

AUSTRALIA UPDATE FOR THE EVALUATION OF THE
IMPLEMENTATION OF THE PARIS DECLARATION
PHASE 2

DECEMBER 2010

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ABBREVIATIONS

ANAO	Australian National Audit Office
AusAID	Australian Agency for International Development
DAC	Development Assistance Committee of the Organisation for Economic Co-operation and Development
ODA	official development assistance
ODE	Office of Development Effectiveness

SUMMARY

This report contributes to Phase 2 of the international evaluation of the implementation of the Paris Declaration on Aid Effectiveness.¹ It updates the findings of AusAID's headquarters study under Phase 1 of that evaluation, conducted in 2007. The update responds to both the questions set for donor updates and to those for donor headquarters studies. In line with guidance for headquarters studies, the update concentrates on learning by addressing the twin questions 'are we doing the right things' and 'are we doing things right'—that is, it examines the relevance of Australia's choices and the effectiveness of Australia's actions, respectively. It also focuses on three overarching themes considered to be of particular relevance to Australia: scaling up the aid program, operating in fragile states and measuring performance on effectiveness.

Key findings

Australia is committed to improving aid effectiveness and has taken clear steps to implement effectiveness principles. Since 2001, successive Australian governments have been engaged in efforts to increase the effectiveness of Australia's aid and have participated actively in work to develop the international effectiveness agenda. The current policy statement on Australia's international development assistance, contained in the 2009–10 budget statement, highlights the importance of effectiveness. In particular, it emphasises the need to create genuine partnerships between Australia and partner governments, adapt the aid program to the circumstances of individual countries, use and strengthen country systems to deliver aid, and ensure that the Australian aid program is both transparent and accountable.

Reflecting the renewed commitment of the Australian Government to improving the effectiveness of its aid program, an independent review of aid effectiveness was announced on 16 November 2010 by the Minister for Foreign Affairs. The review, which will complete its work in April 2011, will examine the effectiveness and efficiency of the Australian aid program, and make recommendations to improve its structure and delivery. As a far-reaching review with a central focus on aid effectiveness, its outcomes are expected to provide timely guidance for aid policy and practice against the background of rapid growth in the program.

Since 2007, implementation of the effectiveness agenda in the Australian aid program has been influenced by five key interrelated factors—the government's firm commitment to rapidly increasing the aid budget, Australia's strong commitment to international development, the large number of fragile states with which Australia has aid relationships, the determination to identify new, more effective ways of doing business, and the associated, very substantial, organisational changes introduced in support of these. These factors have all given particular impetus to Australia's determined efforts to improve aid effectiveness.

Scaling up The Australian Government is committed to increasing official development assistance to 0.5 per cent of gross national income by 2015–16. A change in the formula for gross national income in 2010–11 means \$2.5–3.0 billion more will be required during the

¹ The update was conducted by an independent consultant, commissioned by AusAID's Office of Development Effectiveness.

period to 2015–16 than was expected in 2009. As a result, the aid budget is forecast to increase from \$4.35 billion in 2010–11 to about \$8 billion in 2015–16.

Elevating Australia's role in international development Since its election in November 2007, the current Australian Government has increased the role Australia plays in international development, reflecting its firm commitment to global efforts to achieve the Millennium Development Goals. This has been reflected, for example, in its commitment to do more in Africa, the Caribbean and Latin America, and in its support in the Pacific for the Cairns Compact on Strengthening Development Coordination and for the Partnerships for Development. This latter initiative—aimed at building stronger partnerships with Pacific island countries based on principles of ownership and mutual respect and responsibility—has proved to be critical in providing impetus for reforms in line with the priorities of the Accra Agenda for Action.

Working in fragile states Most of Australia's closest neighbours are developing countries and most are fragile in some way, either through weak governance, civil conflict or enduring development constraints. Many are struggling to achieve their own targets for achieving the Millennium Development Goals. Further, the Australian aid program is increasingly involved in complex national security, conflict, peace-building and state-building operations. In total, expenditure in fragile states in 2010–11 is expected to account for 53 per cent of Australia's total bilateral and regional assistance. Australia is taking a 'fit for purpose' approach to implementing the Paris Declaration principles in fragile states, because of the difficulties encountered in these contexts.

New ways of working AusAID is expanding the range of delivery modalities it uses in an attempt to move away from discrete projects towards program-based approaches. It has recently overhauled its processes for developing and negotiating country aid strategies and has strengthened its sectoral and thematic focus and expertise. It is adopting a partnership approach, not only with partner governments, but also with whole-of-government and community stakeholders in Australia, and with bilateral and multilateral development partners internationally. It is also doing some hard thinking on its approaches to technical assistance and capacity development, recognising their critical role in development, particularly in fragile contexts. The aid program is also increasing its focus on aid effectiveness in managing and reporting its development results.

Significant organisational change The Australian Government is committed to ensuring its expanding aid program is managed effectively and efficiently so that it delivers better development impacts. In support of this, AusAID has engaged in a series of major policy, institutional and delivery reform processes, all focused on optimising the effectiveness of Australia's official development assistance. Recent program and policy reforms include new operational policies, country strategy architecture and quality reporting systems, which together aim to provide practical guidance and support for implementing the effectiveness agenda. These reforms build on work predating the Paris Declaration and give new impetus to this commitment.

Prior to Phase 1 of the evaluation, Australia had made the decision to untie its aid and created the Office of Development Effectiveness to monitor the quality and evaluate the impact of the aid program more rigorously. Most significantly, AusAID devolved program

management to country offices, recruited substantially more in-house sectoral expertise, established a quality framework for the program, and began strengthening corporate systems.

Challenges and priorities for improving effectiveness

Australia's commitment to increase the volume of aid to 0.5 per cent of gross national income over the next five years presents the aid program with some significant challenges. Building on existing achievements and innovation AusAID is positioning itself to manage a substantially larger aid program and to support its partner countries to make productive use of the additional funds.

In this context, it will be crucial to focus on aid effectiveness across all areas of the aid program. Tools are being introduced to support delivery strategies that promote less time-intensive and labour-intensive modalities and include appropriate risk management. Efforts are also under way to accelerate the building of staff skills and capacity, particularly in those areas related to support for fragile states, innovative delivery modalities, new ways of working and, potentially, new themes and sectors. Staff numbers will also need to increase to meet the needs of the changing and rapidly growing aid program.

Australia's heavy engagement in fragile and weak capacity environments will continue to present challenges for the aid program's effectiveness. Australia is committed to delivering effective aid in such contexts, but recognises that such operating environments are likely to remain difficult for some time and that innovative ways of delivering assistance may be required. In this regard, the potential of the new Partnerships for Development in the Pacific cannot be understated.

In policy and programming terms Australia is doing many of the 'right things' to support its aid. All programs are implementing the principles of the Paris Declaration in some form. Australia is also on the right track to 'doing things right'—it has invested heavily in recent years to improve the prospects for increasing its effectiveness.

CHAPTER 1: BACKGROUND

The international evaluation of the implementation of the Paris Declaration on Aid Effectiveness is assessing overall performance in implementing the Paris Declaration and the Accra Agenda for Action in individual countries and by donors. The evaluation is being conducted in two phases—in 2007 and 2010. Phase 2 is making a key contribution to the evidence base that will inform the Fourth High Level Forum on Aid Effectiveness in 2011.

This update contributes to Phase 2 of the evaluation by updating Australia's findings under Phase 1. It draws on the guidance prepared by the Core Evaluation Team for both updates and studies by donor headquarters. As such, it seeks to revisit key issues considered under Australia's headquarters study in Phase 1—including commitment and leadership, capacity, and incentives—in addition to considering the specific questions posed for the donor updates.² In line with the focus of headquarters studies under the evaluation, the update concentrates on learning by addressing the twin questions 'are we doing the right things' and 'are we doing things right'—that is, it examines the relevance of Australia's choices and the effectiveness of Australia's actions, respectively. It also takes into account three overarching themes considered to be of particular relevance to Australia: scaling up the aid program, operating in fragile states and measuring performance on effectiveness.³

This update draws on evidence from country programs that were considered in Australia's Phase 1 study⁴, as well as programs for countries that are Australian partners and participating at the country level for the first time in Phase 2.⁵ It draws on a broad range of recent analyses of the Australian aid program, including several external and/or independent reviews of the program or elements within it⁶, supplemented by interviews with relevant personnel at AusAID's headquarters. The update did not involve collecting new data or field visits.

² These questions are: i) What changes have been proposed and implemented following the Phase 1 evaluation? ii) Did the Accra Agenda for Action provide further impetus to the Paris Declaration process and result in any specific changes? iii) What reporting has been made to domestic or international accountability structures on the implementation of the Paris Declaration?

³ The terms of reference for Australia's update for Phase 2 of the evaluation, which include the list of specific questions, is available on ODE's website <www.ode.ausaid.gov.au/publications/index.html#paris1>.

⁴ These programs covered all Pacific island and South Asian countries (the latter is managed as a single regional program within AusAID) and countries in South-East Asia (Indonesia, East Timor, Vietnam and Cambodia).

