



Australian Government

# Independent Review of Aid Effectiveness

Executive Summary

April 2011



# **Independent Review of Aid Effectiveness**

Executive Summary

April 2011



© Commonwealth of Australia 2011

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth. Requests and inquiries concerning reproduction and rights should be addressed to the Commonwealth Copyright Administration, Attorney General's Department, Robert Garran Offices, National Circuit, Barton ACT 2600

or posted at <http://www.ag.gov.au/cca>

This document is online at [www.aid.gov.au/publications](http://www.aid.gov.au/publications)

Cover photos courtesy of AusAID and Australian Federal Police.

The Hon Kevin Rudd MP  
Minister for Foreign Affairs  
House of Representatives  
Parliament House  
CANBERRA ACT 2600

29 April 2011

Dear Minister

We are pleased to submit the Report of the Independent Review of Aid Effectiveness.

We hope that this will contribute to the government's efforts to achieve the desired scale-up of Australian aid to 0.5 per cent of GNI in 2015-16 on a basis which is administratively sound and which will be effective in assisting people to overcome poverty.

In forming its recommendations, the Review Panel has sought to pay particular attention to value for money to ensure that Australia gets the maximum impact for the resources which are deployed.

Thank you very much for the opportunity to work on this most worthwhile project.

Yours sincerely



Sandy Hollway AO, Chair



Bill Farmer AO



Hon Margaret Reid AO



John WH Denton



Professor Stephen Howes



# PREFACE

## A. PURPOSE OF THIS REVIEW

On 16 November 2010, the Minister for Foreign Affairs, the Hon Kevin Rudd MP, announced the Australian government had commissioned an independent review of the Australian aid program.

The Review Panel consisted of: Sandy Hollway AO (Chair), Professor Stephen Howes, Hon Margaret Reid AO, Bill Farmer AO and John WH Denton.

The purpose of the Independent Review of Aid Effectiveness is to thoroughly examine the aid program, determine whether the program's current systems, policies and procedures are as effective and efficient as they can be, and give advice on how to make the program more strategic over the next five years and beyond.

Given the bipartisan commitment that expenditure on aid should reach 0.5 per cent of Gross National Income by 2015–16, this Review is timely. Australians need to feel confident that the aid program is achieving its purpose and to know that the increased funding is improving the lives of the poor.

This Review has therefore been a forward-looking exercise. The Review Panel has moved beyond an assessment of current aid effectiveness to propose a vision of what the aid program should achieve and provide guidance on the steps needed to realise this vision.

The Review Panel has not found it necessary to recommend a 'root and branch' change to the aid program. Instead, the Panel has made proposals that build on what is already a good program. The main challenges relate to the rapid growth of the program, which is achievable without a sacrifice in quality, but only if a methodical program of improvement and change is pursued over the next five years.

## B. STRUCTURE OF THE REPORT

The Report is structured around the Terms of Reference for the Review. It includes analysis, findings and recommendations on the following:

- concepts of aid and development
- contemporary international thinking on what makes aid effective
- the aid program as it currently stands and its effectiveness
- political, economic and social trends likely to shape aid and development to 2015 and beyond
- vision and objectives of the future program
- geographical and sectoral priorities for the program
- partnerships and delivery of the program

- aid allocations – the shape of the future program
- governance, leadership and management
- managing risk
- measuring success
- enhancing transparency, scrutiny and community engagement
- the steps and hurdles for moving to an effective program in 2015–16 and beyond.

The Review Panel’s main recommendations are contained in the Executive Summary and Key Recommendations. This summary confines itself to a relatively short number of the most important recommendations, in order to assist government in preparing its strategy for the scaling up of the aid program. The Report as a whole contains many other ideas and proposals on specific matters which the Review Panel hopes will be helpful in moving the aid program forward.

## C. METHOD OF THE REVIEW

The Review Panel drew on extensive evidence to develop its findings, as outlined below:

- **Public submissions.** Approximately 300 submissions were received from a wide cross-section of individuals and organisations, both in Australia and overseas.
- **Consultations.** The Review Panel met with non-government organisations (NGOs), business groups, think tanks and statutory bodies.
- **Australian government.** Australia’s aid agency (AusAID), central agencies within the Australian government, and other departments and agencies involved in the delivery of aid, were actively consulted.
- **Parliamentarians.** Meetings with the Minister for Foreign Affairs, the Shadow Minister for Foreign Affairs and other Members of Parliament were held. Australian Parliamentarians who are members of the United Nations and United Nations Children’s Fund (UNICEF) Parliamentary Associations, and the Joint Standing Committee on Foreign Affairs and Trade were consulted.
- **AusAID staff.** Opinions were sought in a variety of ways.
- **International discussions.** The Review Panel travelled overseas (to Afghanistan, Africa, Bangladesh, Europe, Indonesia, PNG, Vanuatu and the United States) to meet with governments, civil society, multilateral donors and think tanks.
- **Commissioned studies.** The Review Panel commissioned studies to inform its work on the following topics:
  - a. the effectiveness of Australia’s aid program to Indonesia
  - b. the effectiveness of Australia’s aid program to Africa
  - c. how the aid program can more effectively engage with multilateral organisations
  - d. how the aid program can more effectively engage with the private sector
  - e. what lessons can be learnt from the experience of other donors in scaling up their programs

- f. findings from independent reviews of AusAID activities over the past three years
  - g. an analysis of the political, economic and social trends that are likely to shape the development context in 2015–20<sup>1</sup>.
- **Stocktake of other recent evaluations.** In recent years, a number of evaluations and reviews of the aid program have been conducted. An analysis of these documents was completed, including the 2009 audit by the Australian National Audit Office (ANAO) and the 2008 Organisation for Economic Cooperation and Development’s Development Assistance Committee (OECD DAC) Peer Review.
  - **Online media.** The Review Panel commissioned two blogs in order to generate debate about the Review and the aid program more generally: the *Interpreting the Aid Review* blog (hosted by the Lowy Institute for International Policy) and the *aid.collabor8.net* blog (hosted by the Australian Development Gateway).
  - **Academic conference.** A one–day conference on *Doubling Australian Aid* was hosted by the Australian National University and attended by more than 200 participants, including Review Panel members. Many of Australia’s leading aid researchers and aid practitioners were involved.
  - **Disability Leaders Forum.** AusAID convened this high–level forum on disability and development, in which the Review Panel participated.
  - **Academic literature.** The Review Panel considered the latest international research on aid and development.

