Thinking and Working Politically

AN EVALUATION OF POLICY DIALOGUE IN AUSAID

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Peter Bazeley I Taylor Brown I Emily Rudland

Cover image: Through policy dialogue, AusAID helps its partners shape their development priorities and policies. It is an important aid practice that can leverage increased impact from program funding and address the drivers of broad-based change. Photo: Conor Ashleigh, AusAID.

Office of Development Effectiveness

The Office of Development Effectiveness monitors the performance of the Australian aid program, evaluates its impact and contributes to the international evidence and debate about aid and development effectiveness.

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The evidence and analysis that contributed to this report is available at www.ode.gov.au

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Note on conflict of interest

Peter Bazeley has periodically been involved in the independent assessment of the performance of the Solomon Islands – Australia Partnership for Development, which has included, among other things, brief commentaries on Australia's participation in the Core Economic Working Group (CEWG), one of this evaluation's case studies. As he has not contributed directly to the work of the CEWG (he was an observer of the work), it was considered that there was no material conflict of interest.

Taylor Brown has had no previous involvement with any of the programs studied in this evaluation.

Emily Rudland, as an AusAID public servant, is obliged to take into account the values of the agency. However, ODE functions independently of AusAID's program areas and it is normal practice for ODE Evaluation Managers to join otherwise independent evaluation teams to facilitate the uptake of recommendations.

Acknowledgements

Acronyms and abbreviations

ADB	Asian Development Bank
APPR	Annual Program Performance Report (AusAID)
AusAID	Australian Agency for International Development
BAPPENAS	*Badan Perencanaan Pembangunan Nasional*—National Development Planning Agency (Indonesia)
CEWG	Core Economic Working Group (Solomon Islands)
DFAT	Department of Foreign Affairs and Trade (Australia)
DFID	Department for International Development (UK)
EFRP	Economic & Fiscal Reform Program (Solomon Islands)
GIZ	*Deutsche Gesellschaft für Internationale Zusammenarbeit*—German Agency for International Cooperation
GoI	Government of Indonesia
IMF	International Monetary Fund
MDG	Millennium Development Goals
MoFT	Ministry of Finance and Treasury (Solomon Islands)
ODE	Office of Development Effectiveness (AusAID)
OECD	Organisation for Economic Co-operation and Development
PNPM	National Program for Community Empowerment (Indonesia)
Post	An AusAID or DFAT overseas office or representation
PRSF	Poverty Reduction Support Facility (Indonesia)
RAMSI	Regional Assistance Mission to Solomon Islands
SIG	Solomon Islands Government
TNP2K	*Tim Nasional Percepatan Penanggulangan Kemiskinan*—National Team for Accelerating Poverty Reduction (Indonesia)
US$	United States dollar (US$1.00 = A$1.03 in May 2012)

Note: $ refers to Australian dollars unless indicated to the contrary.

A recipient of Indonesia's RASKIN program (rice for the poor). RASKIN is a focus of the National Team for Accelerating Poverty Reduction (TNP2K), which develops policy options to reduce poverty in Indonesia. With the support of AusAID's Poverty Reduction Support Facility, TNP2K is improving evidence about the impact of RASKIN through a randomised control trial evaluation, a social impact study, and a study to assess the effectiveness of the Unified Database on RASKIN. This evidence will be used to improve the effectiveness and targeting of RASKIN. Photo: Poverty Reduction Support Facility.

Executive summary

Introduction

AusAID's Office of Development Effectiveness (ODE) *Annual Review of Development Effectiveness 2009* identified the need for the agency to be more robust, broad and frequent in its policy dialogue, finding achievements from this area to be patchy and to lack organisational capacity to improve policy engagement. A 2008 OECD Development Assistance Committee review of Australia's aid program also identified a need for AusAID to develop its capacities to enhance policy coherence in its approach to delivering aid.

This ODE evaluation therefore sought to identify internal and external factors that make policy dialogue successful in the contexts in which AusAID works, and to provide operational lessons for the agency and its staff.

The evaluation first developed a solid theoretical basis for the work from a review of literature and international practice, and from this constructed a Theory of Success to test in the evaluation. Case studies looked at AusAID's support to national policy development in Indonesia and Solomon Islands. A broader range of experience was also captured through interviews with headquarters staff and Posts, through a web-based staff survey, as well as through commissioned analyses.

Why policy dialogue matters

If development agencies are to impact on poverty reduction at the scale and sustainability implied by the Millennium Development Goals (MDGs), then **aid needs to be transformational**. Transformational aid seeks to support change in the policies and institutions that determine the nature and success of poor people's lives and livelihoods. The MDGs will not be achieved simply by the transactional values of aid programs alone.

Poverty reduction, stability and economic growth in developing countries—appropriately managed—are also in Australia's national interests, as the Australian aid policy, *An Effective Aid Program for Australia: Making a Difference—Delivering Real Results*, emphasises.

However, the policies and institutions that shape poor people's lives and livelihoods are principally those of other sovereign nations. Donors partner with the governments of those other nations, but it remains the absolute right of the partner countries to determine their own policies and priorities, and to account to their own people for their impacts. Clearly donors also want those policies to be sustained, and should therefore seek to ensure that they are fully owned and believed-in.

Thus, policy dialogue becomes a central function of development practice—not to coerce or necessarily even to 'influence', but to establish an understanding of the values and interests of each party, and of where and how development assistance can champion a common cause.

There is also a strong business case for investing in policy dialogue on a value for money basis: while policy dialogue is a modest consumer of aid finance, it has the potential to leverage considerable impact by addressing the drivers of broad-based change, and thus to generate rewards much greater than the sum of its own costs.

What it is

'Policy' is hard to define absolutely. It is also inevitably context specific. For the purposes of this evaluation, however, we have suggested that a **policy is fundamentally the expression of a set of values** or principles that the leadership of an organisation (such as a government) holds to be important in delivering its mandate, or in bringing about change. In the context of international development, these values are often what those responsible for shaping the scope, pace and quality of development deem to be the tenets of development effectiveness.

Policy dialogue, therefore, is a discussion between interested parties **about the relative importance of those values** to each party, and about establishing a commonly agreed program of action that properly reflects those values. Sometimes such a process is referred to as the 'allocation' of those values. Policy dialogue may manifest as a discussion over public expenditure choices (including aid flows) or legislative reforms.

This does not imply that policy dialogue is necessarily adversarial or that the values are contested: it is about agreeing on what is important and why, prior to doing something about it.

The evaluation identified three broad areas of policy dialogue in AusAID work:

1. the projection of Australian values and interests through the aid program.

2. AusAID engagement with, and support for, the policy processes of partner governments and others.

3. negotiations on the scope, scale and positioning of the Australian aid program.

The evaluation also distinguishes 'policy' (values and interests) from 'strategy' (the plan to achieve policy objectives) and 'tactics' (programming). Policy dialogue is first and foremost about policy, but inevitably also extends to the strategy adopted to deliver it. Both of these should be set in an analysis of how the policies and strategies of the partner promote or constrain development, as part of AusAID's country situational analyses.

Theoretical framework

The evaluation developed a theoretical framework, which it tested in its fieldwork and surveys. The theory broadly held up and we are therefore confident that its elements represent important determinants of the effectiveness of policy dialogue. While there is overlap and interdependence between them, and while contextual factors will also be important, we describe the building blocks of effective policy dialogue as follows:

• the extent to which is clear what is to be achieved through dialogue—or '**clarity of intent**'

• the balance of power, knowledge and ownership, or '**negotiating capital**'

• the capabilities and characteristics of the actors, or individuals, involved

• the **fora used in dialogue:** the formal and informal spaces and opportunities to understand each other's values and interests

• **evidence:** the extent to which data and analysis inform dialogue, and who owns it.

The theoretical framework assumes that effective policy dialogue processes are likely to lead to successful policy outcomes.

What seems to be important

The evaluation highlighted a number of important **factors that shape both the process and results of policy dialogue in AusAID**: factors which can—in the main—be designed into a policy process, and which are manageable and replicable.

These centre around:

Recognising the importance of policy dialogue in the country program

Policy dialogue is a central function of modern, fit-for-purpose, international development because it is how development agencies can most effectively achieve the scale of outcomes implied by the MDGs. From that, it follows that policy dialogue must be seen as core work for staff.

However, some AusAID staff told us that they are not always given the space and time, or the support, to engage in substantive policy dialogue.

Thinking and working politically

Policy-making and policy dialogue are both inherently political processes. In both of the evaluation's case studies, AusAID staff brought a well-grounded understanding of the political economy of the sectors in which they were working. Their ability to read this context and to recognise openings and opportunities for engagement, as well as to identify potential threats, has been central to their ability to engage in 'successful' policy dialogue.

But at an agency-wide level, AusAID is yet to embrace this political-economy perspective across its programming or program cycle.

Seizing opportunity

The evaluation's two case studies were born out of exceptional political and economic events, constituting substantive 'policy windows' through which AusAID leapt with alacrity. While there were some elements of serendipity in AusAID's ability to respond (notably, coincident availability of budget-measure resources, and some exceptional skill sets at Post), the response, nonetheless, demonstrated the **benefits of being able to seize opportunities when they manifest**.

Only around half of respondents in the staff survey provided positive ratings for AusAID's responsiveness in policy dialogue. Survey responses for 'funding responsiveness and ability to follow up' showed this to be one of the top three determinants of policy dialogue contributing successfully to results. Less than half of respondents agreed that AusAID is able to recognise and adapt when 'the game changes', and one-third agreed that the agency's systems and structures support the ability to seize opportunities for dialogue.

Building relationships, credibility and trust—including staff skills and attributes

Regression analysis of staff survey results indicates that **'staff skills and attributes' constitutes the single most important contributor to policy dialogue success** in terms of process. This finding is reinforced through the two case studies (and also other examples) where policy dialogue 'success' can be attributed to the relationships, credibility and trust established. Those relationships share several common characteristics, despite the different contexts.

- They are founded on continual and **mostly informal dialogue** between the principal actors. Few of them depend, in the first instance, on set-piece formal dialogues.
- In all cases, the principal actors have considerable **personal credibility**—either through substantive technical and professional expertise and experience; through deep country experience and sensitivity to the political and social context (including sometimes language skills); or through their ability to harness consensus and resources across the wider networks.
- In all cases, staff are **backed in their endeavours** by their management.

The survey revealed mixed feelings about the ability of AusAID staff at Post to pursue an effective policy dialogue agenda. While over 90 per cent of Advisers and almost as many Counsellors felt personally well prepared for policy dialogue, First Secretaries were less likely to feel so. Less than half of respondents agreed that staff are rewarded for investing in relationship-building.

Investing in balancing negotiating capital

There are some examples of how AusAID has purposefully and directly invested in balancing negotiating capital as part of a policy dialogue process. However, while the evaluation recognised the benefits of an extant balance of power and knowledge in its two case studies, that balance was achieved through quite subtle determinants.

Across AusAID, our survey recorded mixed results with regard to AusAID's focus on building relationships, forming coalitions and strengthening partners' capacities for policy dialogue. The majority agreed that AusAID supports coalitions as well as individual champions, and that it focuses on building relationships and trust with a range of actors over time. While just over half agreed that AusAID supports counterparts to strengthen their capacity for policy dialogue, a significant number disagreed.

Conclusions and recommendations

Conclusions

- Policy dialogue is important, and there are examples of it being done well in AusAID, but it is not clearly understood across the agency.
- What makes for good policy dialogue process is predicable, manageable and repeatable, and is dependent on the following:
    - organisational values and principles
    - the capacity and capability to think and work politically
    - the allocation and configuration of resources for policy dialogue
    - the skills and credibility of staff.

    However, the extent to which these principles, resources and human capital are in place in AusAID and appropriately deployed to support policy dialogue is not consistent.
- Staff skills and attributes, the extent to which the agency understands counterparts' priorities, the development and use of locally owned evidence, and the ability to be fleet and flexible in response to policy windows are seen as key attributes for AusAID to sustain or improve, in enhancing the effectiveness of its dialogue.

Recommendations

There are thirteen recommendations grouped under the following headings:

- **Organisational values and principles**
- **Thinking and working politically**
- **Allocation and configuration of resources**
- **The skills and credibility of AusAID's people**

Each of the recommendations are specifically addressed in the AusAID management response (following this executive summary). The rationale for the recommendations and some overarching comments are provided in Chapter 6.

AusAID management response

Thinking and Working Politically: An evaluation of Policy Dialogue in AusAID

AusAID welcomes this evaluation of policy dialogue in Australia's aid program. We note that AusAID is one of the first bilateral donors to attempt to evaluate this important area of work. As the study notes, policy dialogue is core to the delivery of better, more cost-effective results. As the Australian aid program grows, so too does the importance of conducting balanced and effective dialogue around policies with partner countries. And while the agency is already committed to building the quality of our policy dialogue, we welcome the scope for further improvement that has been identified in the evaluation.

The evaluation provides a useful theoretical approach to the definition of policy dialogue. Likewise, the identification of a series of building blocks for effective policy dialogue will assist AusAID staff to operate more efficiently in the field.

AusAID accepts that there is scope to improve the way that policy dialogue is conducted. We acknowledge that we need to work harder to share the lessons – such as those identified in the evaluation case studies—from successful policy engagement and we can do more to support counterparts improve their own capacities for policy dialogue. Indeed, the work of the newly-formed Policy and Sector Division is addressing this issue.

We nevertheless take issue with some of the evaluation conclusions. First, we note that there is a marked disconnect between the evidence drawn from the two case studies (which is generally positive) and the conclusions arrived at from the staff survey (which are largely negative). The report should have addressed the reasons for this dichotomy more directly.

With regard to the actual structure of the staff survey, we are concerned that conclusions arrived at about the support provided by the agency to help staff engage in policy dialogue are based on rather weak questions. For example, the report notes that less than half of staff who responded to the questionnaire agreed that "AusAID provides the time, space and flexibility for you to work effectively in a policy dialogue context (for example at your counterparts pace)". This is a complex question and contains imprecise and complex concepts. We likewise do not share the researchers' views that mid-point responses (that is, those identified as "neither agree nor disagree") should necessarily be interpreted as indicating the need for improvement. In our view, these methodological weaknesses have led to an overly-negative judgement about AusAID's capacity to deliver good quality policy dialogue.

Notwithstanding these concerns about elements of the researchers' interpretation of the staff survey results, AusAID agrees with ten of the recommendations made by the reviewers and partially agrees with the other three. Our agreement with the majority of recommendations reflects the fact that we have already identified many of the issues ourselves and have begun acting on them.

Finally, we note that the report does not make mention of the role played by AusAID's whole of government partners in the area of policy dialogue. A recent ODE evaluation of Australian aid to the Law and Justice Sector noted that recipients of Australian aid in the sector saw real value in Australia's whole of government aid modality. In particular it helped in building strong linkages with their bureaucratic counterparts and that in turn led to stronger and more appropriate policy dialogue.

Peter Baxter
AusAID
March 2013

Response to Evaluation Recommendations

Organisational values and principles—expressing the values the agency has about policy dialogue in its norms, standards and ways of working.		
Recommendation 1— **Instituting a Common Understanding** AusAID should adopt a standard definition of policy dialogue, and promote a common understanding of the concepts and purpose of policy dialogue across all programs as an AusAID norm.	Agree	Guidance will encourage more structured consideration of policy dialogue in strategic program documentation and investment designs including greater articulation of its focus as related to desired outcomes and its targeting and resourcing.
Recommendation 2— **Providing Senior Direction** AusAID's Executive should provide greater clarity of purpose and direction about its expectations regarding the role, emphasis and expected outcomes of policy dialogue in the Australian aid program. This is to help staff and Posts better understand the importance of policy dialogue, what the agency aims to achieve through policy and institutional reforms, and where and how policy dialogue should be prioritised. Senior managers at Post should provide clear strategic direction and policy positions on major program areas.	Agree	Noting that AusAID has already issued guidance on Policy Dialogue (drawing in part on this evaluation) that clarifies expectations and encourages planning.

Thinking and working politically—embedding policy dialogue into aid management		
Recommendation 3— **Understanding the Politics of International Development** AusAID should support the development of a greater understanding of policy processes in, and the wider political economy of, international development (for example, through its support to the Developmental Leadership Program), with an emphasis on translating this understanding into practical operational outcomes for staff.	Agree	Noting that through the Development Leadership Program, AusAID has been generating precisely this type of insight for staff.
Recommendation 4— **Political Economy Analysis** Political economy analysis should underpin what AusAID does in constructing its country and sector programs—centred around a politically savvy Country Situational Analysis, and supported by in-depth contextual analysis (such as Drivers of Change) and sector-focused analysis.	Agree	Noting that new country situational analysis guidance and guidance around delivery strategies specifies that this should happen.
Recommendation 5—Evidence Policy dialogue should be informed by evidence and that evidence should be locally owned, shared and understood by stakeholders. AusAID should invest in working with partners to build the evidence base for good policy and in understanding what sort of evidence will be most useful and relevant in the context.	Agree	Noting that programs are starting to invest in this type of activity. For example, in Indonesia, AusAID is building a program that supports the development of local knowledge through, for example, think tanks.
Recommendation 6—Quality and Performance Processes The effectiveness of policy dialogue— whether linked to funding or not—and commentaries on the political context should become a standard element of: • AusAID's quality processes (Quality at Entry, Quality at Implementation and Annual Program Performance Reports) • Performance frameworks (at all levels) and evaluations.	Agree	AusAID will report on the effectiveness of policy dialogue in its quality processes and evaluations.

Allocation and configuration of resources-making sure policy dialogue is properly resourced		
Recommendation 7—Staff Time for Policy Dialogue Senior managers in country programs and multilateral partnerships should enable staff to devote sufficient 'space' and time for meaningful policy dialogue and relationship-building. This would involve prioritising policy dialogue in workloads over staff time spent on administrative and reporting processes.	Partially agree	Senior managers are already expected to support staff to spend an appropriate amount of time on policy dialogue. We will not, however, prioritise dialogue over other parts of the program management process. All components are important and it is up to managers to decide on the appropriate weight for each at any given time and the likely relative importance of policy dialogue to the aid issue/outcome being sought.
Recommendation 8—Funding Responsiveness The ability to be fleet, flexible and responsive—particularly in making and implementing funding commitments resulting from dialogue—should be seen as pivotal to effective policy dialogue. To achieve this, AusAID should ensure design and approval processes are fit-for-purpose across the types of aid provided, by balancing the risks involved (including the development risks of not being fleet and flexible).	Agree	Noting that AusAID is already building systems that enhance our flexibility in program design and approval.
Recommendation 9—Supporting Partners' Negotiating Capital AusAID's programs should invest in balancing the negotiating capital of their counterparts in policy dialogue (for example, by supporting partners' internal policy analyses and capacities to articulate positions and priorities).	Agree	Progress has been made in this area, for example, the AusAID Civil Society Engagement Framework contains a number of strategies to support the capacity of civil society organisations and partner governments to engage in policy dialogue.
The skills and credibility of AusAID's people-at the heart of securing effective policy dialogue		
Recommendation 10—The Right Skills and Capabilities AusAID should increase the technical and policy skills—among both specialist and generalist streams of staff—to enable better policy dialogue. All teams involved in policy dialogue should include (or have access to): • skills—technical specialities, and diplomacy/advocacy, language, cross-cultural communication, partnership and political analysis skills • capabilities—country experience, political awareness, confidence, flexibility and entrepreneurial capabilities. • This would include hiring more analytical staff to focus on policy dialogue and increasing access to technical support.	Partially agree	AusAID is currently developing an aid management learning package which includes technical and policy skills. The Agency is also deepening its in-house skills in key sectors and disciplines, as well as core public sector skills. We do not however agree that more analytical staff need to be hired – we believe that we can build skills through learning and development activities.

Recommendation 11—Performance Management The performance of staff at Post, from First Secretary upwards, should be defined and appraised in part on the basis of their skills and aptitude for, and success in, policy dialogue. Staff should be given suitable recognition for their success in policy dialogue to reinforce the value placed on this by senior staff.	Agree	Noting that improved annual staff performance assessments have already been established, based on clearly defined capability requirements.
Recommendation 12—Professional Development Professional development in the area of policy dialogue should be available to staff through on-the-job mentoring and training. Outcomes should include understanding the purpose and concepts of policy dialogue, and the political economy of development.	Agree	Noting this is already part of AusAID's aid management and development policy learning modules, which combine on-the-job learning (through experience and exposure) with formal training.
Recommendation 13—Country Expertise AusAID should build up and make greater use of country expertise and experience. This might include: • increasing time at Post to build up deeper country knowledge • enhanced language skills (at minimum one month in-country immersion training, ideally moving to language training equivalent to that undertaken by political officers of the Department of Foreign Affairs and Trade) • utilising national staff in policy dialogue processes to a greater extent.	Partially agree	AusAID is already enhancing language skills and considering how this could be further strengthened, and using O-based staff to a greater extent. Time at post is considered appropriate and will not be changed.

CHAPTER 1: Introduction

Why we did this evaluation

The Office of Development Effectiveness (ODE) *Annual Review of Development Effectiveness 2009* identified a need for AusAID to be more robust, broad and frequent in its policy dialogue. It found that AusAID's achievements from policy dialogue were patchy, reflecting a lack of organisational capacity or strategy to improve engagement:

> *In the absence of strong policy dialogue, Australia sometimes struggles to position its support in a way that helps its partners to make best use of the resources available to them to improve service delivery. The lack of strong policy dialogue at all levels also hinders agreement with partners on how best Australia might be able to support their strategic priorities.*[1]

The *Annual Review of Development Effectiveness 2009* findings were consistent with those of the 2008 OECD Development Assistance Committee peer review of Australia's aid program,[2] which identified a need for Australia to develop its internal and external capacities to enhance policy coherence for development as part of its whole-of-government approach to delivering aid.

ODE thus saw a need to look at what good policy dialogue is and how it can be applied to greatest effect in the different contexts in which AusAID works.

Objectives

This evaluation sought to:

- identify the internal and external factors that make policy dialogue successful in the varied contexts in which AusAID works.
- provide specific operational lessons for AusAID and its staff.

