



# Banking our aid: Australia's non-core funding to the Asian Development Bank and the World Bank

Over the last 10 years, around 15 per cent of the Australian aid budget was spent through two multilateral development banks (MDBs): the Asian Development Bank (ADB) and the World Bank. Close to two-thirds of this was given as non-core funding to support a wide range of projects, such as building bridges and roads in the Greater Mekong Subregion, reconstruction in Afghanistan, health sector development in Cambodia, and education reform in the Philippines.

In 2013–14, Australia provided almost ten times more non-core funding than it did in 2005–06, and non-core funding exceeded core contributions. Non-core funding to MDBs is likely to remain a prominent feature of Australia's aid program.

The Office of Development Effectiveness (ODE) evaluation looked at what DFAT can do to improve the effectiveness of non-core funding to the ADB and World Bank. It focused on aspects of project performance that are under the aid program's control or influence rather than the adequacy of the MDBs' systems.

## Non-core funding supports many different project types

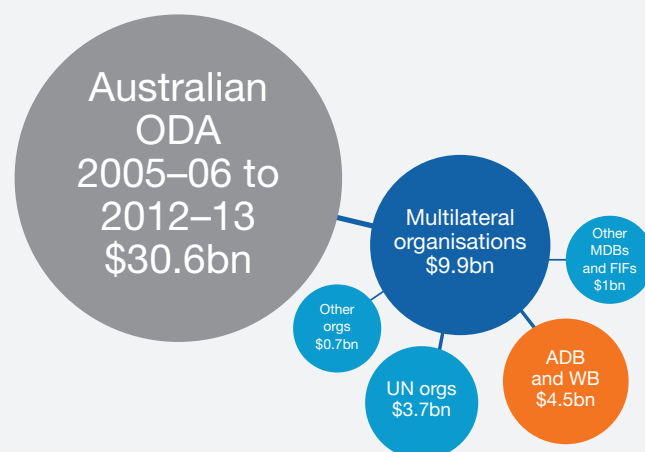
**Non-core contributions** are provided to the MDBs on the condition that they are used for specific purposes. They may have a geographical focus—global, regional or single country, or a **sectoral** focus—single/multi-sector, cross-cutting issue, research and analytical work, or post-conflict or crisis reconstruction. Projects are either **recipient executed** (implemented by the recipient government, with support from the MDB) or **bank executed** (implemented by the MDB as an adjunct to its own work programs). Australia makes non-core contributions to both **single donor** projects, and **multi-donor** projects—where Australia may be the main donor among multiple donors or a modest contributor.

ODE found that non-core funding to the ADB and World Bank is an effective and efficient way of delivering Australian aid. It has given Australia access to the banks' specialist expertise and policy discussions with partner governments, and provided a secure vehicle for meeting aid commitments to countries or regions where there is a limited DFAT presence.

There was no evidence to suggest that some arrangements are more or less effective than others. Non-core funding has achieved the best results when the

The ADB and World Bank received almost half of the Official Development Assistance (ODA) that Australia provided to multilateral organisations between 2005–06 and 2012–13.

Source: DFAT



aid program's partnerships with MDBs have positively influenced national policies or administrative systems. Partnerships have worked best where Australia has been able to contribute not only funding, but also specialist expertise and country knowledge. Australia's constructive relations with recipient governments have been crucial in informing judgments about how the aid program can add most value.