The Review Panel was proud to take part in this process and hopes that this Review will help the Australian government continue to strengthen the way it delivers aid for the world’s poor as it scales up the program to 2015.

---

1 These Studies are available at: [www.aidreview.gov.au](http://www.aidreview.gov.au) and [www.ausaid.gov.au](http://www.ausaid.gov.au).





# EXECUTIVE SUMMARY AND KEY RECOMMENDATIONS

In one of the earliest consultations conducted by the Review Panel, the Minister for Foreign Affairs said that he wanted Australia to have an aid program of which Australians would be proud.

The Review Panel agrees that this is a good way of looking at the goal of aid effectiveness, because it captures two essential points. In the first place, an effective Australian aid program must be sustainable over the long term, and this means that it must be firmly founded on a public consensus. In the second place, aid is not just about efficient delivery of services to clients. It is an expression of human values. It is about helping people living in deplorable conditions to overcome poverty.

Australians are generous supporters of this cause. Each year the Australian people contribute \$800 million to NGOs for aid work. Australia has some of the most active NGOs in the field and many Australians also volunteer their time and skills overseas. Additionally, on behalf of the people, the government provides \$4 billion a year, and runs a substantial aid operation around the world.

The other side of this coin is that Australians want their contribution to be effective. They want to know that there is value for money; that it is having a real impact on the lives of people.

In aid, performance needs to be judged against degree of difficulty. Australia is seeking to get results in difficult and sometimes dangerous countries overseas, in a wide range of areas from health and education to humanitarian support in emergencies, and grappling with multiple methods of delivery. By the standards of donors generally, Australia is an effective performer.

Moreover, to the credit of the people running the program, the Review Panel found when it came to its task that improvement was already underway. This is a strength.

But there are problems and, if these are not addressed, they will become more serious as Australia's aid operation, already under strain, comes under the increased pressure of ramping up over the next five years to achieve the target of 0.5 per cent of Gross National Income (GNI). They range from lack of a unified sense of strategic purpose across government, through the need to reform the government's budget processes, to the dangers of fragmentation and stretching the program too thin, to the need for greater public involvement and transparency.

The challenge is not, of course, simply to spend the money. There is assuredly enough poverty. The challenge is to spend effectively. The recommendations of the Review Panel are designed to suggest the characteristics of – and the preconditions for achieving – the aid program to which Australia should aspire in 2015–16, if the Australian people are to have confidence in its effectiveness.

The Review Panel makes 39 key recommendations that are outlined in the Executive Summary. These recommendations are elaborated in detail in the main body of the Report. Beyond the main recommendations, further recommendations, proposals and suggestions are made throughout the Report.

## 1. CONTEMPORARY INTERNATIONAL THINKING ON DEVELOPMENT AND LESSONS LEARNED

By most measures the world has seen unprecedented developmental success over the past 15 years. Contrary, perhaps, to popular belief, this is not just because of China's remarkable growth, but because of progress in Africa and elsewhere. A lower proportion of the world's population now live in poverty than at any time in history.

Despite successes, development challenges remain acute. More than 1 billion people live on less than US\$1.25 a day, the most commonly used measure of poverty. This is a level of destitution almost unimaginable in Australia. Progress towards meeting the Millennium Development Goals (MDGs), the internationally recognised benchmark of development progress, has been mixed.

There have been important changes to the aid environment in the past decade.

The total volume of aid has grown dramatically, driven by: large increases in aid from traditional donors (basically the Western industrialised countries); the emergence of new non-government donors (such as the Bill and Melinda Gates Foundation) and global funds (for example the Global Fund to Fight AIDS, Tuberculosis and Malaria); and the rapid growth in aid from non-traditional donors such as China and Brazil.

The geographical concentration of the world's poor is now in Africa and South Asia. The bulk of the world's poor also now reside in 'middle-income' countries such as Indonesia, which remain very poor by Australian standards. The average annual income of an Indonesian is less than one-twentieth of an Australian's average income, and more than 35 million Indonesians live on less than US\$1.25 a day.

Aid can play an important role in promoting development. Aid can specifically target the poor, help to stabilise fragile states, promote innovation and help to tackle global challenges. But the role of aid must be kept in context. For most countries, in most times, it is their own policies and practices that are far more important than aid in determining whether or not they succeed.

Many factors determine the effectiveness of aid. They can be grouped into three main categories – the capabilities of the recipient country, the performance of the donor country, and the quality of the relationship between the two. In recent years, across this spectrum, a clear international agenda for aid effectiveness has emerged.

This agenda focuses on **selectivity** of efforts, effective **partnerships**, a focus on **results**, promoting **feedback**, the need for **transparency**, and **coordination** across the **whole-of-government**. This international aid effectiveness agenda informs many of the findings and recommendations in the Report.

## 2. AUSTRALIA'S AID PROGRAM

A central feature of Australia's aid program is the rapid growth underway in the aid budget. In 2010–11, this stands at approximately \$4.3 billion, or 0.33 per cent of GNI. This represents a doubling of Australian aid over the past five years in absolute dollar terms. The government's commitment to reach 0.5 per cent of GNI by 2015–16 will, subject to future levels of economic growth, see the aid budget almost double again, to around \$8 billion.

The Australian Agency for International Development (AusAID) manages about 85 to 90 per cent of Australia's aid program. The remainder is delivered through other Australian government departments and agencies.

Like most Organisation for Economic Cooperation and Development (OECD) donors, the Australian government is committed to the MDGs as the agreed international development targets. Australia is also a signatory to both the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action, which focus on improving coordination of donor effort and aligning donor programs with recipient government priorities.

Geography has a very significant bearing on Australia's aid program. Two-thirds of Australia's aid goes to the Asia-Pacific region (East Asia, PNG and the Pacific). Australia's two closest neighbours, Indonesia and PNG, are the two largest aid recipients. The OECD has recognised this geographic focus as a major strength.