⁵ These programs covered Afghanistan, Cook Islands, China, Laos, the Philippines and Samoa, as well as regional programs in the Greater Mekong, the Pacific, Africa and Latin America.

⁶ See 'References'.

CHAPTER 2: THE AUSTRALIAN AID CONTEXT

The budget for Australia's official development assistance (ODA) in 2010–11 totals \$4.35 billion, which is 0.33 per cent of gross national income. Almost 90 per cent of this (\$3.8 billion) will be managed by AusAID (Table 2.1).⁷ The program aims to assist developing countries to reduce poverty and achieve sustainable development, in line with Australia's national interest.

Table 2.1: Composition of Australia's ODA budget, 2010–11

	Percentage of total ODA
AusAID country programs	61
AusAID global programs	22
AusAID administration	5
Other government departments	9
Unallocated as at May 2010	3
Total	100

Source: Commonwealth of Australia (2010).

Of the funds already allocated in 2010–11, Papua New Guinea and Pacific island countries will receive 26 per cent, as will Indonesia and other East Asian countries. Countries in Africa, South and Central Asia and the Middle East will receive 16 per cent. The balance, 32 per cent, will be provided to multilateral agencies and global programs.

The main sectors receiving assistance in 2010–11 are governance (21 per cent of Australia's ODA), education (19 per cent), health (14 per cent), infrastructure (14 per cent) and rural development (7 per cent). The balance is provided in support of the environment, for humanitarian, emergency and refugee assistance, or as multisectoral funding. Sustainable environmental development, gender equality and inclusive development are key priorities within each of the sectors.

AusAID is the Australian government agency with primary responsibility for managing the official aid program. It provides development policy advice and support to the Minister for Foreign Affairs.

AusAID's total staffing has grown steadily since 2006 (Table 2.2). The proportion located in partner countries is just under 50 per cent.

Table 2.2: AusAID staff by location, 2006, 2008 and 2010

	30 June 2006		30 June 2008		30 June 2010	
	no.	%	no.	%	no.	%
In Canberra	511	54	635	52	802	54
Overseas (including locally engaged)	432	46	593	48	685	46
Total	943		1 228		1 487	

Note: All data were extracted from AusAID's 'Aurion HRIS' human resources information system. Contractors are not included.

Sources: ANAO (2009) for 2006 and 2008 figures, and AusAID for 2010 figures.

⁷ Although other government agencies are actively involved in development policy and program delivery, especially in areas involving defence, policing and trade, 88 per cent of Australia's ODA will be delivered through AusAID in 2010–11.

CHAPTER 3: AUSTRALIA'S OPERATING ENVIRONMENT

Since 2007 AusAID has significantly increased the incentives to improve aid effectiveness. These are discussed in this chapter in terms of Australia's commitment to and leadership in implementing the principles of the Paris Declaration—politically and publicly in Australia, within its own aid program, and in its relationships with other development stakeholders.

3.1 Australia's commitment and leadership

Australia's current policy statement on its international development assistance highlights effectiveness as a priority. The statement, contained in the 2009–10 budget statement (Commonwealth of Australia 2009, pp. 1–9), emphasises the importance of ensuring that aid funding is used effectively to achieve genuine improvements in people's lives. It notes the importance of adapting aid interventions to the circumstances of each country, particularly in fragile states. It also notes that development is a long-term and complex process and that lasting progress depends on the creation of genuine partnerships with partner governments and agreement on goals and approaches to using and strengthening government systems. The statement also highlights transparency and accountability as being critical to increased effectiveness.

On 16 November 2010 the Australian Minister for Foreign Affairs, Mr Rudd, announced an independent review of the effectiveness of the Australian aid program, to be completed in April 2011.⁸ Its scope of inquiry includes the structure and performance of the aid program, the program's approach to efficiency and effectiveness, the appropriate organisational structure for a rapidly increasing aid program, and the program's approach to evaluation and to fraud and risk management.

The review will draw on broader international thinking on aid effectiveness, the experience of non-state donors, and audits of the aid program undertaken by the Australian National Audit Office (ANAO). The review reflects the renewed commitment of the Australian Government to improving the effectiveness of its aid program. Its far-reaching scope means it will provide timely and important guidance to shape aid policy and programs as the aid program continues to grow.

Structures are now in place to improve policy coherence within Australia. The intensity and breadth of AusAID's whole-of-government engagement has grown as the scope of the aid program has expanded. In recent years Australia has adopted a more systematic approach to whole-of-government policymaking in relation to international development, led by the Department of the Prime Minister and Cabinet. AusAID now provides advice on development considerations in a range of interdepartmental forums, chairs the interdepartmental Development Effectiveness Steering Committee (see Section 3.4), and has put in place strategic partnership agreements with key government departments. These mechanisms are helping to raise awareness and ensure greater emphasis across government agencies of the need to increase the effectiveness of aid. The Pacific Partnerships for

⁸ The terms of reference for this review are available online <www.ausaid.gov.au/hottopics/pdf/effectiveness-tor.pdf>.

Development and recent reforms to the way in which country strategies are developed (see Section 3.2) also offer the potential to build a whole-of-government position and improve policy coherence within Australia. Greater coherence will strengthen Australia's engagement with partner countries and contribute to positive Accra Agenda developments in those relationships.

AusAID's position within government has been upgraded. The most recent DAC peer review of Australia stressed the importance of maintaining AusAID's crucial anchor role in ensuring that the aid program meets key development and effectiveness principles as the volume of aid increases (DAC 2009, pp. 15–16). An important step was recently taken in this direction, with the formal redesignation of AusAID as an executive agency under the Public Service Act. This positions AusAID more appropriately to manage its increasingly significant relationships across government and to influence policy and program decision making in support of aid effectiveness.

Australia is actively working to identify the most effective ways to deliver aid in fragile states. In its peer review of Australia, the DAC (2009, p. 23) pointed out that 'Australia has special responsibilities and specific challenges' because most of Australia's closest neighbours are developing countries and fragile in some way. Political leaders, senior officials and civil society advocates within Australia share a common concern about how best to foster local ownership and leadership of local development, assure aid effectiveness and protect Australia's substantial aid investments from corruption or wastage in these environments.⁹ A large body of work is under way to better understand and respond to these complex issues.

The DAC recognised that Australia has done much to strengthen its analytical foundation for engaging with fragile states and has developed:

a multifaceted, flexible approach involving stronger investments in nation building, developing leadership capacity, working in partnership with civil society and enhancing emergency management capacity in partner countries. (DAC 2009, p. 12)

Australia's approach to working in fragile states reflects the fact that the Paris Declaration is modelled on the basis of well-governed states and that applying its principles in fragile contexts is difficult and requires a nuanced approach. AusAID is currently developing guidance on working in situations of conflict and fragility, which will guide and support AusAID's decision making in complex whole-of-government interventions comprising both aid and security elements.

3.2 Australia's capacity

Whole-of-government initiatives are helping to increase AusAID's influence within the Australian Government to improve aid effectiveness. Within AusAID itself, several of the

⁹ In total, expenditure in fragile states in 2010–11 is expected to account for 53 per cent of Australia's total bilateral and regional assistance. Thirty-one of the 45 countries formally classified as fragile states by the International Network on Conflict and Fragility and the World Bank received Australian aid in 2009–10 and some were among Australia's largest recipients— Afghanistan, Iraq, Papua New Guinea, Solomon Islands and East Timor.

reforms highlighted in Australia's Phase 1 study (for example, creating ODE¹⁰, untying aid, devolving program management and establishing quality and performance assessment frameworks) are now expanding AusAID's capacity in several respects. Notable capacity improvements include the depth and quality of engagement that is now possible within partner countries, the expertise that is now available internally to analyse key issues and operating contexts, and the rigour with which progress and performance can be assessed and compared at all levels of the aid program. The main capacity improvements and challenges are considered in this section.

A new package of reforms will help to maximise effectiveness, impact and manageability of the rapidly growing program. The operational policy and management reforms are designed to help AusAID to support new ways of working, demonstrate strong leadership, and increase alignment across the organisation. The reforms will help to change the way AusAID does business, giving practical impetus to the shift from AusAID's historically activity-based business processes and systems to a focus on strategic issues. The transition to portfolio-level management envisaged in these reforms will streamline and integrate program processes related to planning, design, implementation and evaluation.

A coherent architecture for country strategies has been introduced and is a key component of reform efforts. An important feature of the new architecture is AusAID's role in leading a whole-of-government process for developing strategies to ensure unified decision making in relation to ODA policy and programming. The new approach will provide greater discipline for AusAID to develop coherent, focused, manageable and effective strategies for providing clearly defined, scalable, and less fragmented ODA programs. It will also lead to greater coherence in whole-of-government engagement at the country level.