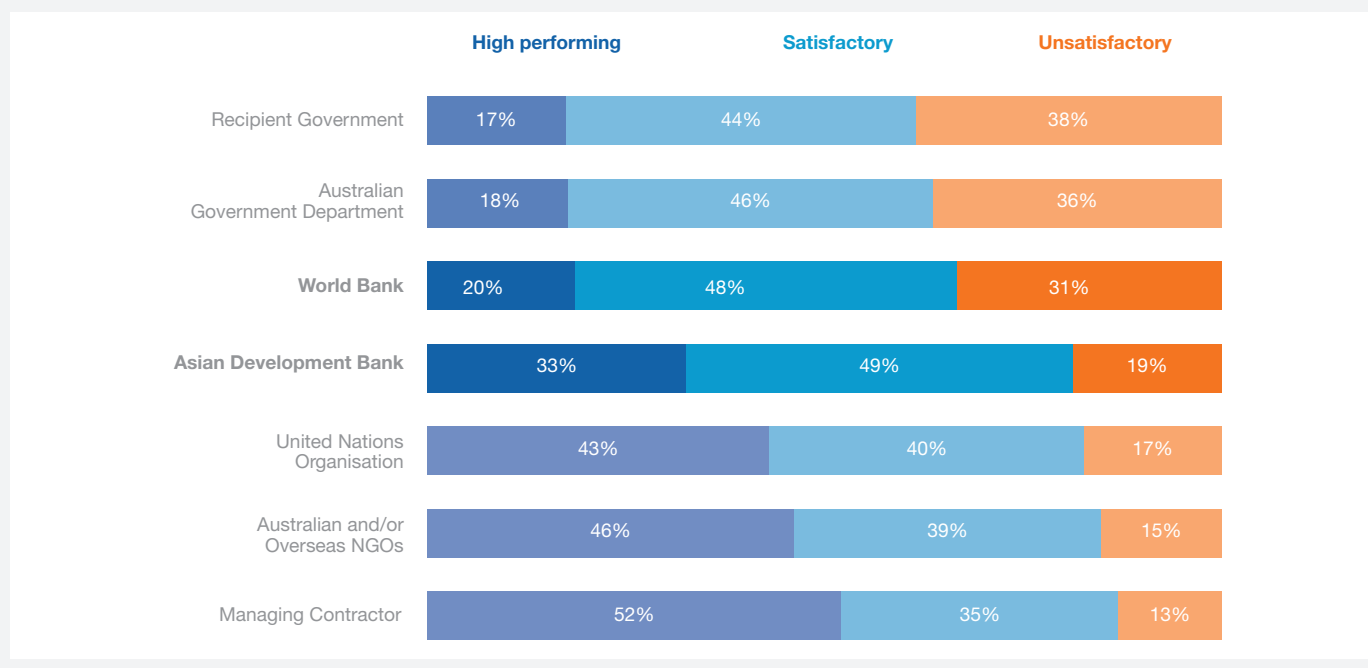
Partnering with the banks has not been uniformly satisfactory, and the projects funded by DFAT have not been universally effective. At times, differences between the organisational cultures of DFAT and the banks have resulted in a misalignment of interests or expectations that could not be resolved, leading to partnership difficulties. Other factors constraining effectiveness have included a low level of recipient government capacity, ownership and leadership; poor bank performance in preparing, supporting or implementing projects; and a lack of information provided by the MDBs about results and value for money.

## Gender equality must receive more attention

DFAT's project performance reports (aid quality checks) and staff survey results indicate that work is needed to improve the performance of World Bank and, to a lesser extent, ADB projects in promoting gender equality (though these projects are still rated higher than those implemented by Australian Government departments, or recipient government agencies supervised directly by DFAT).

ODE recommended that DFAT supports elevation of such matters through high level consultations, board meetings, and liaison with country and regional offices. There also needs to be better resourcing at the design stage, to identify how projects will address gender equality.

The World Bank and, to a lesser extent, the ADB do not perform well in aid program performance ratings for promoting gender equality



## Guidance, training and support matter

ODE's staff survey showed that a strikingly low proportion of respondents were satisfied with the training, guidance and advice they had received about partnering with the MDBs. Moreover, those who agreed they were well equipped and supported were significantly more likely than others to assess partnerships favourably.

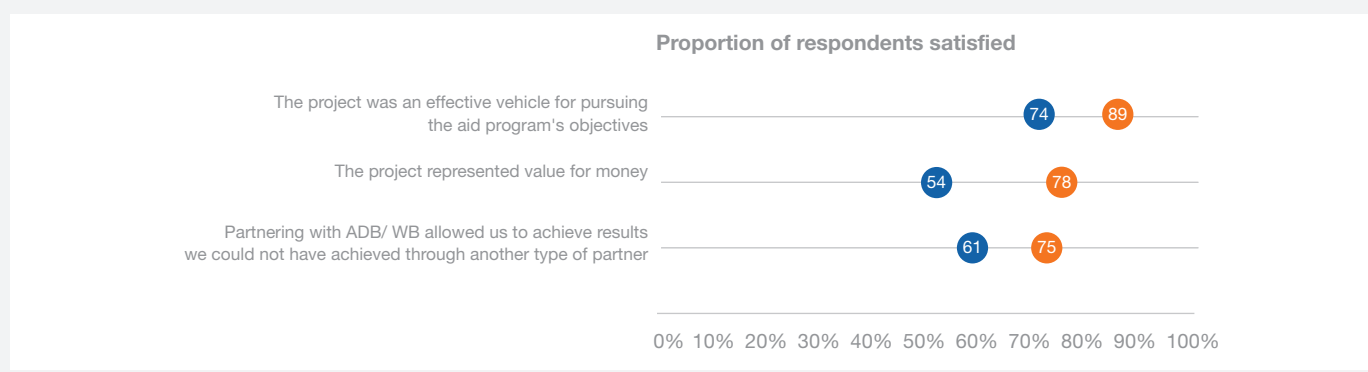
The evaluation recommended DFAT improve support and guidance to staff working on these partnerships.

