



Australian Government
AusAID

Annual program performance report for the multilateral programs 2007–08

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Abbreviations

ADB	Asian Development Bank
ADF	Asian Development Fund
AusAID	Australian Agency for International Development
IDA	International Development Association
MDGs	Millennium Development Goals
MOPAN	Multilateral Organization Performance Assessment Network
OECD	Organisation for Economic Co-operation and Development
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNIFEM	United Nations Development Fund for Women
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
WFP	World Food Programme
WHO	World Health Organization

Summary





In 2007–08, AusAID started a major repositioning of its approach to engaging with multilaterals, as a result of the new government's foreign policy commitment to multilateralism, in particular the United Nations (UN). Australia placed greater emphasis on the Millennium Development Goals (MDGs), renewed its commitment to the Paris Declaration on Aid Effectiveness, and signed the Kyoto Protocol on Climate Change. The Prime Minister also gave a commitment to increase official development assistance to 0.5 per cent of gross domestic product by 2015, which has started to result in increased financial contributions to multilateral organisations as the aid program increases in scale. As a result, AusAID has initiated a review of its multilateral program, identifying new priority partners, developing engagement strategies, and strengthening performance frameworks in partnership with other bilateral partners.



This report focuses on Australia's multilateral contributions managed by AusAID, in particular the 55 per cent of total funding provided as core contributions. AusAID provides most of its core contributions to the World Bank (55 per cent), the Asian Development Bank (22 per cent) and the UN (12 per cent). In 2007–08 Australia concluded replenishment rounds with the World Bank and the Asian Development Bank, allocating a record \$916 million for the new funding cycle. These negotiations have been selected as a principal theme for this program performance report, the first for the multilateral program.

RATINGS

AusAID's performance in pursuing the objectives of its program of support for multilateral organisations was assessed, as opposed to the performance of the multilateral organisations themselves. Until a new multilateral strategy is agreed, two overarching objectives were inferred, against which performance in 2007–08 was rated (Table 1). The priority given to multilateral engagement, particularly with the UN, increased significantly with the election of the new government in November 2007. It was decided it was premature to assess AusAID's performance against the new policy agenda until clearly

TABLE 1 RATINGS OF THE MULTILATERAL PROGRAM OF SUPPORT IN ACHIEVING TWO OVERARCHING OBJECTIVES FOR THE UN AND THE DEVELOPMENT BANKS

Objective	United Nations	World Bank and Asian Development Bank
1. Partner with multilateral agencies that contribute to poverty reduction and sustainable development in line with Australia's national interest	 (amber)	 (green)
2. Contribute to improved aid effectiveness and institutional reform of multilateral agencies	 (amber)	 (green)

Note:  AusAID is on track to achieve its objective.  AusAID is partly on track to achieve its objectives. The ratings reflect AusAID's performance in pursuing its objectives in relation to the multilateral organisations, as opposed to the performance of the multilateral organisations themselves. The performance of the multilateral organisations is, however, a relevant factor in assessing AusAID's success in pursuing its objectives.

articulated objectives had been agreed. It should be noted, however, that AusAID will need to move quickly to position itself to deliver in this area in 2008–09.

MAJOR RESULTS

In 2007–08 the development banks continued to play an important role by contributing to accelerating economic growth and sharp reductions in poverty in East Asia and the Pacific by providing concessional loans and technical advice to poor countries. AusAID contributed to successful outcomes on the replenishment rounds for the World Bank's International Development Association 15 (\$583 million for the period 2008–11) and the Asian Development Bank's Asian Development Fund X (\$333 million for the period 2008–13) by helping to secure progress on aid effectiveness and the needs of fragile and small states.

The UN development agencies played an important role by sharpening the world's focus on the MDGs and responding to humanitarian and natural disasters. Australia directed substantial funding to the World Food Programme (\$32.8 million) in response to the world food crisis, and continued to provide core funding to the United Nations Children's Fund (\$13.7 million) and the World Health Organization (\$10.0 million) for health and education, the United Nations Development Programme (\$8.5 million) for governance, and the United Nations High Commissioner for Refugees (\$8.3 million) for refugees.

MAJOR CHALLENGES

In 2008–09 global economic uncertainty is likely to prove a major challenge to maintaining strong economic growth and reducing poverty. In some countries in the Asia-Pacific region, progress in achieving the MDGs has been slow. This situation could worsen as the economic outlook deteriorates. New economic, social and environmental challenges—some relating to the global credit crisis and others relating to climate change—have the potential to further crowd the already crowded policy agenda at the UN and the development banks.

While the availability of new sources of private capital and the emergence of non-traditional donors have raised calls for reforms to the global development architecture, the global credit crisis could well see increased demand for more traditional lending instruments at the World Bank and the Asian Development Bank as well as an increased need for technical support on economic governance reform. UN system reform can be expected to progress slowly, and may require selective and opportunistic engagements by Australia, particularly to help fast-track progress at a country level. AusAID meanwhile will be involved in significantly scaling up the multilateral program through the UN Partnership for the MDGs, and engaging in an ambitious new multilateral policy agenda at the UN and the development banks on the global aid architecture and new global development challenges.