A high proportion of Australia's aid program is delivered in countries classified as 'fragile states', largely in the Asia-Pacific region, but also beyond, such as Afghanistan. In 2010-11, over 50 per cent of Australia's bilateral and regional aid will be spent in fragile states, higher than any OECD donor except the United States.

Although the Asia-Pacific region remains at the centre of Australia's aid program, the doubling of the aid budget over the past five years has seen significant geographic expansion. Programs in South Asia, particularly in Afghanistan and Pakistan, have risen sharply, as has country program aid to Africa. New programs have been established in Latin America and the Caribbean.

In terms of sectors, since 2005 there has been a gradual decline in the proportion of the program spent on governance. Governance has been given high priority because of the importance to development of sound institutions and government processes, but results have not always been commensurate with spending levels. There have been gradual increases since 2005 in the proportions spent on infrastructure, health, education, rural development and the environment. Together, these five sectors, along with governance and humanitarian spending, dominate the Australian aid program.

### 3. THE EFFECTIVENESS OF THE CURRENT AUSTRALIAN AID PROGRAM

Australia already has a good aid program – improvable but good. It is, however, a program under administrative stress and this will increase as it moves up the steep trajectory to 0.5 per cent of GNI by 2015-16.

The Review Panel has made findings on 10 key issues that determine effectiveness and inform the recommendations made in the Report:

- The aid program lacks a clear and comprehensive **overall strategy**. This risks a scattered effort and makes an assessment of effectiveness difficult.
- The aid program is **fragmented**. In 88 countries Australia has aid programs of more than \$200,000 a year, compared to 69 countries five years ago. The number of projects has doubled. These trends are unsustainable. Consolidation is a recurring theme of the Report. It will require a sustained effort to tighten political and bureaucratic discipline.

- AusAID has greatly strengthened its **performance management** system in the recent past, but an important gap is the absence of a single, easily comprehensible scorecard on the effectiveness of the Australian aid program as a whole. The system of independent evaluations is not working well and requires reform.
- One of the most striking changes over the past five years has been the dramatic rise in the proportion of the program going through multilateral, NGO and government **partners**. In 2005, over 40 per cent of aid from AusAID was spent through contractors; now it is just over 20 per cent. In several respects this shift has been highly successful, but there is scope to make better use of existing partnerships and include new partners, particularly the private sector and community groups.
- A wide range of government agencies are involved in delivering aid. Other government departments bring a variety of strengths and skills. More emphasis needs to be given to **whole-of-government** coordination and performance management.
- There are significant shortcomings with the current **budget process**. It does not have a whole-of-ODA approach, and has led to fragmentation, inadequate overall scrutiny and an imbalance between the crucial spine of predictability which is needed for multiyear aid projects, on the one hand, and the need for flexibility to respond to unpredictable events on the other.
- A process is already underway to strengthen the **management** of aid. This is heading in the right direction but management challenges are becoming increasingly pressing. There is too much paperwork, leading to lengthy processing times. The recruitment, learning and development required to scale up the aid program is a very substantial task. Resolving these problems requires a determined program of change management and a more selective and focused aid program.
- Delivering complicated aid programs in difficult, often corrupt and sometimes fragile countries around the world inherently involves **risk**. This comes in various forms. AusAID has strong systems for the prevention and detection of fraud. The adviser remuneration review and procurement review are potentially positive steps in improving economy and efficiency. Risks around fraud and efficiency are important, but a third risk to value for money is development ineffectiveness. This is the risk that inputs will be delivered but few if any outputs and/or outcomes achieved. Development ineffectiveness carries a lower political cost than fraud, but is actually the greatest risk for the taxpayer. Many of the core recommendations of the Report are addressed to this challenge of improving development effectiveness.
- The aid program has taken significant steps to improve **transparency** but release of documents and data is not yet always standard practice.
- The government does not have an effective **communications** strategy for the aid program. Fostering more informed public debate about and more community engagement with the program is healthy and appropriate.

It is important to note at the outset that AusAID is alert to many of these issues and is acting on them. The most senior inter-agency committee of officials with oversight of the total Australian government aid program – the Development Effectiveness Steering Committee (DESC) – is also focused on the need for improvements in the management of Australian aid.

But the Review Panel believes reform must be taken further and continue to be driven hard. Continued ministerial interest in, and leadership of, reforms to improve the effectiveness of the program are indispensable.

## **4. THE EVOLVING INTERNATIONAL ENVIRONMENT AND ITS IMPLICATIONS FOR AUSTRALIAN AID**

To achieve an effective aid program, Australia needs to understand current trends and emerging challenges to prepare for the future.

Spreading and sustaining economic growth will be an important challenge. The world is becoming increasingly interconnected: markets are expanding; mobility of people, resources, finance and ideas is increasing; business is becoming even more international in nature; and developing countries are adopting more market-friendly policies which give the private sector greater scope. These are positive trends, but their continuation cannot be taken for granted. Countries which are now experiencing growth will want more, not less, assistance to consolidate the start they have made and build on it.

Just as important as sustaining growth will be expanding the opportunities for people within countries who are disengaged from growth to participate in its benefits. An important role for aid is to help to dismantle barriers that stand in the way.

Gender barriers are among the most important which need to be broken down. Gender will remain a key priority for aid, with increased focus on areas where disparities are the greatest, including economic and political opportunities for women, and protection from violence. This will be especially important in the Pacific, where Australia is a major player and gender disparities are among the worst in the world.

Food insecurity and water shortages are growing risks, where Australia should be able to share expertise and experience. Other mounting risks to development where Australian aid will need to respond include climate change, disaster preparedness and response, and transboundary threats.

Australia will continue to be called on to assist with stabilising fragile and conflict-prone states. In the Pacific, it is likely that Australia would again be required to take a lead role if a crisis emerges, as was the case in East Timor and Solomon Islands. Further afield, Australia will need to contribute to international efforts, including possibly in conflict zones, as in Afghanistan and Iraq.

Australia will be able to use its growing aid budget (which will see Australia become one of the top 10 donor countries in the world), the significantly increased core funding to multilateral organisations which the Review Panel proposes, and its membership of key institutions including the G20, to push for a higher profile for development issues. Given the ongoing importance of the multilateral system, but also its variable performance, an enhanced engagement, with greater financial support for the better performing multilateral organisations, will be the best way to leverage reform.