It was a formative evaluation, focused on lesson-learning from an evolving understanding of the subject[3] for the purpose of improving future practice. The report is thus targeted at senior and mid-level operational staff involved in designing and implementing policy dialogue approaches.

How we went about it

The evaluation gathered and presented a range of perspectives on policy dialogue over a period of several months, using a variety of tools.

- Early *concept consultations* highlighted how the implicit political and policy dimensions of aid need to be better understood and captured in the aid program through policy dialogue. The consultations identified gaps in understanding and capacity at both individual and organisational level. Terms of reference for the evaluation were subsequently developed.

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1   The Office of Development Effectiveness (2010) *Annual Review of Development Effectiveness 2009: Improving basic services for the poor*, The Australian Agency for International Development: Canberra, p. 57.
2   Organisation for Economic Cooperation and Development (2009) *Australia: Development Assistance Committee (DAC) Peer Review*, OEDC: Paris.
3   There have been few such evaluations of policy dialogue internationally.

- A solid *theoretical basis* for the evaluation was established through a review of literature and other donors' experiences. Two *think pieces* were commissioned from members of the international aid community to provide insight into donor engagement in policy dialogue in developing countries.

- An AusAID scoping workshop established the broad parameters of the evaluation, informed by the review of literature. A framework of analysis (or hypothesis)—*Theory of Policy Dialogue Success* (Theory of Success)—was developed to test, and perhaps, dismantle through the subsequent evaluation.

- Two *case studies*—albeit rapidly produced—were selected to provide depth to the evaluation. These sought to identify purportedly successful and contrasting examples of AusAID policy dialogue being conducted in different contexts and in different regions. However, their selection was also driven by the degree of interest within AusAID, logistical considerations and the evaluability of identified policy processes. The two case studies looked at AusAID's engagement with:

  — the Vice-Presidential National Team for Accelerating Poverty Reduction (TNP2K) in Indonesia

  — the government and multi-donor Core Economic Working Group (CEWG) in Solomon Islands.

- The Theory of Success was tested broadly by conducting case studies comprising one-week field visits by the evaluation team in which stakeholders in the partner government, AusAID, the Department of Foreign Affairs and Trade (DFAT), other development agencies and civil society were interviewed. A total of 119 stakeholders took part in the case-studies: 70 AusAID staff and 49 external stakeholders. Analyses of the two case studies are in Annexes 2 and 3 and are also available as standalone documents.

- The evaluation team interviewed senior managers in the AusAID Executive and AusAID divisions in Canberra responsible for policy development, human resources, and the Indonesia and Solomon Islands country programs. Telephone interviews were undertaken with senior AusAID managers at Post in a number of countries identified as being able to provide further lessons and experience.

- A web-based staff survey polling all AusAID Counsellors, First Secretaries and Advisers at Post (comprising the majority of staff likely to be involved in policy dialogue) was undertaken to provide breadth to the evaluation. Almost half of those polled responded, and all regions of AusAID's work were represented. Regression and other analyses correlated potential factors of effective policy dialogue against reported outcomes. The headline results are in Annex 4. The full results are available separately.

- In addition, ODE staff analysed the content of the 2010 and 2011 draft Annual Program Performance Reviews, covering 19 country programs.[4] This showed how policy dialogue was being perceived and discussed in country-program self-assessments and reinforced other evidence.

- *Lessons-Learned Workshops* were held following the fieldwork in both case study countries and in Canberra, and an 'ODE Talks' *podcast* discussed some early conclusions.

The evaluation revolved principally around the Theory of Success that was drawn from the literature review, and tested through the fieldwork and the analysis of the staff survey. Taken together, the tools and analyses employed provided a diverse evidence base covering a significant range of AusAID's work.

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4   Final versions of APPRs were not available at the time the analysis was undertaken.

This document

This document is intended to provide a succinct analysis of the evaluation and practical recommendations; it does not seek to present every aspect of the evaluation. Those who seek a fuller understanding of the topic are encouraged to read the background *Review of Literature and International Experience in Policy Dialogue*, our Theory of Success, and the commissioned think pieces—all of which are available on the ODE website at: www.ode.ausaid.gov.au

Nonetheless, it is important that AusAID staff understand the broad dimensions of policy dialogue and its role in the work of an international development agency. This report therefore first discusses why policy matters and presents some of the theory that underpins good practice in policy dialogue. It also tries to define what policy dialogue is ... and is not.

Using the tools and analyses that the evaluation employed, as well as the team's own experience of policy processes in development (including, for example, recent AusAID program evaluations), we highlight the features and characteristics of effective policy dialogue. We then present our recommendations—which apply both to AusAID as an organisation and to individuals engaged in policy dialogue.

A concise set of take-home messages is provided in the form of 'Top Tips for Effective Policy Dialogue' in Annex 1.

Limitations

The tools and approaches utilised provided what we feel is a robust understanding of many—but not necessarily all—dimensions of policy dialogue in AusAID. The evaluation's Theory of Success was largely supported and we are confident in our recommendations.

Regression analysis of survey data (Annex 4) provided an acceptable level of explanatory power, but suggested that factors outside the evaluation model also influence policy dialogue success. These factors may relate to politics, culture and history, reflecting the diverse contexts in which policy dialogue is conducted in development.

Our survey of AusAID staff also revealed, unexpectedly, that they spend substantial time on policy dialogue; we have interpreted this to mean that the understanding of what policy dialogue is, or is about, varies. The relatively high proportion of neutral scores in the survey might also reflect a lack of awareness about some aspects of the topic. This was noted particularly in questions about counterparts' motivation and authority, and the recognition of 'policy windows'.

The 'depth' studies both comprised, in retrospect, high-profile, highly regarded examples of one particular form of policy dialogue—supporting partner governments' policy processes. These studies therefore may not have been representative of more routine policy dialogue across the agency. We are confident, however, that our wider interviews and survey work mitigated the impact of this.

The evaluation did not provide an opportunity to examine more *contested* forms of policy dialogue. It may be valuable for future evaluations to look more closely at cases where the values allocated to certain policy outcomes are more divergent—for example in promoting AusAID's gender interests in the Pacific.

The evaluation's in-country work and, hence, much of this report was modelled on bilateral government-to-government forms of policy dialogue. However, we are confident that the concepts and principles apply equally to the pursuit of effective policy dialogue with other donors, multilateral partners and in AusAID's engagement with civil society partners. (Refer, for example, to ODE's evaluation of AusAID's engagement with civil society in developing countries.[5]) In these cases, the context and objectives may be different, but the factors of successful policy dialogue are almost certainly the same.

This evaluation did not look at policy dialogue with private sector stakeholders. One suspects that some different considerations may need to be taken into account in that regard, but these are not explored in this report.

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5   Howell, J. and J. Hall (2012) *Working Beyond Government: Evaluation of AusAID's engagement with civil society in developing countries*, Office of Development Effectiveness: Canberra.

CHAPTER 2: Why policy dialogue matters

More than a billion reasons to think about policy

The aid agenda is no longer just about 'doing good'. Today's international development agencies seek collectively to promote and secure poverty reduction on a global scale—an unprecedented scale and a scale that will not, with 1.4 billion people living on less than US$1.25 a day, be achieved by the transactional values of aid programs alone. So aid has also to be *transformational*. That is, it has to contribute to *bringing about change* in the things that shape those 1.4 billion poor people's lives and livelihoods and determine their abilities to survive and thrive in the world around them.

This, ultimately, means getting the policies and institutions right that constitute the values and 'rules of the game' under which citizens, businesses, services and whole economies in developing countries operate.

National values and interests too

While society's compassionate and humanitarian values motivate aid, international development can be important to donors' national interests too. Global and regional stability and security are undermined by persistent poverty, and a more prosperous global economy is good for all of us. So donors also want to see policies and institutions that promote our national values and interests.

Development agencies such as AusAID are increasingly finding themselves as important players in the projection of wider national interests in human rights, security and trade—debates in which conflicting imperatives and trade-offs inevitably abound.

> **Part 1.1 of Australia's 2011 aid policy,** *An Effective Aid Program for Australia: Making a Real Difference—Delivering Real Results*, **is about Australian values and Australia's national interests**

And there's the conundrum

The policies and institutions that frame development are, in the main, the policies and institutions of other sovereign nations—independent governments with whom development agencies partner, but whose absolute right it is to determine their own policies and priorities, and account to their own people for their impacts. And while aid-flows may be important and potentially influential, applying policy conditionalities to aid is rarely useful or effective.

Development agencies do not have all the answers, either. To be robust, policies have to be locally owned and locally relevant.

Thus, policy dialogue becomes a central function of development practice—not to coerce, or necessarily even 'influence', but to establish a common understanding of the values and interests of each party, and of where and how development assistance can champion a common cause.

Policy is also inherently political in its origins and implementation: so even if AusAID is essentially a 'doing' agency, it will only do the right thing for sustainable development if it fully understands and works with the political drivers of development through dialogue.

The business case for policy dialogue in AusAID

Our suggested business case centres on the value-for-money of policy dialogue as an aid tool in terms of efficiency, effectiveness and economy.

Efficiency

- Policy dialogue can yield a high value of output compared to the cost of the input: it can be an easily programmed and low-cost intervention with potential for high rewards in terms of development outcomes (through the potentially transformational effects highlighted above).
- It increases the value and impact of other aid investments, helping to make them achieve greater impact, more quickly. This is critical in the context of rapid scaling-up of the aid program to achieve the Millennium Development Goals (MDGs) and other development goals.

Effectiveness

- Through policy dialogue, AusAID can target key drivers of, or obstacles to, change (as our case studies show) and can thus contribute to far-reaching development impacts.
- Development is a political process: aid is more likely to make a difference if donors are politically aware and work with the grain of politics, where there is potential for positive change. Policy dialogue is the tool for donors engaging constructively in the politics of development.
- Policy dialogue builds relationship capital and goodwill for the bilateral program. This can pay off in multiple ways and multiple areas, and can be drawn on when things get difficult, or when future opportunities arise.
- Policy dialogue provides a useful avenue for whole-of-government collaboration, with diplomatic by-products that are valued by DFAT.
- Policy dialogue builds AusAID's credibility as a useful and relevant partner for country counterparts and other development agencies.

Economy

- Policy dialogue, in itself, is an extremely modest consumer of aid finance.

CHAPTER 3: What it is

Both 'policy' and 'policy dialogue' are difficult things to pin down. There is an oft-quoted witticism that "*policy is rather like an elephant: you know it when you see it, but you can't easily define it*".[6] There is no common definition or guidance on policy dialogue within AusAID (other than in sector-specific contexts).

However, for the purposes of this evaluation, and based on our review of literature and international practice, we have suggested that **policy is fundamentally the expression of a set of values** or principles that the leadership of an organisation (for example, a government) holds to be important in delivering its mandate and in bringing about change. In the context of international development these values are often what the people responsible for shaping the scope, pace and quality of development deem to be the tenets of development effectiveness.

> **Policy is fundamentally an expression of values**

The set of values might be acknowledged societal values (for example, an abhorrence of child labour or gender inequality); they might be values expressed by governments on behalf of citizens in the form of, for example, legislation; or they might be the expenditure choices that support the delivery of services or the priorities established in national development programs. More immediately, these values might simply be what are held to be the important features and characteristics of a donor country's aid program—such as the values set out in the Australian aid policy, *An Effective Aid Program for Australia: Making a Difference—Delivering Real Results*.[7]

Policy dialogue, therefore, is a discussion between interested parties **about the relative importance of those values** to each party, and about establishing a commonly agreed program of action that properly reflects those values. Sometimes such a process is referred to as the 'allocation' of those values. Policy dialogue may manifest as a discussion over public expenditure choices (including aid flows) or legislative reforms.

> **Policy dialogue is a discussion about the allocation of those values**

This does not imply that policy dialogue is necessarily adversarial or that the values are contested: it is about agreeing what is important and why, prior to doing something about it.

Policy dialogue will occur at multiple levels. It will probably be both formal and informal, and will take place in a variety of fora. It extends from high-level talks between politicians over the aid relationship to informal discussions about strategy and priorities between AusAID staff and their counterparts—and many other forms in between.

While this evaluation looked particularly at policy dialogue with partner governments, policy dialogue can and should also be applied purposefully with other donors and multilateral agencies,

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6   Originally attributed to Cunningham (1963) and widely cited—for example in Keeley, J. and I. Scoones (1999) *Understanding Environmental Policy Processes: A Review*. IDS Working Paper 89. Institute of Development Studies: Brighton.

7   Australian Government (2011) *An Effective Aid Program for Australia: Making a Difference—Delivering Real Results*, Commonwealth of Australia: Canberra.

with civil society, and with private sector stakeholders. They, too, will all wish to express and allocate 'values', which may or may not be the same as 'ours'.

The evaluation identified three broad areas of policy dialogue in AusAID work.

I. The projection of Australian values and interests through the aid program

Policy dialogue can include the projection of Australian values and interests, for example, in promoting the value Australia places on gender equality, or action on disability, or on regional security and stability. It might also include dialogue over Australia's expectations and standards of process in programs which it supports (for example, stakeholder participation in development), or over probity and accountability in the use of Australian taxpayers' funds.

Box 1: Examples of the projection of Australian values and interests

- In Samoa AusAID has championed and supported a new Inclusive Education Policy, resulting in students with disabilities now benefitting from early intervention and support provided through the government education system.
- Across South East Asia, AusAID, DFAT and the Australian Federal Police are working with partner governments and ASEAN to strengthen the criminal justice response to human trafficking in the region.

II. Engagement with, and support to, the policy processes of partner governments and others

AusAID supports the process of formulating good, evidence-based, and locally owned policies that promote good development. This will often focus on public expenditure choices and the determinants of the scope and quality of public services (including public financial management), but may also include support to analytical work and policy experiments.

Box 2: Examples of AusAID engagement with, and support to, the policy processes of partner governments and others

- In Indonesia AusAID is supporting a presidential taskforce to develop evidence-based policies and public investment programs aimed at rapidly accelerating poverty reduction across the country through enhanced social protection.
- In Solomon Islands AusAID and DFAT are central players in a joint government and multi-donor Core Economic Working Group that is debating and supporting crucial public financial management and budget reforms.

III. Negotiations on the scope, scale and positioning of the Australian aid program

What the aid program does and how it does it—optimally to support partner governments' policies and priorities—is also a matter of values and dialogue. This is particularly important in the context of scaling-up development assistance, and in the context of working in partnership more frequently with other donors and agencies.

Box 3: Examples of negotiation over the scope, scale and positioning of the Australian aid program

- In East Timor, AusAID is currently debating with government its priorities for development assistance in the context of post-conflict development, rapidly increasing national wealth and a strong sense of national identity and sovereignty.
- In Canberra, AusAID's Papua New Guinea and Pacific Division is redefining the focus and priorities of the Pacific program in the context of AusAID's new aid policy, *An Effective Aid Program for Australia: Making a Difference—Delivering Real Results* and reflection on the Pacific Partnerships for Development.

Of course, there might well be a mix of one or more of these objectives in a policy process. For example, our Indonesia case study falls principally into the category of supporting partner governments with their policy processes, but it also provides an opportunity for AusAID to present a case for values such as gender to be incorporated.

Our survey of Counsellors, First Secretaries and Advisers suggested that policy dialogue across AusAID has its strongest focus on supporting the policy processes of partner governments, followed by negotiating the scope, scale and positioning of the aid program and lastly on promoting Australian values and interests.

Staff also saw policy dialogue that supports partners' policy processes as having the most success in terms of aid contribution. They saw the least success where the focus was on promoting Australian values.

And what it isn't

Policy dialogue is recognised as being important in AusAID and there is an expectation that programs demonstrate and report policy dialogue impacts. But our review found that AusAID, corporately, has not defined what it means by policy dialogue. This lack of a consistent, clear and shared definition contributes, unsurprisingly, to variation in what staff count as policy dialogue.

Almost 95 per cent of respondents in our staff survey said that policy dialogue was a significant part of their core work, and over two-thirds claimed that their experience in policy dialogue was 'extensive'. However triangulation with the minutes of a cited policy forum suggested that those discussions would not always fall into our definition of policy dialogue.

> **Almost 95 per cent of AusAID respondents claimed that policy dialogue was a significant part of their work**

For the purposes of this evaluation we do not include as policy dialogue the discussion of program management or programming choices within the project cycle or the carrying-out of regular quality-management processes. Neither do we include, simply, the maintenance of cordial relationships with partner governments. Policy dialogue is a 'discussion over the allocation of values'.

Differentiating 'policy' from 'strategy' and 'tactics'

We think it is important to differentiate 'policy' from 'strategy' and 'tactics' (Figure 1).[8]

'Policy', we are saying, is fundamentally the expression of the values that an organisation holds to be important in delivering its mandate. In the context of government and public services, policy is **inherently political**. Administrations—such as a partner government department or AusAID itself—deliver on the policies established (or the values expressed) by ministers.

'Strategy' can be seen as the 'cunning plan' to achieve stated higher-level policy objectives. Strategy is about how an organisation organises its presence, efforts and resources, and its ways of working, such that they represent the right thing in the right place at the right time to contribute most efficiently and effectively to reaching its goals. Strategy will involve a consideration of the mix and focus of the aid program, and the types of aid that should be employed, where and when. That is, the 'how' of the aid program, or the *Delivery Strategy* in AusAID's Country Strategy Architecture.

'Tactics' are the programming decisions made in operationalising a strategy. They are the choices made about inputs and activities—for example the deployment of technical assistance or the allocation or reallocation of assets and resources, to achieve the required results efficiently and effectively.

Figure 1: Differentiating 'policy' from 'strategy' from 'tactics'

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8   This concept derives in part from: D. Nabarro, Special Representative of the UN Secretary General, personal communication.

Policy dialogue is first and foremost about 'policy' and reaching agreement on the relative importance of those values we and our partners wish to promote. However, policy dialogue will inevitably extend to 'strategy' and the choices we make with our partners over an appropriate response to meeting policy objectives.

Both our policy objectives and the strategy we adopt to deliver on them will be set in the context of a frank and wide-ranging analysis of, essentially, how the policies and strategies of our partners promote or constrain development and of where development assistance might best be able to contribute. That is the 'why' of the aid program, or the *Country Situational Analysis* in AusAID's Country Strategy Architecture.

Tactics become less central to an agency's work, and **policy dialogue becomes more central, as the aid program moves away from running standalone, donor-managed, projects towards a greater focus on supporting a partner government's own programs and strategies.**

An Indonesia man holds the JAMKESMAS card (Indonesia's health care program for the poor) of his son. This card allows the owner to receive treatments in any government-owned hospital without any cost. JAMKESMAS will use the Unified Database, developed by the National Team for Accelerating Poverty Reduction (TNP2K) and Indonesia's statistical agency with AusAID's support, to better target poor households. The Unified Database corrects the exclusion errors of previous beneficiary lists, giving all poor households in Indonesia a chance to be included in the program. Photo: Poverty Reduction Support Facility.

CHAPTER 4: Some theory

The literature is full of examples where development policies imposed or championed by donors have failed. They have either been rejected, or they have turned out to be the wrong policies or, frequently, they have been agreed in principle but never or only partially implemented in practice. Why?

Policy dialogue in international development is, almost by definition, conducted in the context of **significant imbalances of knowledge, power and dependency.**

In the more transactional negotiations of everyday life such asymmetries may be used by one or both parties to advance their position or bargaining power. Think of the proverbial used-car dealer offloading a suspect vehicle, or of the rents sought by monopoly providers. But in development, where agencies are seeking to secure sustainable, transformational, solutions that affect many people, **the principle should be that both parties subscribe to the deal with equal understanding of the issues, trust and own the solution to an equal degree, and see in the solution the values and interests to which they both aspire**. Because if that balance is not achieved then one or other party is likely to be or become disenchanted, or have difficulty accounting to their constituents, and is ultimately likely to reject or renege.

> **Policy dialogue is a process of communicating and negotiating values in a landscape of power and knowledge imbalances**

It will not always be possible to achieve such ideals. In these cases, the agents of development must at least understand who benefits from change, or from the status quo being maintained, and who does not. Only then can an appropriate response be constructed.

What should policy dialogue achieve?

The success of policy dialogue can be measured in terms of both its process and its results.

Process

Successful policy dialogue suggests a sustained interchange of ideas, perspectives and analysis between the donor and its counterparts, conducted in such a way that the process:

- is focused on a clearly defined purpose or endgame.
- promotes mutual trust and confidence between parties.
- generates an understanding of each party's genuinely expressed values.
- incorporates evidence.
- recognises the political as well as technical dimensions of policy reform.

Results

Policy dialogue must clearly also deliver a result. It must:

- get key policy issues on the agenda.
- yield tangible change for the better in policies.
- improve the implementation of policy.
- promote sustainable development.

The building blocks of effective policy dialogue

Following our review of literature and international practice (to which the reader can refer for further elaboration), the evaluation team developed a Theory of Success. This Theory of Success is comprised of five interconnected building blocks, which might constitute the essential elements of effective policy dialogue. These building blocks are:

- the extent to which it is clear what is to be achieved through dialogue—or '**clarity of intent**'.
- the balance of power, knowledge and ownership, or '**negotiating capita**l'.
- the capabilities and characteristics of the **actors**, or individuals, involved[9].
- the fora used in dialogue: the formal and informal spaces and opportunities to understand each other's values and interests.
- **evidence**: the extent to which data and analysis inform dialogue, and who owns it.

We tested the Theory of Success in our fieldwork and surveys and found that it held up— it provided an insightful and comprehensive framework for understanding the factors that contributed to effective policy dialogue. In the Solomon Islands and Indonesia case studies, the five building blocks and their interactions adequately captured both how and why AusAID and its counterparts have been able to develop and sustain dialogue around public financial management and social protection. Our lighter touch analysis of other dialogue processes (in Bangladesh, China and Vanuatu) and the survey also reinforced the utility of the framework. (Section 5 elaborates.)

We are therefore confident that the elements of our Theory of Success represent important determinants of effectiveness in policy dialogue.

Clarity of intent

The degree to which participants are clear about what they want to achieve through dialogue

Policy dialogue is likely to be more successful if all parties involved are clear about what they seek to achieve through dialogue. This may cover a broad range of interests.