**13%**  
of staff had  
sufficient  
guidance  
on ADB/WB  
design  
processes

**11%**  
received  
sufficient  
training on  
MDB policies

**44%**  
had  
sufficient  
understanding  
of ADB/WB  
structure

**DFAT staff who agreed they were well equipped and supported** were significantly more likely to assess partnerships favourably than **others**



The effectiveness of different arrangements has depended on how well they have suited their context, and on how well the aid program has followed through as a constructive partner.

<b>Global or regional projects</b>	<ul style="list-style-type: none"> <li>» Generally effective for larger contributions, especially where Australia has engaged actively. Smaller contributions probably have been spent effectively, but poor monitoring prevents verification</li> <li>» Missed opportunities to share knowledge within the aid program</li> </ul>
<b>Reconstruction after conflict or natural disaster</b>	<ul style="list-style-type: none"> <li>» The most effective means available of serving aid program objectives, especially in contexts where Australia is not a lead donor</li> </ul>
<b>Umbrella funds</b>	<ul style="list-style-type: none"> <li>» Require a high level of DFAT engagement and staff resources</li> <li>» Highly effective where they have been supported by large bilateral programs in sectors where the MDBs also operate</li> <li>» Support development of substantial aid program expertise enabling close and productive working relations between partners</li> </ul>
<b>Umbrella funds in the Pacific and Timor-Leste</b>	<ul style="list-style-type: none"> <li>» Highly effective only when the MDBs have adapted their staffing and procedures to Pacific conditions. Require considerable support and inputs from aid program staff in Canberra and at posts</li> <li>» Working-level friction between DFAT and MDB staff is common, especially related to perceptions of aid program micromanagement, and lack of MDB engagement and follow-through in country</li> </ul>
<b>Recipient executed projects</b>	<ul style="list-style-type: none"> <li>» Most effective, especially where the aid program has been able to engage with the MDBs with depth of expertise and country knowledge</li> <li>» Potential for highly effective leverage of aid program resources by linking with strengths of the MDBs</li> <li>» Numerous risks to effectiveness related to recipient execution, which the aid program may or may not be able to influence</li> </ul>

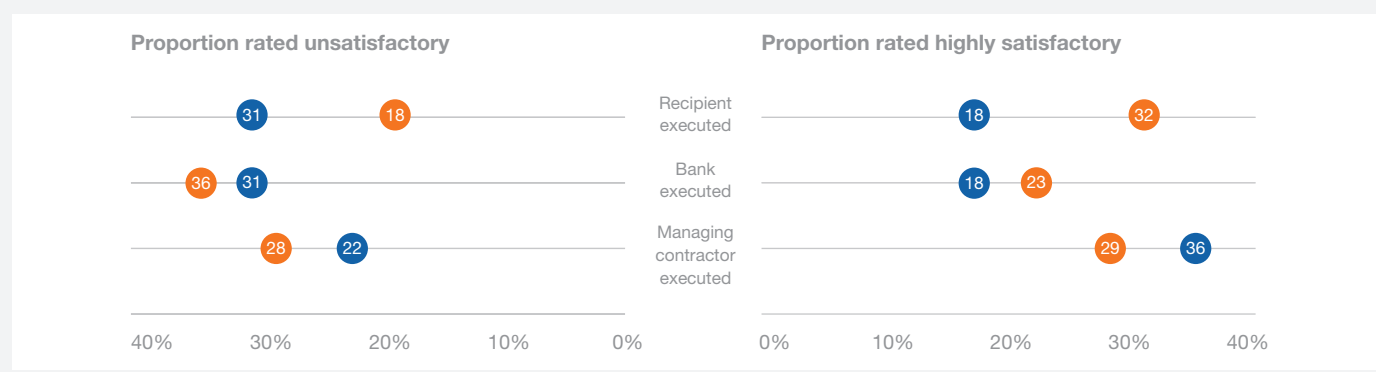
#### Oversight opportunities and expectations depend on the execution model

Donor oversight of **bank executed multi-donor projects** is usually limited to participation in steering committees or management meetings for regional or global projects. DFAT may also participate in supervision missions for single donor projects, which can allow a closer look at implementation issues.