Over the next 12 months AusAID will need to take action in the following areas in order to continue to reposition the multilateral program to meet the government's objectives and respond proactively to emerging global development challenges:

- > prepare a multilateral strategy
- > introduce a framework for assessing the performance of the multilateral program
- > modify its performance information system to enable better reporting on the multilateral program, particularly on its core and non-core funding
- > expand significantly its engagement with the multilateral system in pursuit of reforms to the global aid architecture and global development challenges, including the MDG Call to Action, climate change, and UN reform
- > develop strategies for engaging with UN agencies and development banks
- > initiate the UN Partnership for the MDGs funding (\$200 million over four years)
- > manage a rapid scaling-up of AusAID's financial contributions to the banks, including earmarked funding on a country and regional basis
- > review funding approaches for high-priority UN agencies, in particular core versus non-core funding and annual versus multiyear funding
- > promote greater consistency and credibility of AusAID's policy dialogue when its head office and country programs engage with the UN and development banks
- > select a principal theme for next year's program performance report from one of the government's new multilateral policy or program initiatives.

The global context and Australia's multilateral program

In 2007–08, AusAID started a major repositioning of its approach to engaging with multilaterals, as a result of the new government's foreign policy commitment to multilateralism, in particular the United Nations (UN). Australia placed greater emphasis on the Millennium Development Goals (MDGs), renewed its commitment to the Paris Declaration on Aid Effectiveness, and signed the Kyoto Protocol on Climate Change. The Prime Minister also gave a commitment to increase official development assistance to 0.5 per cent of gross domestic product by 2015, which has started to result in increased financial contributions to multilateral organisations as the aid program increases in scale.

As a result, AusAID initiated a review of its multilateral program, identifying new priority partners, developing engagement strategies, and strengthening performance frameworks in partnership with other bilateral partners. In 2008–09 AusAID has an opportunity to build on some of the successes of its engagement with the development banks, and to translate those successes into a new level of strategic engagement with the UN.

Over the next 12 months, global economic uncertainty is likely to prove a major challenge to maintaining strong economic growth and reducing poverty in the Asia-Pacific region. In some countries in the region, progress in achieving the MDGs has been slow. This situation could worsen as the economic outlook deteriorates. UN system reform can be expected to progress slowly, and may require selective and opportunistic engagements by Australia, including to fast-track progress at a country level. AusAID meanwhile will be involved in financially scaling up the multilateral program through the UN Partnership for the MDGs, and engaging more fully in the multilateral policy agenda.

The multilateral program is managed primarily by the Global Programs Division within AusAID, which consists of the Development Partnership Branch and the Humanitarian and Middle East Branch. This division holds overall responsibility for the UN agencies, development banks and humanitarian assistance. Thematic areas within AusAID—for instance, the Health and HIV/AIDS Section within the Program Enabling Division—take the lead on sector-specific UN agencies such as WHO and UNAIDS. The diplomatic missions to multilateral organisations and missions in Australia's partner countries also support development engagement with multilateral organisations.

THE UNITED NATIONS AND THE DEVELOPMENT BANKS

The UN with its 192 member states holds a unique legitimacy and convening power to lead on global challenges such as climate change, HIV/AIDS and mass migration. The UN's mandate spans peace and security, development and human rights. It plays a vital

role in establishing global standards on, for example, human rights and international criminal law. The UN's independence and impartiality make it a respected and natural leader to broker peace, to help fragile states and those in conflict to recover from crises, and to lead humanitarian assistance efforts. The UN agencies play a particularly important role for Australia by providing a means for delivering aid to Africa. This can be expected to continue as Australia steps up its assistance to this region.

The World Bank and the Asian Development Bank play important roles in helping Australia to achieve its development objectives. The banks are major sources of financial and technical assistance for developing countries in Asia and the Pacific, and are key partners for Australia in helping countries in the region to achieve the MDGs. The banks are influential in policy discussions, providing access to developmental and specialist expertise, and have a powerful convening role to play with recipient governments and development agencies. As a result, they often play an important role in promoting donor coordination and harmonisation.

In 2007–08 Australia increased funding significantly for multilateral organisations and increased the share of multilateral funding provided in the form of core contributions. These decisions will help Australia to engage more effectively in the multilateral system as a whole. They also reflect a wider recognition by Australia and other members of the OECD Development Assistance Committee of the need to rebalance the allocation of core and non-core funding in order to ensure UN agencies have sufficient funding predictability to engage in long-term strategic planning and operations.

In 2007–08 Australia significantly increased its core contributions to the World Bank and the Asian Development Bank through replenishment rounds of the International Development Association (IDA) and the Asian Development Fund (ADF). Australia also announced its intention to increase core contributions to UN agencies in the 2008–09 budget through the UN Partnership for the MDGs under which Australia will provide an additional \$200 million in core contributions to seven agencies—UNDP, UNICEF, UNIFEM, WHO, UNAIDS, UNFPA and UNOCHA. An important feature of the budget measure will be the provision of core funding on a multi-year basis, subject to negotiated arrangements, bringing a new degree of funding predictability to Australia's relations with these key UN development agencies.

These decisions go some way towards reversing the decline in multilateral funding as a share of total official development assistance over the past decade, as well as the relative decline in core contributions. While Australia's total official development assistance rose by almost 50 per cent over the past decade, multilateral core contributions fell as a proportion of that assistance from 27 per cent to 15 per cent, and in absolute terms from US\$380 million to US\$327 million (in 2006 terms). The preference for earmarking contributions was particularly pronounced in relation to the UN. In 2006 Australia provided 17 per cent or US\$38 million of its funding to the UN as core contributions, and 83 per cent or US\$181 million for specific projects and programs.