For a bilateral agency such as AusAID, clarity of intent means that staff engaged in policy dialogue need to be clear if the intent is purely philanthropic or humanitarian, or whether there are more political or strategic objectives (for example, the championing of human rights or the promotion of regional social and economic stability). A policy dialogue concerned with one end of that spectrum is unlikely to serve the intents of the other.

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9   Actor attributes essentially contribute to negotiating capital, but they are discussed separately because of the significance the evaluation has placed on this element.

So for AusAID this means that staff engaged in dialogue are clear about the values and interests they are trying to promote; the objectives they are trying to achieve, and why; and what success would look like. It means that there should be some sense of priority over what issues and outcomes really matter, and where there can be compromise. In practice this means that staff engaged in policy dialogue know where they want to get to (their objectives), but are willing to be flexible about how they get there. A coherent and coordinated approach across the whole Australian government and with other development partners is essential and needs to be managed: different parts of government may potentially bring quite different values and interests to the same policy issue.

Our review of the literature also suggested that organisational aspects can promote or compromise clarity of intent. For example, it can be undermined where responsibility for international development does not rest principally with one agency of government, overly centralised decision-making can miss the nuances of political intents on the ground, and lack of specialist or sectoral expertise can lead to uncertainty over what might be a desirable or acceptable outcome from policy dialogue.

Clarity of intent is equally critical for the counterpart. Having the capacity and political will to know when to focus, on what and why, allows partner governments to conduct dialogue on a more equal footing with their development partners, and is likely to deliver more sustainable outcomes.

Clarity of intent also relates to the process, and means being clear about what policy dialogue is; analysis of some of the results of the survey of AusAID staff suggested that there is wide variation in understanding what policy dialogue is, or what it is about.

Clarity of intent also effectively strengthens the negotiating capital of partners in a dialogue.

Negotiating capital

The balance of power, knowledge and ownership between dialogue participants

As we have said, policy dialogue involves communicating and negotiating priorities in a landscape of power and knowledge imbalances, and different degrees of ownership. A number of factors serve to increase or decrease the power, knowledge and *ownership*, or negotiating capital, of those who engage in the dialogue:

Political imperatives for one or both parties to secure a particular policy outcome, and the extent to which wider institutional imperatives that serve to enhance or attenuate the negotiating position clearly shape the process. For example:

- partner governments' wider policies and preferences with regard to sources of financing and other economic benefits linked to aid (for example, access by one party or the other to markets and natural resources).
- the political (including historical and cultural) importance of the partner to the donor and vice versa.
- other donors' policies, strategies and negotiating positions.

Organisational factors will affect the negotiation too. For example:

- the reputation, values, interest and credibility of the organisation, its mandate, and its approach to risk.
- the internal politics and culture of the organisation and how that affects its external actions, relationships and perceived powers.
- the structure and financing of the organisation and its capacity to engage swiftly and flexibly (time, personnel, budgeting, convening power, rigidity, levels of delegation and so on).
- the explicit or implicit incentives for staff to perform in different areas: what the organisation deems to be 'performance' and the support provided to perform.

Dialogue characterised by significant imbalances in negotiating capital, including the influence of actors (see below), may result in policy change. However, it often results in weak policy implementation: incentives may exist for partner governments to agree to a policy change where there is in fact little intention or capacity to implement it. (This has been termed *false collaboration* in the literature.) We argue that the most successful policy dialogues are those where imbalances in negotiating capital are recognised and addressed (Figure 2).

Figure 2: Successful policy dialogue—achieving balance in negotiating capital

Policy dialogue is a process of communicating and negotiating priorities in a landscape of power and knowledge imbalances

Different factors increase or decrease actors' access to power and knowledge, or 'negotiating capital'. Factors might be geopoliticial, organisational or personal

Dialogue will be more effective if the negotiating capital of the two parties is comparable

Geo-political factors

Organisational factors

Personal factors
(actors' skills, knowledge, personality)

The balance of 'negotiating capital' in policy dialogue

Adapted from McCullough, A. et. al. (2011) *Review of Literature and International Practice in Policy Dialogue*.

Actors and their attributes

The capabilities and characteristics of the individuals engaged in policy dialogue

This subset of, or contributor to, negotiating capital relates to the inevitably important personal capacities and characteristics of the actors conducting a policy dialogue. For example:

- the person's skills, knowledge, experience and personality—which contribute to credibility and respect in policy dialogue.
- their ability to analyse and articulate policy and policy options.
- their confidence and authority to represent and make decisions on behalf of their organisation.
- entrepreneurship in seizing policy opportunities, identifying and relating to the other actors, applying innovation and research to policy challenges and stimulating productive dialogue (so-called 'policy entrepreneurs').

Those involved in policy dialogue need to see that these are the roles and characteristics of modern-day, 'policy-capable', development professionals. But importantly, the institutional incentives also need to be there to reinforce that, implicitly or explicitly, the assessment of performance at both personal and program levels captures such attributes.

Fora for dialogue

The formal and informal spaces and opportunities to understand each other's values and interests

International development, by definition, implies working across cultures. Differences in the drivers and pace of change, the norms and mandates of government, and in how institutions and hierarchies operate will shape the process of dialogue. Approaches to negotiation, deference, conflict and pride will vary in different contexts, as will ways of working and communicating.

Set-piece formal dialogues will rarely reveal the whole story about each party's true values and interests. Actors and agents need to engage in more systematic—but often informal—ways of creating trust, respect and appreciation of the other party's perspectives.

The evaluation considered where and how different fora are used in policy dialogue and how they influence the quality of the process and result. The evidence collected highlighted the importance of:

- the recognition and utilisation of both formal and informal processes.
- the creation of space and time (and perhaps resources) for knowledge and power imbalances to be levelled prior to, or as part of, the process of negotiation.

Use of evidence

The extent to which data, research and analysis inform policy dialogue, and who owns it

Developing a shared and robust evidence base can help ground discussions and contribute to more effective policy dialogue, in both the formulation and implementation of policy. However, policy-making is neither objective nor neutral; it is an inherently political process.[10] Diversity of political, social and economic forces, coupled with institutional and capacity constraints, may serve to increase still further the 'non-linearity' of policy processes and reduce the extent to which evidence informs policy in practice.

Sutcliffe and Court highlight three considerations in the use of evidence in policy-making:

- Policy should be informed by **multiple forms** of evidence. Key issues include the quality, credibility, relevance and cost of the policy.
- **Different evidence** and **different approaches** to presenting evidence may be needed at different stages for different audiences and levels of decision-making.
- Evidence is not the only factor. **Externalities affect policy-making** at each stage, both at an individual and organisational level—for example, the pressure to be seen to be delivering 'quick wins' for political and reputational purposes.

Broadly, however, we can suggest that:

- evidence based policy-making in development entails **robust analytic capacity** both within and outside of government.
- the credibility and relevance of evidence, and therefore its acceptability to and incorporation in policy processes will be enhanced by a **jointly owned** evidence base.

It is important to acknowledge that donors do get it wrong sometimes: there are plenty of examples of successful policies that were adopted contrary to donors' advocacy and advice. The importation of donor concepts of best practice does not, in itself, represent successful policy dialogue. (See also *false collaboration*, above.)

It is also important to acknowledge that evidence is seldom politically neutral. There are likely to be both winners and losers from even the 'best' policy options, and the influence of those winners and losers will affect the political appetite for such reforms.

The evaluation identified some examples in AusAID programs where robust evidence was clearly supporting policy processes (for example, in the Indonesia case study). However, the use of evidence, particularly jointly owned evidence, did not feature strongly in the evaluation's findings.

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10   Sutcliffe S. and J. Court (2005) *Evidence-Based Policymaking: What is it? How does it work? What relevance for developing countries?* Overseas Development Institute: London.

Multiple contexts and pathways in policy dialogue

Policy dialogue processes will need to adapt to different contexts and underlying drivers. For example:

Different approaches, skill sets, resources and expected outcomes might be implied between '**contested**' and '**non-contested**' **policy intents**.

- Where the intents and desired outcomes of policy reform are not contested—improved basic education outcomes might be an example—a donor's interest in policy dialogue might be focused more appropriately on policy implementation and resourcing.

- Where, on the other hand, there are seemingly fundamental differences in values between donor and partner government over policy choices—for example difficult economic or public sector reforms, corruption or gender issues—then the focus of policy dialogue may, in the first instance, need to be on political and diplomatic efforts.

The use of **different types of aid** may require different forms of policy dialogue, with different purposes.

- Moving towards greater use of partner government systems invariably implies a significant deepening of policy dialogue and absolute clarity of intent. This is because donors will be relinquishing exclusive control of resources and need to agree—before the event—the additionality of development outcomes attributable to enhanced donor finance (rather than simply managing inputs and activities).

- Increased use of performance-linked aid implies prior consensus on the expected outcomes of policy and public expenditure reforms, and confidence in the partner government's policy and expenditure choices.

The extent to which AusAID is subscribing to **harmonisation** of multiple donor efforts (either bilateral or multilateral) and delegated cooperation arrangements will dictate different pathways in policy dialogue, and possibly different outcome expectations. It may be that the focus of dialogue shifts towards securing a consensus among development agencies, at Post or in capitals, prior to reaching a consensus with the partner government, adding—potentially—another dimension to the political economy. But there is another side to that coin, which is of donors being perceived by the counterpart to be 'ganging up' and 'precooking' the policy agenda offline.

Children and their teacher in Aimela primary school, Solomon Islands. AusAID has provided performance-linked aid to Solomon Island's education fee-free initiative, which reinforces policy dialogue on economic reform through the Core Economic Working Group. Photo: Rob Maccoll for AusAID.

CHAPTER 5: What seems to be most important

The evaluation's fieldwork and survey largely supported our Theory of Success. It highlighted a number of **seemingly important factors that shape the process of policy dialogue: factors that can, in the main, be designed-in to a program, and that are manageable and replicable**. Further research may be needed to test the theory in relation to the outcomes of policy dialogue as this was beyond the scope of the evaluation's terms of reference.

> **Factors of effective policy dialogue can be designed-in, managed and replicated**

These factors are presented in summary form in our 'Top Tips' (Annex 1) and their application in the two cases studies is discussed in depth in Annexes 2 and 3. The headline results of the staff survey of factors contributing to effective policy are provided in Annex 4.

Annex 5 provides a schematic 'theory of action' setting out how, in our observation, policy dialogue works as an aid tool and what the critical elements of policy dialogue seem to be. Using the concepts and lessons developed in the evaluation, it starts with the building blocks of policy dialogue, highlights the important processes and pathways, and shows how policy dialogue outcomes, when set in context, contribute to developmental change.

In our survey, almost all staff recently involved in policy dialogue felt that their dialogue yielded moderate to high success, suggesting that respondents hold a broadly positive attitude towards policy dialogue in AusAID—albeit with scope for improvement, as we shall discuss.

This assumes consistency in an understanding of what policy dialogue is across the agency. However, there is no standard definition in AusAID, or promotion of common understanding of purpose, and this must surely make effective practice across agency more difficult. Analysis of the results of the survey of AusAID staff certainly suggested that there is some lack of consistency in their understanding of what policy dialogue is.

From our evaluation, the following seems to be crucially important:

Recognising the importance of policy dialogue in the country program

> "If we are not provided with adequate resources to manage a program of the expected size and complexity, AusAID will be exposed to increasingly higher risks of poor performance. We will also be limited in the type and depth of enagaement we can pursue and the level of engagement will not be commensurate with Australia's investment."
>
> *Bangladesh 2010 Draft Annual Performance report (APPR)*

Policy dialogue has to be seen as a central function of modern, fit-for-purpose international development because that is how agencies of development can most effectively achieve the scale of outcome implied by the MDGs. From that, it follows that policy dialogue must be seen as core work for staff at Post and elsewhere.

However, in the scoping, fieldwork and survey components of the evaluation, around half of AusAID staff surveyed told us they are not always given the space and time, or the support, to engage in substantive policy dialogue (Box 4). Staff in the Pacific region were least likely of all to indicate that policy dialogue is appropriately resourced, or that there is time, space and flexibility to engage in dialogue.

This is not to say that policy dialogue should be projectised—quite the opposite: it needs to be mainstreamed as part of the core agency work. The importance of policy dialogue is recognised in how individuals and teams are tasked, in the skills and capabilities they have, and in the need to ensure a realistic understanding of what is involved and required.

Box 4: Resources and support for policy dialogue

- In our staff survey, respondents were least likely to agree that AusAID provided the necessary resources and support for policy dialogue.

- Under one-third of respondents agreed that AusAID provides the time, space and flexibility to work effectively in policy dialogue, or that the agency's systems and structures support the staff's ability to seize opportunities for dialogue.

- Counsellors (as opposed to Advisers and First Secretaries) recorded particularly low ratings for the support they receive for policy dialogue, with only 17 per cent agreeing that AusAID provides the time, space and flexibility for good policy dialogue.

- Staff based in the Pacific region were the least likely of all to indicate that policy dialogue is appropriately resourced.

Staff surveyed identified the top three internal factors detracting from effective dialogue as staff skills and experience, lack of time, and lack of support or clear policy from Canberra. Where there was support from AusAID and DFAT leadership, it was seen as one of the top supporting factors of effective policy dialogue.

However, the high profile and largely successful policy dialogues studied in Indonesia and Solomon Islands demonstrated these factors, mostly in a positive way (Box 5).

Allied to these observations on resourcing is the equally important question of reporting and performance frameworks. While policy dialogue is often mentioned in programming documents and quality reporting, it is not considered systematically in the agency's performance assessment and reporting and there is no requirement to define what policy dialogue success would or does look like.

But it is not an end in itself

Policy dialogue is now frequently reported in performance and other reports. In the evaluation team's trawl of 2009 and 2010 Annual Program Performance Reviews, we found around 350 references each year to aspects of policy dialogue. Almost 95 per cent of respondents in our staff survey said that policy dialogue was a significant part of their core work.

But our emphasis on *clarity of intent* highlights the risk that policy dialogue can sometimes be seen as an end in itself. It is not, and it never should be.

> "AusAID needs to be clear that there's no point in having a seat at the table unless they have something to say when they get there."
>
> *A senior DFAT diplomat*

When defined as an 'end', policy dialogue can be no more than a discussion with counterparts over project implementation issues. Conversely, when defined as a 'means' to implement transformational aid, policy dialogue becomes a strategy to bring about policy reforms that improve the lives of people in meaningful ways.

In our staff survey only 61 per cent agreed that it was clear what success in policy dialogue might look like. AusAID China's 2010 draft Annual Program Performance Report, for example, concluded that it must define policy engagement objectives more rigorously and realistically, including "*the types of policy engagement we are seeking, the outcomes we expect and the modalities for achieving this*".

Thinking and working politically

Policy-making and policy dialogue are both inherently political processes, and understanding the politics and the political economy [11] of development are at the heart of providing effective support to improved governance—one of the Australian aid program's key strategic goals. International research, such as the AusAID-supported Developmental Leadership Program, emphasises that the key to understanding governance is the need to recognise and accept the political nature of change, the relevance of elites, and the critical place of local leadership and locally legitimate coalitions in bringing about change.

But AusAID is yet to embrace this perspective fully in its programming or program cycle:

- Staff consider 'understanding of counterparts and the political economy' to constitute one of the strongest determinants of overall success in policy dialogue in terms of its contribution to aid and development results. But political economy analysis is not part of AusAID's suite of mandatory pre-posting training. Staff also do not feel they are supported in policy dialogue—especially those who are at the frontline of understanding local politics and the political economy. Only 17 per cent of Counsellors responding to the survey agreed that AusAID provides the time and space for good policy dialogue.

- In the survey, staff highlighted that clearer direction, including effective strategic guidance and clearer policy positions, would support better policy dialogue, and—conversely—suggested that lack of clarity in policy direction from AusAID was a major detractor.

However, in both of the evaluation's case studies, AusAID staff demonstrated a well-grounded understanding of the political economy of the sectors in which they were working. Their ability to read this context and to recognise openings and opportunities for engagement, as well as to identify potential risks and threats, has been central to their ability to engage in successful policy dialogue. It has also enabled staff to support the development of locally relevant and adapted programs and dialogue fora, rather than simply import best practice from other contexts. This capacity to think and work politically is, in our opinion, a defining feature of the two programs' policy dialogue success.

Seizing opportunity

The evaluation's two country case studies were both born out of exceptional political and economic events, constituting substantive 'policy windows' through which AusAID leapt with alacrity. While there were some elements of serendipity in AusAID's ability to respond in a fleet and flexible way (notably, coincident availability of budget-measure resources, and some exceptional sector-specific skillsets at Post), the response, nonetheless, demonstrated the benefits of being able to seize opportunities when they arise.

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11 Political economy analysis "is concerned with the interaction of political and economic processes in a society: the distribution of power and wealth between different groups and individuals, and the processes that create, sustain and transform these relationships over time". Humanitarian Policy Group (2003) *Power, Livelihoods and Conflict: case studies in political economy analysis for humanitarian action*, Humanitarian Policy Group Report No. 13, Sarah Collinson (ed.), Overseas Development Institute: London. See also www.oecd.org/dac/governance/politicaleconomy

AusAID's rapid response to a policy window opening, which was a notable feature of the Indonesia case study, also demonstrated that AusAID's institutional frameworks, or 'rules of the game', allow opportunities to be seized. However, being responsive can be resource intensive. It was made clear to the evaluation team that delivering such organisational alacrity is challenging and carries high internal transaction costs. It requires significant involvement of senior managers and can only be contemplated where it is of the utmost priority.

> "The context changed: AusAID didn't."
>
> *A senior program manager in the Pacific*

While we have emphasised the 'non-linearity' of policy processes, these opportunities are often linked to political timetables in partner governments, and these are not always entirely unpredictable. For instance, a significant driver for the Indonesian government's interest in TNP2K is the potential for social protection to deliver votes (Annex 2).

> In Kiribati a newly re-elected government has just started a four-year term mandate. "Has AusAID's country strategy recognised that policy window opening?"
>
> *A recent performance audit*

Only around half of respondents in the staff survey provided positive ratings for AusAID's responsiveness in policy dialogue. Results for 'funding responsiveness and ability to follow up' was one of the top three determinants of policy dialogue contributing successfully to aid or development results in our regression analysis.

Less than half of respondents agreed that AusAID is able to recognise and adapt 'when the game changes' in the policy context in which they are working, and around one-third agreed that the agency's systems and structures support the ability to seize opportunities for dialogue.

Box 6: Designing-in responsiveness

- Vanuatu's successful Governance for Growth program was designed from the start to be not just a platform for policy dialogue but also a vehicle for fleet and flexible responses to emerging policy opportunities, and to support government-led programs that resulted from those dialogues. Governance for Growth is a bespoke, Director-led and AusAID-staffed facility embedded within the partner government (and not in the High Commission) with high levels of delegated authority within its mandate to engage in policy dialogue and follow-through. It challenged design conventions at the time, but has had significant impact on policy processes and outcomes, and is now up for renewal.

- It took AusAID only six weeks from the request for assistance for AusAID's Poverty Reduction Support Facility to be established and to staff the interim program. The facility has since also been able to respond quickly to specific government requests for support through the Poverty Reduction Support Facility—often within a few days.

Funding responsiveness was found in the analysis of the staff survey to be an important factor of success in terms of the contribution of policy dialogue aid outcomes. However, it ranked relatively low in terms of performance and is therefore an area for AusAID to focus some effort on improving (Figure A4-3 in Annex 4).

Staff skills and attributes in building relationships, credibility and trust

The two case studies (and also other examples such as that of Vanuatu's Governance for Growth program in Box 6) suggest that policy dialogue success can be attributed to the relationships, credibility and trust that individual staff established in the process.[12] Those relationships share several common characteristics, despite the different contexts:

- They are founded on continual and mostly **informal** dialogue between the principal actors. Few of them depend, in the first instance, on set-piece formal dialogues. (Although the Solomon Islands' CEWG is in itself a formal high-level forum for dialogue, much of the consensus is reached 'offline' through continuous donor–government and donor–donor dialogue among the officials involved.)

- In all cases, the principal actors have considerable **personal credibility**—either through substantive technical and professional expertise and experience, through deep country experience and sensitivity to the political and social context (including sometimes language skills), or through their ability to harness consensus and resources across the wider donor network.

- In all cases, staff are demonstrably **backed in their endeavours** by senior management.

> "[We appreciate how] AusAID paticularly uses informal meetings. Other donors don't have the staff to do that."
>
> *A senior Government of Indonesia official*

The case studies are reinforced by the results of the staff survey. Regression analyses indicate that 'staff skills and attributes' constitutes the single most important contributor to policy dialogue success in terms of process. In addition, 'understanding counterparts' was seen to be almost as important in terms of the contribution of policy dialogue to aid outcomes. And this, too, is essentially about relationships and staff skills. (Conversely, a lack of knowledge, experience and understanding at Post was deemed one of the top detracting factors).

Although staff skills and attributes are critical to building relationships, credibility and trust, the survey revealed mixed feelings about the ability of AusAID staff at Post to pursue an effective policy dialogue agenda. While over 90 per cent of Advisers and almost as many Counsellors felt personally well prepared for policy dialogue, First Secretaries were much less likely to feel so.

> "A lack of in-country resources and technical expertise has limited AusAID's capacity to repesent Australian line agencies."
>
> *China 2010 Draft APPR*

A recommendation of Australia's 2011 Independent Review of Aid Effectiveness[13] was that AusAID should devote greater senior management resources to developing and managing relationships with partners. However, less than half of survey respondents agreed that staff are rewarded for investing in relationship-building. Together with relationship-building, '**understanding of counterparts**' appears to be **one of the most important areas to improve in AusAID** policy dialogue (Figure A4-3, Annex 4).

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12 Relationships, credibility and trust also relate to corporate reputations, and in this regard AusAID was commended by partner government officials during our fieldwork. AusAID is seen, in the two case studies at least, to be supportive and flexible, and—in particular—is valued for not pushing the agenda.