With a growing number of donors – bilateral, multilateral and non-government – coordination will become more difficult but also more important. Working with the right partners and having a selective, focused aid effort will be, increasingly, the keys to success.

The emergence of new donors will be perhaps the biggest change in the aid world in the coming decade. If aid volumes from these donors increase in line with their growing aspirations and economic success, they could be very large sources of external financing. Engaging with new donors will be important, especially in Australia's own region.

New technologies offer new hopes for aid effectiveness if they can be effectively deployed.

## 5. VISION AND OBJECTIVES FOR AUSTRALIA'S FUTURE PROGRAM

At present, the objective of the aid program is 'to assist developing countries to reduce poverty and achieve sustainable development, in line with Australia's national interest'.

This objective includes important elements but can be improved by removing ambiguity about the role of the national interest and highlighting **people**, rather than countries, as the focus of aid.

Australian aid should put people first. That is, Australian aid is not, in the final analysis, for governments, countries or organisations. The essential test is that there must be a credible pathway to helping people to overcome **poverty**. This should be the fundamental objective of the Australian aid program.

It comprises both helping people to survive in situations of dire need, such as humanitarian crises and chronic poverty, and helping people to escape poverty through sustained economic and social development.

One problem with the objective of the program as it is presently stated is that it is unclear and ambiguous in relation to how the **national interest** should figure in the program. The Review Panel believes that this issue should be brought out into the open and addressed squarely. Those responsible for managing the transition to the much increased aid program of the future need clarity and guidance.

In the first place, Australia's interests are served by a world of prosperity and opportunity, rather than one plagued by poverty.

Second, it is entirely legitimate and sensible to focus Australia's efforts in tackling poverty on those regions and countries where Australia's foreign policy, security and economic interests are most strongly involved. This is a key reason for maintaining the focus on the Asia-Pacific.

Third, once country allocations are made, individual activities or sectoral priorities should only rarely be selected because of national interest. In some cases though, national interests will influence which aid projects Australia chooses to pursue within countries, as when for example we put a special effort into helping the people living along the Kokoda Track in PNG.

The central point is this: all Australian aid must pass the poverty alleviation test, but not all aid needs to pass the test of promoting some other particular national interest. Foreign policy, security and economic interests should figure mainly in focussing Australia's geographical effort.

There is a second key criterion for focussing the geographic effort. We should focus on areas in which Australia can **make a real difference**. We want our aid program to have maximum impact for the resources which we devote to it.

On this basis, we can formulate an objective for the aid program in a way which is both practical and principled, and which respects the complexity involved rather than reducing the objective to an over-simplified one-liner.

This objective firmly anchors Australian aid in both Australia's national character as a decent and caring country and in Australia's enduring national interests.

The aid program is rich in activities that advance Australia's commitment to human rights. The program should more clearly communicate the interconnection between it and human rights.

**Recommendation 1: The objective of the Australian aid program should be cast as follows:**

**The fundamental objective of Australian aid is to help people overcome poverty.**

**We work to improve the lives of those living in conditions far below what Australians find acceptable. We focus our resources and effort on areas of national interest, and where Australia can make a real difference.**

## 6. VALUE FOR MONEY: ALLOCATING AUSTRALIAN AID

As well as defining a fundamental **objective** (helping people to overcome poverty), the Review Panel proposes a fundamental **operational principle** for the aid program. This is value for money. This principle applies from the highest level strategic design of the program down to the conduct of specific projects and activities.

Value for money starts with a rational calculation of how Australia should best deploy its aid resources geographically, sectorally and by different modes of delivery. This is needed to set out a clear picture of what we want the aid program to look like in 2015–16.

Importantly, the Review Panel sees these three questions as interrelated, and proposes a methodology for reaching a sensible allocation of Australian aid which integrates these three considerations.

The starting point is to recognise that aid can be provided to countries in the following ways:

- **Bilateral:** through AusAID to private contractors or partner governments, or through other Australian government departments.
- **Other country program:** funding of a partner, such as a multilateral organisation or international or Australian NGO, which is earmarked for use in a specific country; or core funding to a partner which only operates in one country or region.
- **Global program:** core funding to a multilateral organisation or NGO that operates across countries and regions.



Typically this third element – global programs – is not included when considering Australia’s support to a region. But it should be. The calculation of where Australian funding for global programs winds up, can only be done on an approximate basis. But it is very important to a proper understanding of where Australian taxpayers’ money is being spent.

For example, aid to Africa is seven per cent of the total Australian aid program without including the Australian contribution to global programs, but this increases to about 12 per cent once global programs are distributed.

Bearing in mind this more comprehensive approach towards analysing how Australian aid is geographically dispersed, the Review Panel then proceeds as follows:

- It identifies **12 countries and regions**, into which all the 90–odd countries receiving aid from Australia can sensibly be grouped. These are: Papua New Guinea; Solomon Islands and East Timor; South Pacific microstates; other Pacific Island Countries; Indonesia; Other East Asia; South Asia; Afghanistan and Pakistan; Sub-Saharan Africa; North Africa and the Middle East; Latin America and the Caribbean; and Central Asia.
- Each of these countries and regions is then rated using the **three criteria** of the proposed overall objective of the aid program: poverty alleviation, national interest, and capacity to make a difference.
- For each country/regional category, these ratings are then used to inform recommendations about the **case for expansion** of Australian aid, the desirable degree of **sectoral spread** and the extent to which Australia should rely on bilateral **delivery channels** as against earmarked or core funding of partners.

This methodology provides a total picture of how the aid program should be shaped, in the opinion of the Review Panel, when it reaches the 0.5 per cent target of GNI in 2015–16: where it should be spent, on what, and how.

It is crucial, if Australian aid is to be ramped up effectively, that the government establish such a goal. It is not sufficient simply to move forward incrementally; there needs to be a clear target, and the planning for the ramp-up should track back from that.

**Recommendation 2:** Aid allocations to countries and regions should be defined to include the geographic distribution of global programs supported by Australia, as well as country program aid.

## 7. GEOGRAPHIC FOCUS

Country allocations (including distributed funding from global programs) in 2015–16 should take account of the **current effectiveness** and **current scale** of Australia’s aid, in addition to the factors embodied in the proposed aid objective – the extent of poverty, the national interest, and capacity to make a difference.