The new country strategy architecture incorporates:

- > stronger *country situational analysis* to underpin early whole-of-government engagement and consensus on the best use of Australian aid, as well as harmonisation efforts
- > *statements of commitment*, to be negotiated with partners to identify shared development outcomes and the potential contribution of Australian aid¹¹
- > detailed *delivery strategies* for each priority outcome area in each country strategy

AusID will have in place country strategies for its "top 20" programs by end of 2010. In addition, six programs outside the top 20 will have country situation analyses and public strategies in place by end June 2011.¹²

¹⁰ The Office of Development Effectiveness (ODE) was established in 2006 as an independent unit within AusAID. It reports directly to the Director General of AusAID as Chair of the Development Effectiveness Steering Committee, a high-level group of government and independent experts.

¹¹ In the Pacific, these take the form of Pacific Partnerships for Development, discussed in Section 4.1.

¹² The top 20 includes Indonesia, PNG, the Solomon Islands, East Timor, Laos, the Philippines, Samoa, and Vanuatu (all with previous strategic coverage) as well as Africa, Afghanistan, Bangladesh, Burma, Cambodia, Iraq, Pakistan, the Palestinian territories, Sri Lanka, Vietnam, and the Pacific Regional and Asia Regional programs. The six outside the Top 20 are Fiji, China, Latin America, the Caribbean, South Asia and Nepal.

The first delivery strategy approved under the new architecture—for the Vanuatu health sector—incorporates Paris Declaration principles in ways that are carefully tailored to match the government’s capacity and its priorities (see Box 3.1).

A key challenge for all new strategies, especially given the pressure of scaling up aid, will be in ensuring they focus on where Australia can make a positive difference in relation to country development priorities.

Box 3.1: Paris Declaration principles are guiding sectoral delivery strategies

The **Vanuatu health delivery strategy**, which was approved in 2010, will see Australia provide support, to the maximum extent possible, using direct financing delivered through Vanuatu government mechanisms, complemented by technical assistance. Vanuatu will be assisted to establish a joint partnership arrangement with its main health partners, beginning with AusAID, to help Vanuatu work jointly with interested donors on strategy, funding allocations, performance and analysis to achieve its health objectives. A single set of arrangements will streamline the management of donor contributions and ensure they are brought on budget and are aligned with the Vanuatu Government’s policy and plans.

The **Mekong water delivery strategy**, which was approved in 2009, will see the Mekong Water Resources Program implemented in partnership and collaboration with relevant stakeholders in pursuit of Paris Declaration objectives. The strategy requires that all activities try to use partner systems for implementation, where feasible. In addition, Australia will engage actively with other donors in coordination and oversight activities. AusAID also intends to explore options to build coalitions with donor partners for co-financing, mingling and pooling program support.

The **HIV strategy** sees Australian assistance in all countries underpinned by a partnership approach, which seeks to increase aid effectiveness by reducing the costs associated with fragmented responses, by harmonising donor support with country-owned and country-led responses and by adopting country systems as the first option. In the Pacific, for example, the primary mechanism for Australian funding of new activities is the multi-donor Pacific HIV and STI Response Fund 2009–2013, a coordinated and strategic collaboration led by country governments, supported by United Nations (UN) agencies, regional agencies, non-government organisations, donors and other development partners, and managed by the Secretariat of the Pacific Community.

Devolution of program management to country offices and regional hubs (Bangkok, Colombo, Pretoria and Suva) is leading to more effective development partnerships.¹³

AusAID’s devolution was commended by the recent DAC peer review as a positive initiative to improve development effectiveness. Further, a recent review by the ANAO observed that:

... under devolution, AusAID’s country office staff are developing greater country knowledge and stronger relationships with partner government personnel ... over 67 percent of respondents to the ANAO’s survey of AusAID staff agreed that devolution had improved country program effectiveness, with only 11 percent disagreeing. (ANAO 2009, p. 39)

Importantly, while AusAID has provided corporate guidance, it has not been overly prescriptive about how the devolution process is implemented. As a consequence, the way in which responsibilities are divided between AusAID’s headquarters and posts can and does

¹³ The extent of devolution depends on the size and location of country programs, with management tending to be less than fully devolved to smaller offices. As Australian aid to Africa increases, AusAID will develop its office in Nairobi as a regional hub.

vary across programs, depending on their specific context and operating environments.¹⁴ This allows flexibility and a ‘fit for purpose’ approach to program development. It also requires strategic management to avoid confusion over the role of the post and headquarters staff and to build shared understandings of ‘what success looks like’.

AusAID is implementing an ambitious corporate reform agenda. In February 2009 AusAID released a corporate reform agenda known as the ‘2015 blueprint’ (AusAID 2009a). By building on the ‘2010 blueprint’¹⁵, this internal management report is guiding continuing organisational change within AusAID as the expansion of the aid program intensifies (see the examples in Box 3.2). In that context, the 2015 blueprint gives strong emphasis to the aid effectiveness agenda. A Corporate Reform Committee was established in April 2010, chaired by the AusAID Director General, to drive the organisational change process and oversee cultural change in AusAID and the delivery of the aid program.

Box 3.2: Corporate reforms are strengthening aid effectiveness

AusAID’s corporate reform process is focused on introducing strong and simple corporate and business processes to ensure the increase in aid results in effective aid.

The **AidWorks Redevelopment Project** is ensuring AusAID’s main database supports its new business processes. Reporting capabilities have been enhanced and various processing requirements have been improved. Stage 3, released in November 2010, will enhance the system’s functionality for categorising initiatives and activities, which will support the shift away from activity-based program management and improve Australia’s DAC reporting.

A simple system of ‘**rules and tools**’ introduced over the past two years is providing systematic guidance to staff on all core business processes and is improving organisational effectiveness and efficiency by, for example, strengthening the integration of business unit plans, delivery strategies and program management plans.

A new **learning and development strategy** and various **knowledge management improvements** are being introduced to support workforce development and ensure it is up to date and able to respond to business challenges.

Workforce development remains a high priority for AusAID. In keeping with the 2015 blueprint, workforce planning has been given new priority. AusAID established capacity for internal workforce planning for the first time in early 2009. An accelerated workforce planning exercise was conducted in 2009, overseen by a Workforce Planning Steering Committee. An initial report was released for consultation in early 2010, following consideration by the AusAID Executive. An agency-wide workforce plan is now being finalised. The plan is an essential component of positioning AusAID to manage an expanding aid program successfully.

¹⁴ Key variables include the ability of posts to attract and retain highly skilled and experienced staff locally, the strength and number of whole-of-government partnerships, the capacity and willingness of partner governments, the maturity of the country programs, the level of political and popular interest in these programs, and their relative size.

¹⁵ This articulated an institutional framework for AusAID and provided guidance on the changes required to orientate the aid program appropriately by 2010 (AusAID 2007a).

3.3 New ways of working

AusAID is expanding the range of delivery modalities it uses. This work has been ongoing for some years now and is aimed at increasing aid effectiveness, encouraging country ownership and leadership, and improving sustainability prospects. Australian aid is now delivered through a mix of arrangements, ranging from partner government systems and joint financing arrangements through to traditional projects and technical assistance. In particular, there is now substantially greater focus on introducing program-based approaches across the aid program. AusAID is moving away from using discrete projects, designed and delivered through managing contractors, as its dominant model of aid delivery. The reform is fundamental to AusAID and the challenges accompanying it cannot be understated.

For example, Foster (2009) reported that the development of sector-wide approaches in the health sectors of both Papua New Guinea and Solomon Islands followed a traditional, project-style approach, with an AusAID-led design and appraisal process. This resulted in fragmented support spread across a broad range of individual activities. Mechanisms to effect better dialogue with partner governments and civil society about health sector policy, strategies and performance were also found to be underdeveloped (p. vi).

In contrast, an independent review (Bartholomew, Nguyen & Kousek 2009) of AusAID's involvement in four program-based approaches in Vietnam found that providing funding through the government budget gave AusAID an entry point for dialogue with the Vietnam Government. This dialogue contributed to stronger government policy and subsequent outcomes for all four program-based approaches, greater harmonisation of AusAID activities, and better coordination among stakeholders. Further, the review found that technical assistance, not only funding, had been important in helping to strengthen government policies, systems and processes.¹⁶

The use of technical assistance presents Australia with several dilemmas. In the period 1996–2007 technical assistance accounted on average for 41.8 per cent of Australia's annual ODA. In 2008 and 2009 technical assistance accounted on average for 34.5 per cent.¹⁷ For some time now there has been concern that there is an over-reliance on technical assistance personnel in particular in the Australian aid program. Questions have also been raised about whether advisers represent value for money.

Since 2007 AusAID has completed and commissioned a considerable amount of research and analysis on the effectiveness of technical assistance, and the conditions under which it can be successful.¹⁸ This work has contributed internationally to deeper consideration of the complex issues around the use of technical assistance. It is also helping to build the knowledge base required in AusAID to support best practice in AusAID programming. Box 3.3 highlights some important lessons from a recent case study by ODE of Australian technical assistance to Papua New Guinea's National Economic and Fiscal Commission.

¹⁶ The review covered Poverty Reduction Support Credit, the Rural Water Supply and Sanitation National Target Program, Program 135 phase II for Remote and Mountainous Communes including Ethnic Minorities, and the Beyond WTO Program.

¹⁷ Figures provided to DAC. Figures for 2009 are preliminary.