13 Holloway, S. et. al. (2011) *Independent Review of Aid Effectiveness, Commonwealth of Australia: Canberra*.

As AusAID's 2011 Workforce Plan highlights:

AusAID's rapid growth over the past few years means the agency has a high proportion of new entrants, with more than one in five staff having been employed for less than one year. Almost half of our staff have been employed for less than three years. This can make it difficult to ensure the agency has access to experience and skills in public policy formulation and in the management of complex aid programs.[14]

In terms of policy dialogue, however, new skills groups and training are unlikely to be the sole answer. As noted above, staff also seek greater clarity of purpose and stronger direction from the Executive as to what policy success looks like.

> **"A high-level policy dialogue will be intensive to implement. Human resources will need further training as well as greater initiative to support our engagement in new areas of work as well as to meet higher expectations of policy analysis."**
>
> *Vietnam 2010 Draft APPR*

In our earlier review of international practice, we noted how the UK Department for International Development's (DFID's) purposeful transition to a more 'policy capable' staff establishment over a decade ago was in large part achieved through absolute clarity of purpose and the introduction of staff performance metrics that included policy skills.[15] Being 'policy capable' explicitly became something on which staff were assessed in applying for postings and promotions.

Other important skills for effective policy dialogue, also recognised in the Workforce Plan, include country knowledge and longevity of postings, language skills, and the greater utilisation of national staff in understanding and negotiating policy processes.

Investing in balancing the negotiating capital

There are some examples of how AusAID has purposefully and directly invested in balancing the negotiating capital as part of a policy dialogue process (Box 7). However, while the evaluation recognised the benefits of an extant balance of power and knowledge in its two case studies, that balance was achieved through more subtle determinants.

- The Indonesia case study—of AusAID's support to the TNP2K think tank—revealed the inherent strength of the counterpart in terms of financial, human and technical resources to tackle its own poverty reduction challenges, and how the dialogue was all the richer for the government's minimal dependence on donor funds.

  In addition, the Indonesian TNP2K initiative is all about **strengthening the partner's knowledge and information** and **creating a locally owned evidence base** for policy. It is also about identifying and strengthening a **credible constituency**—or **coalitions**—in policy leadership.

  Partly in recognition of Indonesia's strength as a dialogue partner, AusAID had developed its own **team of sector specialists**, able to engage in and add significant value to the debate. AusAID's speedy and flexible response to requests for support has also contributed to the agency's credibility and utility, and therefore its negotiating capital.

- In a very different political and institutional environment, the Solomon Islands case study illustrated a fundamental imbalance of negotiating capital both between donors, and between donors and the partner government. Examining wider aid-related policy development in

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14 AusAID (2011) *AusAID Workforce Plan*—Phase One, Commonwealth of Australia: Canberra, p. 10.
15 DFID staff 'policy capabilities' are discussed in the *Review of Literature and International Practice in Policy Dialogue*.

Solomon Islands through the lens of a negotiating capital framework helps to explain why progress has been fragile at times, and how easy it is to encounter false collaboration.

> **"We take support from donors without it being seen as interference."**
>
> *A senior Government of Indonesia official*

> **"You [donors] may say something and the Solomon Islands official nods his head [in agreement]. But don't go by the head nodding: it may be that they do not agree with you at all."**
>
> *A senior Solomon Islands Government official*

But the CEWG case study also showed how that problem can—at least in part—be addressed through careful and deliberate positioning of AusAID's assistance and policy dialogue within a broader coalition of like-minded donors, as well as through the provision of capacity-building technical assistance to the partner government. And, crucially, the policy agenda relates wholly to the Solomon Islands Government's own economic reform plans.

Across AusAID, our survey recorded rather mixed results with regard to AusAID's focus on building relationships, forming coalitions and strengthening partners' capacities for policy dialogue. The majority agreed that AusAID supports coalitions as well as individual champions, and that it focuses on building relationships and trust with a range of actors over time. While just over half agreed that AusAID supports counterparts to strengthen their capacity for policy dialogue, a significant number disagreed.

The evaluation team was, however, aware of some deliberate attempts to balance negotiating capital (Box 7).

Box 7: AusAID working to balance partners' negotiating capital

- In Kiribati, the government has limited institutional capacity and few staff to conduct robust policy dialogue with development partners. AusAID, therefore, provides the resources for the government to engage its own national facilitator to help it assess, agree on and articulate the issues they wish to raise with AusAID at the annual high-level partnership talks.

- In Samoa, AusAID resources government-convened sector working groups to analyse sector performance under the aid relationship and identify issues for policy dialogue.

- In Solomon Islands, AusAID resources an independent panel (reporting jointly to the Solomon Islands Government and AusAID) to assess the Partnership for Development, in terms of (among other things) the quality of the relationship and issues such as alignment, ownership and mutual accountability.

How evidence is generated and used to support policy-making is also relevant here. The evaluation found, unsurprisingly, inherent caution on the part of partner governments about concepts of 'international best practice' that are often championed by donors without necessarily relating that evidence to the local context.

Donors can help balance the negotiating capital and encourage more robust, durable policies by supporting the local generation of evidence that is owned and understood by national stakeholders. There will also be a political economy to understand in considering how that evidence is best presented and used. While the evaluation found some examples of specific AusAID efforts in this regard (for example, in Solomon Islands), efforts need to be expanded across the agency.

CHAPTER 6: Our conclusions and recommendations

Conclusions

The initial concept consultations and scoping exercise, the background theory work and commissioned think pieces, the in-country case studies and the staff survey yielded the following robust conclusions.

1. Policy dialogue is important and has to be seen as a central element of a modern fit-for-purpose aid program that seeks to effect transformative, sustainable development at greater scale than the sum of the transactional values of aid flows alone might achieve.

   – The business case for policy dialogue is therefore essentially one of achieving value for money (efficiency, effectiveness and economy) in Australia's international development effort.

2. What constitutes policy dialogue is not clearly understood across AusAID.

   – But there are certainly examples of where AusAID is engaged in very high quality, high value, policy dialogue—where staff at Post have exceptional experience and expertise in policy work.

3. What makes for good policy dialogue process is predictable, manageable and repeatable, and relates to identified values and principles, the ability to think and work politically, the appropriate allocation and configuration of resources, and the skills and credibility of AusAID's people.

   – However, the extent to which those principles, capabilities, resources and human capital are in place and deployed appropriately to support policy dialogue is not consistent. Staff expressed significant levels of doubt about the agency's ability to support effective policy dialogue, feel that they lack direction on policy dialogue and that they are afforded insufficient space and time to engage in policy dialogue.

   – Performance assessments at personal and program levels do not adequately capture efforts and outcomes in policy dialogue.

4. While all four areas (principles, capability, resourcing and human capital) need to be addressed in harmony, two drivers of policy dialogue success stand out as highly important and represent key areas to sustain and improve in AusAID:

   – staff skills and attributes (what DFID referred to at one time as its staff's 'policy capability').

   – understanding counterparts' priorities and positions—not least through applying a more sophisticated political-economy lens.

5. Other important drivers of policy dialogue success, also representing areas on which AusAID should place some priority, include:

   – the development and use of locally owned evidence.

   – the ability to be fleet and flexible in response to 'policy window' openings.

   – more systematic support to partners' capacity to engage in effective policy dialogue.

Leonard Fenowae, a cutter, harvests pineapples at Bina Pineapple Farm in Auki, Solomon Islands. As part of the donor-government Core Economic Working Group, AusAID engages in policy dialogue to support reform in the Solomon Islands that helps industries to grow. Photo: Rob Maccoll for AusAID.

Recommendations

Our recommendations are provided recognising the critical elements of effective policy dialogue emphasised throughout this report, and are grouped as follows:

- **Organisational values and principles**
- **Thinking and working politically**
- **Allocation and configuration of resources**
- **The skills and credibility of AusAID's people**

The recommendations are intended to be implemented as a set of interrelated reforms, which target systems, processes and practices that can better enable AusAID staff to conduct effective policy dialogue. A number of recommendations made build on changes already underway within AusAID, including workforce planning, the aid management pathway and the Developmental Leadership Program.

Multiple areas in AusAID have responsibilities for these systems and processes, as do the line managers of staff involved in policy dialogue. However, we suggest that AusAID appoints one area in the agency to maintain ongoing oversight of AusAID's performance in policy dialogue.

Organisational values and principles—expressing the values the agency has about policy dialogue in its norms, standards and ways of working

	Recommendation and rationale
1	**Instituting a Common Understanding** AusAID should adopt a standard definition of policy dialogue, and promote a common understanding of the concepts and purpose of policy dialogue across all programs as an AusAID norm. *Rationale: There is currently no definition in AusAID, the concepts are not universally understood and there is misunderstanding about the purpose of policy dialogue. The lack of a common institutional understanding of what policy dialogue is and how it is applied in the aid program at all operational levels hinders consistent and effective practice.*
2	**Providing Senior Direction** AusAID's Executive should provide greater clarity of purpose and direction about its expectations regarding the role, emphasis and expected outcomes of policy dialogue in the Australian aid program. This is to help staff and Posts better understand the importance of policy dialogue, what the agency aims to achieve through policy and institutional reforms, and where and how policy dialogue should be prioritised. Senior managers at Post should provide clear strategic direction and policy positions on major program areas. *Rationale: Mixed messages are being received by staff about the priority and role of policy dialogue in aid management, with some staff reporting they are not being supported to make sufficient time for policy dialogue and relationship-building in their workload. When asked how AusAID could better support staff to conduct effective policy dialogue, surveyed staff were most likely to suggest clearer direction from senior managers, including more effective strategic guidance and clearer policy positions.*

Thinking and working politically—embedding policy dialogue into aid management

	Recommendation and rationale
3	**Understanding the Politics of International Development**
	AusAID should support the development of a greater understanding of policy processes in, and the wider political economy of, international development (for example, through its support to the Developmental Leadership Program), with an emphasis on translating this understanding into practical operational outcomes for staff.
	Rationale: Much of the theory underpinning good policy dialogue is poorly understood and disseminated within AusAID—particularly the inherently political nature of policy-making and policy implementation. Supporting staff to 'think and work politically' is central to policy dialogue success. Better understanding of the politics of international development should include engagement in contested policy areas and alternative political philosophies.
4	**Political Economy Analysis**
	Political economy analysis should underpin what AusAID does in constructing its country and sector programs—centred around a politically savvy Country Situational Analysis, and supported by in-depth contextual analysis (such as Drivers of Change) and sector-focused analysis.
	Rationale: An understanding of counterparts and the political economy was found to be one of the strongest determinants of overall success of policy dialogue in terms of its contribution to aid and development results, yet also among the weakest areas of AusAID's capacity in policy dialogue. Integrating political economy analysis at all levels of strategy development and program design will need time and resources. All staff involved in policy dialogue at Post, or in strategy development or design processes in Canberra, will need training in political economy analysis.
5	**Evidence**
	Policy dialogue should be informed by evidence and that evidence should be locally owned, shared and understood by stakeholders. AusAID should invest in working with partners to build the evidence base for good policy and in understanding what sort of evidence will be most useful and relevant in the context.
	Rationale: The effective use of evidence in policy dialogue was found to be one of the strongest determinants of the overall success of policy dialogue. While existing practice in this area is good, these efforts could be reinforced through institutional support to help staff generate and use evidence wisely and in context.
6	**Quality and Performance Processes**
	The effectiveness of policy dialogue—whether linked to funding or not—and commentaries on the political context should become a standard element of:
	• AusAID's quality processes (Quality at Entry, Quality at Implementation and Annual Program Performance Reports)
	• Performance frameworks (at all levels) and evaluations.
	Rationale: There is no requirement to design and track policy dialogue where it is not linked to funding, which reduces the strategic potential of policy dialogue. Making policy dialogue a core part of aid management practice will be facilitated by ensuring it is integrated into decision-making at the design stage and that performance in policy dialogue is monitored, evaluated and reported on.

Allocation and configuration of resources—making sure policy dialogue is properly resourced

	Recommendation and rationale
7	**Staff Time for Policy Dialogue** Senior managers in country programs and multilateral partnerships should enable staff to devote sufficient 'space' and time for meaningful policy dialogue and relationship-building. This would involve prioritising policy dialogue in workloads over staff time spent on administrative and reporting processes. *Rationale: Less than one third of all respondents to the staff survey agreed that AusAID provides the time, space and flexibility to work effectively in policy dialogue (and only 16 per cent of those working in the Pacific). Time is needed to build and maintain relationships, as well as to build a deep understanding of the context. This is largely a management and leadership issue about priorities, although staff also suggested that a reduction in administrative and reporting processes is needed to free up time and resources.*
8	**Funding Responsiveness** The ability to be fleet, flexible and responsive—particularly in making and implementing funding commitments resulting from dialogue—should be seen as pivotal to effective policy dialogue. To achieve this, AusAID should ensure design and approval processes are fit-for-purpose across the types of aid provided, by balancing the risks involved (including the development risks of not being fleet and flexible). *Rationale: Funding responsiveness was found to be the key driver of policy dialogue success with the most scope for improvement in AusAID.*
9	**Supporting Partners' Negotiating Capital** AusAID's programs should invest in balancing the negotiating capital of their counterparts in policy dialogue (for example, by supporting partners' internal policy analyses and capacities to articulate positions and priorities). *Rationale: Balanced negotiating capital was shown in this evaluation to be important in both theory and practice, but is generally not a focus of AusAID's policy dialogue efforts. AusAID has pioneered some interesting examples of investing in balancing the counterpart's negotiating capital, which can be drawn upon to expand efforts in this area.*

The skills and credibility of AusAID's people—at the heart of securing effective policy dialogue

	Recommendation and rationale
10	**The Right Skills and Capabilities** AusAID should increase the technical and policy skills—among both specialist and generalist streams of staff—to enable better policy dialogue. All teams involved in policy dialogue should include (or have access to): • skills—technical specialities, and diplomacy/advocacy, language, cross-cultural communication, partnership and political analysis skills • capabilities—country experience, political awareness, confidence, flexibility and entrepreneurial capabilities. This would include hiring more analytical staff to focus on policy dialogue and increasing access to technical support. *Rationale: The skills and credibility of staff are the single most important driver of success in the policy dialogue process, but are not consistently available for individuals and teams conducting policy dialogue.*
11	**Performance Management** The performance of staff at Post, from First Secretary upwards, should be defined and appraised in part on the basis of their skills and aptitude for, and success in, policy dialogue. Staff should be given suitable recognition for their success in policy dialogue to reinforce the value placed on this by senior staff. *Rationale: A minority of survey respondents agreed, and a third disagreed, that staff are rewarded for investing in relationship-building and good policy work. Bringing policy dialogue to the front and centre of job descriptions, Individual Performance Plans and performance discussions is important for building up staff skills and reinforcing that policy dialogue is core work.*
12	**Professional Development** Professional development in the area of policy dialogue should be available to staff through on-the-job mentoring and training. Outcomes should include understanding the purpose and concepts of policy dialogue, and the political economy of development. *Rationale: Lack of technical understanding, knowledge and experience in policy dialogue of staff at Posts was found in the staff survey to be one of the top four factors detracting from good policy dialogue. There are currently limited opportunities for direct professional development of this area within AusAID.*
13	**Country Expertise** AusAID should build up and make greater use of country expertise and experience. This might include: • increasing time at Post to build up deeper country knowledge • enhanced language skills (at minimum one month in-country immersion training, ideally moving to language training equivalent to that undertaken by political officers of the Department of Foreign Affairs and Trade) • utilising national staff in policy dialogue processes to a greater extent. *Rationale: Country knowledge and experience is a major factor in building relationships over the long term that create the opportunities for policy dialogue, and establish AusAID's credibility as a policy partner.*

ANNEX 1: Top tips for effective dialogue

Top tips for Tip-Top Policy Dialogue

Dialogue seen as core work
- Resourced in its own right

A nod is not enough
- Linked to trust and understanding about the partner's clarity of intent

Dialogue is not an end in itself
- Having a seat at the table is not enough: it's knowing what you want to say once there
- Be humble: don't get star struck
- Focus on success at a number of levels (process, aid results, development outcomes)

Evidence
- Use evidence to build and defend your position
- Joint credible evidence base

Seizing opportunities
- When the paradigm shifts everyone goes back to zero
- Readiness
- Long term entrepreneurial approach
- Risk appetite
- Fleet and flexible funding
- Watch for when the game changes
- If the game changes check your tactics
- Supportive internal systems
- People in place with connections and credibility

Multiple forums
- Formal and informal
- Engagement at multiple levels
- Mix of political and technical forums

Relationships and trust
- Importance of the informal
- Relating as equals
- Country experience and longevity
- Work at the partner's pace
- Don't push a 'hard' agenda

Working toward coalitions
- From champions to coalitions of change
- Don't forget non-state actors
- Don't put all your eggs in one basket

Putting the right people in place
- Don't drown staff in bureaucracy and processes
- Technical credibility
- Staff are confident, flexible, entrepreneurial and switched-on
- Country expertise
- Legitimacy of donor actors
- Give them space
- Empower them
- Give them backing

Working with the grain of political economy
- Accept that aid is political
- Acknowledge complexity
- Work within the partner's strengths and constraints
- Policy windows opening and closing

Investment in balanced negotiating capital
- Contributes to legitimacy and sustainability
- Safety in numbers (sometimes)
- Help strengthen the partner's negotiating capital too
- Achieving collective action of like minded donors
- All able to manage their own bureaucracies to be flexible and responsive

ANNEX 2: Case study of AusAID's support to Indonesia's National Team for Accelerating Poverty Reduction

Introduction

The National Team for Accelerating Poverty Reduction (TNP2K) is a Government of Indonesia (GoI) initiative that aims to analyse and set out policy options to improve the coherence and coverage of social protection programs. It is mandated to design and oversee new social assistance and poverty reduction programs as well as to consolidate and improve the efficiency of existing programs. TNP2K was established by Presidential decree in February 2010 and is housed within the Office of the Vice President.

This case study provides an example of policy dialogue in which AusAID is helping a partner government create the systems and space to develop evidence-based policies and programs. AusAID provides significant support to TPN2K through its **Poverty Reduction Support Facility** (PRSF). PRSF provides financial, technical and logistical support, helping to shape the process of evidence-based policy-making within GoI. AusAID's support for TPN2K through PRSF also gives it access to daily interaction and informal dialogue with the TNP2K staff.

This case study uses the Theory of Success framework (Chapter 4) to explore the internal and external factors that contribute to the effectiveness of PRSF support to policy dialogue. It also identifies lessons PRSF and TNP2K might provide for AusAID staff engaged in policy dialogue in other contexts.

The Origins of TNP2K

Over the past decade, social protection has occupied an **increasingly prominent position in Indonesia's political agenda**. Successive governments have realised that a comprehensive and effective system of social protection can both reduce the number of households in poverty and contribute to the country's resilience to shocks. It can also contribute to political stability and electoral popularity.

A range of recent shocks have exposed Indonesia's vulnerability and demonstrated the importance of establishing a more comprehensive and effective set of social protection programs. These include:

- The **Asian financial crisis** of the late 1990s: This crisis hit Indonesia particularly hard and partially reversed several decades of significant progress on poverty reduction—pushing tens of millions of Indonesians back into poverty.

- The **2004 Tsunami** killed more than 167,000 Indonesians and displaced many more. This event highlighted the vulnerability of Indonesia to natural disasters and demonstrated the fundamental importance of a coordinated public response to shocks.

- The **2008 Finance, Fuel and Food Crisis**: While Indonesia escaped the worst of this crisis, it highlighted Indonesia's potential economic vulnerability and the need to ensure adequate policies and programs exist to buffer its citizens from external economic crises.

Partially in response to these crises, the Indonesian government, at a national and local level, launched a wide range of poverty reduction and social protection programs. These include community block grants, microfinance programs, scholarships, conditional and unconditional cash transfers, and rice subsidies. This proliferation of programs was largely unplanned and uncoordinated. However, they significantly broadened the coverage of social protection in Indonesia.

These programs also proved to be vote winners. In the 2009 national elections, the ruling *Partai Demokrat* made expanding and improving social protection a key plank of their winning campaign strategy. A number of opposition parties, on the other hand, proposed cuts to popular programs. However, they were forced to reverse their positions as "polls showed that their standing plummeted each time they made such proposals".[16] Following his election victory, President Susilo Bambang Yudhoyono signed a Presidential decree to create TNP2K and delegated the Vice President to oversee the National Team. Shortly after, the Vice President approached AusAID to request its support to TNP2K.

Political economy factors shaping policy dialogue

A number of political economy factors fundamentally shape the ways in which policy-making and donor–government dialogue in Indonesia take place.

- Over the past decade Indonesia has been transformed from a highly centralised and authoritarian state to a democratic and decentralised one. These processes have transformed Indonesian politics, planning and service provision. This transformation has also led to multiple and often competing centres of authority at the national and local levels and has amplified interministry competition over resources and influence.

- Indonesian politics tends to be coalition based; the government is formed by an alliance of political parties based on the distribution of ministerial posts. While many ministries are headed by political appointees, some key economic portfolios (for example, Finance, Trade, Public Works) are assigned to technocratic appointees without formal political allegiances.

- The Indonesian government has historically been a developmentalist state broadly committed to growth and poverty reduction. During the 1970s and 1980s government investments in agricultural support and infrastructure, in particular, contributed to a sharp drop in poverty levels. While these gains were reversed during the economic crisis of the late 1990s, successive governments have continued to prioritise equitable economic growth.

- Indonesia is now a middle income country and a member of the G20. This status puts GoI under pressure to perform on the international stage and puts Indonesia's progress towards poverty reduction and the MDGs under both domestic and international spotlights.

- Indonesia's Parliament (the DPR) plays an increasingly important role in drafting legislation and reviewing the national budget, particularly on social issues.

- Indonesia has little dependence on foreign aid; less than 1 per cent of its national budget is derived from foreign assistance. GoI is selective in its use of development assistance and in 2007 it disbanded the donor Consultative Group of Indonesia.

- Indonesia's proximity, size, population and economic potential make it one of Australia's most important neighbours. The Australian Government therefore views Indonesia as a key regional and global ally. One of Australia's principal foreign policy objectives is to build and maintain close working relationships with the Indonesian Government and be a 'donor of choice'.

- During the 2009 election, social protection was a key campaign theme. GoI's significant investment in cash transfer and other poverty-oriented programs, in the run up to the vote, was a key reason for the re-election of President Yudhoyono.

