do not have strong capacity in design and M&E, the facilities play a capacity-building role in assisting Chinese agencies to manage activity implementation and monitoring. In terms of the use of Chinese financial management systems, in most cases funding goes directly to Chinese implementing agencies via the contractor (on the basis of agreed milestones), although under ACEDP subcontracting is being used.

# What are the management consequences of this assessment?

## Lessons

### Policy reform

Program M&E suggests that policy influence is enhanced by:

- > strong Chinese recognition of the potential contribution of a proposed activity to Chinese policy planning outcomes – the clearer that recognition, the greater the executive support, momentum and likelihood of success
- > engagement strategies/activities that recognise the incremental nature of policy development – the key to HRTC's success, for example, has been its consistency and predictability over many years and its strategy of progressive engagement on human rights policies. Adherence to a policy of 'no surprises' has underpinned its success
- > flexible programming to respond to changes in the China context – for example, CAGP's staged approach to programming, including structured feedback mechanisms, has helped the program respond to emerging policy issues. In line with the point above, changes should be explained clearly and early
- > the ability of Chinese partners to attract counterparts capable of and authorised to engage in policy dialogue and to select appropriate senior decision makers as participants for workshops, study tours and working visits, and
- > the good reputation of Australian policy partners and their ability to engage in a sustained, informed and productive manner – the direct involvement of an Australian government agency and of government officials increases the status and credibility of projects in Chinese eyes. Relying overly on contractors – particularly where they seek to represent government positions – has the opposite effect.

### Capacity building

Activity reviews have demonstrated that capacity building activities have succeeded where:

- > both sides were well prepared for training/study visits, including pre-departure briefing
- > the Chinese side had clear objectives for visits to Australia, and the most appropriate participants were selected, and
- > secondments clearly addressed counterparts' needs. In this way, the skills and knowledge obtained were more likely to be applied and the performance of Chinese agencies enhanced.



## Partnerships

Although many program activities have a stated aim to establish 'partnerships' between Australian and Chinese agencies, partnership objectives and expected outcomes have generally not been articulated clearly. Strategies to build and sustain partnerships have seldom been agreed among stakeholders; nor have M&E systems been configured to capture partnership outcomes. Likewise, across the program there is a lack of clarity over whether 'partnership' is intended as a means for achieving a policy or capacity building related development outcome, or as an end in itself, or both. Further analysis is needed to identify the range and quality of partnerships being supported and how they are contributing to this Strategy objective.

Partnership lessons from the program include:

- > Australia's reputation for generating ideas and providing options, rather than highlighting problems and prescribing solutions is valued by Chinese counterparts. Both sides highlighted the importance of trust – developed over time – as an essential prerequisite for partnership. Chinese counterparts highly regarded the involvement of senior Australian federal or state government officials.
- > Contractors and sub-contractors have found it difficult to get traction with Chinese government officials and Australian government agencies. Access was less problematic where contracted technical advisers had strong links with the Australian government (i.e. they were current or former senior employees).
- > Access to dedicated resources and confluence of objectives appear to be the key determinants of the willingness and ability of Australian and Chinese agencies to pursue partnerships. Australian agencies have indicated they are also motivated by the desire to contribute to the national interest, gain knowledge of Chinese developments relevant to Australia, offer professional development opportunities to staff, and to contribute to China's development.
- > Early and clear definition of the expected partnership purpose and outcome is essential to ensure that all parties have the same expectations. While the technical outcomes of activities have generally been clear, this has often not been matched by a shared vision of partnership objectives or outcomes. Chinese partners tended to expect the partnership to continue beyond the project, whereas Australian partners were often reluctant to pursue further engagement due to concerns about raising Chinese expectations and lack of resources.
- > Building relationships is highly resource intensive. Activities need to make adequate provision for work dedicated to relationship building, including a sufficient investment of time by high-level personnel.
- > Sustainable government-to-government partnerships require a clear whole-of-government articulation of the extent to which Australian government agencies are expected to engage with China. Without this, it is unlikely that adequate resources will be made available for (or by) Australian government agencies to participate in partnership programs. Investment in a strategic approach to partnerships at the Chinese end is not considered value for money if there is not equal and adequate investment from the Australian side. Experience suggests more needs to be done to identify agencies that are ready to partner and to put the right incentives in place to give the partnership a chance to flourish.



## China in the region

- > China's interest in engaging with Australia on improving development effectiveness provides a good opportunity for further future cooperation. Both sides need to take a gradual, long-term approach to engagement and to set modest, realistic objectives.

## Management consequences

### Strategic priorities

The broad strategic direction and sectoral focus of the program continues to be strongly endorsed by the Chinese government as one that is consistent with China's development priorities. Chinese demand for Australian expertise remains strong. The CPS's move towards supporting high-level engagement through the facility approach has been bedded down and is on track to deliver policy influence, relationship and capacity building outcomes. That said, developing effective partnerships takes significant time and money and there are real questions whether the future resource envelope can support this endeavour in the longer term.

Good progress has been made but we need to do more to refine, define and advance Australian objectives for development engagement with China. This includes building a shared understanding among stakeholders of the strategic objectives of the program and ensuring that they are reflected consistently in activity design and M&E. This should inform the proposed new country partnership strategy and give particular focus to:

- > defining *policy reform engagement* as an explicit objective for the country strategy. Anticipated policy-related outcomes need to be defined more rigorously and realistically, especially at the design stage of the activity cycle
- > articulating the precise role of *capacity building* in the sophisticated China context and clarifying the China Program's capacity-building goals. This includes developing a better understanding of the differences and linkages between capacity building and policy objectives and outcomes
- > determining what is achievable in terms of *sustainable partnerships*, including AusAID's value added in a whole-of-government context
- > setting realistic objectives for *regional collaboration* with China, and
- > addressing the key message emerging from the facilities regarding the need to *narrow the focus* of our engagement while maintaining flexibility.

Given that as much as one third of Australian ODA to China is delivered outside the bilateral program, a new country strategy should consider how to integrate and leverage strategically these different sources of ODA.

### Performance and quality priorities

- > AusAID and facility implementation teams will need to ensure facility M&E systems consistently reflect policy reform, capacity building and partnership outcomes. More work is needed to develop robust M&E around those activities which demonstrate the highest prospects of being 'winners', including the commissioning of in-depth evaluations. This will require further thinking on how to credibly evaluate policy reform outcomes.
- > Sustainability across policy, partnership and capacity building outcomes needs to be further addressed through analysis of factors affecting the sustainability of facility activities

and the development of strategies to promote sustainability, particularly more sustainable Australian partner engagement.

- > The effectiveness and appropriateness of using contractors and subcontractors to deliver high-level policy dialogue activities needs to be reviewed.

#### **Activity level priorities**

- > Continued effort will be required to refocus the Australian Development Scholarships (ADS) and SAS programs to better support CPS objectives. This includes developing an M&E system for ADS.
- > During the extension phase of the Tibet Health Sector Support Program (March 2009 to 30 June 2010) scoping work for post-THSSP engagement in Tibet will be required.

#### **Corporate priorities**

- > The localisation of an A-based officer at post in 2009–10 will need to be managed to ensure the program is able to meet its objectives.