

CHAPTER 6

Strengthening effectiveness: how
Australian aid will be delivered



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The Government is committed to strengthening the effectiveness of Australia's aid program. This is even more important in the light of its plan to double aid by 2010. The goal is to place Australia at the international forefront of aid effectiveness. Australian taxpayers expect nothing less.

This goal will be pursued through four linked strategies: strengthening the performance orientation of the aid program; combating corruption; enhancing Australian engagement with the region; and working with partners. These strategies are discussed below.

6.1 Strengthening the performance orientation of the aid program

The performance orientation of the aid program will be strengthened at all levels. This will build on advances already undertaken by AusAID and cover adherence to quality processes during activity design and implementation, monitoring of activity inputs, evaluation of outputs and outcomes, and overall country performance assessments.

i) Upgrade the country strategy to give greater prominence to performance outcomes and provide a single framework for whole-of-government development efforts.

The country strategy provides the overall policy and implementation framework for Australia's aid program in any given country. It translates the White Paper's overall guiding themes and strategies into programs tailored to individual country circumstances and priorities. Country strategies are developed and agreed jointly with partner governments.

Country strategies will be upgraded by:

- a) including all ODA-eligible activity, including that delivered by Australian Government agencies other than AusAID, in order to strengthen the coordination and focus of Australia's aid programs
- b) strengthening selectivity — Australia cannot do all things in all countries, and the country strategy will be the key document which determines the focus of effort
- c) providing a more rigorous performance framework, which will articulate expectations at the country level more clearly and provide a better basis for assessing the impact of aid efforts
- d) agreeing, with partners, performance frameworks that link additional allocations to mutually agreed performance criteria.

ii) Strengthen the link between performance and allocations, between and within countries.

Chapter 5 highlighted plans to reward performance at the country level (see Box 6). In larger countries, incentives will also be provided to encourage agencies within countries to compete for funds. This will build on the incentive-based approaches already being employed under the aid program, such as the PNG sub-national initiative, which aims to provide incentives for improved governance by making assistance available to better performing and improving provinces.

Further research on how incentives and performance can best be built into aid programs will also be undertaken.

iii) Build performance into individual activities by enhancing approaches that link payments to deliverables.

AusAID has a strong culture of activity monitoring and a long history of linking payments to the delivery of specific outputs. This work will be reinvigorated and emerging lessons from a number of related international initiatives will be adopted. Specifically, this will involve:

- a) strengthening plans for monitoring and evaluation for all aid activities, and enhancing the implementation of these plans. In addition, AusAID's existing internal performance management system, which rates ongoing activities as satisfactory or not, will be further enhanced to strengthen the robustness of ratings (see section below, on the Office of Development Effectiveness).
- b) strengthening the link between payments and intended results for activities for which there are clearly defined outputs. Known as 'output-based' aid, this will build on AusAID's experience and that of the World Bank, the Global Partnership for Output-Based Aid and others to focus incentives for aid delivery agents on outcomes and make performance central to the activity. This will be particularly appropriate for interventions in the social and infrastructure sectors (for example, linking payments to the construction or maintenance of roads, as is being done in the PNG Road Maintenance Project).

iv) Strengthen evaluation and 'lessons learnt' functions through the establishment of an Office of Development Effectiveness (ODE).

The Government is unequivocal in saying that future allocations of increased aid volume will be subject to ensuring its effectiveness. Australia will continue to undertake and strengthen its evidence-based approach to aid programs. While AusAID has built up impressive evaluation and monitoring systems, the Government believes that Australia should be at the forefront of global efforts to improve development effectiveness. Establishing the ODE will help achieve this. The Office will be responsible for monitoring the quality of the aid program and performing evaluation functions. It will also monitor global effectiveness lessons and experience. Box 14 provides further details on the role and functions of the ODE.