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16   AusAID (2010) *Poverty Reduction Support Facility: Design Document*.

How TNP2K works

TNP2K is headed by the Deputy Vice President for Social Welfare and Poverty Alleviation in the Office of the Vice President. He is supported by a high-calibre team of advisers drawn from government, academia, and think tanks, as well as national and international consultants. The TNP2K acts as an internal think tank within GoI, with a **mandate of consolidating and improving Indonesia's social assistance and poverty reduction programs**. Its ultimate goal is to extend the reach and effectiveness of these programs so as to reduce Indonesia's poverty rate to 8 per cent by 2014.

To achieve this goal, TNP2K generates ideas on how social protection programs can be improved and develops evidence to support policy proposals. It then shepherds these proposals through Cabinet and into implementation.

The work of the National Team is organised around three policy working groups:

- Cluster 1—social assistance programs
- Cluster 2—community based programs, under the umbrella of the National Program for Community Empowerment (PNPM)
- Cluster 3—micro and small enterprise programs.

The working groups are led by TNP2K and draw members from an interministerial taskforce, development partners, business and civil society. AusAID, with the support of its managing contractor, leads on support for the Cluster 1 and 3 working groups, while Cluster 2 is led by the World Bank.

When a policy proposal is approved by the Vice President and the Cabinet, it then goes to an interministerial taskforce for implementation. TNP2K seeks to support this implementation through strategic and technical assistance.

The overall causal logic of TNP2K is set out in Figure A2-1.

Figure A2-1: Casual Logic of TNP2K
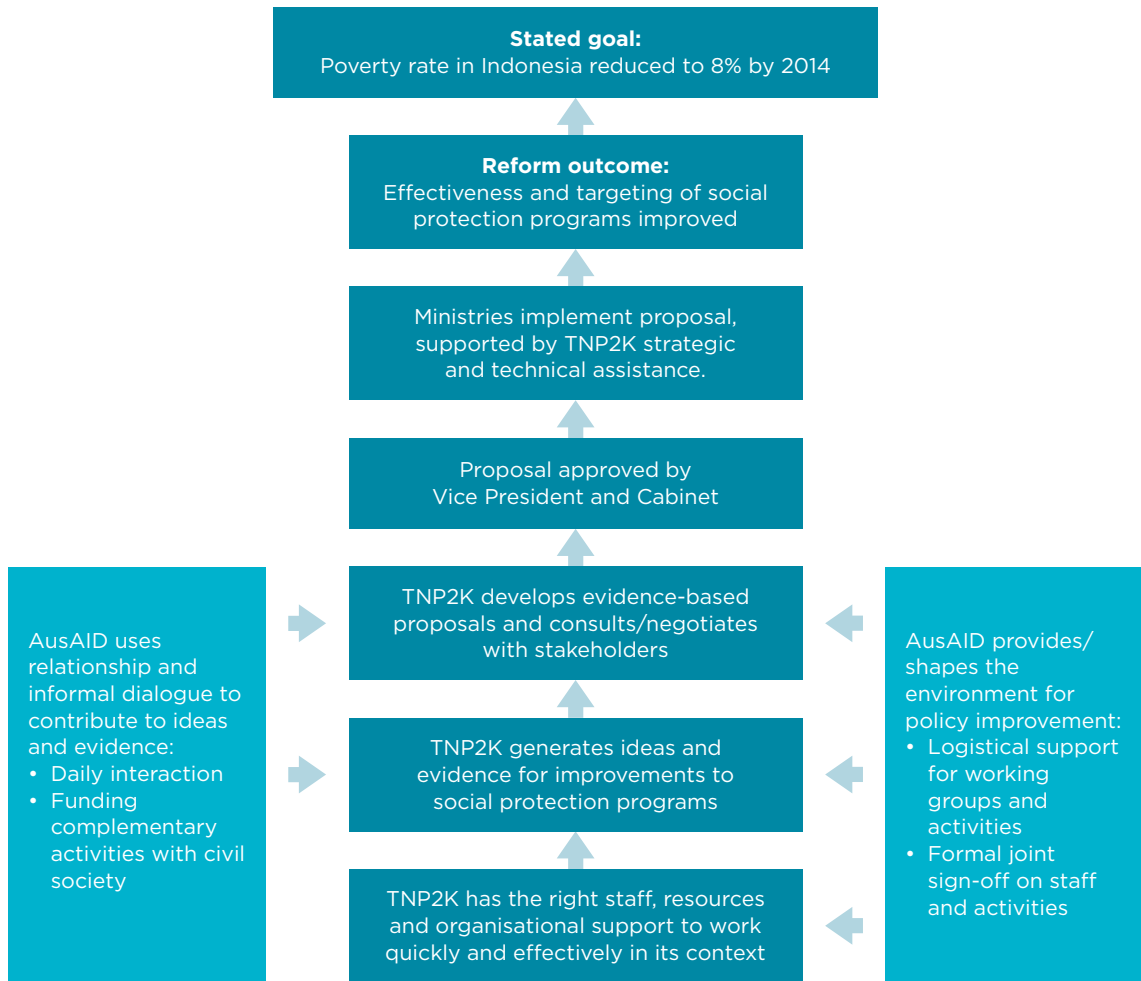
How AusAID contributes to TNP2K's work

AusAID launched the Interim PRSF in June 2010. It initially focused on rapidly establishing the TNP2K office and recruiting staff. The Facility started full operations, including funded activities, in July 2011. At the time of the evaluation fieldwork in October 2011, there were six activities underway. TNP2K had 40 staff funded through the Facility and 23 staff funded by GoI. AusAID's funding for PRSF was $3.5 million for the interim phase and $46 million for the full Facility (2011–2014).

AusAID appointed a managing contractor, GRM-International, to run PRSF. The contractor provides comprehensive support to enable TNP2K to meet its mandate. The Facility is designed as a multi-donor support structure into which other donors may contribute funds—although AusAID is the only donor to have contributed so far.

The Facility's activities include:

- office management, staff recruitment and human resource management
- support to working groups in designing and implementing activities (research, surveys, evaluations, pilot studies and conferences)

- management of ongoing activities, including the development of a national unified database and an integrated system for monitoring and evaluating social assistance programs.

The team leader also provides some support in stakeholder engagement where he has personal contacts (although this is not part of the scope of service).

Through PRSF, AusAID has been able to support evidence-based dialogue on fundamental development issues in Indonesia. AusAID contributes to this dialogue in two ways. First, its logistical and financial support for TNP2K **provides 'the environment' for evidence-based policy-making**. Through GRM's daily support work and AusAID's role on the PRSF Joint Standing Committee, AusAID contributes to the shape of TNP2K and its activities including who is recruited, its organisational structure and the terms of reference for the working groups. AusAID also has joint sign-off on TNP2K activities funded through PRSF. The value of this contribution alone is recognised by AusAID, with a staff member noting that "even if it was only a funding activity it would still be a good thing to do".

Second, the **skills and expertise of AusAID staff give them considerable influence over the substance of TNP2K's work**. The AusAID staff's technical knowledge of social protection ensures they are able to provide substantive analysis and advice to the TNP2K team members—with whom AusAID staff have almost daily interaction—as TNP2K develops its research, pilot programs and policy recommendations.

AusAID's work through PRSF is closely linked to its role in supporting PNPM, Indonesia's flagship poverty reduction program, which AusAID is providing with funding of $215 million (2009 and 2014). AusAID also directly finances and is engaged in the management of the PNPM Support Facility. Based in the World Bank, this facility aims to provide effective leadership and management to PNPM. From an AusAID perspective, support to PNPM, PRSF and TNP2K are mutually reinforcing: support to each of these programs coupled with AusAID technical expertise is a way to help each program build lessons on what works and backstop each other's approaches.

Achievements

AusAID's support to TNP2K is only in its second year. However GoI counterparts, AusAID staff and other donors view it as a significant and effective mechanism for policy dialogue. To date there have been several key achievements:

- Through PRSF, AusAID has helped to create and expand the **space for evidence-based policy dialogue on social protection** to occur within GoI and between GoI and policy experts. As a senior TNP2K official commented: "AusAID provides us with this environment, this possibility [to improve the social protection dialogue]".
- This policy dialogue has the potential to provide **a foundation for a more systematic and effective social protection** system in Indonesia. Given that Indonesia is the world's fourth most populous country with 120 million living on less than US$2 a day, this achievement would be of global, as well as national, significance.
- TNP2K sits at the **heart of government decision-making** processes (in the Vice President's Office) and its analysis is helping to shape cabinet-level discussions and decision-making on social protection.
- PFSF is supporting the creation of a **unified database** through which major social protection programs can improve their coverage and targeting of poor households.

- TNP2K is conducting evaluations of and research into a range of social protection programs aimed at improving coverage, targeting and coherence. These reviews and their recommendations have helped to change regulations and targeting guidelines for major social protection programs to improve these programs' effectiveness and efficiency.
- TNP2K is in the process of developing a **White Paper** on social protection to present to Cabinet in 2012. This document will provide the basis for a revised and more coherent social assistance strategy for Indonesia.
- TNP2K is working with the Vice President to develop a strategy for how GoI can reduce and **replace the existing fuel subsidy** (which currently absorbs more of Indonesia's budget than health and education spending combined) with more targeted and pro-poor social protection programs.

Building blocks of policy dialogue on social protection

This evaluation's Theory of Success outlines five building blocks that can shape the character of a policy dialogue: clarity of intent, negotiating capital, actors and their characteristics, evidence and dialogue fora. The sections below examine each of these building blocks and their interaction in relation to AusAID's support to TNP2K.

Clarity of intent

The degree to which participants are clear about what they want to achieve through dialogue

From the start, both the Government of Indonesia and AusAID were clear about what they wanted to achieve through TNP2K.

On GoI's side, the **President and Vice President knew what they wanted from both TNP2K and from AusAID.** As highlighted above, GoI faces strong political incentives to expand and improve social protection in Indonesia; social protection is seen as a vote winner and the lack of a coherent safety net is seen by the ruling coalition as a barrier to Indonesia's continued economic progress, stability and place on the regional and world stage. From a fiscal perspective, GoI is also keenly interested in exploring ways in which the fuel subsidy can be further reduced.

But while **Indonesia's leadership is clear on the need for a more coherent and effective system of social protection**, it is **unclear on what strategy is needed to achieve it**. As one well-placed observer noted: "In 2009, the new government came in and had clear goals (on poverty reduction), but not clear answers". This is partly because social protection is a relatively new field in Indonesia, which means that actors are still open to exploring new ways of doing things.

The Indonesian government was also clear on its desire to draw on internal and external expertise, evidence and analysis when exploring social protection policy options. GoI and particularly its more technocratic ministries have historically drawn on internal technocrats and international expertise (for example, the World Bank) to help develop policies and programs.[17] The current Vice President is also a long-standing technocrat who is open to more evidence-based approaches to policy formation. This has helped to open up space for the analytical and evidence-based approach of TNP2K.

GoI counterparts were also clear that TNP2K needed to have a donor partner if it were to be responsive and flexible. Current government procurement rules (tightened after the corruption

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17 Datta, A. (2011) *The political economy of policy-making in Indonesia: Opportunities for improving the demand and use of knowledge*, Overseas Development Institute and SMERU: London and Jakarta.

of the Suharto era) make it difficult and slow for government to use external consultancy and research services. This has created an incentive for GoI to look for outside support to ensure that it could swiftly procure the expertise and equipment needed to make progress within TNP2K's short (three-year) time frame.

Government ministries tend to be siloed and factional. This poses difficulties for cross-government communication and for the convening power of line ministers. With this in mind, the President and Vice President were clear that any efforts to reform social protection policies and programs would have to be housed at higher levels of government and not in a particular sectoral ministry. This led to TNP2K being housed in the Vice President's Office.

AusAID was also relatively clear about what it was aiming to achieve through support to TNP2K. At a corporate level, AusAID has increased its focus and resources devoted to social protection, while AusAID Indonesia was not just focused on investing in social protection, but also had developed the internal capacity to respond. This clarity of intent ensured that AusAID was able to respond swiftly and effectively to GoI's request for support.

AusAID's interest, investment and capacity in social protection have increased significantly over the past several years. Social Protection has recently moved up AusAID's corporate agenda and is now seen as a priority means through which AusAID can contribute to sustainable economic development and the overall goal of helping people overcome poverty. AusAID has also invested in improving analytical and human resources related to social protection. It has increased its financial investment in social protection with, for instance, a $120 million commitment "to strengthen and/or expand social protection programs" across Asia and the Pacific.[18]

In many ways, AusAID Indonesia has been at the forefront of these developments. It has prioritised social protection as one of its key priorities and has put in place a strong team of social protection specialists. This team's work on social protection has helped to influence AusAID's approaches to social protection overall.

This combination of improved organisational commitment to and expertise in social protection ensured that AusAID was clear about the need to engage with GoI on social protection issues. When the Vice President approached AusAID for its support, AusAID was able to respond swiftly and with high-level technical engagement in a way that would not have been possible even a few years ago. AusAID did so in recognition that its engagement was high risk, but also high reward in that it could potentially contribute to improved social protection for Indonesia's 120 million poorest citizens.

AusAID's clarity of intent in Indonesia has also been strengthened by a **whole of Australian Government approach**. The Ambassador and other Foreign Affairs staff regularly reinforce AusAID's position on social protection in their discussions with Indonesian officials. They see AusAID's work in social protection as a means through which Australia's bilateral relationship can be strengthened as well as a means through which Australia can contribute to a more stable and prosperous Indonesia. While the Ambassador acknowledges the risks associated with AusAID's support to TNP2K, he views these risks as worth taking.

AusAID has been clear on its intent to help improve the coverage and effectiveness of social protection in Indonesia, but it has **not sought to be prescriptive** about how this might be achieved. Instead it has sought to engage in balanced and informed dialogue with government and other donor counterparts. This open approach has been welcomed broadly by most Indonesian government counterparts interviewed: "AusAID doesn't usually tell us what to do ... AusAID brings flexibility". Key government counterparts appear to appreciate that, like themselves, AusAID is interested in improving social protection in Indonesia, but is willing to let specific reforms emerge through a process of analysis and debate.

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18   http://www.ausaid.gov.au

Negotiating capital

The balance of power, knowledge and ownership between dialogue participants

Negotiating capital is broadly balanced between AusAID and the Government of Indonesia. Unlike many contexts in which AusAID works, **GoI is a strong partner with the financial, human and technical resources** to tackle its own poverty reduction challenges. The Indonesian Government has **little dependence on donor funds**: OECD donors provide less than 1 per cent of the Indonesian government's budget. In this context, donor resources are useful, but not essential to government policies and programs and GoI is able to pick and choose what support it believes will add to its development objectives.

TNP2K itself is a powerful organisation with high technical capability. This gives it the confidence to interact with its development partners as equals: "we can take support from donors without it being seen as interference". One TNP2K staff member described the process of interaction with donors as 'shopping for ideas'.

AusAID currently gives $558.1 million in aid to Indonesia (2011–12 estimate), making Indonesia Australia's largest country partner. This amount is expected to continue to increase over the next few years. Despite this spend, AusAID's engagement in substantive policy dialogue has been relatively low key until recently. In the past several years, however, AusAID has built a strong international and national team of social protection specialists (see next section). This in-house capacity has helped to boost AusAID's negotiating capital and its overall legitimacy and capability to work with both GoI and other key donors on social protection.

AusAID's dialogue with the Indonesian Government on social protection has been enhanced by the fact that it is viewed by key state officials as an alternative partner to the World Bank. The World Bank's Indonesia office is its largest outside of Washington DC. Since the fall of Suharto in 1998, the Bank has been a significant source of external policy advice to GoI. While GoI appreciates these inputs, one of the reasons that it was keen to work with AusAID on TNP2K is that AusAID provides an alternative voice to the World Bank on policy options for social protection, and a means through which it can build its own domestic policy analysis capacity.

The **speed and flexibility with which AusAID responded** to the request for support to TNP2K has helped to **deepen its relationship with key Indonesian government counterparts**. It took AusAID only six weeks from the Vice President's request for assistance for it to establish and staff the interim PRSF program. The Facility has also been able to respond quickly (often within a few days) to specific government requests for support through PRSF. This responsiveness, along with technical capability and the personal relationships of key AusAID staff with government counterparts, has helped to foster trust and a collaborative approach to policy dialogue around social protection.

Actors and their characteristics

The capabilities and characteristics of the individuals engaged in policy dialogue

The **interests, capabilities and commitment of key GoI, AusAID and other actors have been crucial to initiating and sustaining policy dialogue** around social protection in Indonesia.

AusAID has built a small but effective team, the Poverty Reduction Unit, to work on social protection in Indonesia. Post has recruited internally and externally to ensure that international **staff have strong comparative expertise on social protection as well as in-depth knowledge of the Indonesian policy-making landscape**. Key members of the unit not only have technical capacity and expertise, they also have deep and long-term working relations with Indonesian

government counterparts and other donors. This has ensured that the AusAID unit had both technical credibility and strong relationships from the start. As one observer explained: "AusAID [may be] the new kid on the block, but they are using old hands".

> "Not all policy advisers in donor agencies have the knowledge and expertise to add value … but AusAID has expertise to offer not only in terms of programming, but also in terms of technical expertise."
>
> *Senior Government of Indonesia official*

Post has also recruited and retained talented Indonesians to work in the unit and given them the authority and incentives to develop and manage programs, and to deepen relationships with GoI and other actors. The Social Policy Adviser and Unit Manager for Social Protection also support the continued professional development of national staff.

The Poverty Reduction Unit has also been able to draw on the broader capacity of AusAID in Jakarta and Canberra to support its work in social protection. Where relevant, the Unit Manager has drafted in relevant support from other teams at Post (for example, in health and education). She has also been able to bring in key expertise from AusAID's other country offices to bolster the unit's work.

> "AusAID has built much more technical capacity on social protection. It has lots of intellectual capital. It is now almost like a think tank."
>
> *Civil society partner*

The skills and expertise of the unit ensure that AusAID has the credibility to engage successfully with GoI. They also ensure that AusAID is making a direct contribution to the substance of social protection reform. AusAID staff have been instrumental in key debates on and policy innovation in social protection. They have done this through, for example, the use of unconditional transfers and the piloting of special programs for elderly and disabled.

The AusAID team is committed and capable. It is also **entrepreneurial**—working to make the most of existing systems and resources, and offering solutions to policy challenges. Team members are networkers, who have invested significant amounts of time and energy in developing relationships with government counterparts, donors and Indonesian civil society. They have worked proactively to stimulate policy debates, create awareness of the thinking on social protection and provide timely and appropriate advice not just to AusAID, but to government, non-state actors and other donors. Senior AusAID managers have also given the team the time and space to operate differently from many AusAID teams. As a result, the adviser and unit manager are able to devote most of their time to networking, analysis and policy-level discussions rather than internal administration.

The skills and attitudes of AusAID staff have helped them to build **strong working relationships with GoI counterparts based on mutual trust, respect and collegiality**. This has contributed as much to AusAID's influence on Indonesia's social protection dialogue as its funding has.

Key AusAID staff also have an in-depth **knowledge of Indonesia's political economy and its policy-making processes,** and the personal networks that make them trusted and credible partners. This has helped AusAID to work effectively and constructively with government counterparts and systems, to recognise policy openings and to support the development of key coalitions for change within and outside of government.

On the Indonesian side, **key GoI counterparts** working on social protection and in TNP2K have also been **committed, capable and entrepreneurial**. At the highest levels of government, the President has given the Vice President a strong mandate to oversee TNP2K and to improve the implementation and coverage of social protection policies and programs. The Vice President has a strong technocratic background and regularly pushes TNP2K to ensure that its policy recommendations are based on sound analysis and debate.

> "Opinions get formed before formal meetings take place [so] building consensus beforehand is crucial."
>
> *TNP2K team member*

TNP2K staff include experienced and skilled analysts and policy entrepreneurs. TNP2K's head brings both a strong technical and strong management background to his post. He is also a policy and political entrepreneur with close ties to the Vice President. His authority, networks and persuasive skills enable him to work across different line ministries and levels of government to build support for policies and programs. TNP2K's head is also skilled at coordinating donors to ensure their resources and technical support are in line with government priorities.

The rest of the TNP2K team is a mix of government appointments and Indonesian and international researchers and experts. The National Team includes some of the more talented and respected analysts of social protection and poverty reduction in Indonesia. This enhances TNP2K's credibility within government and with civil society and other non-state actors.

A range of other actors contributes to dialogue around social protection in Indonesia. As mentioned, the World Bank is a central player in policy analysis. AusAID and TNP2K have worked to keep the Bank and other donors (for example, *Deutsche Gesellschaft fur Internationale Zusammenarbeit* (GIZ) and the Asian Development Bank) engaged in TNP2K process. The relatively small donor field involved in social protection has worked in AusAID's favour, making entry to the field and coordination of the activities within it easier. While some analysts from Indonesian think tanks are working with TNP2K, there is not much direct engagement between the National Team and civil society. AusAID, however, has worked to act as a bridge between these non-state actors and TNP2K.

Dialogue fora

The formal and informal spaces and opportunities to understand each other's values and interests

AusAID's team and TNP2K staff use **both formal and less formal means** to build and sustain dialogue on social protection.

AusAID's support to TNP2K has helped to **create a formal forum for dialogue around social protection at the heart of the Indonesian Government**. In developing this policy advice, TNP2K and the Policy Working Groups commission and manage policy-relevant analysis, and they provide the space for evidence-based discussion and debate between national and international policy researchers and analysts. This analysis and debate, and the policy options they generate are then presented to the Vice President, and then onward to Cabinet.

TNP2K staff, and particularly the Executive Secretary of the Taskforce, are also **skilled at utilising less formal means to strengthen analysis and to build support for policy advice**. The TNP2K office sits across the street from the Vice President's office and the Taskforce head has an office in both places. Since the Executive Secretary is also the Deputy Vice President for Social Welfare and Poverty Alleviation, he is in almost daily contact with the Vice President. This allows him to provide a running update on TNP2K's progress.