Australia has one of the lowest ratios of core to non-core contributions among members of the OECD Development Assistance Committee. At present, 55 per cent of Australia's funding to the multilateral system is provided as core contributions, and 45 per cent is earmarked for contributions (Table 2). The rationale for this has been primarily to increase the focus of multilateral agencies on the Asia-Pacific region; however, it has also been seen as a means of leveraging better performance from the UN agencies.

TABLE 2 AUSTRALIA'S COMMITMENTS FOR CORE CONTRIBUTIONS TO MULTILATERAL AGENCIES AND AID CHANNELLED THROUGH MULTILATERAL AGENCIES 2006
EXCLUDES DEBT RELIEF

	Core contributions to multilaterals	Aid channelled through multilaterals	Total use of multilaterals	Core as a share of total use of multilaterals
	US\$m	US\$m	US\$m	%
United Nations	38	181	219	17
Office for the Coordination of Humanitarian Affairs		12	12	0
United Nations Development Programme	4	30	35	13
United Nations Children's Fund		46	46	0
United Nations High Commissioner for Refugees	6	13	19	32
World Food Programme		48	48	0
World Health Organization	2	16	19	13
World Bank Group	182	28	209	87
Regional development banks	72	19	91	79
Other multilateral agencies	36	39	75	48
Total	327	267	594	55

Source: OECD Development Assistance Committee, Aggregate statistics and creditor reporting system—illustrative data.

METHODOLOGICAL ISSUES

The review of the multilateral program used the findings in AusAID's *Annual review of development effectiveness 2007*, which concluded that:

... there is insufficient analysis about how multilaterals can further Australia's priority objectives, and which multilateral organisations are best placed to do this. In terms of funding, there is no clear position on the merits of core and non-core funding and the circumstances in which one might be preferable over the other. (p. 27)

This year's performance review must therefore be seen as a first step in identifying what actions need to be taken during 2008–09 to reposition the multilateral program.

The multilateral program did not have a program-wide strategy in place in 2007–08. Instead, objectives were articulated for each multilateral organisation. As a result, this performance review inferred program-wide objectives against which AusAID's engagement can be assessed. The two overarching objectives are:

- 1 Partner with multilateral agencies that contribute to poverty reduction and sustainable development in line with Australia's national interest

2 Contribute to improved aid effectiveness and institutional reform of multilateral agencies.

Furthermore, the priority given to multilateral engagement, particularly with the UN, increased significantly with the election of the new government in November 2007. It was decided it was premature to assess AusAID's performance against the new policy agenda until clearly articulated objectives had been agreed. It should be noted, however, that AusAID will need to move quickly to position itself to deliver in this area in 2008–09.

AusAID's *Annual review of development effectiveness 2007*, p. 27, states that there was an absence of 'reliable information ... on some significant non-country programs, including funding to multilateral organisations such as the United Nations' despite the fact that 'in 2006–07, Australia provided core contributions to multilateral and international agencies valued at around \$315 million'. The lack of quality performance information in relation to UN agencies continues to affect AusAID's ability to produce a comprehensive performance report. This will improve significantly only when a new multilateral performance assessment framework is introduced. Nevertheless, the rapid review of multilateral agencies in 2008 helped this program review draw some preliminary conclusions using existing data and qualitative analysis.

The research approach taken in preparing this report included the rapid review of multilateral agencies, a review of quality-at-implementation reports, a review of reporting on the IDA and ADF replenishment rounds, structured conversations with AusAID's UN, humanitarian and development banks sections, and qualitative comment from the Washington, New York, Paris, Geneva and Manila posts. The rapid review drew on a review of annual reports, an assessment of the quality of the reports based on the quality of the monitoring and evaluation systems in place, independent assessments such as that by the Multilateral Organization Performance Assessment Network(MOPAN), and more specific information relevant to AusAID's strategic objectives at the level of the multilateral organisation.

The rating approach used was to assess the performance of AusAID in pursuing its objectives in relation to the multilateral organisations, as opposed to the performance of the multilateral organisations themselves. In future years it may be appropriate to also include multilateral organisation performance ratings; however, this should be given further consideration in the context of preparing the first multilateral program strategy because ultimately AusAID's strategic objectives need to direct the focus of performance reporting.

It was also decided that this year's program performance report should focus on Australia's core contributions to multilateral organisations. The principal reason for this decision is that at present AusAID sets strategic objectives for multilateral organisations in relation to core contributions only, and it is performance against these objectives that was assessed. The effectiveness of non-core contributions is more appropriately assessed at the country program level.

The review of the multilateral program focused selectively on AusAID's engagement with the World Bank, the Asian Development Bank, and five UN agencies because these seven organisations receive about 85 per cent of the total multilateral core contributions that Australia provides to about 44 multilateral partners. In 2006 the World Bank accounted for 55 per cent of Australia's multilateral core assistance, the Asian Development Bank 22 per cent, and the UN system 12 per cent. In the UN system, three-quarters of Australia's core funding went to five organisations: the WFP, UNICEF, WHO, UNDP and UNHCR.

This review selected as a principal theme the replenishment rounds for the World Bank and the Asian Development Bank that concluded in 2007–08. As a result of these negotiations, Australia allocated record funding to the development banks amounting to \$916 million for the next three to four years. It is proposed that each year the performance review select one aspect of the multilateral program for a more detailed assessment. The principal theme for 2008–09 should be one of the government's new multilateral policy or program initiatives.

What are the results and quality of the multilateral program in relation to the development banks?