Initiative Box 14: Office of Development Effectiveness

The Office of Development Effectiveness will be established to improve the effectiveness of Australia's aid program. It will monitor the quality and evaluate the impact of AusAID and, as appropriate, other Australian Government agencies' ODA programs. It will perform the following functions:

- **Publish an Annual Review of Development Effectiveness**, drawing on the breadth of its work, including quality process reviews, concurrent and ex-post evaluations, and on the experiences of all Australian agencies delivering ODA. The annual review will be integrated into the Government's budget cycle and provide a practical link between expanding allocations and increased aid effectiveness, in accordance with the Prime Minister's September 2005 announcement.
- Act as a resource for all Australian Government agencies delivering ODA-eligible expenditure. Agencies apart from AusAID will participate in ODE activities and benefit from ODE feedback through evaluations and knowledge sharing.
- Evaluate the implementation of country strategies, policies and programs and, as a general rule, publicise the results and any management responses.
- Undertake reviews and periodic spot checks of existing performance monitoring systems and ratings of ongoing activities to verify that systems are being used correctly and that ratings are realistic.
- Build capacity within the Australian aid program to apply sound aid management principles. This will be done through the dissemination of lessons learnt from evaluations and experiences of Australian agencies, international organisations such as the World Bank, and research institutions.
- Advise on the development of new country strategies, particularly on the adequacy of performance frameworks and the deliverability of program objectives.

The ODE will be a small, high-profile office, headed by a senior executive officer reporting directly to the AusAID Director General. It will be provided with a clearly delineated budget. In order to strengthen the Office's profile and credibility, its work will be guided by a Development Effectiveness Steering Committee, including deputy secretaries of key Australian Government departments (Prime Minister and Cabinet; Foreign Affairs and Trade; Treasury; Finance and Administration) and also internationally recognised experts from time to time. The steering committee will also advise the Government on whether major new ODA-eligible programs and initiatives meet core quality and policy priority requirements.

6.2 Combating corruption

Corruption is a major brake to reform efforts and to broad-based economic growth and poverty reduction in many countries in the region. It also undermines aid effectiveness. The Prime Minister announced that increases in Australian aid will 'be conditional on strengthened governance and reduced corruption in partner countries'. Chapter 5 of this White Paper discusses how the aid program will help governments function better, and those efforts will be central to reducing corruption. However, the Government believes that further steps need to be taken by the aid program to address the scourge of corruption in the region. Effective external assistance in countering corruption is difficult to design and implement, in part because it requires a fundamental change in the social and political culture of a country and must be driven from within. There will be a gradual expansion of anti-corruption activities based on a solid understanding of what works and lessons learnt.

The aid program will increase efforts to reduce corruption by:

- **mainstreaming anti-corruption efforts in Australia's aid programs:** Each major activity will, as a matter of course, set out what it is doing not only to reduce the risks of corruption to the activity, but also to reduce corruption in the sector to which it applies. Country strategies will also set out how the aid program will help to reduce corruption.

- **developing a whole-of-government anti-corruption strategy:** The Government, through different departments and agencies, is already supporting a wide range of anti-corruption activities. Most prominent is the work of ECP in PNG and RAMSI. The AFP is active on anti-corruption enforcement; the Attorney-General's Department is active in multilateral initiatives such as United Nations Convention Against Corruption and through the OECD Foreign Bribery Working Group, and bilaterally supports improvements in legal frameworks in a number of regional countries; the Treasury and Department of Finance and Administration have made major commitments to supporting accountable public financial management in PNG, Solomon Islands and Nauru; and AusAID has a number of corruption education and prevention activities throughout the region. These disparate commitments will be brought together under one anti-corruption strategy, which will be developed during 2006 and is expected to lead to a new cross-government policy funding proposal being considered in the 2007–08 budget. An initial summary of the strategy is included in Box 15.
- **supporting regional and global anti-corruption initiatives:** These include the ADB OECD Anti-Corruption Initiative for Asia-Pacific, APEC Anti-Corruption and Transparency Experts Task Force, the OECD DAC/World Bank joint venture on strengthening procurement, governance aspects of the Pacific Plan, and support for Transparency International. Australia will support developing countries to implement the Extractive Industries Transparency Initiative, given the deep problems of corruption that oil, gas and mineral projects have led to in many countries. Australia will also help developing countries extend similar principles to the natural resource sectors, such as forestry and fisheries. A key focus will be to help ensure that developing countries receive the revenue that they are due from resource and forestry projects, and use it effectively.