¹⁸ See, for example, Baser (2007, 2008), Baser & Rhodes (2009) and Morgan (2009).

A number of important and timely developments will see the focus remain on improving Australia's approach to using technical assistance. In May 2010 the Australian Government announced its intention to review—jointly with partner governments—the use of advisers. The objective of the review is to ensure that each adviser position is the most effective, value for money response to meeting agreed needs and priorities. The outcomes of the review will inform the development of a policy on the use of advisers as part of the aid program's broader approach to technical assistance. This will be a crucial building block in bringing about more substantive changes in the way aid is delivered. At the time of writing, review findings had resulted in a commitment to phase out one-third of the advisers in both Papua New Guinea and East Timor within two years. Review findings for other participating programs are expected in the near future.

Box 3.3: Lessons from strategic support to the National Economic and Fiscal Commission

In 2001 the Government of Papua New Guinea tasked its National Economic and Fiscal Commission to review the formula used to calculate central government funding to Papua New Guinea's provinces for the delivery of essential services. AusAID had come to understand the constraints of the current system and provided the commission the advisory services it sought to support the necessary data collection, analysis and policy dialogue. Through the commission-led process, stakeholders reached agreement on key reforms, which legislate for greater predictability and transparency of funding, as well as increased funding to poorer provinces.

A review of the support highlighted the following effectiveness lessons.

- > Seek opportunities to support strong institutions where local ownership already exists.
- > Provide the right support at the right time; strategy should drive modality—not the other way around.
- > Be persistent—develop a strategy, ensure its ongoing relevance, and give it sufficient time to show results.
- > Support evidence-based participatory policy development wherever possible.
- > Develop public advocacy messages and communicate progress to create awareness and stakeholder buy-in.

Source: ODE (2009b).

AusAID will also shortly release a framework for adviser remuneration that will provide salary ranges and prescribed, country-specific allowances for long-term and short-term advisers. This will put downward pressure on adviser remuneration and form part of a focus on improving value for money and aid effectiveness. In early 2010 AusAID established a system to track the use and remuneration of advisers in the aid program. Six-monthly analysis of adviser use and remuneration practices will continue in order to monitor progress in this suite of reforms.

Capacity development is a core theme within the Australian aid program. Australia began to give particular attention to capacity development in 2004, following the government's decision to introduce large programs of in-line technical assistance in Papua New Guinea and Solomon Islands.¹⁹ In recognising that a partner country's capacity is critical to both aid effectiveness and sustainable development, AusAID has tried to develop coherent approaches to the complex task of blending the development of capacity at all levels

¹⁹ In Papua New Guinea this support was originally provided through the Enhanced Cooperation Program; the current phase is the Strongim Gavman Program. In Solomon Islands, in-line support is provided through the ongoing Regional Assistance Mission to Solomon Islands.

(individual, group, organisation, sector, institution and systems). For example, the recently established Pacific Islands Centre for Public Administration will train individuals, but it will do so within a framework of workforce planning by each Pacific island country. Further, AusAID is increasingly trying to understand and respond to informal as much as formal institutions that influence capacity in partner countries, as exemplified though the ‘drivers of change’ study in Vanuatu (Cox et al. 2007) and the way it has deepened Australia’s understanding of contextual factors.

In 2006 AusAID established a panel of international and Australian capacity development experts, including both researchers and practitioners. The periodic work of that panel for AusAID, individually and collectively, is providing Australia with a valuable body of capacity development research and analysis of specific relevance to the development contexts within which it works.

Partnerships with non-government organisations are providing AusAID with several important opportunities—to extend its reach in sectors and geographic areas of interest; increase Australia’s international profile and to more effectively engage the Australian public on long-term development issues, particularly those reflected in the Millennium Development Goals. AusAID has entered into partnership agreements with several Australian non-government organisations, providing them with predictable funding for the period 2009–13. Others are expected to be established in coming months. In addition, ODE is completing a major evaluation of AusAID’s engagement with civil society. The findings of this evaluation, combined with extensive consultations with international development non-government organisations in Australia, are contributing to the development of AusAID’s Civil Society Engagement Framework.

A multilateral engagement strategy is being developed to set out Australia’s overarching priorities for its engagement with multilateral organisations in the period 2011–15.²⁰ The strategy is expected to be submitted to the Minister for Foreign Affairs following consideration of the recommendations of the independent review of the effectiveness of the Australian aid program (see section 3.1).

In the meantime, Australia has entered into an expanded suite of partnership agreements with international and multilateral agencies, aimed at guiding more rigorous and effective multilateral relationships. For example, since Phase 1 of the evaluation of the Paris Declaration Australia has introduced a policy of increased engagement with the United Nations. As part of this, the United Nations Partnership for the Millennium Development Goals, a budget initiative launched in 2008–09, is seeing core funding to several UN agencies increased and multi-year commitments made.²¹ AusAID has also been an active member of the Multilateral Organisation Performance Assessment Network since January 2009. As part of the independent review of aid effectiveness, recommendations will be made on steps

²⁰ Currently about one-third of the Australian aid program is delivered through multilateral organisations.

²¹ In 2010–11 Australia is providing \$91.7 million in core funding to UN agencies to support efforts to progress the Millennium Development Goals. Partnership agreements have been signed with the United Nations Development Programme, the United Nations Children’s Fund, the International Labour Organization, the World Food Programme, the United Nations Development Fund for Women, the World Health Organization, the United Nations Office for the Coordination of Humanitarian Affairs, the United Nations Population Fund, the Joint United Nations Programme on HIV/AIDS and the United Nations International Strategy for Disaster Reduction.

AusAID can take to improve its assessment of multilateral effectiveness. Each of these developments will position Australia to manage the expanded aid program effectively.

Partnerships are also emerging to help fragile states address aid effectiveness. For example, the group 'g7+' was established at the inaugural meeting of the International Dialogue on Peacebuilding and Statebuilding, held in Dili in April 2010.²² Australia is on the steering committee for the dialogue and has initiated and provided support to the 'Friends of g7+' mechanism, established to support the g7+ in its engagement with international actors in the lead-up to the MDG Summit in September 2010 and the Fourth High Level Forum on Aid Effectiveness in 2011.

Australia is also an active member of the International Network on Conflict and Fragility. Through this forum Australia aims to contribute lessons from the Asia-Pacific region to the international dialogue on policy and practical issues that matter to improving aid effectiveness in fragile states.

A sectoral and thematic focus is now entrenched within AusAID, assisted by the establishment of a dedicated Program Enabling Division in Canberra, which is staffed with a cadre of sectoral advisers and thematic groups, including senior, internationally recognised experts. For example, a Crisis Prevention, Stabilisation and Recovery Group has been established to align AusAID resources and provide coherence around the government's aid agenda in this growing but non-traditional area. In addition, specialist sectoral advisers have been recruited as needed in country offices. These developments are strengthening AusAID's analytical capability in critical areas.

AusAID's newly established Budget Strategy Section is working closely with country and thematic programs to improve the alignment of budget measures with country and thematic strategies. This is a complicated balancing act, as AusAID has both geographic and sectoral expenditure targets to meet, but is important to improving budget predictability. AusAID is also in the process of discussing management of the aid budget with central agencies, with the objective of maximising budget flexibility.

3.4 Quality and accountability

Performance management, transparency and accountability of the Australian aid program has improved appreciably through the introduction of several quality assurance initiatives since 2006. Together, these initiatives have added significantly to the scope and quality of data available and the rigour of Australia's analysis and assessment of performance effectiveness. These quality processes are now generally well-integrated into program management.

AusAID's performance management and quality reporting system has been completely overhauled since 2006. Today, it comprises three key parts: activity-level quality

²² The g7+ provides a unique opportunity for fragile states to engage as a collective with developing countries and international organisations to share experiences and discuss priorities and approaches to deal with the common challenges they face. Members of the g7+ are Afghanistan, Burundi, Central African Republic, Chad, Cote d'Ivoire, the Democratic Republic of Congo, Haiti, Liberia, Nepal, Solomon Islands, Sierra Leone, South Sudan and East Timor.

assessment and reporting, strategy-level quality assessment and reporting, and independent evaluations. AusAID's Performance Management and Evaluation Policy (adopted in June 2009) requires the principles of the Paris Declaration and the Accra Agenda to be considered throughout the program and activity life cycle. Program managers are thus required to manage and report on performance with reference to these principles. This system is making a valuable contribution to improving Australia's capacity to increase effectiveness.

AusAID is improving transparency and contestability in the Australian aid program.

AusAID's Performance Management and Evaluation Policy states that 'Independent Evaluations and annual performance reports will generally be made publicly available' (AusAID 2009c, p. 2). To date, this has proven difficult to implement for a range of policy and operational reasons. In a bid to improve transparency, AusAID now intends to make independent completion reports available on AusAID's website.²³ AusAID plans to review and update the policy by March 2011. The new policy is expected to ensure that the existing barriers to the regular publication of reports are removed.

Australia is a founding signatory and steering committee member of the International Aid Transparency Initiative adopted at Accra in 2008. Along with the other signatories Australia agreed in July 2010 that all donor signatories should aim to implement the new standards before the Fourth High Level Forum on Aid Effectiveness in 2011.