Australia should contemplate a major expansion of aid to regions or countries only where the existing program is performing strongly or where there is a credible path to transitioning to high performance.

With regard to country programs, the bottom line of the Review Panel's analysis is that Australia will need to maintain country programs in some 20 countries in South East Asia, the Pacific, Afghanistan and Pakistan. There are strong arguments of policy (avoiding fragmentation of effort, small scale programs and less than critical mass) and practice (need for development of AusAID skills and country experience) which mitigate against a sizeable number of programs elsewhere.

More specifically:

In **PNG, Solomon Islands and East Timor**, aid effectiveness is constrained by poor governance. The Review Panel recommends a **low** expansion. If efforts currently underway in these countries to improve effectiveness succeed, this judgement could be revisited.

In the **South Pacific microstates** (Kiribati, Nauru and Tuvalu), Australian funding will be a significant feature of budgets for the indefinite future, and it is best that Australian aid planning recognise that reality. The Review Panel recommends a **high** expansion. Additional funding should be conditional on a changed approach to the aid program founded on mutual accountability and shared oversight.

In other **Pacific Island Countries**, the Review Panel recommends a **medium** expansion. Performance is variable within this group, and any increase should be linked to performance and demonstrated aid effectiveness.

It should be noted that – uniquely – in the Pacific Island Countries and PNG, the development relationship with Australia must go well beyond aid. Development success for these economies, especially the smaller ones, requires greater integration with the larger economies of the region. The Australian policy agenda for the region should include increasing labour mobility, the flow of remittances and encouragement of trade and investment.

In **Indonesia and other East Asian countries**, the Review Panel recommends a **high** expansion. Australia's aid programs are effective and these countries have the capacity to absorb more aid. Significant poverty remains. Australia has an opportunity to play a leadership role as other donors exit.

In **South Asia**, the Review Panel recommends a **high** expansion given the high incidence of poverty, small current base, effective performance of the aid program and the limited aid being provided by donors as a whole.

In **Afghanistan and Pakistan**, the scale of these programs in 2015 will hinge on the context at the time, around which there is considerable uncertainty. The Review Panel recommends a **medium** expansion.

In **Sub-Saharan Africa**, the Review Panel recommends a **high** expansion on the condition that this is delivered in an effective way through partners. The expansion would be through core funding to multilateral organisations and NGOs, most of whom focus on Africa. There would be no further expansion of the country program to Africa, which would be delivered in a relatively small and manageable number of countries and with a relatively small and manageable number of partners.

The Review Panel recommends that Australia join the African Development Bank (AfDB) which is well respected, scored well in the United Kingdom Department for International

Development's recent review of multilateral organisations, focuses on what it does well (infrastructure and promoting regional integration) and is in the midst of an extensive reform agenda. Joining the AfDB would represent value for money and be a high-level indication of Australia's commitment to development in Africa.

In **North Africa and the Middle East**, the Review Panel recommends that the government plan on the basis of a **medium** expansion. There are high levels of uncertainty about future aid demands because of the fluid and even volatile political environment, but there is also a case for more aid from Australia's low base, especially as part of a wider effort by other Western donors.

**Latin America and the Caribbean** as well as **Central Asia** do not warrant country programs. Australia's aid contribution should be through global programs. This would require no change to Central Asia, but would mean a phasing out of programs in Latin America and the Caribbean once existing commitments have been met.

The Review Panel does not see a case for country programs to **India** and **China**, particularly given that the former does not wish to have additional aid donors and that these countries are actually themselves becoming donors.

Even in regions where there are no country programs, the ability to respond flexibly to requests will remain important. The Review Panel supports a doubling or more of the Direct Aid Program, a flexible fund to support development activities managed by Australia's Ambassadors and High Commissioners at posts.

**Recommendation 3:** Decisions about country allocations should be based on poverty, national interest, capacity to make a difference and current scale and effectiveness. Decisions about country programs should also reflect the need to consolidate the aid program.

**Recommendation 4:** In scaling up the aid program, country allocations and programs should be adjusted in line with the Review Panel's specific recommendations based on these criteria.

**Recommendation 5:** Australia should join the African Development Bank.

**Recommendation 6:** The Direct Aid Program should at least double, with the highest increases in countries with no country program.

## 8. SECTORAL ISSUES

Just as there needs to be a very deliberate and rigorous approach towards where, geographically, Australia provides its aid, so the same is needed in relation to what Australia spends its aid on.

Australia, through a range of government departments, private sector organisations and NGOs, has abilities in many fields of importance to developing countries. There is capacity for 'team Australia' to contribute to international development across a broad front.

On the other hand, it would be fatal to AusAID's effectiveness to try to be all things to all people. Many donors are using sectoral focus as a means to promote selectivity. For example, donors in the European Union have agreed to work in three sectors or less in the countries in which they are active.

The aid program should be driven by country programs, which should not be subject to distortion from predetermined global sectoral targets. It is appropriate for the program to concentrate on particular sectors, but this should be framed as guidance for the development of country programs, not a global 'suit' into which every one of them must try to fit.

The Australian aid program needs greater **sectoral focus** as an important way to promote selectivity. However, it is only at the country level that priority sectors can be sensibly determined. Sectoral prioritisation should be exercised robustly at the country level, particularly where Australia is not a major donor. This idea that country programs should be in the driver's seat if aid is to be effective and provide value for money is one of the Review Panel's fundamental conclusions.

Not every country in the Australian program can or should be equally narrow in its sectoral focus. Countries which have large Australian programs and where Australia is a major donor will naturally have a larger sectoral spread than where Australia is a small donor. Sectoral selectivity should be increased at the country level. Sectoral spread in country programs should be low, outside of Indonesia, East Timor, PNG and the Pacific Island region.

The Review Panel proposes four high-level **organising themes** for the aid program: investing in pro-poor, sustainable economic growth and private sector development; promoting opportunities for all; supporting social stability, improving the quality of government and strengthening civil society; and preparing for and responding to crises.

Among other things, this formulation elevates the importance of private sector development and strengthening civil society. Policy statements in relation to these two areas should be developed.