Initiative Box 15: Anti-Corruption for Development

An anti-corruption strategy to guide the development and implementation of all Australian aid program activities aimed at countering corruption in the region will be developed by a core group of agencies: AusAID, Foreign Affairs and Trade, the Attorney-General's Department, the Treasury, Finance and Administration and the AFP. Other departments and agencies will be involved as necessary, but will work under core group management. The strategy will comprise three pillars: one for law and justice activities, one for economic and fiscal management, and one to build the internal demand within countries for greater transparency and anti-corruption. This model builds on Australia's early successes in countering corruption in Solomon Islands under RAMSI and in PNG under ECP. It will focus on the development of incentive structures for countries, sub-national governments, individual institutions and individual officeholders to resist corruption. The strategy will provide a statement of anti-corruption objectives and performance and evaluation indicators that will apply across aid-funded activities. A core tenet of the strategy will be close cooperation with other donors and international organisations, as well as with the Australian private sector. In view of the complexity and political sensitivity of corruption, the strategy will need to be conceived with a very long-term time horizon and will include some exploratory and experimental elements as well as ongoing research (such as the AusAID-supported National Integrity Studies of the Pacific undertaken by Transparency International).

The **law and justice pillar** will have five key operational themes: prevention, criminalisation, international cooperation, recovery of assets and technical assistance. With a key focus on strengthening and building the ability of Australia's partner countries to confront sources of corruption, activities will include:

- promoting effective criminalisation of supply-side corruption activities (an essential component of the OECD Convention on Foreign Bribery — all countries already criminalise domestic bribe taking)
- institutional strengthening to enable law enforcement, civil service, prosecution and judicial authorities to enforce legal requirements effectively, including through the implementation of appropriate institutional regulating laws and the transparent conduct of oversight and monitoring bodies

- effective building of international legal cooperation arrangements to promote the capacity to investigate and prosecute corruption, including the development of civil-based asset forfeiture regimes (an essential component of the United Nations Convention Against Corruption)
- promoting effective anti-money laundering regimes to track, trace and recover the proceeds of corruption (funding will be required for the Attorney-General's Department, the AFP and AusAID to implement this program; for example, the role of the AFP will include the formation under the International Deployment Group of a dedicated team of officers with a diverse background in corruption investigation and training).

The **economic and fiscal management pillar** will build upon the very solid base that has been established by the Treasury, Department of Finance and Administration and AusAID in the Pacific and to a lesser extent in Southeast Asia. The premise of this work is very simple: helping to improve budget processes, government financial management and procurement systems has far-reaching implications for improved transparency, accountability and work practices, making corrupt activities more difficult but more easily identified and criticised domestically. Given the strength of existing activities and engagement, only modest additional resources will be required to expand this pillar's work.

These two pillars will be complemented through **support to build demand** for transparency and anti-corruption within countries. Such demand is critical for long-term and sustainable improvements. Australia will build on its support for organisations that have the potential to play such a role, such as Transparency International, media groups, think tanks and the like. This will be part of the broader Building Demand for Better Governance program, described in Box 5.

6.3 Enhancing Australia's engagement with the Asia-Pacific region

The challenges facing the Asia-Pacific region will continue to evolve and become more complex. New policy responses will be required, and new expertise and players will be called on by the aid program to play a role, for example on pandemics, on infrastructure financing or on improving political governance. At the same time, a broader cross-section of Australian society is engaging with the region at government, business, professional and community levels. The aid program can benefit from and promote this engagement to strengthen the effectiveness of aid to the region.