AusAID remains one of the few donors that systematically and regularly report on progress towards strategy-level objectives. The main reporting requirements within AusAID now include the *Annual program performance report* and the *Annual thematic performance report*, each of which assesses the Australian aid program's performance. Increasingly, these reports attempt to assess the whole of the Australian aid program, not just AusAID's contribution. They draw on activity-level performance information and their findings are used by ODE to inform analysis for the *Annual review of development effectiveness*. Peer reviews are conducted on all program performance reports to contest ratings, maximise learning, and engage the attention of management on performance issues. Systems are in place to ensure management consequences are identified and drawn to the attention of the Executive and senior managers through AusAID's Program Committee.

Activity-level performance information is obtained from reports on quality at entry, quality at implementation and quality at completion, each of which follows a common template. This system ensures there is regular assessment of the relevance and logic of AusAID's assistance and approach to partners' development needs, the extent to which objectives are likely to be met, are being met, or have been met, the efficiency of implementation, and the adequacy of monitoring and evaluation systems. Peer reviews are conducted for all activity-level reports to ensure the robustness of quality ratings, and ODE spot checks the results claimed.

AusAID now supports independent completion reports²⁴ and formal evaluations at both the activity and strategy levels. These generate evidence to demonstrate the effectiveness of

²³ The first tranche of 8 independent completion reports is now available, with the remaining 52 reports to be uploaded to AusAID's website in the first quarter 2011. This will mean all approved evaluations submitted for technical review by AusAID's Performance Systems and Support Section in the past year will be available on the website.

²⁴ Historically, activity completion reports were often prepared by the managing contractors or other implementing authorities, rather than by an independent agent.

significant programs and initiatives and provide lessons that management can use to make informed decisions about the direction of future programming. Technical reviews of evaluations to assess their quality are conducted by independent consultants.

The Development Effectiveness Steering Committee continues to function as the key interdepartmental mechanism for ensuring accountability and coordination across Australian government agencies delivering ODA.²⁵ The steering committee focuses on four themes: effectiveness, whole-of-government country and regional strategies, the ODA budget strategy, and implementation of policy priorities. As chair of the steering committee, AusAID is uniquely placed to influence whole-of-government partners delivering ODA to improve effectiveness.

The establishment of the Office of Development Effectiveness has added considerably to AusAID's reputation both internationally and within Australia in terms of transparency and accountability. ODE is an independent unit within AusAID, separate from program management, that reports directly to the AusAID Director General. Its key mandate is to monitor the quality and evaluate the impact of the aid program. It reports publicly on the effectiveness of Australian aid and seeks to identify areas where effectiveness can be improved. As such, ODE is an important driver of analysis promoting the international agenda on aid effectiveness. Using the evidence obtained through high-level evaluations and reviews, ODE seeks to influence AusAID and whole-of-government partners to improve the effectiveness of Australian aid. It also reviews all new policy proposals seeking funding in the budget process and advises the Development Effectiveness Steering Committee on the likely effectiveness of the new expenditure proposals.

The *Annual review of development effectiveness* has become the flagship report of AusAID's effectiveness agenda. ODE has now produced three of these reports—for the years 2007–09—all of which were independently and internationally peer reviewed. This annual 'health check' provides an account of the aid program's performance to the Australian Government, the Parliament and the people. It is also an important source of lessons and recommendations on where the effectiveness of the Australian aid program could be improved. It aims to provide a shared understanding of major issues affecting aid effectiveness, and to encourage a culture within the Australian aid program of constant improvement. The annual review is an ambitious effort; few donors try to link aid spending to results in this way.

AusAID is reorienting its Risk Management Framework to include a focus on opportunities to improve aid effectiveness. This work is at an early stage, but offers potential for achieving results while managing risk. This is important for AusAID, which has been criticised for being too risk averse.²⁶ The review of the framework will feed into the development of a new corporate risk management approach. Stronger frameworks and systems for risk management and accountability, along with streamlined business processes,

²⁵ The Development Effectiveness Steering Committee is chaired by the AusAID Director General and includes deputy secretaries of central agencies and two members of AusAID senior management. It improves coordination of the aid program across the Australian Government, and plays an advisory role to the government on major ODA strategy and budget proposals. The committee is supported by the interdepartmental Development Effectiveness Working Group and by a secretariat provided by AusAID.

²⁶ Including by the ANAO (2009, p. 101), which stated: 'AusAID's cautious approach has sometimes prevented resources getting to where they are most needed'.

will improve AusAID's ability to respond to risks and meet its requirements for both accountability and performance outcomes.

AusAID's internal audit function is being strengthened to increase accountability and ensure the increase in the aid budget to 2015–16 is managed well. The internal audit function plays a critical role in ensuring AusAID can operate effectively in high risk environments and minimise the possibility of funds being misappropriated. An independent chair for the Audit Committee was recently appointed and the new position of Chief Internal Auditor, who will work directly to the Director General, will be filled shortly.

There are a number of emerging priorities for ensuring quality and accountability.

- > New country strategies should provide a basis for assessing progress and improvements in effectiveness, linked to the statements of commitment. The same applies to Partnerships for Development.
- > Lessons emerging through AusAID's quality assessment systems need to be used to inform decisions about future program planning, design and delivery to increase effectiveness.
- > The quality of performance analysis and reporting at all levels will need to continue to improve if these are to provide reliable information. The key messages emerging from the work being done through, for example, AusAID's quality reporting system, initiatives such as the AidWorks Redevelopment Project (see Box 3.2) and AusAID's Business Intelligence and Reporting Unit²⁷ are that tracking performance information is both important and useful and that efforts to improve data and reporting systems will ultimately reduce the burden on staff while increasing their effectiveness.
- > The content of activity-level performance reporting may need to change as AusAID moves to implement its new portfolio approach to providing aid. The emphasis as the aid program expands will need to be on results being achieved at the program, sector and country levels, for example. At the activity level, the main concern will be to establish and report on the use of Australian aid funds—what they are being spent on (inputs), what they are delivering (outputs) and links to broader development outcomes.
- > AusAID's review of its Risk Management Framework should address all types of risk—reputational, accountability and development risk as well as fiduciary risk.

²⁷ This new unit provides analytical reporting to the Executive and the Management Committee on Agency Programming and Quality Trends, as well as to program managers on program development, implementation, monitoring and evaluation. The unit also provides support for reviewing and developing agency-wide policies, business processes and tools.

CHAPTER 4: PROGRESS ON THE INTERNATIONAL AID EFFECTIVENESS AGENDA

4.1 Ownership

A partnership approach is now at the core of Australia's aid relationships. The initiatives discussed in this section involve tangible changes in all aspects of Australia's engagement with partner countries and other stakeholders on development issues. Australia's partnership approach is helping to establish the preconditions that will:

- > allow for greater alignment of aid with country priorities and systems over time
- > facilitate greater country ownership of Australian aid strategies and programs
- > bring a strong focus on results to development relationships
- > through its central emphasis on mutual accountability, enable a shift in the focus of conditionality towards country objectives and priorities.

Box 4.1 describes how this is occurring in Papua New Guinea.

Box 4.1: Australia supports Papua New Guinea's aid effectiveness agenda

Australian assistance is strongly aligned with Papua New Guinea's policy frameworks, and a significant proportion is delivered using the country's government systems. Australia is a signatory to the 2008 PNG Commitment on Aid Effectiveness, which localises the Paris Declaration by specifying shared intentions between the Government of Papua New Guinea and all of its development partners to deliver aid in Papua New Guinea more effectively. This agreement includes targets and indicators for 2012, an action plan, a protocol for mounting development partner missions to Papua New Guinea, and a protocol for mobilising and managing technical assistance in the country.

Australia also plays a significant facilitating role in donor coordination in Papua New Guinea; it is a member of the peak aid effectiveness forum and decision-making body, the PNG Aid Effectiveness Consultative Group (which is intended to meet twice a year), as well as the joint Papua New Guinea – donor Technical Working Group on Aid Effectiveness, which implements recommendations of the Consultative Group and oversees implementation of its annual action plan. These arrangements are supported by an annual forum on aid effectiveness, chaired by Papua New Guinea's Minister for National Planning and District Development and involving key Papua New Guinea ministries. Unfortunately, limited capacity in the country has meant that the Consultative Group last met in July 2009.

Source: AusAID (2010).

The Pacific Partnerships for Development represent an important shift in Australia's engagement in the Pacific. With the overriding objective of achieving better development outcomes, the Australian Government has been negotiating a series of formal partnerships for development with Pacific island countries since 2008.²⁸ The partnerships focus on how the partner countries will increase their efforts to achieve agreed outcomes and how Australia can improve the targeting of its support. They are explicitly based on the principles

²⁸ To date, eight partnership agreements have been finalised with Kiribati, Nauru, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. Partnerships with the Federated States of Micronesia, Marshall Islands and Palau now being finalised.

of mutual respect and mutual responsibility, in line with the then Australian Prime Minister's 2008 Port Moresby Declaration. They include jointly agreed performance measures and are supported by regular and joint evidence-based reviews of progress.