The TNP2K team engages in a great deal of legwork to pave the way for its analysis and policy advice. Given that the National Team sits outside of normal government channels and lacks direct convening power, this informal access and legwork is particularly important. The National Team's strategy varies from issue to issue but, overall, they work to build support for analysis and recommendations from the bottom up as well as top down. Staff engage relevant line Minsters, Directors General, Echelon One (senior) administrators, lower level staff and interested parliamentarians. They work particularly to identify and talk to potential 'doubters' in BAPPENAS

(the National Development Planning Agency) and line ministries such as People's Welfare about forthcoming analysis and policy options. They also hold closed-door workshops with relevant officials to clarify proposals and, where possible, iron out contentious points before formal meetings take place.

As the secretariat for an internal government task force, TNP2K does not provide a mechanism through which AusAID (or other donors) engages in direct policy dialogue with Indonesian authorities. However, as AusAID and DFAT staff repeatedly stressed in interviews, Australian support to the TNP2K provides AusAID 'with a seat at the table' when it comes to policies and programs related to social protection and poverty reduction. The AusAID team's technical expertise, the trust generated by its non-prescriptive approach, and its swift and generous responses have ensured that AusAID not only has a seat at the table, but that it has something of substance to contribute once seated. The analysis and opinions of AusAID's Social Policy Adviser, in particular, are valued by GoI, non-state actors and other donors.

AusAID also **performs an important bridging function** in the overall policy dialogue about social protection. Its social protection team has built strong relations not just with TNP2K and the Vice President's Office; it has also built strong relations with BAPPENAS, other donors working on social protection and Indonesian civil society. In particular, AusAID staff help TNP2K build linkages to complementary AusAID programs such as the Knowledge Sector Program. AusAID-funded NGOs like Women Headed Household Empowerment (PEKKA) provide an avenue for civil society to feed their knowledge on poverty to TNP2K. Similarly, AusAID also helps to facilitate other donors (UNICEF, World Bank, GIZ) so they can contribute their expertise and analysis to TNP2K's work. The AusAID team's ability to bring actors together and be a conduit for analysis has contributed to improved communication and coordination around social protection.

Over the past year or so, the Director of Social Protection and Welfare in BAPPENAS has also helped to improve coordination between donor actors working in social protection by holding periodic informal coffee meetings in which he facilitates both broad discussions and an informal division of labour.

Evidence

The extent to which data, research and analysis inform policy dialogue, and who owns it

AusAID's support to TNP2K is **fundamentally about improving the quality of evidence available to Indonesia's policy makers**. PRSF is responsible for financing, commissioning and managing research, surveys and evaluations on behalf of the TNP2K. As highlighted above, AusAID's support makes it possible for this analysis to be commissioned and conducted quickly. So far, the Facility has overseen a range of policy-relevant studies including an evaluation of the implementation of the Raskin (rice assistance) program, a study of grievance mechanisms for social assistance programs, and a study of the effects of migration and remittances on poor households. TNP2K will also draft a White Paper on Social Protection. In some cases, this commissioned analysis has led to a swift and high-level policy discussion and policy response. An evaluation of a conditional cash transfer program (the *Program Keluarga Harapan*), for instance, revealed significant targeting problems in this and in a number of other programs. This analysis made a strong case for the development of a unified database for social protection programs and led Cabinet to approve changes to key government regulations and the Targeting Guidelines of *Program Keluarga Harapan* and other programs.

The most significant piece of TNP2K analysis commissioned so far is the creation of a unified database for social protection. Currently, most significant social protection programs use different data and incompatible targeting and monitoring and evaluation systems. The new

database will provide a shared benchmark for at least four of Indonesia's larger social protection programs through which they can improve their coverage and targeting of poor households. The database will be housed and maintained in TNP2K and will be based on a survey of 45 per cent of Indonesia's population.

As noted, AusAID staff have contributed directly to the design and delivery of TNP2K evidence. AusAID's Unit Manager for Social Protection and its Social Policy Adviser regularly undertake field visits with TNP2K staff and have contributed to specific pieces of analysis.

The ways in which evidence is **packaged, tailored and disseminated** is as important as the quality of the analysis in the first place. The TNP2K team therefore invests in how it presents its analysis and opinions to others in government. As a senior official notes, team members work to present their ideas in a "language that appeals to bureaucrats" and attempt "to make analysis and presentations as good as they can be" so that they can "sell their ideas in cabinet meetings".

Shortcomings and sustainability

This case study provides an insightful example of a policy dialogue that has the potential to make a significant contribution to poverty reduction in Indonesia. However, AusAID's support to TNP2K is not without its limitations and risks:

- To a great extent TNP2K is **still in its honeymoon period**. The National Team has been fully operational only since mid-2011. While it has achieved notable progress during this time and during its interim phase, TNP2K is only now beginning to confront some of the more challenging and politically sensitive social protection issues (for example, what to do to reduce fuel subsidies and what to do with less effective programs).

- Similarly, TNP2K is likely to face **significant implementation barriers as it seeks to turn its analysis into action**. The multiple centres of power and siloed character of the Indonesian bureaucracy are likely to hamper the execution of even the most well-designed programs and reforms. Capacity constraints are also likely to bog down reforms.

- As a Presidentially mandated commission, TNP2K lies outside of normal government structures. While this provides the National Team with a cross cutting mandate, it can **generate unease and resistance among officials in other parts of GoI** who believe they should lead on the social protection agenda. They may also believe that they, and not an ad hoc team, should receive the technical assistance and resources available to TNP2K. Staff in BAPPENAS and line ministries managing existing social protection programs may be particularly wary of TNP2K.

- Running hybrid organisations like TNP2K is not easy. TNP2K systems and staff are drawn from government, non-government and private sectors. This can create a range of management challenges related to performance, quality of staffing and quality of outputs.

- As highlighted above, much of AusAID's effectiveness has hinged on the experience, technical knowledge and entrepreneurial approach of its staff. However, maintaining this skill set within the unit will be difficult. AusAID's wider corporate capacity in social protection remains relatively shallow and there are few ready replacements for key team members as they rotate through normal posting cycles. **Ensuring that the unit's continuity is maintained and its capacity is enhanced will be essential** if AusAID is to continue to play its current influential role in social protection dialogue in Indonesia.

- TNP2K's work is time-bound; the National Team is expected to complete its work before the next Presidential election in 2014. As the election approaches and government commitments to reduce poverty become a campaign issue, the National Team will be likely to be under increasing **pressure to deliver results**. The ruling coalition will also be likely to be tempted to

look for populist (vote winning) programs in the run up to the election. These programs may or may not derive from TNP2K's evidence-driven approach to policy-making and reform. A risk for AusAID is that the poverty reduction goal is achieved at the expense of not targeting the chronically poor.

Conclusion and insights

Through its support to TNP2K, AusAID has been able to play a catalytic role in the development of an evidence-based policy dialogue on social protection. TNP2K has provided a systematic and technically strong mechanism through which the Indonesian government can analyse, develop and implement social protection reforms. TNP2K has the potential to deliver significant improvements to policies and programs that can make a fundamental contribution to sustainable poverty reduction in Indonesia.

The context—and the exceptional circumstances—in which TNP2K has developed is specific to Indonesia. The approach taken by AusAID-Indonesia is therefore not directly replicable in other country contexts. There are, however, a number of factors that have contributed to TNP2K 'success' overall, which may provide lessons for other AusAID Posts and programs. These include:

- **Be fleet and flexible:** AusAID was swift in its response to GoI's request for assistance: AusAID was able to commit within days of the Vice President's request and to move through its approval processes more quickly than usual to get the interim facility set up within six weeks. One observer remarked: "I have never seen such a complex organisation set up so quickly". PRSF has also been swift to respond to specific requests from TNP2K's head and the Vice President.

- **Invest in future value:** The reason AusAID was able to respond quickly and effectively was not just that Post had available financial resources (although this was obviously important) it was that it had already laid the foundation for engagement well before the request came. In other words, AusAID had invested in future value, by ensuring they had the staff and systems in place to be able to respond when and if significant opportunities for policy dialogue around social protection arose.

- **Be willing to take calculated risks:** Support to TNP2K entails a number of risks that more conventional development assistance does not. Its high profile approach, political sensitivities and reliance on government counterparts to deliver reform makes the program relatively risky. However, AusAID's support is also potentially high reward in that improvements to the targeting, coverage and efficiency of social protection programs could contribute to significant poverty reduction in a way that more projectised approaches seldom can.

- **Build relationships and trust:** In Indonesia, as elsewhere, personal relationships matter. AusAID's team members fundamentally recognise this and have invested in developing and sustaining relationships with key government counterparts, other donors and non-state actors. These relationships have helped to build the trust necessary for substantive and on-going dialogue. Team members with long track records and strong personal and professional networks in Indonesia have been particularly valuable.

- **Put the right people in:** Developing and maintaining the right mix of staff have been a crucial component of AusAID's approach to social protection policy dialogue. AusAID-Indonesia's Poverty Reduction Unit includes both international and Indonesian social protection expertise as well as efficient project managers. Crucially, team members are entrepreneurial and have worked to develop and deepen relationships with key counterparts. They are also able to draw on local and international expertise to supplement in-house skills and experience. This

has enabled AusAID to play an informed role in government and donor dialogue around the subject, helping to converge populist and evidence-based policy-making.

- **Be non-prescriptive:** Through its support to TNP2K, AusAID has invested in supporting the process of evidence-based policy-making rather than promoting preferred policy options. This non-prescriptive approach has helped foster a more collaborative relationship between AusAID and its counterparts and has helped to differentiate AusAID from other donors.

- **Know the context and acknowledge it is political:** AusAID's approach to policy dialogue builds on a rich and ongoing understanding of the political economy, and drivers and constraints shaping the social protection agenda in Indonesia. Its ability to read this context and to recognise openings and opportunities, as well as potential threats, has been central to their ability to work effectively.

ANNEX 3: Case study of the Solomon Islands Core Economic Working Group

Introduction

The Core Economic Working Group (CEWG) is the primary platform for policy dialogue on financial and economic reform between donors (including AusAID) and the Solomon Islands Government (SIG). CEWG aims to support SIG's efforts to improve spending, promote economic growth, and institutionalise sound public financial management. It also provides a forum for coordination of budget support, performance-linked aid and related technical assistance.

This case study uses the evaluation's Theory of Success framework (Chapter 4) to explore the internal and external factors that contribute to effectiveness of CEWG policy dialogue and to identify lessons that CEWG might provide for AusAID staff engaged in policy dialogue in other contexts.

The origins of CEWG

CEWG was **born out of the global financial crisis**. As Solomon Islands' export earnings dried up in 2008 and 2009 so did government revenues and foreign reserves. As a result, SIG faced a profound fiscal and balance of payments crisis—at one point budget reserves reportedly amounted to less than a week's government spending. This fiscal crisis was exacerbated by years of procyclical spending and weak public financial management. The fiscal shortfalls created an immediate incentive for SIG to engage with donors as a means of boosting its foreign reserves, to address financial shortcomings and to secure on-budget financing.

At the height of the global financial crisis, SIG called a meeting of donors to ask for assistance. Six donors—the World Bank, the Asian Development Bank, the European Union, Australia, New Zealand and the Regional Assistance Mission to Solomon Islands (RAMSI)—agreed to provide financial and technical support on the condition it was managed as part of a coordinated response to the fiscal crisis. CEWG was formed to oversee this coordinated response.

CEWG is comprised of representatives from its six donor partners as well as SIG counterparts including the Minister and Permanent Secretary for the Ministry of Finance and Treasury, the Governor of the Central Bank, representatives from the Ministry of Development Planning and Aid Coordination, and the Office of the Prime Minister. In late 2011, CEWG members invited the Ministry of Public Service to join the group.

CEWG first met in April 2009. It held five formal meetings in 2009—with a brief hiatus for the national elections. Two meetings were held in 2010, and four in 2011. Annual Joint Reviews were held in 2010 and 2011.

How CEWG works

CEWG is centred on a **Matrix of Economic and Financial Reform Priorities** (the EFRP matrix). This matrix provides the basis for CEWG dialogue and action. It identifies and prioritises reform in three areas: public financial management reform, budget reform and economic reform. The matrix sets out specific reforms, the actions required to achieve progress, and evidence and indicators of progress. It is linked to the Ministry of Finance and Treasury's (MoFT's) corporate plan and is currently focused primarily on reforms within that ministry.

Specific financial and economic reforms are identified as triggers to release budget support or performance-linked aid. This aims to provide financial incentives for SIG to continue with the reform process. By late 2011 the Asian Development Bank (ADB) had provided US$10 million and EU15 million in budget support. AusAID had provided $6 million in performance-linked aid to the education fee-free initiative.

The formal dialogue process centres on quarterly high-level meetings chaired by the Minister for Finance and Treasury. These formal meetings discuss progress against the matrix and agree on amendments. AusAID is represented in these meetings by the High Commissioner. Annual Joint Reviews—comprised of both SIG and donor representatives—monitor progress against the matrix, assess whether trigger actions for budget support have been met, and set out future priorities for CEWG.

As will be highlighted, much of CEWG's substantive dialogue takes place in the less formal meetings and interactions that lead up to meetings. These include meetings of a 'core-core' group of donors and SIG (the Permanent Secretary and representatives from key CEWG donor members); donor group meetings; and ad hoc meetings between SIG and donor technocrats.

CEWG goals and mandate

SIG–donor dialogue itself is seen as an important outcome of CEWG—particularly by donor members. The formal and informal exchanges embodied in the dialogue build relationships and mutual trust between donor and SIG actors. Having one shared forum for dialogue also helps to reduce duplication and transaction costs and embodies both sides' commitments to the Paris Declaration and aid effectiveness agenda.

However, the real test of CEWG's success is its ability to deliver improved fiscal and economic outcomes. More specifically, CEWG aims to deliver a stronger more developmental budget process and structural reforms. In doing so, CEWG participants are seeking to create better government systems that can manage budget support, create an enabling environment for business investment and development, and provide basic services to the people of Solomon Islands.

> **CEWG Goals**
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> - **An affordable and sustainable government budget that improves government decision-making processes, and focuses on achieving the development goals of Solomon Islands.**
> - **Structural reform to make Solomon Islands an easy and reliable place for businesses to invest and for industries to grow.**

MoFT-centred reforms are necessary but may not be sufficient to achieve these goals. As will be discussed, there may be a need to expand the scope of CEWG dialogue to embrace line ministries (particularly those engaged in service delivery) if there is to be deeper progress on structural reform.

The overall causal logic of CEWG is set out in the Figure A3-1.

Figure A3-1: Causal Logic of the Core Economic Working Group

Stated goal:
An affordable and sustainable budget, and economic growth facilitate Solomon Islands development goals

The missing link:
Broader fiscal reforms and complementary sector reforms implemented by line agencies

Immediate reform outcomes:
• SIG has increased recurrent funds from budget support/Performance Linked Aid
• MoFT implements matrix reforms

Donors release incentive funds

Economic and Financial Reform Matrix:
Reform agenda set
Trigger actions for budget support agreed
Progress reviewed and discussed
Matrix modified and deepened over time

Annual Joint Review Mission assesses progress on reforms, including trigger actions

Immediate process outcomes:
Trust, relationships and mutual understanding increased, duplication and transaction costs reduced

Creating the space to work:
Donor staff in Solomon Islands negotiate with headquarters a flexible approach to engagement

Dialogue:
SIG and donors engage on economic reform in quarterly high-level meetings, shaped by frequent informal interactions

A complementary process:
IMF process strengthens resolve for CEWG reforms

Achievements

SIG, AusAID and other donors see CEWG as an important and effective forum for policy dialogue. The second CEWG Annual Joint Review in August 2011 found CEWG to be "a successful model for joint government–donor dialogue on the promotion of key public financial management and economic policy reforms".[19] CEWG's key achievements include the following:

• There have been numerous attempts to develop and sustain SIG–donor policy dialogue since the 'tensions' of 1998–2003. CEWG is the first dialogue forum (beyond limited sectoral working groups) that has had **sustained success on dialogue around broader economic development issues.**

• CEWG has helped to **build trust and improve the quality of working relations** between parts of SIG and key donors, including AusAID, in a context in which relations were previously strained.

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19   Solomon Islands Consultative Economic Working Group (2011) *Report of the Economic and Financial Reform Program Second Annual Joint Review.*

- CEWG has helped to **improve donor coherence and coordination**. As a result CEWG donors are better able to speak with one voice and to forge consensus on key financial and economic priorities. This has reduced the transaction costs for MoFT counterparts, who can now deal with donors collectively rather than individually. For AusAID it has also provided a way to engage with SIG without the baggage associated with being the dominant donor in Solomon Islands.

- The focus of CEWG has evolved from its crisis-focused beginnings to a **multi-year dialogue** underpinned by a **shared framework for reform** (the EFRP matrix).

- CEWG has provided a framework through which donors have been able to provide US$37 million in **budget support** and **performance-linked aid**.

- CEWG has contributed to improvements in Solomon Islands macro **fiscal management** including reforms in budgeting, forecasting and financial management.

- Partially as a result of these reforms, SIG's **foreign exchange reserves** have risen from less than one week's worth of spending in 2009 to six month's worth in mid-2011.

- CEWG dialogue has contributed to the development of the **National Development Strategy**, a framework for longer-term development in Solomon Islands.

- CEWG has proven to **be relatively robust**. It has continued to operate through one election cycle, and several changes of Prime Minister and Finance Minister.

Political economy factors shaping policy dialogue

A number of political economy factors fundamentally shape the ways in which fiscal and economic policy-making and donor–government dialogue take place in Solomon Islands. It is against this difficult context that the relative success of CEWG should be measured. These factors include the following:

- Solomon Islands is a fragile state, whose institutions are only now starting to emerge from irregular post-conflict constructs and influences. Formal state institutions are not robust or deeply rooted and informal institutions, such as personal patronage networks, are prominent.

- External actors, and particularly Australia, play a fundamental role in governance in Solomon Islands. The Regional Assistance Mission to Solomon Islands was responsible for securing the peace that followed the tensions of 1998–2003 and has continued to serve as guarantor of peace in the years since.

- Solomon Islands is one of the most aid dependent countries in the world. International aid flows are equivalent to almost half of the Solomon Islands' economy with approximately US$250 million of non-military aid entering the country each year.

- Solomon Islands has tended to suffer from a form of the resource curse in which abundant and valuable natural resources have fuelled weak governance and feckless economic behaviour. The profits from the timber trade, in particular, have helped generate high levels of rents and unearned income for the political elite financing individual patronage networks rather than state goods and services.

- Members of Parliament (MPs) seldom gain and retain power by delivering on issues of broad national or even regional interest. They are elected and re-elected based on their ability to deliver resources to their locality and to their immediate supporters. Localised political affiliations, wantokism, and electoral realpolitik therefore provide little space for issue-driven politics.

- Politicians face perverse incentives against longer-term planning and policy-making. The high turnover of governments and office holders means that time horizons for MPs and ministers are very short: less than 50 per cent of MPs are re-elected and ministerial posts are reshuffled in an effort to maintain a viable coalition government. This, as well as the 'grasshopper politics' in which MPs regularly jump from government to opposition, means that politicians face strong incentives to maximise short-term gains in office and few incentives to deliver more substantive public goods and services.

- Key political decisions in Solomon Islands are often made through the Caucus, a parallel system of government comprised of the supporters of the ruling government in Parliament.

- Civil servants face few incentives to develop and deliver policies and programs. Job insecurity, poor pay and conditions, limited technical capacity and a deeply hierarchical administrative culture limit the scope for policy reform. MoFT has greater capacity to develop and implement policies than most other SIG ministries and departments.

Building blocks of CEWG dialogue

This evaluation's Theory of Success outlines five building blocks that can shape the character of a policy dialogue: clarity of intent, negotiating capital, actors and their characteristics, evidence and dialogue fora. The sections below examine each of these building blocks and their interaction in relation to CEWG.

Clarity of intent

The degree to which participants are clear about what they want to achieve through dialogue

From the beginning, both SIG and the donors were **clear about what they wanted to achieve through CEWG**—even if each wanted to achieve somewhat different objectives. This clarity of intent resulted from Solomon Islands' perilous fiscal situation in 2009. The fiscal crisis focused the minds of both key Solomon Islands Government officials and donors on the importance of getting money into government coffers and addressing fundamental fiscal shortcomings. This clarity of intent ensured that there was a high degree of initial ownership and engagement on the part of SIG and a coordinated and swift response on the part of donors.

On SIG's side, senior MoFT officials initially engaged in CEWG as a means to build up government cash reserves and encourage donors to provide more of their assistance 'on budget'. As one observer noted: "the link [between CEWG and budget support] has been key—it has been the most important carrot for dialogue".

While the dialogue was first and foremost about addressing SIG's fiscal shortfall, senior government officials also viewed CEWG as a way to decrease the transaction costs of dealing with donors separately. They saw CEWG as a mechanism that allowed them to deal with all donors more systematically and at the same time. As one official noted: "CEWG makes the donors work together and put their views together".

Australia (and other donors) were also clear about what they wanted to achieve through CEWG and were able to coordinate their actions and resources accordingly. From the donors' side, CEWG was seen as a means to:

- **Coordinate timely and appropriate support to SIG** at a moment of fiscal crisis. CEWG donors wanted to ensure that SIG received the financial assistance needed to weather the fiscal crisis. This support came in the form of performance-linked aid (AusAID), additional sector budget support (New Zealand) and direct budget support (European Union and ADB). Donors also helped to bolster SIG's reserves by putting existing and pending project funds into the Central Bank and boosting local cash earnings by using more labour intensive forms of construction and public works. The fact that donors were able to draw on existing funds helped to ensure that CEWG was financially backed from the start; AusAID had just launched a new program of performance-based aid and the ADB and the European Union could draw on funds aimed specifically at supporting Pacific countries respond to the global financial crisis.

- **Improve the quality of relations with SIG**. CEWG also provided donors with the opportunity to reset relations with SIG. At the time of CEWG's launch in 2009, substantive and regular dialogue was constrained and SIG-Australian relations were improving but often fraught. The donors' ability to deliver timely and appropriate financial resources at a time of fiscal crisis helped to bolster relations and build trust between SIG and key donors, especially Australia.