The Government will work to further integrate and broaden Australian engagement in development in the Asia-Pacific region. This will centre on policy coherence and whole-of-government approaches to aid delivery, and on broadening participation beyond government.

i) Policy coherence and whole-of-government approaches

Development goes well beyond aid — other policies matter. Australia is recognised internationally for its strong record on policy coherence for development, particularly on issues such as trade. That record will be enhanced by ensuring that AusAID maintains and further develops its engagement on broader Australian Government policies that affect development (such as trade and investment) in collaboration with the other departments and agencies involved.

Australia is also recognised for its whole-of-government approaches to aid delivery. The increased involvement of other government agencies in the aid program draws in skills from diverse areas, from environment, education and health to economic policy and financial management. It also helps build long-term linkages between Australian and key developing country institutions.

Australia's whole-of-government approach will go further. First, to maximise impact and clarity of purpose (as well as to reduce the risk of fragmentation), single country strategies and implementation frameworks for major partner countries covering all ODA-eligible expenditure will be developed (see page 58). Second, opportunities to adopt whole-of-government approaches will be pursued on key issues such as corruption and law and justice (see page 61). Third, AusAID will play a central role in ensuring that the whole-of-government approach works and will often take a leadership and coordinating role. Fourth, as discussed in Box 14, the Office of Development Effectiveness will promote common and high-quality standards across ODA-delivering government agencies. Finally, the Development Effectiveness Steering Committee will advise the Government on whether major new ODA-eligible programs and initiatives are coherent and meet core quality and policy priority requirements.

ii) Extending Australian engagement beyond government

Australia is a model of political stability, democracy, law and justice, economic growth and scientific achievement. This comes not simply from a strong government sector — business and private industry, scientific and other professional groups, a strong community sector and a vibrant media all contribute to the fabric of Australia's society. The Government believes that this broader Australian community can play an increasingly important role in the region's development, and that the aid program should support and encourage such an engagement in the following ways:

- **Research:** The aid program will boost and diversify its research investment (see Box 16). This is imperative if the program is to remain relevant and effective in a rapidly changing and increasingly complex development environment. Excluding support for agricultural research through the Australian Centre for International Agricultural Research (ACIAR), AusAID has a central research budget of \$2.5 million (0.1 per cent of Australia's ODA in 2004). By comparison, the United Kingdom's Department for International Development plans to spend \$230 million in 2006–07 (or over 2 per cent of that country's ODA). ACIAR's research work will be better integrated into the rural development strategy of the aid program and will function within the single framework of country development strategies. Greater private-sector participation in ACIAR research will also be sought. Consistent with the aid program's commitment to gender equality, research programs, including those of ACIAR, will incorporate gender considerations.

Initiative Box 16: Larger and Diversified Development Research Program

Good development research leads to greater development effectiveness. A major initiative to boost and diversify Australia's development research investment will be implemented as a matter of priority. This will be guided by a new research strategy, to be developed in 2006, that will seek to support research in areas of high priority corresponding to the four White Paper themes (growth, functioning states, investing in people, and regional stability and cooperation) and the linked strategies to increase aid effectiveness. Longer term partnerships with research organisations in Australia and overseas, including in developing countries, will be central to success. An important longer term objective of the initiative is to build domestic and international research capacity on Asia-Pacific development.

The research strategy will be developed around four programs:

- a competitive program to provide support for priority and high-quality proposals put forward by research institutions
- a linkage with the Australian Research Council, through which AusAID will support research proposals (subject to the Council's competitive processes for funding)
- longer term collaborative relationships with key research bodies (in Australia and overseas) on critical topics
- a directed research program in which AusAID will solicit research on specific topics of interest.

Researchers will be encouraged to work in conjunction with developing country partners in order to strengthen capacity. Consistent with the policy of untying aid (see Chapter 3), all aid program research will be open to international competition. Support will be provided to selected global development research organisations, with the aim of building more and stronger links between Australian and developing country researchers. Priority will be given to dissemination, particularly within the Asia-Pacific region.