Because results-based systems are unlikely to emerge and thrive without high-level political interest and the right incentives, it is anticipated that these partnerships will help to foster political drivers of results-based policymaking in partner countries and reduce their obstacles.²⁹ Early indications are promising and suggest that over time the partnerships mechanism can significantly redefine how AusAID does business in the Pacific.³⁰

A key to the success of the partnerships will be the extent to which they promote greater local ownership and equality in the development partnership. In Kiribati, for example, the partnership appears to have acted as a catalyst for improved policy dialogue. Prior to the partnership, discussions with the government were piecemeal and conducted project by project. The partnership has built a solid and respected dialogue, in which the discussion is about important, transformational investments—education, workforce skills (particularly for migration and remittances) and economic governance. Furthermore, the Kiribati partnership is reported to have provided a sound basis for streamlining work programs and eliminating ad hoc funding requests.

Complementing these partnerships at the regional level is the Cairns Compact on Strengthening Development Coordination in the Pacific. This compact (see Box 4.2) now guides regional action in support of the Paris Declaration agenda in the Pacific.³¹ Australia, as a member of the regional Pacific Islands Forum, has embraced the Cairns Compact as a means to help ensure the best use of Australia's development resources. Together, the Pacific Partnerships for Development and the Cairns Compact will increase predictability, reinforce shared responsibility and accountability, and more effectively coordinate all available development resources in the Pacific. Already, the process of annually reviewing progress for Pacific Islands Forum leaders is raising the prominence of Paris Declaration principles across the region, including for AusAID's posts and headquarters. That process in 2010 achieved positive results, not least in confirming a high degree of political commitment from Pacific Islands Forum leaders.

²⁹ See ODE (2008b) for discussion of these issues and their importance for mutual accountability.

³⁰ Statements of commitment under the new country strategy architecture are being developed to establish and guide development partnerships with country program partners outside of the Pacific region. These will be tailored according to the nature of the country relationships, but ideally will be joint, public statements and in principle will be comparable with the Pacific Partnerships for Development. At the time of writing, draft statements of commitment were being prepared and discussed with Vietnam, Cambodia and the Philippines.

³¹ The Cairns Compact builds on previous regional and national initiatives to increase aid effectiveness in the Pacific, including the Pacific Aid Effectiveness Principles (2007), which adapt the Paris Declaration principles to the Pacific, and the Papua New Guinea Kavieng Declaration (2008).

Box 4.2: The Cairns Compact guides regional action on the Paris Declaration agenda in the Pacific

Concerned that progress towards the Millennium Development Goals in the Pacific is insufficient, leaders of Pacific Islands Forum member countries—including Australia—committed in August 2009 to the Cairns Compact on Strengthening Development Coordination in the Pacific.

The Cairns Compact is a long-term endeavour. Its desired outcomes are more effective use of development resources, a reduced administrative burden for countries and improved information to guide decision making. It is guided by a set of principles that acknowledge country leadership, mutual accountability and mutual responsibility as fundamental to successful development outcomes.

The compact sets out collective actions aimed at improving the coordination of all available development resources in the region. Specifically, it introduces several new reporting and review mechanisms for countries and their development partners to guide development decisions and strengthen delivery systems. These include, for example, peer reviews of national development planning processes, reporting against Paris Declaration principles and the Pacific Principles on Aid Effectiveness, developing a roadmap to strengthen public expenditure management, procurement, accountability and monitoring systems, and improving data quality to guide decision making, monitoring and evaluation. Forum leaders have called for annual progress reports.

The first meeting of officials to review progress (the aid effectiveness workshop) was held in June 2010. That meeting considered:

- > peer reviews of national development planning and budget processes in Nauru and Kiribati
- > country reports addressing a common set of questions related to the status of national and sectoral development plans, and processes for aligning development partner assistance with them
- > development partner reports, which addressed a common set of questions related to their efforts to reduce aid fragmentation, ease the burden of aid administration and improve aid effectiveness. Six countries and 12 development partners, including Australia, submitted reports.

Although a range of methodological improvements were proposed for future reviews, the process is providing valuable impetus for implementation of aid effectiveness principles across the region.

A consolidated report of the outcomes of these reviews and discussions (Pacific Islands Forum Secretariat 2010a) was considered by the region's leaders at the Pacific Islands Forum in August 2010. Leaders noted some good examples where country leadership in development coordination is having positive impacts, and recognised the opportunity to build on these experiences to achieve accelerated development outcomes in the face of the significant challenges confronting the region. In particular, leaders recognised that the peer reviews had been conducted in a neighbourly and constructive spirit, consistent with the Pacific way, and represented an innovative approach to learning from each other. They reaffirmed that the peer review process remained a key advance achieved under the Cairns Compact (Pacific Islands Forum Secretariat 2010b, para. 24).

4.2 Alignment to and use of country systems

The use of country systems is a complex challenge for Australia, given that more than half of the aid program is delivered in fragile states. Several country and sectoral strategies highlight Australia's intention to use country systems to the maximum extent possible.

Box 4.3 highlights some positive efforts in the Pacific.

Box 4.3: Governments and donors align their development efforts in the Pacific

In **Solomon Islands** a joint government–donor Core Economic Working Group has led to development partners agreeing to align their support to a single set of government economic reform priorities and to a single review process. Formed in 2009 in response to the global economic crisis, the working group has led to improved dialogue on economic management issues, better development partner coordination and more harmonised approaches to development.

In **Vanuatu** development partners are working in collaboration with the government to implement the Vanuatu Education Road Map 2010–12, in support of universal primary education. This government-led design used Vanuatu government systems, including the budget process, to take forward key policy initiatives. It provides for harmonised reporting, financial management and procurement processes using government systems. Australia, New Zealand and the United Nations Children's Fund will pool their funding for use to implement an agreed set of priorities, and all participating donors have agreed on a common evaluation framework.

In **Tonga** the government is leading the coordination of development partners in support of a Tonga Energy Roadmap, which aims to develop a common framework for support to meet Tonga's long-term energy needs.

In **Tuvalu** coordination mechanisms for the health and education sectors have resulted in Australia and New Zealand focusing their support in complementary areas.

Australia is well versed in and mindful of the risks associated with using weak national government expenditure systems to deliver aid. Nevertheless, Australia recognises that working around these systems rather than through them risks weakening them further. In virtually all of its established programs, AusAID is actively supporting countries' efforts to strengthen their own systems with a view to being able to use them. This is particularly the case in relation to public financial management, procurement, workforce planning and management, and accountability systems. In the Pacific, for example, public expenditure and financial accountability assessments are demonstrably influencing the reform actions of countries and helping development partners such as Australia to target their assistance to address systemic weaknesses. The balance to be struck—in fragile states particularly but not exclusively—is between helping to strengthen partner systems and overwhelming those partners with scrutiny and interference.

New policy and operational guidance is providing greater clarity. In 2009 AusAID issued a series of operational policy notes addressing the main conceptual issues to consider regarding the use of country systems. In the new policy on country strategy development, AusAID committed to align, where feasible, with partner government systems as one of six principles that will guide the development of country strategies. Most recently, AusAID prepared detailed guidance for staff (including tools and templates) on assessing partner government systems for public financial management and procurement at national, sectoral and other subnational levels, and on deciding whether to use these systems to deliver aid funding. This guidance is expected to be adopted shortly. The use of partner government systems will not be automatic or a default option, but rather determined after comprehensive, robust and evidence-based analysis and assessment of risks and benefits. The intention is that following such work AusAID will be able to use partner government systems to the maximum extent possible, justify decisions not to use them and better support partner government efforts to improve their own systems (see Box 4.4).

Box 4.4: Using partner systems to tackle corruption

A key initiative in working towards greater use of country systems was the introduction in 2007 of the first anti-corruption policy in AusAID (AusAID 2007b). The policy uses as its starting point a partnership approach—of supporting partner country priorities and plans to improve governance and tackle corruption, or helping to develop them where they do not exist, and of developing long-term institutional partnerships by placing Australian government officials in public service positions or senior advisory roles.

AusAID's aim is to move to a position where it can draw effectively and responsively on a wider range of ways to deliver aid (projects, facilities, technical assistance, multi-donor trust funds, delegated cooperation, program-based approaches, and budget support) and increasingly position itself to work with partner government systems. This is some way off given that, in partner countries with weak governance systems, national development plans do not drive expenditure decisions and do not provide clear guidance to development partners. Nevertheless, the dialogue and monitoring that will need to occur around, for example, the Pacific Partnerships for Development offer the best potential for moving beyond principles to new incentives and realistic programs of action for both sides.

Renewed emphasis on building advocacy for effective systems is evident in many of AusAID's programs. Although there is a tendency to focus on government systems, it is important to note that AusAID is also actively supporting a range of non-government mechanisms within partner countries. These are important to effective development in their own right as community systems, but can also be very influential in efforts to strengthen government systems.