The Review Panel proposes that 13 **sectors and cross-cutting issues** sit beneath these four high-level themes: rural development and food security, infrastructure and urban development, water and sanitation, climate change and the environment, private sector development, education, health, gender equality, disability, law and justice, governance, civil society and humanitarian and emergency assistance.

For the reasons given earlier, gender is a critical cross-cutting issue for the aid program. While the priority given to gender has increased, there can be no doubt that the program faces challenges for this work to be more effective, especially in the Pacific.

Australia should be a firm and persistent advocate, and it should consistently signal how important gender equality is. This includes supporting practical activities that advance gender equality with committed partners.

The Review Panel proposes a substantial increase in humanitarian and emergency assistance. This is an area of growing importance, which is globally underfunded and where Australia performs well.

The Review Panel proposes that a small number of **'flagships'** for the aid program be identified. These should be areas where Australia would aim to be a significant and high-quality contributor and receive recognition for its efforts. Five criteria should be used to determine flagships: Australia's comparative advantage; neglected needs; the presence of a 'tipping point'; high prospects for success; and related Australian interests.

The Review Panel proposes a small number of potential sectoral flagships for the program. These are in addition to the Asia-Pacific region which is proposed to be the program's regional flagship and strategic focus. The proposed sectoral flagships are: disability; extractive industries; elimination of malaria from the Pacific; fragile states; research; and humanitarian and emergency assistance.

**Recommendation 7:** The aid program should be driven by country programs, rather than by predetermined sectoral targets.

**Recommendation 8:** Sectoral selectivity should be increased at the country level. Sectoral spread in country programs should be low, outside of Indonesia, East Timor, PNG and the Pacific Island region.

**Recommendation 9:** An organising framework should be adopted to enhance the aid program's strategic clarity and facilitate communication of results. This should be built around the following four themes:

- investing in pro-poor, sustainable economic growth and private sector development
- promoting opportunities for all
- supporting social stability, improving the quality of government, and strengthening civil society
- preparing for and responding to crises.

**Recommendation 10:** The aid program should increase its emphasis on private sector development and strengthening civil society. Policy statements in relation to each should be developed.

**Recommendation 11:** Promoting gender equality should be a critical cross-cutting objective for the aid program. Australia should be a firm and persistent advocate and practical supporter of gender equality, especially in the Pacific.

**Recommendation 12:** Humanitarian and emergency assistance should be increased as a share of the program.

**Recommendation 13:** A small number of flagships should be identified where Australia should exercise leadership and be recognised for its efforts.

## 9. MODES OF DELIVERY: PARTNERSHIP PRINCIPLES

It is clear that the Australian aid program must have a portfolio of methods for delivery. The situation is far from a 'one size fits all'.

AusAID is not just growing; it is changing its modus operandi. It is shifting from being a predominantly contracting organisation to one more focused on partnerships with other development actors.

A partnership approach means Australia working through or with others to deliver aid. Partnership is not a delivery mechanism in itself; rather, it is an effective way to use all delivery mechanisms.

Nor is partnership a platitude. To work really well, partnership should be an open, honest, frank, creative relationship which may extend through all parts of the aid process – from the front end of policy and program design, through delivery, to the ultimate measurement and evaluation of

results. On some occasions, partners may be only delivery mechanisms, but the mindset of those administering the Australian aid program should always be to consider whether they can be more.

Australia's central partnerships are currently with recipient governments, multilateral organisations and NGOs. Australia has a range of smaller partnerships with other bilateral donors, think tanks, universities and business consortia (such as on HIV/AIDS) and private sector organisations.

Partnerships bring with them a wide range of benefits. The main one is leverage. Different partners bring different assets to any development task. Other potential benefits of working in partnerships include reducing fragmentation and burden on partner countries. This is particularly important in crowded donor environments.

Partnerships are not always the answer. They have limitations and risks. Partnerships give less control to the funder than a contracting relationship. If used inappropriately, partnerships can lead to, rather than prevent, fragmentation. For example, Australia's aid to Africa is run almost entirely through partners, yet it is a highly fragmented program.

Feedback from partners on existing arrangements suggests that AusAID is often a partner of choice. Nevertheless a number of partners highlighted to the Review Panel problems of frequent staff turnover, micromanagement, and a lack of predictable funding in these arrangements. These problems are being addressed to some degree but further efforts are needed.

The branding of the Australian government's contribution to partnerships is an issue relevant to most partnerships. Achieving due recognition of the Australian government's contribution to partners is an important and legitimate objective.

How much to give partner organisations through core funding and how much to give for earmarked purposes is one of the major decisions for any aid organisation. Earmarked funding allows the Australian government to direct where money is spent, while core funding has the benefit of lowering transaction costs for both AusAID and the partner.

Expanding reliance on core funding to effective NGOs and multilateral organisations would have five particular advantages at this point of time. It would buy time for the Australian government to build the capacity to manage greater quantities of bilateral projects or heavily earmarked programs. It would reduce fragmentation. It would take advantage of the emergence of new and/or more effective partners. It would increase funding (efficiently) to Africa. And it would provide support to other regions which do not warrant country programs.

AusAID's shift towards partnership will require skills beyond traditional development areas (in particular in partnership and stakeholder management, and in advocacy of Australian government policies, interests and requirements). Greater resourcing to manage key partnerships, particularly at senior levels, will be needed to make the most of partnerships.

**Recommendation 14:** Reliance on bilateral modes of aid delivery should largely be restricted to East Asia, the Pacific, and Afghanistan and Pakistan. Aid delivered to other regions should be mainly through partners.

**Recommendation 15:** Core funding to multilateral organisations and NGOs should be significantly increased as a share of total spending. Core funding increases should be made on a case-by-case basis, linked to effectiveness, capacity and relevance.

**Recommendation 16:** AusAID should devote greater senior management resources to developing and managing relationships with key partners. Predictable, multi-year funding of partners should be provided and micromanagement avoided.

## 10. PARTNERSHIPS WITH MULTILATERAL AND NON-GOVERNMENT ORGANISATIONS

### Multilateral Organisations

Working with effective multilateral organisations such as the World Bank can extend Australia's reach in those areas where Australia has limited experience or presence; deliver activities beyond Australia's capacity; and facilitate access to global knowledge and expertise.

Australia is seen by many multilateral organisations as a constructive and important partner, generally punching above its weight compared to other donors of a similar size.