- **Non-government organisations:** The aid program will make continued and increased use of the non-government community as a delivery mechanism for Australian aid. Expanded support for NGO involvement in the aid program will be provided through a range of measures, but with an emphasis on supporting NGO activities that are aligned with the focus and priorities of official aid program strategies (the PNG Church Partnership Program is a good example). This support will also be made available to developing country and international NGOs that meet the required standards. The Australian NGO Cooperation Program is an important source of collaboration between the Government and accredited professional development NGOs, and its funding will be increased. The application of NGO Cooperation Agreements will be expanded, but with tighter criteria for the countries and sectors of priority.
- **New partners in development:** The aid program will strengthen and expand linkage programs in order to broaden the range of entities working on development in the region. This will be particularly important in areas such as political governance, anti-corruption and HIV/AIDS. The aid program, however, cannot and should not try to be all things to all groups. A selective and prioritised approach will be developed to maximise impact and minimise administrative burden, while ensuring proper standards of accountability. The Mobilising New Australian Links to the Region initiative will be launched to tap into the skills and experience of the broader Australian community to contribute to the region's development (see Box 17).

Initiative Box 17: Mobilising New Australian Links to the Region

The Government will boost support to mobilise a broader range of potential Australian partners to help address the region's development challenges. Further analysis and prioritisation will be undertaken on the following linkage options.

Community-based organisations: Some small groups are unable to meet the accreditation standards established by AusAID for access to NGO funding. While there is no suggestion that accreditation standards should be lowered, a two-tier approach will be adopted. This will enable community-based organisations that lack the formal arrangements needed to meet AusAID's accreditation standards to qualify for small amounts of project funding and thus build further cross-country, people-to-people linkages. Guidelines will be developed in the near future for this second tier.

Professional bodies: Agreements will be sought with peak bodies relevant to core program priorities. These may include service organisations and/or medical and legal groups, with agreements covering education, linkage and assistance programs.

Business links: With a strengthened focus on growth, more substantial links with the business community will be pursued. This goes beyond investment and more traditional business matters to issues of shared concern. The Asia-Pacific Business Coalition on HIV/AIDS, initiated by AusAID in partnership with the Lowy Institute and launched recently by the Minister for Foreign Affairs, Mr Downer and former United States President Bill Clinton, is an example of the partnerships that the aid program will seek to foster.

Local government and school links: The aid program will consider ways to involve local government organisations, for example in the smaller Pacific Islands where service delivery is on a scale closer to that provided by local governments. Linking schools in Australia with schools abroad can provide considerable development education opportunities, and deepen Australian children's perceptions of themselves as global citizens. This will be taken up in the planned education strategy.

6.4 Working with partners

Partnerships with a wide range of groups are essential for an effective aid program. Australia will pursue stronger partnerships, particularly with developing country governments, private and non-government entities, bilateral and multilateral aid agencies, in order to enhance effectiveness.

i) Partnerships with regional governments

As stated in Chapter 3, aid programs that are owned and driven by the partner government are more sustainable. The shortcomings of traditional approaches, in which projects are contracted out to external managing agents, are increasingly recognised; and moves have begun towards more programmatic approaches that require greater partner government responsibility in decision making and, in some cases, funding. In PNG, AusAID's funding for road maintenance is now managed primarily by partner government agencies, which are responsible for contracting out implementation. To make the full transition, partner governments will assume a greater share of responsibility for all stages of development assistance, from priority setting and planning to delivery and implementation. Wherever possible, the partner government will be in the driving seat; Australia will play an assisting, review and dialogue role, rather than a direct implementation role. In stronger settings with adequate safeguards, funding through government budgets will be considered.

Australia supports the 2005 *Paris Declaration on Aid Effectiveness*. This calls for closer partnerships between aid agencies and partner countries through the delivery of aid via the partner country's budget and the use of its procurement and financial management systems where possible. While this approach will not always be possible, especially in fragile states, in all cases activities will be designed and implemented collaboratively with partner governments and other development partners.