Taking the Paris Declaration principles as a starting point, ODE's review of AusAID's engagement with civil society has revealed numerous examples of good practice (ODE forthcoming). However, it also points to several features that either did not live up to these principles or hindered the generalisation of pockets of innovation and good practice. The review has been an important exercise in shaping action for improving AusAID's engagement with civil society.

4.3 Harmonisation

Donor coordination is an area in which appreciable progress is being made across most programs, in spite of the frequent finding that even basic levels of coordination are extremely resource intensive. Australia is making increasing use of various collaborative arrangements in countries and regions where it has less direct experience.

Australia's use of delegated and formal cooperation is increasing. Australia has or will soon have formal cooperation arrangements with eleven traditional and emerging bilateral donor partners. The bulk of joint activity is with New Zealand, Germany and the United Kingdom. AusAID is in the process of developing cooperation arrangements at varying levels of intensity with the United States, Spain, France, Brazil, Argentina, Mexico, Chile and Norway.

Harmonisation is appreciably more difficult than donor coordination and cooperation, not least because it requires partners to change their own business processes to match those

of others. A notable example of harmonisation within AusAID at present is the Pacific Region Infrastructure Facility (see Box 4.5). As the participating donors have found, efforts to harmonise take considerable time. Consensus needs to be built on everything from major policy, programming and dialogue through to the most detailed procedural matters. However, as Box 4.5 illustrates, the benefits are proving that the effort is worthwhile, at least in terms of leveraging additional financing for infrastructure in the region. A key challenge for this effort is to make sure these harmonisation efforts reduce the burden on partners.

Box 4.5: Proving the benefits of harmonisation

The Pacific Region Infrastructure Facility is a multi-donor initiative, designed specifically to help strengthen country planning and management capacity, reduce transaction costs for countries in the region and improve the predictability of sectoral financing. Initially involving AusAID, the New Zealand Agency for International Development, the Asian Development Bank and the World Bank Group in an equal partnership, the facility includes a concrete, time-bound harmonisation action plan to which all partners have formally committed. With the leverage of AusAID's initial investment of \$127 million for the four years to 2011–12, total financing coordinated through the facility has grown to \$600 million for the six years to 2013–14. Inclusion of the European Union as a partner in 2010 will increase the available finance and significantly broaden country and sectoral coverage.

Harmonisation is being measured in the Pacific, by virtue of the aid effectiveness agenda under the Cairns Compact (see Section 4.1), in terms of the number of missions that are coordinated and the number of analyses undertaken on a joint basis (see Table 4.1).

Table 4.1: Coordination of Australian missions and analysis, 2008

Country	Percentage of missions that were coordinated	Percentage of analytical work that was coordinated
Cook Islands	100	100
Fiji	0	0
Kiribati	22	67
Nauru	0	0
Papua New Guinea	48	46
Samoa	85	77
Solomon Islands	38	36
Tonga	29	0
Tuvalu	57	100
Vanuatu	41	67

Note: The Federated States of Micronesia, Marshall Islands, Niue and Palau have not been included because no Australian missions were undertaken and no analytical work involving Australia was prepared in 2008.

Source data cover the 2008 calendar year.

Source: AusAID (2010, Attachment A).

4.4 Managing for results

Earlier parts of this update reported on AusAID's ongoing efforts to improve the rigour of its performance measurement and quality assessment systems. These systems are relatively new, and are still being integrated across the aid program. Nevertheless, they clearly offer considerable potential to accelerate Australia's progress in strengthening its results focus as it

shifts the emphasis within its aid program from inputs, outputs and activities to development partnerships, outcomes and impacts. Similarly, recent work on using partner systems should help to clarify for staff the issues to consider and steps to take in seeking greater alignment. Further to these reforms, this section highlights a range of other issues influencing Australia's effort to strengthen development results—activity proliferation, aid fragmentation, and data quality.

Australia is grappling with the challenges of aid proliferation. Like many donors Australia is still struggling to reverse the upward trend in the number of aid activities, the downward trend in project size, and the tendency to work across large and diffuse sectors. A recent report commissioned by ODE points out that almost all of Australia's large bilateral programs are in 'crowded aid markets'. Many are also in weak governance environments where government systems themselves may be fragmented, forcing donors to engage through a large number of activities (Gouy 2010). The challenge of reducing aid proliferation is made greater for Australia by the pace at which the aid program is expanding.

However, recent developments in the Australian aid program—including the new country strategy architecture and a greater focus on partnerships, delegated cooperation and multilateral engagement—provide key tools for addressing the challenges of activity proliferation as the aid program expands. A further advantage is the fact that the aid program includes relatively few piecemeal programs and is predominantly channelled through a single aid agency (86 per cent of the 2010–11 aid budget).

Avoiding costly fragmentation is driving Australia's decisions about how to deliver its rapidly growing aid program. Australia is now expanding its aid program into a range of countries and regions—Africa, the Caribbean, Latin America and the Middle East—where it previously provided only very limited support. As the examples in Box 4.6 illustrate, where possible Australia is choosing to work through delegated cooperation arrangements, multilateral organisations and non-government organisations.

Improving data quality is a priority, especially in the Pacific. In most Pacific island countries, data are not collected in a way that allows progress towards Paris Declaration indicators to be measured consistently. AusAID is looking for opportunities to strengthen the currently weak state of development information in many of its key partner countries—in terms of the quality and quantity of information available as well as its reliability—in order to support evidence-based decision making in the interests of development results. Several of the Pacific Partnerships for Development provide high-level acknowledgement of the importance of statistics and some partnerships, such as with Papua New Guinea, include better statistics and performance reporting as a priority outcome.

Box 4.6: Maximising new partnerships to reduce aid fragmentation

Africa

- > Australia's new Food Security Initiative closely aligns with the Comprehensive Africa Agriculture Development Program, developed by the African Union's New Partnerships for Africa's Development.
- > Australian support to improve access to water and sanitation is in line with the African Ministers' Council on Water and is implemented through the African Development Bank.
- > Australia's humanitarian assistance across Africa is delivered through partnerships with the International Committee of the Red Cross, the United Nations Children's Fund, the United Nations Office for Coordination of Humanitarian Affairs, the World Food Programme and the United Nations High Commissioner for Refugees.
- > Australia is developing partnerships with regional organisations such as the African Development Bank and the Common Market for Eastern and Southern Africa, and African agricultural research institutions such as the West and Central Africa Council for Agricultural Development.
- > Through funding under the Australian Partnerships with African Communities, six Australian non-government organisations are working in seven countries (Kenya, Malawi, Mozambique, South Africa, Uganda, Zambia and Zimbabwe). Australia is also working with African and international non-government organisations.

South Asia

- > The bulk of Australia's South Asia program—80 per cent in 2009–10—is delivered through non-government organisations (23 per cent) and multilateral organisations (57 per cent) such as the World Bank, the Asian Development Bank, the United Nations Children's Fund, the United Nations Development Programme and the Joint United Nations Programme on HIV/AIDS. Australia's program in South Asia covers Sri Lanka, Bangladesh, Nepal, Bhutan, the Maldives and India.

The Caribbean

- > Australia has entered into a new ODA partnership with the Council of Foreign and Community Relations Meeting of the Caribbean Community and its 15 members, based on building regional resilience and supporting small island states address the threats of natural disasters and climate change.

More broadly, the Australian Government announced a significant new budget commitment to provide additional funding in the Pacific, in consultation with countries and other key partners, to improve statistical capacity and facilitate the production of timely, accurate, disaggregated and robust statistics from July 2009 (AusAID 2009b). Internally too, AusAID's aid management database, AidWorks, is being enhanced to enable the collection of data on the use of government systems (by April 2011) and to track the share of aid provided through program-based approaches.³² The most significant work to date aimed at providing statistics on progress towards harmonisation and alignment has been AusAID's study to track development and governance in the Pacific (AusAID 2009b). The report presented a broad range of statistical evidence based on 2007 data.

AusAID's Performance Management and Evaluation Policy emphasises the need to improve data quality. For example, the policy directs program staff to work with other donors to identify and develop partner government information and review systems that will

³² The importance of this work was highlighted in the recent independent review of AusAID's use of program-based approaches in Vietnam (Bartholomew, Nguyen & Kousek 2009), which found that AusAID's internal performance management systems and progress reporting formats for program-based approaches were the same as for projects, and did not fit well with the way in which these approaches are managed and implemented. The reviewers found that AusAID staff were having to do additional work to adapt program-based information to fit the required formats.

inform progress towards common objectives. Where necessary, the policy allows AusAID programs to use their own systems for gathering and analysing information, but they must use harmonised and cost-effective approaches that could be adopted by partner governments at a later date. The policy further encourages collaboration with partner country representatives, other donors and research institutions in joint evaluations.

4.5 Mutual accountability

Australia is working to identify strategies to foster mutual accountability. In the Pacific, for instance, consideration is being given to providing any needed support to enable countries to meet their obligations under the Partnerships for Development, to which mutual accountability is central. A pragmatic approach is important, especially in more fragile countries. In these contexts it will remain important to adopt a pace that is appropriate to country context, so the ‘policy space’ is sufficient to achieve a partnership based on equality.