- **Promote key public financial management reforms in the short and medium term.** Donors saw CEWG as more than a means to provide swift and direct support to SIG at a time of crisis. They saw it as an opportunity to initiate and sustain more substantial discussions about

medium- and longer-term fiscal and economic policy. As one donor highlighted: "CEWG was always about building the foundation for future dialogue".

- **Develop a new way of working.** CEWG donors also shared a broad vision that they needed to work in a way that differed from past practice. The core donor partners were like-minded in their recognition that substantive financial and economy reforms would require an approach that was flexible and worked to SIG's lead and at SIG's pace.

The fact that all donor partners in CEWG shared these broad objectives enabled the core group of donors to coordinate their agendas and actions and to 'speak with one voice.' This shared intent has been crucial to the dialogue's success.

Negotiating capital

The balance of power, knowledge and ownership between dialogue participants

There is a **fundamental imbalance of negotiating capital** between Australia and other donors and between the donors and SIG.

Given the scale of the Australian presence, there is a risk that negotiating capital between Australia and other donors could be unbalanced. Australia is the dominant donor in Solomon Islands in terms of both financial commitments and expatriate presence. This dominance could potentially swamp or marginalise the efforts of other donors and breed resentment. It could also put SIG on the defensive. The joint-donor approach embodied in CEWG and the technical strength of the ADB and World Bank on financial policies, however, has put other donors in the lead. AusAID has been willing to take a less prominent role in the process and to put its voice forward as part of the donor group. In doing so, it has helped to temper the effects of Australian aid dominance and helped to make both interdonor dialogue and donor–SIG dialogue more resilient.

As a group, AusAID and other donor offices are well endowed with human and financial resources, technical skills and systems, and comparative experience (although AusAID itself does not have public financial management expertise at Post). Donors are also able to draw on the expertise of their own organisations' headquarters staff as well as hired international analysts and consultants.

On the other hand, most SIG ministries and departments have very limited internal resources and technical capacity. Ministerial staff are poorly paid and turnover among both elected officials and administrators is high. This creates few incentives to promote or implement reforms or to deliver broader public goods and services.

This lopsided negotiating capital can and does skew dialogue between SIG and donors. It helps to explain why many proposed government reforms (outside of CEWG) fail to get off the ground or remain unimplemented. It also helps to explain why SIG counterparts often agree to policy and program changes they have little ownership over and have little intention or capacity to implement (known as 'false collaboration').

A significant reason that CEWG dialogue has been able to deliver sustained and substantive dialogue is that **Australia and other CEWG donors have worked with SIG to strengthen MoFT's negotiating capital**. In particular, the secondment of RAMSI staff, Overseas Development Institute fellows, and other technical expertise to MoFT has helped to bolster the Ministry's technical capacity and to develop more robust financial management systems and procedures. This capacity has allowed SIG to engage more effectively at a technical level with bilateral and multilateral partners and has served to reassure donors about MoFT's systems and procedures. As a close observer of CEWG noted: "without RAMSI staff, SIG and donors wouldn't be on even footing".

SIG's negotiating capital is also boosted through the use of the EFRP matrix. The matrix is linked to the priorities identified in MoFT's corporate plan. As a result, key Ministry officials broadly own the matrix and the key reforms it identifies.

False collaboration

"You [donors] may say something and the Solomon Islands official nods his head [in agreement]. But don't go by the head nodding: it may be that they do not agree with you at all."

"When aid is offered we say yes—even if we have some misgivings"

Senior SIG Officials

To some extent, CEWG also provides the Minister of Finance and MoFT's Permanent Secretary with credibility at home and abroad. On the domestic stage, CEWG and the resources it delivers to MoFT bolster the credibility and political resources of the Minister of Finance within the governing coalition. On the international stage, the Minister has used CEWG as a means to build his regional credibility. During a recent Pacific Forum meeting, he presented CEWG as a case study of how to successfully work with and manage donors. In November 2011 at the Fourth High Level Forum on Aid Effectiveness in Busan, Korea, CEWG was presented by the Solomon Islands delegation as a case study in aid effectiveness.

Actors and their characteristics

The capabilities and characteristics of the individuals engaged in policy dialogue

The interests, incentives, skills, knowledge and personality of key actors fundamentally shape the character and effectiveness of a policy dialogue.

A range of SIG and donor actors have played a crucial role in initiating and sustaining CEWG's policy dialogue. Overall, key actors on both sides have been **capable**, committed, collaborative and entrepreneurial. They have been capable in that both SIG and donor counterparts have had enough technical knowledge and experience to ensure that the dialogue can explore and act on technical, financial and economic issues. They have been **committed** in that they have invested in, and to a great extent, own the CEWG dialogue process. The core group of donor actors invests a significant amount of time and resources into CEWG process. The Minister of Finance at the time of the launch of CEWG was willing to change fundamentally the ways in which MoFT engaged with donors and followed through on reforms. This commitment has been maintained through subsequent changes in government.

Donor actors have also taken an inherently **collaborative** approach to policy dialogue. A core group of like-minded donors (Australia, the World Bank and ADB) has worked closely as a team to coordinate their actions. The donors in this core group were able to provide the catalyst for collective action and have also actively supported one another where needed. The World Bank Country Manager, for instance, has travelled to Canberra on a number of occasions to build support for CEWG among Government of Australia officials. As one participant noted: "we [the core group] have helped to manage one another's institutional baggage" in order to deliver coordinated action.

CEWG donors have been able to effectively pool their technical capacity. For instance, the AusAID team in Solomon Islands lacks technical public financial management expertise. However, by working closely with the ADB and World Bank, the donor group, collectively, has the skills and experience to engage appropriately and constructively with SIG officials.

Both SIG and CEWG donors have been **entrepreneurial** in their approach to policy dialogue. Core donor group members invested significant amounts of time, energy and creativity in launching

and sustaining CEWG. In so doing they have worked in ways that both stretch the narrow confines of their job descriptions and put aside their own institutional incentives in favour of achieving collective results. Key donors have also been opportunistic; they worked with each other and their own agencies to respond swiftly to the opening for policy dialogue that SIG's fiscal crisis represented. The current Minister of Finance and his two predecessors have also been entrepreneurial in their approach to policy dialogue. They have been willing to depart from past practice and to argue the case for a CEWG approach within SIG.

The **stability** and **continuity** of actors has been an important feature of CEWG. Turnover at both the Ministerial and administrative levels is pervasive in Solomon Islands. Donor offices are also prone to relatively high turnover of staff. This churning of actors can make sustained dialogue extremely difficult. In the case of CEWG, however, there is a great deal of stability among the main actors engaged in the policy dialogue. Key AusAID, World Bank and ADB officials remained in place for a sustained period following CEWG's inception. While there have been several changes of Finance Minister (and government), the same Permanent Secretary has remained in place. Moreover, the current Prime Minister was, until November 2011, the Minister of Finance and a key supporter of CEWG. This continuity and commitment of key actors has enabled sustained dialogue and fostered trust between participants.

CEWG has **benefited from the combination of bilateral and multilateral donor engagement**. Both the ADB and World Bank Offices were only opened in the months leading up to the launch of CEWG. Their status as 'new kids on the block' allowed them to build fresh relations with SIG and bilateral donors, and for their staff to operate in ways that might not have been possible if their offices had been more established. While the ADB and World Bank have been directly engaged in CEWG dialogue, the International Monetary Fund (IMF) has played a useful external role. The IMF has an ongoing Standby Credit Facility with SIG. This Facility was initially developed as a means to ensure that European Union budget support could be granted to Solomon Islands. Over time, however, the periodic IMF missions in support of the Facility have provided a source of external advice and helped to reinforce the importance of key CEWG reforms. As one government official noted: "the IMF gives structure and direction to our approach".

The **technical expertise** and backgrounds of key actors also contributed to CEWG's ability to sustain policy dialogue. The World Bank Country Manager (in post from 2009 to 2011) had previously worked in East Timor and was able to draw on the experience of donor–government dialogue there. The ADB lead is a respected former Fijian public official who brings not only a technical understanding of public financial management to CEWG, but also a rooted understanding of Melanesian society and politics. He is therefore able to bring regional credibility to his engagement with SIG and to operate as a genuine peer to high-level SIG officials.

Dialogue fora

The formal and informal spaces and opportunities to understand each other's values and interests

CEWG dialogue entails an **effective mix of formal and informal, technical and higher level dialogue fora. As highlighted above, there are two formal CEWG fora:** a quarterly CEWG meeting chaired by the Minister of Finance and an Annual Joint Review. The quarterly meetings provide a regular forum through which donors and SIG can review ongoing progress against the EFRP matrix and allow both SIG and donors to discuss fiscal or economic issues of mutual concern or interest. The Annual Joint Review assesses progress made in the implementation of the EFRP matrix, with particular focus on priority reform actions. The Annual Joint Review also identifies future priorities and revisions to the matrix and informs donor decisions regarding the provision of budget support for the coming year. The formal CEWG meetings include government ministers and

high-level government officials as well as senior representation from donor missions (for example, the Australian High Commissioner).

While these formal fora provide the mechanism through which joint analysis and reform priorities can be officially endorsed, **the effectiveness of these fora hinges on the informal dialogue that underpins them**. Informal technical and administrative discussions within the donor group, and between the donor group and SIG provide a foundation on which higher level decisions can be built. Informal discussions between CEWG donors in the lead up to quarterly meetings also ensure that donors iron out their differences and explore new priorities and proposals. As one donor participant noted: "informal meetings help to gather information, test ideas and plant seeds in ways that more formal dialogue cannot". These informal meetings also reduce SIG's transaction costs. The core group of donors also meets regularly, but informally, with MoFT officials. Both SIG and donors noted this allows for key discussions to be 'precooked' before more formal meetings.

Honiara is a small place and CEWG participants are likely to encounter one another in a wide range of informal contexts. As a result, CEWG donors and SIG officials report that they are able to exchange ideas and explore progress in an almost continuous manner over "cocktails, coffees and school runs".

At a bilateral level, high-level talks for the Solomon Islands – Australia Partnership for Development also provide an opportunity to discuss and reaffirm commitment to the CEWG process and its goals.

Evidence

The extent to which data, research and analysis inform policy dialogue, and who owns it

Shared evidence and analysis provide the foundation for CEWG dialogue. There are two kinds of evidence underpinning CEWG. First, there is periodic or commissioned analysis. This analysis includes broad fiscal and economic analysis (for example, the World Bank-led Public Expenditure Reviews or the IMF's Mission Reports) and commissioned studies related to specific economic sectors and reforms. CEWG provides a forum through which donors and SIG are able collectively to exchange and explore these analyses and factor them into reform priorities and strategies. As a high level government official highlighted: "CEWG creates an environment in which good analysis [can be created and then] feed into policy-making".

The second category of evidence that helps to shape CEWG dialogue is the EFRP matrix. As noted above, the matrix provides the basis for CEWG to prioritise and sequence reforms. It also provides the basis for the Annual Joint Review to assess progress.

> "When we [CEWG] started, there was not much trust between government and donors. There was lots of key information that was withheld...Now we have won [SIG's] confidence and this information flows."
>
> *Donor partner*

The matrix has provided the basis for dialogue and policy reform for one significant reason: it has taken an incremental and 'good enough' approach. Rather than develop an overly ambitious, tightly sequenced and technically flawless matrix of reforms, SIG and the donors developed a matrix that is broad, open to significant revision and leaves some more contentious reforms out. As one donor noted: "it's not perfect; it's not ideal; but it does provide a start for an important process". This approach allowed CEWG to make some initial swift progress on 'low-hanging fruit' and to avoid getting bogged down in more complex and politically sensitive reforms. As one participant noted, this approach made it possible "for participants to build trust and relationships and to demonstrate tangible changes [through CEWG]".

Shortcomings and sustainability

CEWG has marked a significant improvement on the quality and depth of policy dialogue that preceded it. CEWG's achievements, however, should be tempered with an appreciation of its shortcomings and future challenges. These include the following:

- While both SIG and donors had strong clarity of intent about the aims and approach of CEWG during the first several years of its existence, the **future focus and composition of CEWG is currently less clear**. CEWG is in a period of transition. As its fiscal situation has stabilised and improved, SIG faces less of an immediate incentive to invest in fiscal and economic dialogue and reform than when it was staring into a fiscal abyss. There is also less clarity about CEWG membership and the group's future focus.

- CEWG members are debating whether or not (and if so, how) to **expand CEWG's mandate beyond MoFT to support coordination and reform in sector ministries**. As noted above, strengthening MoFT systems and processes is necessary but not sufficient to achieve CEWG's goals. If SIG is to improve its budgeting and financial management, and ultimately the delivery of services, there needs to be effective and coordinated dialogue not just with MoFT, but with key line Ministries (particularly those that provide basic services). In other words, improving the financial plumbing within MoFT will make a difference, but without improved coherence and capacity in other ministries, reforms will have limited impact on the lives and livelihoods of Solomon Islanders. On the other hand, there is a risk that expanding CEWG's mandate could dilute the focus and coherence of CEWG dialogue.

- So far, CEWG is very **dependent on the personalities involved**. This has its advantages: dialogue can be built and sustained on personal relationships between government and donor participants. This approach, however, also carries some risk: it is unclear how CEWG will cope with changes to key donor and government actors. The recent change of staff among long-standing World Bank and ADB staff will, for instance, test CEWG's resilience.

- Similarly, a key strength of the CEWG approach has been the engagement that takes place between donors and the Minister of Finance, the Permanent Secretary and a few other high level officials. However, there is a risk that CEWG dialogue has focused too much on **working with these individual champions of change** rather than fostering a broader coalition of change around economic and fiscal reform. There is, for instance, little civil society or private sector engagement in CEWG process—despite the group's focus on economic management and growth. There is also a potential lack of engagement among mid-level and lower-level government administrators. As one official explained: "it doesn't get to our level much … lots [of information and discussion] goes up, but not much comes down".

- There is a sense that while CEWG has improved the quality of dialogue between SIG and donors, it could do more to address some of the more **deep-seated fiscal and economic challenges** facing Solomon Islands. As one observer noted: "donors were so focused on getting a seat at the table [with SIG] that they didn't push on difficult issues". This may, however, be changing—the most recent Annual Joint Review began to prioritise more difficult issues including procurement processes. However, it may be challenging for CEWG members to make progress on these more politically sensitive reforms.

- While MoFT has greater capacity than most SIG Ministries, **the limited depth and breadth of its staff constrains** the ability of **MoFT** to lead and deliver reforms. The expatriate staff working in MoFT have helped to boost the Ministry's capacity and negotiating capital in the short run. However, reliance on outside technical assistance is not a permanent solution to MoFT's human resource constraints and in many cases appears to be contributing little to building longer-term capacity within SIG ministries and departments. There is also a concern that the number of expatriate staff working in MoFT has created a situation in which expatriate

donor staff engage primarily with expatriate seconded staff rather than Solomon Island civil servants.

- AusAID's lack of technical capacity within Solomon Islands has been compensated for by close working relationships with World Bank and ADB staff. In addition, staff at Post have drawn on the expertise of Canberra-based advisers. However, in the longer term, AusAID's ability to engage substantively in policy dialogue may be limited by its lack of in-country technical capacity on public financial management and budgeting.

Conclusions and insights

CEWG has provided donors and SIG with a strong basis for substantive dialogue on public financial management and economic policy reforms. It has not only helped Solomon Islands weather its fiscal crisis, it has helped to improve the quality of debate and evidence-based decision-making in MoFT. CEWG has also contributed to improvements in MoFT's budgeting, forecasting and financial management. These achievements have occurred in a difficult and unstable policy environment, and CEWG has so far managed to survive one election cycle and several changes of Prime Minister and Finance Minister.

The approach taken by CEWG is specific to the Solomon Islands context and has its limitations. However, the overall approach may provide a useful framework for fostering donor–partner government dialogue in some contexts—particularly where budget support is being considered. At a broader level, there are there are a number of factors that have contributed to its overall 'success' which may provide lessons for other AusAID Posts and programs. These include:

- **Be opportunistic**: AusAID and other CEWG donors were opportunistic. They were able to respond swiftly to SIG's request for financial assistance during the global financial crisis and leverage this opening into a more substantive dialogue about fiscal and economic management.

- **Be fleet and flexible:** AusAID and other donors were relatively fleet and flexible in their response to SIG's request for support. AusAID was particularly responsive and was able to release its performance-related aid just when government finances were most stretched. Other donors have been able to stagger their funds to provide a steady stream of resources to SIG as it sought to rebuild its balance sheet. This fleet and flexible response helped to build a store of good will and trust that provided the basis for subsequent dialogue.

- **Invest in strengthening partner government negotiating capital:** AusAID and other CEWG donors actively invested in bolstering the negotiating capital of SIG by providing advisers, technical support and shared and commissioned analysis. While this did not quite put the two sides of the dialogue on equal footing, it did make it possible for SIG to have greater ownership of the dialogue and to engage at a technical level with donor counterparts. As noted above, however, more could be done to develop the longer-term capacity and negotiating capital of SIG counterparts.

- **Use finance to incentivise dialogue:** The link between dialogue and financial resourcewas key to initiating and sustaining CEWG dialogue. The ability of AusAID and other donors to provide budget support to SIG has been a crucial incentive for government engagement in CEWG.

- **Step back and take a joint approach:** A joined-up donor approach in which Australia is merely one of several donors driving the dialogue has been central to CEWG's success. In a context in which AusAID is by far the dominant donor, the willingness of AusAID to step back and let ADB and the World Bank take much of lead in the dialogue has allowed for a more balanced and less adversarial approach to dialogue.

- **Start small:** The relatively small size and like-mindedness of the core donor group have made achieving and maintaining collective action much easier. This has made it possible for the donor group to coordinate their engagement with SIG, and enabled them to develop an effective division of labour in which different actors play different roles in the dialogue process and mutually support one another's efforts.

- **Work for continuity and competency:** The technical expertise and continuity of actors have also been central to CEWG's effectiveness and sustainability. In a context in which turnover is high, key government and donor actors have been able to build and deepen their engagement with one another and reform processes. This has helped to build a strong and trusting working relationship within CEWG.

- **Be incremental:** AusAID and other donors have sought to build engagement with SIG incrementally. Rather than push a hard reform agenda at the start of the CEWG process, they worked with SIG to address some easier wins. This has built confidence in and ownership of the CEWG process. It is only now that donors are beginning to raise more thorny issues (for example, procurement management).

ANNEX 4: Staff survey headline results

Policy Dialogue Evaluation Survey 2011

ORIMA RESEARCH
Report of a survey commissioned by the Office of Development Effectiveness
February 2012

Contents

Appendices

Background and methodology

In 2011 AusAID engaged ORIMA Research to conduct a policy dialogue survey to support a broader evaluation on the topic. The survey was designed to gain a broad picture of AusAID's experience in policy dialogue that involved parties outside AusAID in all contexts. The survey adopted a census-based sampling methodology, and was administered online between 5 December 2011 and 20 January 2012.

175 staff identified by AusAID as having recently been involved in policy dialogue were invited to participate in the survey; 77 responded, representing a 44 per cent response rate.

This report provides a summary of the key findings of this survey. Additional analysis can be found in Appendix B.

Key results

Overall policy dialogue success

The survey showed that staff involved in policy dialogue provided solid overall ratings of the quality of the policy dialogue process and its contribution to aid and/or development results.
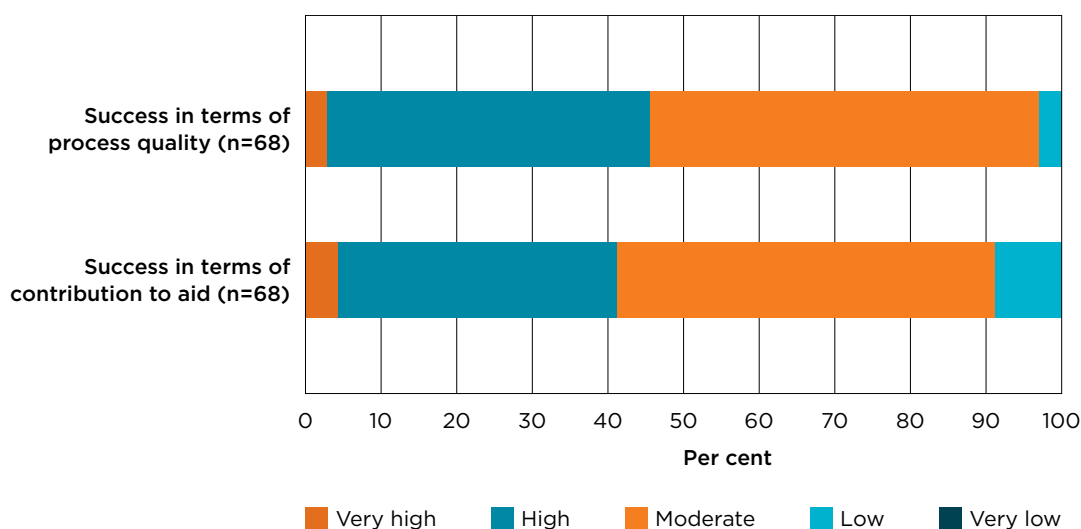
Figure A4-1 shows that:

- just under half of respondents indicated that their most recent policy dialogue had *high* success in both of these areas
- almost **all** respondents (91%–97%) indicated *moderate or high* success
- less than 10 per cent rated the dialogue as having had 'low' success.

While the small share of 'low' ratings is a positive result, the fact that over half of staff provided moderate ratings in these areas, suggests that there is considerable scope for improvement.

Figure A4-1: Respondent ratings of overall policy dialogue success

(Base: All respondents)

How AusAID could better support staff to conduct effective policy dialogue.

Respondents were asked to suggest how AusAID could better support them to conduct effective policy dialogue.

They were most likely to indicate that aspects that would support policy dialogue would include:[20]

- **clearer direction**, including more effective strategic guidance and clearer policy positions
- **more flexible and timely funding decisions**

  - This is reflected in relatively lower results relating to both funding responsiveness (for example, AusAID as flexible and responsive making funding commitments, which received 66 per cent agreement); and measures of AusAID's overall responsiveness (for example, being able to recognise when policy windows open, which received 54 per cent agreement). See 'Aspects of Policy Dialogue Success' for more details.

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20   These themes are based upon the free-text comments provided by respondents to Question 55 in the survey. The full set of comments can be found in Appendix M.