Australia's current funding is focused heavily on a small number of effective agencies. This selectivity is sensible, as performance is uneven across multilateral organisations. For most multilateral organisations, Australia's earmarked funding is higher than core funding.

As Australia further increases funding to multilateral organisations, including the increase in core funding which is a central recommendation of the Review Panel, it will need to devote greater management attention to these partnerships. This includes exerting greater influence over policy and program directions, getting better recognition for Australia's contributions and more systematically reviewing the effectiveness and relevance of multilateral organisations to Australia's aid objectives.

AusAID should undertake an exercise to rate multilateral organisations, drawing on available performance information, and giving weight to criteria of particular relevance to Australia. Funding decisions should be linked to these ratings.

The Review Panel has been able to form preliminary views on the effectiveness and relevance of a range of multilateral agencies. For good performers (for example, the Asian Development Bank and GAVI), the Review Panel recommends core funding increase in the range of a doubling to a tripling, or even more in some cases. For poor performers (for example the International Labour Organisation and the Commonwealth Secretariat), the Review Panel recommends no increase or a possible end to funding.



## Non-Government Organisations

Government brings great strengths to any nation's aid effort, not least in terms of size, influence and official access. But NGOs also bring particular strengths – often complementary strengths – to the aid program. Many NGOs have expertise in meeting people's basic needs, particularly in emergencies where quick and flexible responses are needed. The NGO sector also gives an important community-based perspective on aid policy.

NGOs who wish to access core funding from AusAID need to pass a rigorous accreditation process. The Review Panel supports the accreditation process as an important front-end, risk management measure. Some small Australian NGOs have argued that the accreditation process is demanding and expensive for a small organisation, and AusAID should undertake an exercise of consulting smaller NGOs to consider whether the accreditation process can be improved further.

Both core and earmarked funding for Australian NGOs has increased sharply over the past five years, with core funding more than doubling. Funding to international and local in-country NGOs has tended to be through earmarked funding.

The Review Panel believes that there is scope to increase the share within the aid program of core and earmarked funding to both Australian accredited NGOs and credible and effective international and local NGOs.

AusAID already involves both Australian and in-country NGOs in some sector and country policy development. These are welcome steps and the Review Panel sees scope to more systematically build policy engagement with informed Australian, international and local NGOs.

**Recommendation 17:** Core funding to multilateral organisations should be linked to performance and relevance to Australia through the introduction of a multilateral rating system.

**Recommendation 18:** In relation to multilateral organisations, Australia should use its more prominent 'seat at the table' to seek greater influence over policy and program directions, better recognition for contributions and better monitoring of effectiveness.

**Recommendation 19:** AusAID's existing accreditation system should be used as a basis for Australian NGOs to access increased funding. AusAID should consider further means to improve the accreditation process for small NGOs.

## 11. OTHER PARTNERSHIPS

### Partner Governments

In most countries, the recipient government is the key partner for the aid program.

In the last five years, there has been a shift to the greater use of government systems (ranging from the project-specific use of partner government budget systems to general budget support). Use of government systems has been most prominent in Indonesia but extends to a range of countries including Samoa, Vanuatu and Vietnam.

The use of government systems should not be the default option. It requires careful consideration of the country context. However, it does have two main advantages: avoiding the creation of systems parallel to the government and helping influence partner government policies and programs beyond the aid activity itself.

Overall the experience of putting more aid through government systems has been positive. Risks of fraud have been successfully managed.

### Other Bilateral Donors

Australia works closely with bilateral donors including New Zealand, the United Kingdom, the United States, Germany and the European Union on both policy and program issues.

Australia has or plans to have 'delegated cooperation' arrangements with all these donors, where Australian funding supports programs managed by another bilateral donor. Such arrangements have a clear benefit in terms of reduction in fragmentation, administrative savings for AusAID and the reach which they provide into regions where AusAID does not have country knowledge, expertise or presence. The Review Panel sees considerable scope to increase this method of delivery.

Australia has begun to engage with non-traditional donors such as South Africa and Brazil and should proactively look for opportunities to work with these donors just as much as with traditional donors where this will enhance the effectiveness of the overall effort.

### Contractors and Technical Assistance

The proportion of the program delivered through contractors has halved in the last five years. The use of contractors is appropriate where three fundamental conditions are met: specialist project management expertise is needed; it is sensible to outsource the task rather than bring the necessary expertise in-house; and alternative options of giving support have been considered and rejected.

Australian agencies should not overlook the capacity of contractors to play a partnership role in program management. This would mean starting with a genuine dialogue about objectives, moving on to collaborative program design, and following through with joint monitoring and flexibility to adjust. This can be a powerful model, especially in circumstances where the contractor is not held at arm's length but co-located with the agency and integrated into its management for the program or project.

Such partnership with contractors does not mean reliance only on trust and good intentions. It needs to remain a thoroughly businesslike commercial relationship.

The size of Australian technical assistance and the remuneration of experts have, correctly, recently been reviewed and reduced. But as with contractors, it is important to recognise that technical assistance can have major benefits in the right circumstances.

The key point is worth reemphasising: how Australia goes about pursuing aid outcomes depends upon what will be most effective in any particular case. Those administering the program need to be able to adopt a fit-for-purpose approach. There is still a place for technical assistance, as there is for contractors.

### **Private Sector and Business Groups**

The private sector is crucial for the success of aid recipient countries. Equally, the private sector is an underutilised partner for donor countries, including Australia. The Australian aid program is already engaged with the private sector but the Review Panel sees opportunities to expand this engagement significantly.

Because economic growth is so central to poverty reduction, the Review Panel recommends that pro-poor sustainable growth and private sector development become clearly recognised as one of four high-level themes of the aid program. Moreover, because the Review Panel supports a continuing shift in the program towards working through partnerships, it is recommended that AusAID take active steps to improve its engagement with the private sector. It is to be hoped that businesses and business organisations will respond and reciprocate.

To this end, the Review Panel recommends an Annual Consultative Forum between AusAID and the Australian business community.

Business should be invited to participate in small-group discussion of aid policy and major program design at an early stage, where business is interested and where it can contribute.