AusAID is on track to meet its objectives in relation to the World Bank and the Asian Development Bank. This rating reflects AusAID's performance in pursuing its objectives in relation to the development banks, as opposed to the performance of the banks themselves. However, the performance of the development banks is a relevant factor in assessing AusAID's success in pursuing its objectives.

Australia's partnership with the development banks is rated green because AusAID has a strong strategic engagement and alignment of interests with the development banks on issues of poverty reduction and sustainable development when assessed against strategic objectives, regional presence, sectoral profile and development results.

Australia's contribution to improving the aid effectiveness of the World Bank and the Asian Development Bank is rated green because AusAID had successes engaging with the development banks in the IDA and ADF replenishment rounds. While AusAID's contribution to the effectiveness of the Asian Development Bank was assigned a lower quality rating than in the case of the World Bank, Australia is addressing aid effectiveness at the ADB through active engagement with its board, including chairing a review of the Operations Evaluation Department.

WORLD BANK

OBJECTIVES AT THE WORLD BANK

■ AusAID is on track to achieve its objectives at the World Bank.

AusAID worked with other donors to achieve its strategic objectives, listed in Box 1.

- > Australia committed \$583 million to IDA 15 (2007–08 to 2010–11), 50 per cent more than in the previous round and helped take total IDA funding to a record US\$41.6 billion. The increase means that Australia is now the 12th largest contributor to IDA, with a funding share of 1.8 per cent; Australia had been the 15th largest contributor, with a funding share of 1.46 per cent.
- > It delivered more appropriate aid to fragile states. Agreement was reached to extend the phase-out period of exceptional allocations for eligible post-conflict and re-engaging countries. East Timor and Afghanistan are among the countries currently benefiting from exceptional post-conflict allocations from IDA.
- > It increased the focus on the special needs of small states. IDA 15 will support small states through increases to minimum country allocations and to the per capita cap on allocations. As a result of these measures, IDA allocations to the Pacific are expected to rise significantly—for example, by 46 per cent for Samoa, 38 per cent for Kiribati and 28 per cent for Tonga.

BOX 1 AUSTRALIA'S STRATEGIC OBJECTIVES AT THE WORLD BANK

- 1 Increasing the World Bank's geographic focus on the development needs of the Asia-Pacific region
- 2 Strengthening the World Bank's effectiveness in small and fragile states, including placing more staff in the field
- 3 Strengthening the World Bank's approach to governance and anticorruption
- 4 Increasing the World Bank's organisational effectiveness
- 5 Encouraging the World Bank to provide leadership on debt sustainability in low-income countries
- 6 Taking greater account of developing country government needs for policy-relevant analytical work and streamlined processes, including more joint work with other donors

- > It promoted debt sustainability, including through debt management capacity building, particularly for those countries that have recently benefited from debt relief.
- > It increased the World Bank's presence in the Pacific, and supported a stronger in-country presence in fragile states. The World Bank is now increasing its focus on the region, with larger budgets, extra staff and more attention to management. The World Bank has about 35 people in the region and about 30 in Sydney.
- > It pursued several other initiatives with the World Bank beyond the IDA replenishment round, particularly in relation to the global food crisis, preparation of the Papua New Guinea Country Assistance Strategy, and integrated infrastructure initiatives.

The IDA 15 replenishment round, finalised in December 2007, provided Australia with an opportunity to focus on issues of poverty reduction and sustainable development, where good outcomes were achieved. The World Bank has a strong record on aid effectiveness. In 2008–09 AusAID needs to build on successes like its engagement on the World Bank's climate investment fund in order to step up significantly its policy thinking and multilateral engagement on a wide range of major new development challenges.

RESULTS AT THE WORLD BANK

The *World Bank Annual Report 2007* notes that the World Bank provided US\$9.5 billion in IDA credits and grants to the poorest countries, and lent US\$14.1 billion to middle-income and creditworthy poor countries through the International Bank for Reconstruction and Development. The report explains how the World Bank's strategy in East Asia and the Pacific has played a part in contributing to strong economic growth and poverty reduction in the region:

The Bank's strategy in the region is to support broad-based economic growth, promote trade and integration, enhance the environment for good governance, increase social stability, and help countries achieve the MDGs. To meet these goals, the Bank approved \$4 billion for the region in fiscal 2007, including \$2.8 billion in IBRD loans and \$1.2 billion in IDA credits and grants. Carbon Finance contracts totaling \$29 million were signed in 2007.

The report notes that the role of IDA has changed as a result of unprecedented access to private capital and new sources of development finance:

... though that access is still uneven, with the poorest 51 countries receiving just 8 percent of the total in 2006. Meanwhile, traditional aid now comes from an abundance of donors, including some countries newly arrived at lending, and still others, such as foundations or even individuals, with highly specific goals. Taken as a whole, these are encouraging signs, especially when support aligns readily with national priorities.

This transformation underscores the vital convening role of the International Development Association, which serves as a cornerstone of the international aid system in many poor countries. IDA provides such countries with reliable aid support and leverages the assistance of other donors for coherent, country-owned programs and projects. IDA's efforts forge stronger partnerships between aid providers and recipient countries, leading to better outcomes for the poor.

Australia works in close partnership with the World Bank on issues such as the development needs of fragile and small states in Asia and the Pacific, infrastructure, forestry and climate change, disaster management; and demand for good governance. The World Bank also helps Australia to extend its reach to regions where Australia does not have a significant presence, such as Africa.