As part of its contribution to cultivating mutual accountability, Australia is working to improve aid predictability. While Australia can and does give long-term indicative commitments to its partner countries and to regional and global partner agencies, actual budget allocations depend on Australia’s annual budget outcomes, which are announced in May and cover the financial year July–June. Within the constraint of its annual budget process, Australia is continuing to work to improve the availability of information on future aid flows. This is particularly the case where Australia is a significant donor, as it is in the Pacific.³³

One of the aims of the Pacific Partnerships for Development is to provide long-term and predictable funding commitments, with scope for increases in funding where jointly determined performance criteria are met. Implementation schedules are attached to some partnerships and include indicative allocations. Such schedules are expected to be incorporated in other partnerships over time. Allocations will generally be specified for between three and five years.

Conditionality, including performance-linked financial incentives, is another area in which AusAID has been working to improve predictability and mutual accountability. Australia does not have an overarching policy on conditionality, but individual programs do develop and apply conditions as appropriate. These are mutually and formally agreed. However, AusAID respects partner government preferences and sensitivities with regard to whether these are publicly released. In general, conditions associated with disbursements are made public, but there have been cases where, at the specific request of a partner government, they are not.³⁴

³³ There are numerous examples of current programs that include long-term commitments in the Pacific. Most of these are in Vanuatu—the Transport Sector Support Program (an expected 10 years), the Governance for Growth Program (2006–17) and the Police Force Capacity Building Project (2006–11)—where confidence in governance and effective engagement have been built jointly over more than a decade. Other examples include Australia’s commitment to a 10-year education improvement program in Kiribati from 2010.

³⁴ For example, in negotiating the Australia–Tonga Partnership for Development, Australia agreed to Tonga’s request that detail surrounding performance incentives remain confidential for the first year of the partnership.

CHAPTER 5: CONCLUDING COMMENTS

This update was guided by the twin questions, ‘are we doing the right things’ and ‘are we doing things right’

It is clear from the many relevant reforms that have been and are being introduced that Australia is doing many of the right things. In policy and programming terms, Australia has invested heavily in recent years in improving the prospects for greater aid effectiveness. This is now reflected within AusAID in a series of program reforms and corporate reforms, as well as in markedly stronger quality processes. Operational policy and management reforms, the move to new ways of delivering aid and a strengthened partnership approach mean that Australia is better positioned to balance the demands of the rapidly expanding aid program with its ongoing commitment to effectiveness. The strong focus on building performance management, transparency and accountability is contributing to AusAID’s capacity to increase aid effectiveness.

Australia is also on the right track to ‘doing things right’ and increasing effectiveness. In general terms, Australia’s most concerted efforts to implement the Paris Declaration principles have been in Papua New Guinea, East Timor and several of the Pacific islands countries, where Australia is a significant and influential development partner and where governance systems are comparatively weak. Substantial resources and analytical effort have been dedicated to assessing what is really feasible in these contexts and then tailoring support accordingly, reflecting Australia’s commitment to adapting effectiveness principles to the contexts in which it operates. The Pacific Partnerships for Development in particular represent an innovative approach that is redefining Australia’s engagement with Pacific island countries and hold great promise for an increased focus on country ownership of development strategies and programs and on mutual accountability.

Progress has also been made in other major programs—in Indonesia, Vietnam, Cambodia and the Philippines—where long-standing donor coordination processes and stronger partner government systems are enabling advances in harmonisation, alignment and mutual accountability. In regions where Australia has small, new or emerging programs—South and Central Asia, Africa, the Middle East, Latin America and the Caribbean—it is opting for much greater use of delegated cooperation to build value-adding partnerships with significant donors, a new modality that can complement the already important partnerships with multilateral organisations and non-government organisations.

GLOSSARY

Cairns Compact on Strengthening Development Coordination in the Pacific.	A regional initiative, to which all Pacific Islands Forum leaders committed in 2009, which sets out collective actions aimed at increasing the coordination of all available development resources, in line with the Paris Declaration and in an effort to increase progress towards the Millennium Development Goals. It reflects the concerns of leaders that progress towards these goals is insufficient. Leaders aim to collectively review progress under the Cairns Compact annually < www.forumsec.org/resources/uploads/attachments/documents/Cairns%20Compact%202009.pdf >.
Country situation analysis	A frank assessment of the opportunities and constraints to development and identification of those of most strategic importance for Australian ODA— informed by consultation with stakeholders including Australian non-government organisations, civil society, academic and research organisations, and other development partners in Australia and the partner country or region.
Country strategy architecture	A revised country strategy process intended to provide greater discipline for AusAID and its whole-of-government partners to develop coherent, focused, manageable and effective strategies for providing ODA. Under the revised architecture, the term ‘a country strategy’ now refers to a suite of processes and products, including a frank country situation analysis, a public and negotiated statement of commitment or partnership for development, and an outcome-specific delivery strategy detailing how the public commitments will be delivered and how the agreed aid objectives will be achieved.
Delivery strategy	An outcome-specific strategy detailing how Australia will deliver on its public commitments, how aid objectives will be achieved, and how progress will be measured. A delivery strategy emphasises the importance of policy dialogue, links within a country program, collaboration across multilateral and thematic areas, and strong external relationships.
International Aid Transparency Initiative	Launched in 2008 at the Accra High Level Forum on Aid Effectiveness, the initiative seeks to establish international standards for donors to provide comprehensive public information on all international aid. Australia is a founding signatory and a member of the steering committee, and contributed funding in 2010 to support the initiative’s operations.
International Network on Conflict and Fragility	A DAC-sponsored network established in December 2009 to focus on aid effectiveness issues in fragile states, as well as policy issues of security, peace building and state capacity. This network brings together the previous Network on Conflict, Peace and Development Cooperation and the DAC’s Fragile States Group in one forum.
Multilateral Organisation Performance Assessment Network	A network of 16 like-minded donor countries with a common interest in assessing the organisational effectiveness of the major multilateral organisations they fund. Every year, MOPAN assesses around four multilateral organisations in up to 10 countries through a stakeholder perception survey and a document review. In 2010 Australia is leading the MOPAN institutional assessment for the Asian Development Bank and is a country co-lead for the Indonesia and Afghanistan MOPAN surveys.
Pacific Islands Forum	Founded in August 1971, the forum today comprises the leaders of 16 independent and self-governing states in the Pacific: Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. It has a mandate to address political, trade and development matters of common interest and has been meeting annually for 40 years. Other non-member countries and development partners are invited as associate members or observers to particular forum-related meetings < www.forumsec.org.fj >.

Pacific Partnerships for Development	Government-to-government agreements that now guide Australia's country programs in the Pacific, in terms of setting priorities and monitoring performance. The partnerships jointly commit Australia and Pacific nations to achieving and assessing progress towards shared goals. They focus on how partner countries will strengthen their own efforts to achieve agreed development outcomes and on how Australia can better target its aid support. They explicitly have the principles of mutual respect and mutual responsibility as their basis.
Pacific Principles on Aid Effectiveness	An adaptation of the Paris Declaration designed to focus on the Pacific region's priorities and adopted by Pacific Islands Forum leaders on 13 July 2007 in Koror, Palau. There are principles, as well as actions and approaches for both countries and development partners, developed through workshops and consultations across the region < www.forumsec.org.fj/resources/uploads/attachments/documents/Pacific_Aid_Effectiveness_Principles_Final_2007.pdf >.
Portfolio	Defined within AusAID as a set of activities within a meaningful set of key relationships and outcomes, with a clear set of results related to a specific context or setting and group of stakeholders. A portfolio encompasses a range of aid delivery modalities, with separate agreements, set within an overarching planning and approval framework. Flexibility and scalability are built into its implementation arrangements.
Port Moresby Declaration	An announcement by the Australian Prime Minister on 6 March 2008, expressing the Australian Government's intention to begin 'a new era of cooperation' in the Pacific islands region and specifying its priorities in that regard—in particular, its intention to place its development cooperation relationships on a partnership footing and to focus on shared goals, through the introduction of Pacific Partnerships for Development and by working more closely with New Zealand, other donor partners and regional organisations < www.ausaid.gov.au/country/PortMorDec.cfm >.
Secretariat of the Pacific Community	One of the largest regional organisations in the Pacific region, which represents all independent, self-governing and territorial states. It has 26 members (American Samoa, Australia, Cook Islands, Federated States of Micronesia, Fiji, France, French Polynesia, Guam, Kiribati, Marshall Islands, Nauru, New Caledonia, New Zealand, Niue, Northern Mariana Islands, Palau, Papua New Guinea, Pitcairn Islands, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu, United States of America, Vanuatu, and Wallis and Futuna) and has been providing a wide range of technical, research, educational and planning services in support of regional development across a range of sectors since its establishment in 1947 < www.spc.int >.
Statement of commitment	A public and negotiated commitment by Australia and a development partner to shared, priority development outcomes, key principles and mutual responsibilities, usually covering a period of five years. In the Pacific, this public statement is now contained in a Partnership for Development document and implementation strategies. In other countries, Australia's intent is currently articulated in a country strategy document.

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