Australia will also work in close partnership with the local private and non-government sectors in partner countries, especially in fragile states. The aid program will try to increase their role as implementing agents for delivery of the program in the key sectors of infrastructure, rural and private sector development, health and education.

ii) Partnerships with bilateral agencies

The significant increases in global aid budgets place a premium on accelerating efforts to coordinate and harmonise aid programs, both multilateral and bilateral. Excessive fragmentation of donor effort, in the form of duplicated missions and programs, reduces aid effectiveness and adds stress to already stretched partner government resources. Working more closely with other donors, for example through blending and co-financing arrangements, will reduce this burden. This will require joint analytical work and coordinated provision of technical assistance. Australia has already begun to implement this agenda (for example, with New Zealand in the Cook Islands).

Ultimately, harmonisation also entails delegating responsibility to other donors for the delivery of aid programs. This already occurs with support to multilateral organisations, particularly the World Bank and the ADB. The Government will be proactive but pragmatic in delegating aspects of Australia's aid program to other donors where those donors have the expertise and commitment to take on this role (for example, through the United Kingdom's Department for International Development in South Asia). For activity-level delegation and co-financing arrangements, this will involve accepting the design and evaluation standards of the main aid agency, as already happens with the World Bank. At the same time, Australia will encourage other donors to delegate parts of their aid program to Australia where this make sense to both parties. This will also allow an extension of Australia's leadership role on key issues, and has already been done on legal reform and on HIV/AIDS in Indonesia.

The aid program will pursue stronger relationships with new donors, particularly with China, India, Thailand and Malaysia, whose footprints in the region are likely to grow in the coming years. Australia will build on and strengthen its engagement with the European Union, particularly with regard to its role in Australia's immediate region.

iii) Leveraging the multilaterals

Twenty per cent of Australia's aid passes through multilateral channels. Two-thirds of this goes to international financial institutions (IFIs), with the balance to various United Nations and international organisations. This is a low ratio compared to other donors, reflecting Australia's focus on Asia and especially the Pacific, where most multilaterals are less engaged.

Supporting multilaterals is not an end in itself, but is useful when it advances Australia's development objective. The Government will be more proactive in leveraging the multilaterals to focus on issues of core interest to Australia. This is particularly relevant to engagement with the World Bank and the ADB, which the Government views as Australia's key partners because of their financial weight, policy dialogue role and convening power. The recently concluded replenishment rounds of the International Development Association and Asian Development Fund — the concessional lending arms of the World Bank and the ADB, respectively — resulted in a 25 per cent increase in Australian commitments. Australia will support sensible expansions to the International Development Association and the Asian Development Fund.

Australia will also work more with the IFIs in areas of mutual interest. Australia's comparative advantages are its grant-funding, flexibility, and ability to work with non-state actors as well as governments. The IFIs' comparative advantages are their convening power and influence, their independence, and their technical depth. A good example is the aid program-supported Pacific Trust Fund, which has played an important role in further engaging the World Bank in the Pacific. Many Pacific island countries are reluctant or unable to borrow from the IFIs. This makes them unable to benefit from the IFIs' expertise and projects, leaving Australia exposed as the major or sometimes only donor. Australia will look to 'buy in' IFI projects to the Pacific and facilitate greater multilateral involvement in the region. Australia will also partner with the IFIs in East and South Asia, particularly through trust funds (which are of considerable assistance to the IFIs in helping them respond more effectively to client countries). A priority area for partnership is infrastructure, where Australia's comparative advantages dovetail well with those of the World Bank and the ADB.

Australia will continue to support the core UN and multilateral agencies that play crucial global roles, such as the WHO. Beyond that, the level of support for multilateral agencies will be based on their relevance to the priorities of this White Paper, whether their focus includes the Asia-Pacific region, and their continued effective performance within the region.

Australia will support partnerships in the humanitarian area where multilateral and international organisations are particularly important, including with the World Food Programme, the UN Office for the Coordination of Humanitarian Affairs and the International Committee of the Red Cross.

Australia will pursue more strategic engagement with other relevant and effective international institutions. The Global Fund is a particular case in point. Its mandate on AIDS, tuberculosis and malaria is relevant for Australia's medium-term aid strategy.