The performance of the World Bank at a country level on some issues of particular interest to Australia has been mixed—for example, in engaging with fragile states in the region, including East Timor and Solomon Islands. AusAID has discussed its issues directly with the World Bank regional office and country teams.

QUALITY AT THE WORLD BANK

AusAID's average quality-at-implementation rating for contribution to the World Bank Group was 5.25, which indicates 'good quality'. The World Bank has strong quality assurance systems in place.

- > The Independent Evaluation Group and the Quality Assurance Group produce independent reviews of World Bank performance.
- > The Annual Review of Development Effectiveness recently concluded that the World Bank has made good progress in focusing its mission, assistance strategies and instruments on poverty reduction, while noting that there are still challenges at the country and project levels in articulating and measuring the links between its interventions and their expected and actual poverty outcomes.

- > The Annual Report on Portfolio Performance states that IDA projects achieved a 77 per cent satisfactory rating and notes that projects in fragile states achieved a 56 per cent satisfactory lending.
- > The results measurement system presents aggregated results across IDA countries, and reflects the priorities of national poverty reduction strategies, assesses IDA's contribution to development results, and is linked to the MDG framework.

MOPAN, the network of bilateral donors which Australia is soon to join, concluded in its most recent report that the World Bank was now more open and participated more frequently in new forms of aid such as sector-wide approaches, playing a key role in the process of preparing poverty reduction strategy papers in many countries, and encouraging improvements in the policy environment before providing financial assistance.

Australia is able to engage with the World Bank on quality issues through its participation in the bank's Executive Board, annual reports, IDA replenishment reviews, global monitoring reports, world development indicators, world development reports, and informally through contact with Australian representatives in Washington and other donors. AusAID also makes use of its quality-at-implementation tool to provide performance reporting on core contributions to the bank. This is complemented by the monitoring and evaluation frameworks of individual initiatives and the quality-at-implementation reports completed by posts.

Australia will continue to be a strong advocate for reforms to address several governance issues that have an impact on quality at the World Bank Group. These include:

- > reducing transactions costs, notably in accessing loans, with a more efficient service and more innovative products to meet the diverse needs of World Bank clients
- > increasing field presence with more decentralised decision making to better engage counterparts
- > introducing an open, transparent and merit-based process for selecting the President
- > improving the processes and effectiveness of the Executive Board
- > increasing the participation and representation of developing country shareholders.

ASIAN DEVELOPMENT BANK

OBJECTIVES AT THE ADB

- AusAID is partly on track to achieve its objectives at the Asian Development Bank.

AusAID worked with other donors to achieve its strategic objectives, listed in Box 2.

- > Australia committed \$333 million to ADF X (2007–08 to 2011–12), which helped take total ADF funding to a record US\$11.3 billion, 60 per cent more than the previous round. Australia remains the 3rd largest contributor to ADF, with a funding

share of 6.5 per cent. However, a structural financing gap of 9.1 per cent has now opened up, partly as a result of strong reservations expressed by the United States and the United Kingdom about the pace of reform, and this may have to await increased performance-based contributions from the both countries at the mid-term review.

- > It was the largest grant co-financer of ADB projects and was a contributing founder to the ADB's Clean Energy Financing Partnership Facility and the Water Financing Partnership Facility and is active in the governance of these facilities.
- > It has been especially supportive of ADB operations in the Pacific, engaging in joint analytical and country programming missions. The ADB's Tonga Country Partnership Strategy was the result of a joint mission between the ADB, the World Bank, Australia and New Zealand. In Samoa, AusAID is piloting, with the ADB, an innovative 'loan buy-down' facility in the power sector.
- > It worked with other donors to refine the ADB's managing-for-development-results tools and standardise its results framework, to reform human resource policy and processes, to ensure the independence of the ADB's Operations Evaluation Department, and to increase the resources available for regional programs in the Mekong and Pacific.

BOX 2 AUSTRALIA'S STRATEGIC OBJECTIVES AT THE ASIAN DEVELOPMENT BANK

- 1 Encouraging the ADB to remain focused on poverty reduction and improving development effectiveness, particularly in small and fragile states
- 2 Promoting a sufficient focus for the ADB in the Pacific
- 3 Working to ensure ADB's systems facilitate effective collaboration with Australia's aid program, as well as those of other donors and partner governments, consistent with Australia's commitment to the Paris Declaration
- 4 Encouraging the ADB to implement the internal reform agenda, particularly around managing for development results and the human resources strategy

The ADF X replenishment round, finalised in May 2008, provided Australia with an opportunity to focus on issues of aid effectiveness for which the ADB has a reform agenda, but this will need to be followed up during 2008–09. Australia probably needs to increase its focus during the next 12 months on issues of poverty reduction and sustainable development, as well as the emerging issue of institutional reform. Now is a good time to review Australia's strategic objectives at the ADB, particularly as the lending model of the bank in the infrastructure sector has already come under challenge from widely accessible private finance, and as Asia starts to experience economic difficulties arising from the global credit crisis.

RESULTS AT THE ADB

The ADB's *Annual Report 2007* presents data on the contribution of bank projects to improved living standards in Asia and the Pacific. The ADB continues to be an important source of financing for large infrastructure projects in the energy, water and sanitation, and transport and communications sectors. Highlights follow.