- **more resources**, including hiring more analytical staff to focus on policy dialogue, better staff resourcing in general, and more resources to pursue policy dialogue
  - This suggestion is reflected in ratings of 'resources and support' provided by AusAID. This aspect of policy dialogue received the lowest proportion of positive ratings, reflecting considerable scope for improvement. See 'Aspects of Policy Dialogue Success' for more information.
- **access to technical support**, including the development of internal expertise and capacity within Posts, and access to timely technical advice.

Other, less common themes included the need for:

- a reduction in internal administrative and reporting processes to enable more time for policy development and dialogue, allowing staff at Posts to engage effectively
- Post-specific training, such as language training, communicating with a foreign government and negotiation training.

Amount of time spent on policy dialogue

Respondents to the survey indicated that they spent a substantial amount of their work time at Post on policy dialogue matters. Figure A4-2 shows that:

- Only 12 per cent of respondents indicated that they spent less than 10 per cent of their time on policy dialogue.
- Most respondents indicated that they either spent between 10 per cent and 25 per cent of their time (35%) or between 25 per cent and 50 per cent of their time (23%) on policy dialogue matters.
- Almost one-third (30%) of respondents indicated that they spent at least half their time on policy dialogue matters.
  - Advisers (44%) and counsellors (36%) were much more likely to indicate that they spent at least half their time on policy dialogue than first secretaries (15%).

Figure A4-2: Approximate proportion of time at Post spent on policy dialogue matters

(Base: All respondents)
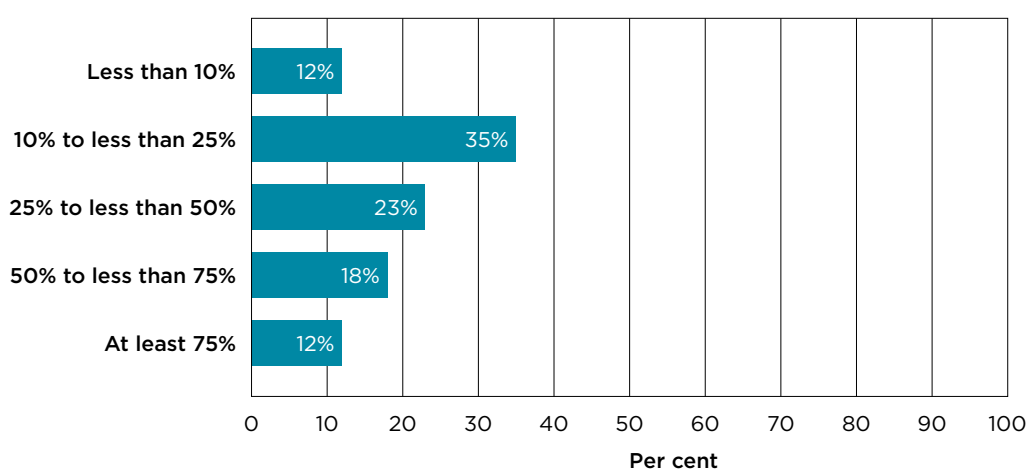
Focus of the policy dialogue

Respondents were asked to indicate the extent to which the policy dialogue they were involved in focused on Australia's interests, their counterparts interests or negotiating the parameters of the aid program (by assigning points out of 10).

- The research found that policy dialogue had the strongest focus on supporting counterparts' own policy processes (average of 4.3 points), followed by negotiating the scope, scale and positioning of the aid program (3.4 points) and lastly, promoting Australian values and interests (2.8 points).

The research suggested that differences in the focus of the policy dialogue in these three areas appeared to be associated with different levels of success of the dialogue.

- **Aid contribution success** was most likely to be rated highest amongst dialogue processes that had a high focus on 'supporting counterpart's own policy processes' and lowest where there was a high focus on 'promoting Australian values'.
- **Process quality success** was more likely when there was low focus on negotiating the parameters of the aid program.

Factors that influence the success of policy dialogue

Key drivers of the success of policy dialogue—findings from regression analysis

Regression analysis was used to model the relationship between the overall success of policy dialogue and a range of factors that measure staff ratings of the way that policy dialogue is supported in AusAID.[21]

This analysis suggested that the two strongest determinants of the overall success of policy dialogue in terms of **process quality** were (in decreasing order of impact):

- staff skills, knowledge and preparation for the policy dialogue
- the effectiveness of use of evidence in policy dialogue.

This analysis also suggested that the three strongest determinants of overall success of policy dialogue in terms of **contribution to aid and/or development results** were:

- understanding of counterparts and the political economy
- the effectiveness of use of evidence in policy dialogue
- funding responsiveness and follow up.

Overall these regression models explained around one-third of the variation in staff ratings of the success of policy dialogue (31 per cent for process quality and 38 per cent for contribution to aid results). This level of explanatory power is acceptable, particularly given the strong conceptual link between the identified 'explanatory' factors and policy dialogue success. It does suggest, however, that there are other exogenous factors (factors outside the regression model) that also influence policy dialogue success, which may reflect the individual nature and objectives of the dialogue (including the characteristics of counterparts and the influence of external factors).

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21   See Appendix K for a description of the composition of the factors used to estimate these regression models and Appendix L for the specification of the regression models themselves.

Implication of the regression analysis on prioritising areas for improvement

The regression analysis suggests that the factors identified above have the greatest impact on the success of AusAID policy dialogue, out of all the issues measured in this survey.

Figure A4-3 shows that staff ratings of AusAID's performance against these key drivers was solid, with scope for improvement in some areas.

- Of the two factors with the strongest influence on success of policy dialogue (on the right side of the figure), 'staff skills and attributes' recorded fairly strong ratings, while 'understanding of counterparts' recorded solid results.

- Of the other two key drivers, 'use of evidence' also recorded positive ratings, while staff ratings of 'funding responsiveness' recorded moderate ratings, with more scope for improvement.

The regression analysis therefore suggests that these four areas, particularly those on the right of the figure, should be the main focus of organisational improvements designed to maximise policy dialogue success.

This figure also shows that the other five factors measured in the survey that were not identified as key drivers in the regression analysis (presented on the left of this figure) recorded low to moderate satisfaction ratings. While an improvement in AusAID's performance in these areas is likely to have a positive impact on the success of policy dialogue, this impact is likely to be smaller than similar improvements in the four key drivers. This suggests that addressing the key areas for improvement in these other factors, particularly 'resources and support' and 'AusAID's responsiveness', should be considered as second-tier priorities for improvement initiatives designed to maximise policy dialogue success.

- Appendix L provides a list of the specific questions that make up the nine factors shown in this figure, while the next section of the report provides more detailed analysis of AusAID's performance against these factors (including specific questions within these factors).

Figure A4-3: Importance-performance analysis for process-quality and aid-contribution success[22]

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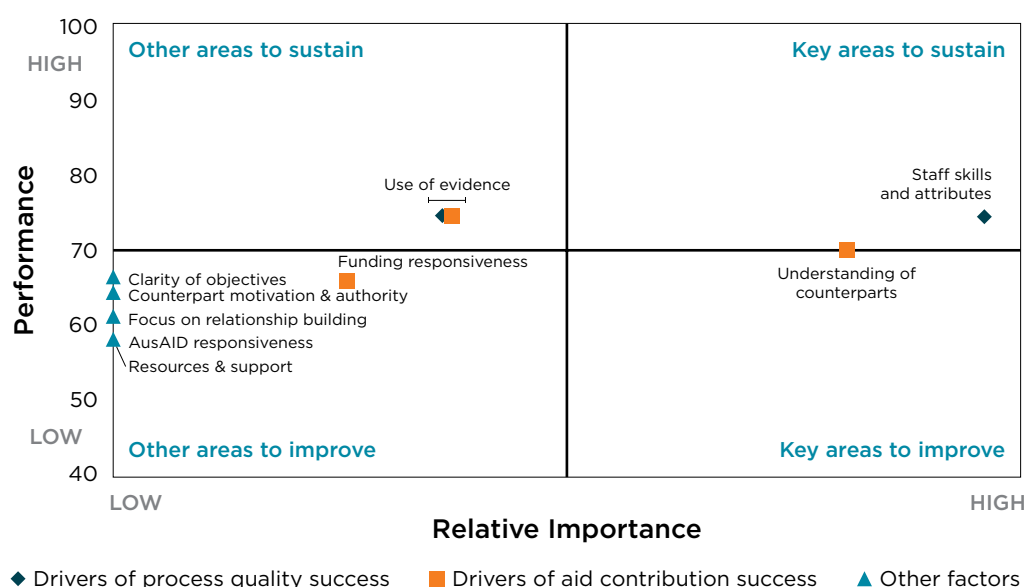
22   The importance results in this figure are based upon the regression coefficients for each predictor variable in the two separate regression analyses (see Appendix L).

Staff free-text comments about the factors that support and detract from conducting good policy dialogue

The regression results are supported by the free-text responses provided by staff about the most important factors that they felt **supported** or **detracted** from their ability to conduct good policy dialogue.

Some of the main themes in these align with key drivers of policy dialogue success from the regression analysis:

- The two most common supportive factors were experience in the sector (consistent with the importance of staff skills and attributes), and good working relationships with counterparts and partner organisations (see Box 1).
- The two most common detracting factors were a lack of understanding and support from AusAID (Canberra), and problems with partner governments and counterparts (consistent with the issues captured by 'understanding of counterparts' see Box 2).

Box 1: The top four supportive factors were:	Box 2: The top four detracting factors were:
• Experience in the sector such as technical understanding	• Lack of understanding, support and clear policy from AusAID (Canberra)
• Good working relationships with counterparts and partner organisations	• Problems with partner governments and counterparts
• Support from AusAID/DFAT leadership	• Lack of time and other time constraints
• Local and partner country knowledge	• Lack of knowledge, experience and technical understanding at posts

Aspects of policy dialogue success

Figure A4-4 shows that respondent ratings of AusAID's performance against the nine factors representing aspects of AusAID's support for policy dialogue ranged from low to fairly strong. This figure also shows that the four factors that were identified as key drivers of the success of policy dialogue were amongst the five most positively rated factors.

Figure A4-4: Respondent ratings of policy dialogue summary factors

(Base: Index points[23])
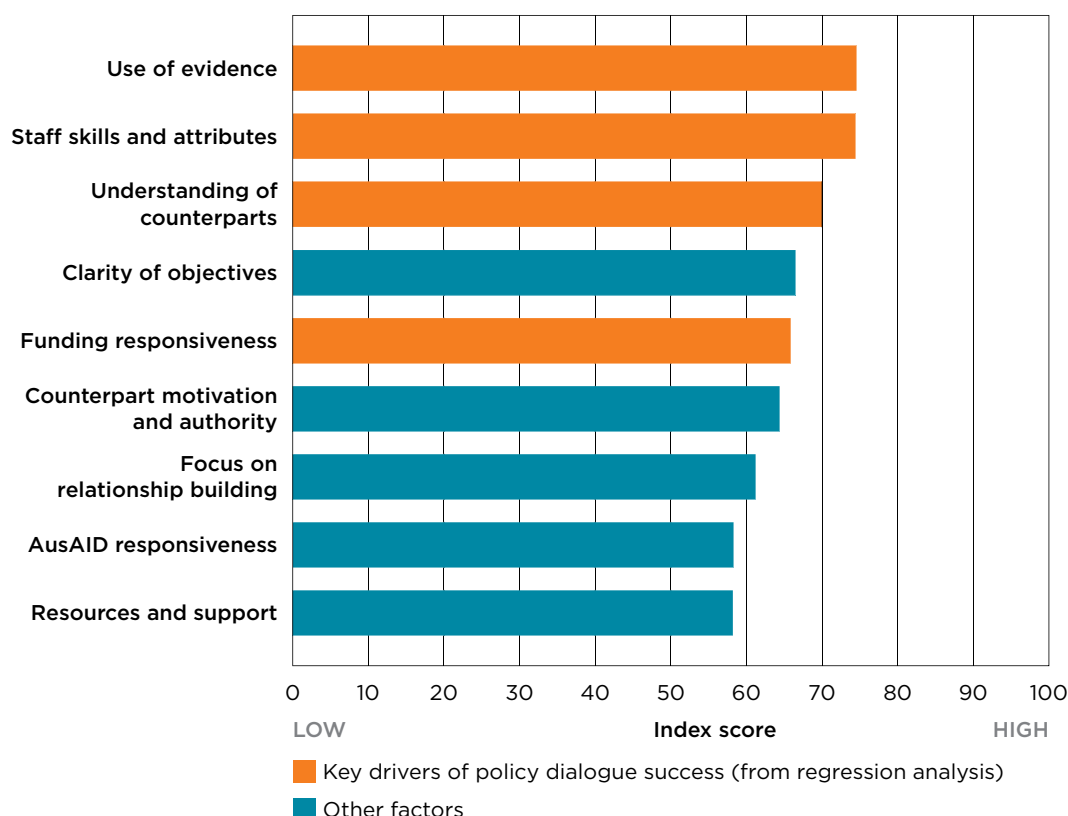
Factors recording the most positive ratings

Three aspects of AusAID's support for policy dialogue recorded fairly strong ratings.

- A very high proportion of respondents agreed that **evidence** had been used in the policy dialogue they had been involved in (93%), and a high share agreed that it was needed to engage country counterparts (79%) and was considered credible by all parties (82%).

- The share of staff who provided positive ratings of **staff skills and attributes** ranged from 78 per cent of staff who agreed that *they* felt well prepared for the dialogue to 86 per cent who agreed that AusAID staff had the right personal attributes to be successful.

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23   Factor index scores/levels of index points are not equivalent to per cent of staff satisfied. They are calculated as a mean of all respondents' answers to all the questions within a certain factor across the 5-point rating scale, transformed into an index from 0–100. An index score of 100 would be recorded if respondents 'strongly agreed' to each of the positive statements about AusAID's performance within the factor, 75 if all respondents 'agreed', 50 if all respondents 'neither agreed not disagreed', 25 if all respondents 'disagreed' and 0 if all respondents ' strongly disagreed.

- First secretaries were much less likely to have felt well prepared for the dialogue (68%), than counsellors (79%) or advisers (94%).

- At least three-quarters of respondents agreed that AusAID staff had a **good understanding** of various aspects of the **dialogue counterparts**, ranging from 75 per cent who agreed that staff had a good understanding of the counterpart's strengths and constraints to 79 per cent who agreed that staff brought long-term country experience.

Factors recording moderate results

Three aspects of AusAID's support for policy dialogue recorded moderate ratings, with scope for improvement.

While a high proportion of respondents (82%) provided positive ratings of the **clarity of objectives** of the policy dialogue, a much lower share (61%) agreed that it was clear 'what success would look like'.

- One-fifth of staff (21%) *disagreed* that it was clear what success would look like. This reflects thematic analysis of free-text responses that suggests a lack of clarity in policy and direction from AusAID was a major detractor from good policy dialogue (see Box 2, above, and Appendix M for more detail).

Funding responsiveness results showed scope for improvement, especially regarding flexibility and responsiveness in terms of making funding commitments. Two-thirds of respondents agreed (66 per cent; 19 per cent disagreed) that AusAID was flexible and responsive in making funding commitments as part of the dialogue while 72 per cent agreed (16 per cent disagreed) that it followed up these commitments in a timely manner.

- While 80 per cent of respondents agreed that their most recent policy dialogue involved a genuine two-way exchange, a much smaller share of respondents agreed with other positive statements about their **counterpart's motivation and authority**. For example, only 40 per cent of respondents agreed that their counterparts has the influence and resources to ensure policy resulting from the dialogue is implemented

- The survey showed, however, that less than 20 per cent of respondents disagreed with any of these statements about the counterpart's motivation and authority, with a significant share (25% to 40%) recording neutral answers. The high proportion of neutral answers is likely to at least partly reflect a lack of awareness by some staff about these aspects of their counterparts.

- These moderate to low results reflect findings in the free-text analysis that issues related to counterpart governments were one of the key issues felt to be detracting from good policy dialogue.

Factors with the most scope for improvement

Mixed results were recorded with regard to AusAID's **focus on relationship building**, with agreement levels ranging from 44 per cent up to 70 per cent.

- Over 60 per cent of respondents agreed that AusAID supports coalitions as well as individual champions (61%), focuses on building relationships and trust over the long term (62%) and engages with a broad range of actors over time (70%).

- A lower share of staff agreed, and a significant share disagreed, that AusAID supports counterparts to strengthen their capacity for policy dialogue (51 per cent agreed, 22 per cent disagreed), and that staff are rewarded for investing in relationship building and good policy (44 per cent agreed, 33 per cent disagreed).

- Counsellors showed low ratings of a range of aspects of support for relationships building. For example, only 33 per cent of counsellors agreed that they are rewarded for investing in relationship building.

Only around half of respondents provided positive ratings of **AusAID's responsiveness** in policy dialogue, with 54 per cent agreeing that AusAID can recognise when policy windows open and 46 per cent agreeing that it is able to recognise and adapt when the 'game changes'.

- While a considerable share of respondents disagreed with these statements (14% and 19%, respectively), there were also a high proportion of neutral responses (over 30%), which is likely to at least partly reflect a lack of awareness of this issue amongst some staff.

Respondents were least likely to agree that AusAID provided the necessary **resources and support** for policy dialogue:

- Just under one-third of respondents agreed that AusAID provides the time, space and flexibility to work effectively in policy dialogue (31%), or that the agency's systems/structures support their ability to seize opportunities for dialogue (32%). About half of staff *disagreed* with these statements.

  - Counsellors recorded particularly low ratings about the support that they receive for policy dialogue. For example, only 17 per cent of counsellors agreed that AusAID provides the time, space and flexibility for good policy dialogue.

  - Staff based in the Pacific region were the least likely of all regions to indicate that dialogues were appropriately resourced (44 per cent, compared with 60 per cent of staff in Asia, and 89 per cent of those in 'other' regions), or that there was time, space and flexibility to engage in dialogue (16 per cent, compared with 41 per cent for those in Asia, and 38 per cent of those in other regions).

Conclusion

Overall, the AusAID policy dialogue evaluation survey demonstrated that almost all staff recently involved in policy dialogue felt that the dialogue had moderate to high success in terms of process quality, and contribution to aid and/or development. Very few staff indicated 'low' success for either rating. These results suggest that respondents hold broadly positive attitudes towards policy dialogue at AusAID, albeit with scope for improvement.

Factor and regression analysis, and thematic analysis of free-text comments provided by respondents, found significant overlap in terms of the factors that most strongly support success in policy dialogue. These factors included ratings of staff skills and attributes, understanding of dialogue counterparts, the use of evidence, and funding responsiveness.

- Three of these factors showed solid to strong results and are areas to *sustain* performance.
- The key driver with the most scope for *improvement* was AusAID's funding responsiveness, particularly regarding the flexibility in making funding commitments.

The evaluation suggested that aspects of policy dialogue with the most scope for improvement were the resources and support provided by AusAID to facilitate policy dialogue, and the agency's responsiveness to policy dialogue opportunities.

Focusing organisational improvement efforts from this survey on the factors with the strongest relationship to overall success is likely to provide the greatest benefit to AusAID. The response to the evaluation should prioritise the key drivers of overall success, while also addressing the other issues in the survey demonstrating the most scope for improvement. This would involve:

- improving performance around responsiveness and flexibility in making funding commitments, as well as the agency's responsiveness to dialogue opportunities
- improving agency support for policy dialogue, including support (for example, time, space and flexibility) for investing in relationship building, and supporting counterparts to strengthen their capacity to engage in policy dialogue.

The survey identified some cohorts of staff who were generally less satisfied with areas of policy dialogue. These 'hot spots' of staff may require specific focus to address their needs and concerns. For example:

- counsellors showed some concerns about the support that they receive for dialogue work, including having the time, space and flexibility for effective dialogue work and being rewarded for investing in relationship building
- first secretaries were most likely to feel underprepared for policy dialogue and least likely to consider that appropriate resources had been allocated to the dialogue process.

The survey provides a solid basis for understanding the factors that drive success in policy dialogue. This reflects the sound lead up work by the evaluation team, through both a review of the literature and fieldwork at posts, to identify the factors that were most likely to influence success. However, the moderate explanatory power of the regression models suggests that there is still opportunity to strengthen the inputs to these models. Qualitative data captured by this survey highlights staff views of the factors that support policy dialogue. This data should be measured and tested in future studies to continue the process of building a better understanding of the factors that lead to successful policy dialogue outcomes.

ANNEX 5: Policy dialogue theory of action

Reform Outcomes

Policy Dialogue Outcomes

Policy Dialogue Process

Response

Readiness

Building Blocks

AusAID line of accountability

Developmental change

Reforms implemented

Partners gain resources and support to enhance their reform position

AusAID gains enhanced aid outcomes and relationship capital

Partners' policy processes supported

Australian values and interests promoted

Scope and processes of aid program negotiated

Policy Dialogue
AusAID and counterparts engage in a process of dialogue and related activities aimed at reform or maintaining reform positions.
• formal and informal fora
• political and technical discussions
• multiple levels of engagement

AusAID Contribution Pathways, including:
↳ Contributing to development of policy options
↳ Facilitating the environment/structures for reform
↳ Donor harmonisation
↳ Helping to shape the reform agenda
↳ Providing a bridge between government and civil society or other actors
↳ Supporting coalition building

AusAID provides funding incentives and/or fund activities to complement the policy dialogue process

AusAID mobilises resources quickly

Opportunity for donor support of partners' reform processes

AusAID recognises and seizes opportunity

AusAID is clear on what it wants to achieve

Country Context:
Reformers (individuals and coalitions) manage the domestic actors, structures and 'rules of the game' to maintain momentum for reform and gain support for changes.
Political/economic /social conditions remain broadly conducive to reform processes.

Trigger for reform

Counterparts (individuals, coalitions, institutions) are disposed to reform and have the motivation to work with donors in policy reform processes

AusAID is ready to seize policy dialogue opportunities; it builds long term relationships with a wide range of partners, builds trust and credibility, and works in a politically aware manner

AusAID has people in place with the mandate, skills, attributes and experience, and provides them with the flexibility and backup to work effectively in policy dialogue

AusAID systems incentivise and enable good policy dialogue practice