There is more scope to negotiate oversight and reporting for **bank executed single donor projects**, but these should be agreed at the outset to reduce the risk of disagreements over the life of the project.

**Recipient executed projects** are usually subject to well-established rules, which set out reporting requirements and limit opportunities to influence implementation.

ODE's analysis of aid quality checks showed that monitoring and evaluation (M&E) ratings for World Bank projects that were recipient executed improved on **completion** compared to **implementation**, while ratings for bank and managing contractor executed projects went backwards.



### Advice from DFAT officers

Respondents to ODE's staff survey advised their colleagues to:

**Understand your partner's operating models and cultures.** The ADB's and World Bank's strengths vary according to country/region and sector, and their operating models and cultures are different to DFAT's. Partnerships with the banks provide much less scope to exercise control over outputs and timeframes, compared to private contractors. Partnerships have tended to work best where there is a high level of alignment of the expectations and interests of DFAT and the banks.

**Plan for appropriate engagement between DFAT and the bank.** Some projects—especially those for which Australia is the single or main donor—need intensive engagement from experienced staff and technical knowledge in different areas. Be careful to ensure resources are available for partnerships whose success is predicated on significant Australian input. Where resources are limited, be clear about the implications of light engagement.

**Set up appropriate reporting arrangements.** When projects are executed by recipient government agencies, DFAT should not expect the same quality of reporting as might be provided by some other partners. During implementation, DFAT should place more emphasis on assessing whether M&E systems meet the recipient's needs, and whether they will ultimately provide a basis for accountability. The risk of not being able to account for results and value for money is much higher for bank executed projects than it is for recipient executed ones, especially if they have a multi-country or multi-sector focus.

**Pay attention to your agreement.** Reporting requirements and other project details are often absent from agreements, leading to confusion during implementation. To ensure a disciplined and efficient use of public resources, payment schedules and payments should be based on realistic estimates of the cash-flow requirements of MDBs, unless there is a compelling reason otherwise.

**75%** advised

engage more with the MDBs

**60%** advised

understand the MDBs and how they work

Source: ODE staff survey

### The banks' in-country representation and capabilities vary

Much like DFAT, the banks have different levels of devolution, resources and capabilities in each country they work in. During design negotiations, the potential partner's in-country representation, country-specific knowledge, and existing relationships with the recipient government should be considered when calculating a realistic estimate of requirements for DFAT engagement with the project. Given that most bank projects are recipient executed, DFAT should be mindful that there is not always sufficient justification for the banks to have large in-country presences.

### Recommendations

**ODE made four recommendations, including that DFAT:**

- **consolidate its portfolio of non-core contributions and carry out regular portfolio reviews**
- **ensure that requests for approval of new contributions state their resourcing implications for DFAT, and agreements for multi-year commitments base payments on realistic cash-flow requirements**
- **provide more training, support and guidance to aid program staff, and identify and elevate matters of importance to DFAT through management avenues including high level consultations**
- **improve monitoring and evaluation of non-core contributions by paying greater attention to recipient governments' needs and the adequacy of M&E arrangements; ensuring quality DFAT engagement throughout implementation; and using completion ratings to assess performance.**

## Office of Development Effectiveness

The Office of Development Effectiveness (ODE) is an independent branch within the Department of Foreign Affairs and Trade (DFAT). ODE monitors the Australian aid program's performance, evaluates its impact, and contributes to international evidence and debate about aid and development effectiveness. ODE's work is overseen by the Independent Evaluation Committee (IEC), an advisory body that provides independent expert advice on ODE's evaluation strategy, work plan, analysis and reports.

The full evaluation report and DFAT management response can be accessed at [www.ode.dfat.gov.au](http://www.ode.dfat.gov.au).