- > A new long-term strategic framework was approved. Strategy 2020 confirms poverty alleviation as the ADB's prime focus. It has a strong emphasis on inclusive economic growth, environmental sustainability and regional cooperation, and received unanimous backing from all stakeholders in relation to the ADB's vision and mission.
- > The ADB became a 'Ten Billion Dollar Bank'. Annual loan approvals grew from \$7.4 billion in 2006 to US\$10.1 billion in 2007, demonstrating continued strong demand for ADB financial services. Almost 40 per cent (US\$3.9 billion) of the loans are for transport and communications. In Vietnam a \$1.1 billion highway loan was approved, the largest single loan in the bank's history. Private sector operations continued to expand, reaching US\$1.7 billion.
- > In the Pacific, 2007 proved to be the strongest year yet in terms of the value of lending, grants and co-financing. Loans totalling \$126.6 million and grants of \$46.5 million were approved.
- > While the ADB continued its traditional role in the Pacific as a project bank—providing lending and grant support for transport, power, water and sewerage, education, health, and public administration—it increasingly supported capacity building, public policy analysis and reform, and harmonisation.
- > The ADB continued to implement its managing-for-development-results framework, with country strategies now emphasising more the links to development outcomes.

Australia works in partnership with the ADB on a wide range of governance and infrastructure initiatives. It values not only the ADB's significant financial resources, but its development expertise and convening power in the region. The ADB enables Australia to scale up its development assistance beyond its bilateral program, promote donor harmonisation, and focus more effectively on the Pacific and fragile states.

QUALITY AT THE ADB

AusAID's average quality-at-implementation rating for contributions to the ADB was 3.75, which indicates that the bank is just below 'adequate quality' and 'requires work to improve'. The ADB is moving to address donor concerns about the robustness of some of its quality assurance processes.

- > The independence and effectiveness of the Operations Evaluation Department has been strengthened.¹

¹ Asian Development Bank, *Independent evaluation at the Asian Development Bank*, Operations Evaluation Department, Asian Development Bank, Manila, March 2007.

- > An evaluation by the Operations Evaluation Department of ADF VIII and IX (2001–2008) concluded that the ADB generally achieved the commitments agreed to during these replenishments, including a greater emphasis on governance and capacity development in operations, and more partnerships with other development organisations. However, the study also noted that the absence of aggregated data made it difficult to provide an overview of expected outputs and outcomes for ADF VIII and IX.
- > Although the ADB does not currently conduct a comprehensive evaluation of ADF-only projects/programs, the ADB's 2007 evaluation review² indicates an overall improvement in the bank's project/program quality in 2006. The review findings indicated that, of the 19 projects/programs evaluated in 2006, 11 per cent were rated highly successful, 63 per cent successful, 21 per cent partly successful and 5 per cent unsuccessful. This meets the bank's target of 80 per cent of projects/programs with satisfactory results.

Australia is able to engage with the ADB on quality issues through representation on the Board of Directors, the mid-term review of ADF X, bank annual reports, the annual meeting of Board Governors, high-level consultations, ADB – AusAID – World Bank Trilateral Cooperation Agenda meetings and the ADF replenishment rounds. AusAID uses its quality-at-implementation tool to provide performance reporting on core contributions to the ADB. This is complemented by the monitoring and evaluation frameworks of individual initiatives and the quality-at-implementation reports completed by posts.

Australia will continue to work with other donors such as Japan, the United States and the United Kingdom to support continued improvements to quality assurance at the ADB. These include:

- > implementing 'managing for development results'
- > publishing a comprehensive annual report on the effectiveness of the ADB
- > refining the results framework
- > strengthening the independence of the ADB's evaluation unit
- > strengthening resident missions by having more staff based close to the clients
- > improving human resources management and staff incentives.

² Asian Development Bank, *2007 annual evaluation review: the challenge of capacity development*, Operations Evaluation Department, Asian Development Bank, Manila, September 2007.

What are the results and quality of the multilateral program in relation to UN agencies?

AusAID is partly on track to meet its objectives in relation to UN agencies. This rating reflects AusAID's performance in pursuing its objectives in relation to the agencies, as opposed to the performance of the agencies themselves. However, the performance of the UN agencies is a relevant factor in assessing AusAID's success in pursuing its objectives.

Australia's partnership with the UN is rated amber because, although AusAID has had good engagement and alignment of interests on an agency-by-agency basis, it needs to put in place a strategy for its engagement with the UN system that has clear objectives and provides a rationale underpinning the allocation of core funding among agencies

Australia's contribution to improved aid effectiveness with the UN is rated amber because, although AusAID has had some successes (for instance, supporting the 'Delivery as One' pilots), its low levels of core funding, resourcing and partnership strategies are generally not commensurate with its often ambitious stated objectives in relation to UN aid effectiveness. AusAID's attempts to improve UN effectiveness at a country level through earmarked funding sometimes conflicts with improved effectiveness at a global level.

AusAID needs to do more to improve its own quality processes in relation to UN agencies. Quality-at-implementation reports were prepared for only four of the eight UN agencies with funding exceeding \$3 million a year; the quality at implementation varies greatly; and the appropriateness of quality-at-implementation formats for multilaterals needs to be reviewed.

OBJECTIVES AT THE UN

In 2007–08 the foreign policy context for Australia's aid program changed significantly part way through the year with the election of a new government committed to multilateralism and stronger engagement with the UN. While AusAID had developed a strong alignment of interests with the UN on an agency-by-agency basis, the new policy direction required it to step up significantly its engagement with the multilateral system as a whole. AusAID has the opportunity to introduce changes to its work with the UN to strengthen aid effectiveness that build on its strong record of engagement with the development banks.

AusAID worked with other donors to pursue Australia's strategic objectives at the UN:

> **UN reform**

In 2007–08 Australia strongly supported the recommendations of the High-Level Panel on UN System-Wide Coherence, in particular the introduction of 'One UN' ('Delivering as One') country pilots. AusAID supported formal pilot programs in Vietnam and Pakistan, and an informal program in Papua New Guinea. The pilot process is yielding positive results; however, the reform process remains challenging.

> **Aid effectiveness**

In 2007–08 AusAID actively pursued its agenda on aid effectiveness by making representations to the boards of UN development agencies in pursuit of the Paris Declaration principles. AusAID emphasised the importance of working through developing country systems and harmonising approaches and partnerships with other donors, particularly in relation to UNDP, UNFPA and UNICEF. AusAID focused attention on managing for development results, an issue which requires AusAID to stay engaged to see reforms translated to the country level. AusAID also worked directly to improve UN organisational effectiveness through support for the ‘One UN’ country pilots.

> **Strengthened UN partnerships**

In 2007–08 AusAID started to step up significantly its partnership with UN agencies, following the Prime Minister’s announcement in March 2008 that Australia would act in ‘partnership with the United Nations across the range of pan-global challenges ... [including] the Millennium Development Goals’. In May the government foreshadowed in the 2008–09 budget a major strengthening of Australia’s relationship with the UN through a new initiative that will see Australia provide an additional \$200 million over four years in core funding to seven selected UN agencies. AusAID will need to move quickly to position itself to deliver against these new objectives in 2008–09.

AusAID intends to introduce the following measures in 2008–09 to strengthen its ability to deliver on the government’s foreign policy priorities in relation to the UN.

- > Articulate overarching strategic objectives as part of a multilateral program strategy. These objectives will cover what AusAID proposes to achieve through the UN system as a whole—including the General Assembly, the Secretariat and the Economic and Social Committee—rather than just at the level of the UN agencies. It is important that these objectives are realistic in terms of what can be achieved through multilateral policy engagement.
- > Review existing strategic objectives of multilateral agencies as part of the new strategy, to take into account the government’s new foreign policy priorities.
- > Articulate the rationale for the prioritisation of UN partner agencies. AusAID has conducted a rapid review of its engagement with multilateral agencies, which will be finalised in 2008 and which will assess multilateral organisations against three criteria: relevance, effectiveness and influence. The review will help AusAID to prioritise its engagement with multilateral agencies, and contribute to funding decisions for the UN Partnership for the MDGs.
- > Prepare engagement strategies for high-priority UN partners. Options for influencing UN partners include board representation, high-level consultations, secondments, early collaboration on specific issues, and building consensus with other donors through joint donor dialogues through MOPAN. Some of the approaches AusAID has adopted for engaging with the World Bank could usefully be applied to its engagement with UN organisations.

- > Select carefully the issues to be pursued at the UN, and work closely with like-minded bilateral partners through forums such as MOPAN. AusAID faces challenges in trying to influence UN organisations. Australia is a small financial contributor to some UN organisations relative to other bilateral donors. The governance structures of some UN organisations can also present obstacles, given the number of member countries involved and consensus-based decision-making processes.
- > Ensure that objectives specified for UN agencies are realistic and take into account the potential for influence through core funding and diplomatic resources that AusAID is prepared to commit in pursuit of its objectives. For example, Australia provided UNDP with core funding of just \$8.5 million in 2007–08, yet called on the UNDP ‘to undertake institutional and business reform across the UN and within the UNDP’.
- > Provide increased multi-year core funding commitments for its priority partners as part of the UN Partnership for the MDGs to help address concerns of the kind expressed in a UNDP evaluation that concluded that:
 - ... core funds are essential to finance an adequate country-level infrastructure for UNDP and the UN system as a whole. An inappropriate level of core funding jeopardizes the substantive and technical strength of the organization and, ultimately, its ability to mobilize non-core resources ... and that this can have serious consequences on ... responsiveness and, ultimately, effectiveness.³
- > Continue to move quickly over the next 12 months to step up its policy thinking and policy engagement with the UN on new global development challenges and the global aid architecture. AusAID had early successes in this area in 2007–08—for instance, mobilising quickly in relation to the MDG Call to Action. Historical experience shows that progress in this area can be slow; hence, it will be important to agree realistic strategies and objectives.

RESULTS AT THE UN

Overall, the UN development agencies have made significant contributions at a global level to poverty reduction and sustainable development. A rapid review of results from Australia’s five largest UN partners shows that they are achieving results in areas that are aligned closely with Australia’s interest in poverty reduction and sustainable development (Table 3). Australia’s relatively low levels of core funding to these agencies mean that its contribution to these outcomes at a global level is modest. Instead Australia’s interests have been pursued at a regional level, primarily through earmarked funding. However, this will start to change in 2008–09 as Australia increases its engagement through the UN Partnership for the MDGs.

³ UNDP, *Evaluation of UNDP’s non-core resources: note by the administrator*, DPI/2001/CRP.12, Annual session 2001, United Nations Development Programme, New York, 8 June 2001, p. 9.

TABLE 3 AUSTRALIA'S FUNDING TO ITS MAJOR UN PARTNERS AND AUSAID'S RATING IN ACHIEVING ITS DEVELOPMENT OBJECTIVES IN 2007–08

World Food Programme (\$32.8 million)

The WFP is the agency mandated to eradicate world hunger, contributing to MDG 1 (poverty and hunger). The WFP's annual performance report (2007) stated that 91 per cent of planned beneficiary needs were met. External reviews suggest that it performs better in its humanitarian and emergency relief role than in its development role.

AusAID's rating against achievement of objectives: No quality-at-implementation data

United Nations Children's Fund (\$13.7 million)

UNICEF is the agency mandated to protect children's rights, contributing to MDGs 1 (poverty and hunger), 2 (basic education), 3 (gender equality), 4 (child mortality), 5 (maternal health) and 6 (HIV/AIDS). UNICEF's annual report (2007) highlights significant progress in contributing to a decrease in measles mortality, the global eradication of polio, improved access to water and sanitation, basic education in disaster-affected areas, and increasing political and financial priority for children's health, education and protection. External reviews of UNICEF suggest that it is knowledgeable and influential within its mandate, but is not always sensitive to the wider development context and the importance of investing in partnerships with civil society and other development agencies.

AusAID's rating against achievement of objectives: GOOD

World Health Organization (\$10.0 million)

The WHO is the UN agency mandated to provide leadership on global health, contributing directly to MDGs 4 (child mortality), 5 (maternal health) and 6 (HIV/AIDS). The WHO has made a significant contribution to improved global health outcomes, such as tobacco control and the eradication of infectious diseases including smallpox and polio, and has played a critical role in managing outbreaks of SARS and avian influenza. External reviews of the WHO suggest it has made good progress against its objectives, but has been less successful in strengthening health systems and establishing a clear role in the increasingly crowded international health field.

AusAID's rating against achievement of objectives: GOOD

United Nations Development Programme (\$8.5 million)

UNDP is the agency mandated to coordinate UN system efforts on the MDGs, as well as contributing to capacity development for poverty reduction, democratic governance, crisis prevention and recovery, the environment and energy, and HIV/AIDS. UNDP's most recent annual report (2006) highlighted in particular its contribution to advocating for the policy and institutional changes needed to fight poverty more effectively and achieve the MDGs. External reviews of UNDP rated it moderate to high in terms of overall effectiveness and ranked it first for technical assistance.

AusAID's rating against achievement of objectives: ADEQUATE

United Nations High Commissioner for Refugees (\$8.3 million)

UNHCR is the agency mandated to protect refugees. UNHCR's annual report (2007) highlighted its work among 32.9 million people of concern, including refugees, internally displaced people and stateless people. External reviews of UNICEF suggest it has strong partnerships with donors, implementing partners and developing country governments, but there is limited information on the impact of its activities.

AusAID's rating against achievement of objectives: No quality-at-implementation data

Source: AusAID, Rapid review of multilateral agencies, draft, 2008.

QUALITY AT THE UN

Overall, the quality-at-implementation rating for contributions to UN agencies was 'good'. However, quality assessments were not undertaken for four of the eight UN agencies with annual core funding of more than \$3 million because humanitarian funding was exempted. One of the UN organisations not subject to a quality-at-implementation assessment was the WFP, the largest recipient of core funding at \$32.8 million, 33 per cent of total core contributions. As a result, there must remain a caveat in relation to this overall finding until all relevant agencies are included in the assessment.

In relation to UNICEF, WHO and UNFPA—three of the four UN agencies that were subject to quality assessments—AusAID’s rating in terms of achieving its objectives was ‘good’. Its rating in relation to UNDP was ‘adequate’. Some concerns were registered in relation to sustainability issues at UNICEF, and the monitoring and evaluation systems at UNDP and UNPFA were considered below par and requiring further action.

AusAID’s quality reporting system, which provides quality ratings on core contributions to UN organisations, sources information from:

- > UN agencies’ quality reporting and other information provided to the executive boards of the organisations.
- > independent evaluations—for example, the UNDP evaluation of results-based management in 2007
- > feedback from AusAID posts, particularly the multilateral posts (Washington, New York, Paris, Geneva, Rome and Manila), although the posts tend not to systematically monitor multilateral performance unless country program funding is involved, which means this information is often anecdotal
- > reports from other bilateral donors, development institutes and non-government organisations—for example, MOPAN and the Overseas Development Institute.

AusAID will need to improve its systematic performance reporting on UN agencies. It should be noted that the data available on the multilateral program through AusAID’s performance information system continue to be of variable quality and difficult to access. Management action is required over the next 12 months to improve the systematic monitoring of UN agencies. At present, the quality ratings need to be treated with some caution, and assessments may change markedly over the next year.

AusAID needs to:

- > undertake quality ratings for all UN agencies with annual core funding of more than \$3 million, which includes the WFP, UNHCR, UNRWA and UNOCHA (exempt in 2007)
- > extend the quality ratings to include non-core contributions to UN agencies because at present such data are not readily accessible through its performance information system
- > improve the validity of the quality ratings by ensuring consistency of approach—for example, by ensuring a strong focus on AusAID’s performance in engaging with partner organisations
- > ensure that the quality reporting system is adapted to better suit the reporting requirements relevant to multilateral institutions and their core funding
- > define specific objectives and a performance framework for its partnerships with high-priority UN agencies—defined through high-level consultations and embedded in partnership frameworks
- > modify its performance information system to allow aggregated reports on UN agencies, which is essential if AusAID is to provide financial and effectiveness reporting on the new UN budget initiative.