The aid program should also consider establishing a mechanism to assist Australian businesses which are seeking corporate social responsibility and/or inclusive business opportunities in developing countries. This could provide information on local context and capacity in developing countries, and link businesses with relevant organisations.

Given the Review Panel's opinion on the importance of well-designed and well coordinated country programs, country managers should think at an early stage about the potential for engagement with the private sector.

### **Universities and Think Tanks**

Some 10 per cent of the aid program is deployed through universities and think tanks. Knowledge and innovation are critical for development success. Some of the biggest aid successes – for example the Green Revolution – have involved supporting research into and then deploying new technologies.

It seems highly likely that, with R&D-based technology increasingly determining the future of human society, the success of development will increasingly hinge upon relevant and vibrant research.

The Review Panel thinks there is a strong case for scaling up in the areas of agricultural research and medical research, which are Australian strengths. The Australian Centre for International Agricultural Research, which has a good track-record, represents an obvious vehicle for scaling up agricultural research. New modalities would need to be developed for medical research, possibly in collaboration with the National Health and Medical Research Council.

In line with the proposed fundamental objective for the aid program, the key criterion for devoting aid money to research should be that it is focused upon improving the condition of the world's poor. On the value for money principle, this should not be confined solely to Australian research organisations but may include high-calibre international and developing country institutions.

**Recommendation 20:** The share of aid being disbursed through government systems should be expanded.

**Recommendation 21:** The power of business should be harnessed and business innovation should be encouraged, including through an annual consultative forum.

**Recommendation 22:** There should be increased use of partnership arrangements with other bilateral donors, both traditional and non-traditional.

**Recommendation 23:** There should be more aid funding for research by Australian and international institutions, particularly in agriculture and medicine.

## 12. AID ALLOCATIONS

The big picture outcomes of the methodology employed by the Review Panel are set out below. This summary includes tables from Chapter 12 of the Report based on a numerical exercise undertaken by the Review and detailed in the Report. The figures are indicative and approximate, but they illustrate a number of important points.

### Geography, Sectoral Spread and Method of Delivery – Snapshot

The first point is that, as already stated, geographical allocation of aid, sectoral allocation and method of delivery need to be seen as interrelated. The methodology adopted by the Review Panel leads to the snapshot provided in the following table.

#### Geographic Recommendations for Australian Aid Expansion, Sectoral Spread and Aid Delivery Channels

| Criteria                              | Case for Expansion | Sectoral Spread | Reliance on Bilateral Delivery Channels |
|---------------------------------------|--------------------|-----------------|---|
| <b>PNG</b>                            | Low                | Medium          | High                                    |
| <b>Solomon Islands and East Timor</b> | Low                | Medium          | High                                    |
| <b>South Pacific Microstates</b>      | High               | High            | High                                    |
| <b>Other Pacific</b>                  | Medium             | Medium          | High                                    |
| <b>Indonesia</b>                      | High               | High            | Medium                                  |
| <b>Other East Asia</b>                | High               | Low             | Medium                                  |
| <b>South Asia</b>                     | High               | Low             | Low                                     |
| <b>Afghanistan and Pakistan</b>       | Medium             | Low             | Medium                                  |
| <b>Sub-Saharan Africa</b>             | High               | Low             | Low                                     |
| <b>North Africa and Middle East</b>   | Medium             | Low             | Low                                     |
| <b>Latin America and Caribbean</b>    | Low                | N/A             | N/A                                     |
| <b>Central Asia</b>                   | Low                | N/A             | N/A                                     |

It is notable from this table that it will be in the Asia-Pacific region (which includes East Asia, PNG and the Pacific, but not South Asia) that Australia would be most active in delivering aid through bilateral channels and most prepared to accept a broader spread of activities across sectors.

## Aid Program – Basic Break-up

The second big point emerging from the analysis is that Australia should aim for an aid program in 2015–16 which sees a significant shift towards global programs, and towards humanitarian spending. This is shown in the table below. Country programs fall as a share of total aid spending from 66 to 55 per cent. The share of global programs increases from 15 to 20 per cent. The share of humanitarian and emergency assistance increases from seven to 11 per cent. Contingencies also increase to allow for unexpected changes. Departmental costs rise, but fall as a share of total aid.

### Indicative Aid Allocations by Major Category in 2015–16 Compared with Current

|                              | 2010–11      |             | 2015–16      |             |
|------------------------------|--------------|-------------|--------------|-------------|
|                              | \$m          | %           | \$m          | %           |
| Country programs             | 2,860        | 66%         | 4,370        | 55%         |
| Global programs              | 640          | 15%         | 1,610        | 20%         |
| Humanitarian and emergencies | 300          | 7%          | 900          | 11%         |
| Global research              | 50           | 1%          | 110          | 1%          |
| Other and contingencies      | 250          | 6%          | 600          | 8%          |
| Departmental costs           | 250          | 6%          | 400          | 5%          |
| <b>TOTAL</b>                 | <b>4,350</b> | <b>100%</b> | <b>8,000</b> | <b>100%</b> |

Figures are rounded.

## Australia's Overall Aid Effort – Geographical Expansion

Third, implementation of the Review Panel's recommendations for the program in 2015–16 will lead to significant growth in two particularly important contexts.

- The first is expansion in the poorest parts of the world, namely Sub-Saharan Africa and South Asia. For these regions, the geographical distribution of Australia's contribution to core funding of multilateral organisations and NGOs is particularly important.
- The second is expansion closer to home in East Asia and the South Pacific microstates.

The following table illustrates these points.

### Indicative Geographic Allocations (Including Distribution of Global Programs) in 2015–16 Compared with Current

|                                  | \$ million   |              | % share     |             | Growth to 2015–16 |
|----------------------------------|--------------|--------------|-------------|-------------|-------------------|
|                                  | 2010–11      | 2015–16      | 2010–11     | 2015–16     |                   |
| PNG                              | 460          | 610          | 13%         | 10%         | 30%               |
| Solomon Islands and East Timor   | 340          | 440          | 10%         | 8%          | 30%               |
| South Pacific Microstates        | 60           | 130          | 2%          | 2%          | 100%              |
| Other Pacific                    | 350          | 530          | 10%         | 9%          | 50%               |
| Indonesia                        | 470          | 960          | 14%         | 16%         | 100%              |
| Other East Asia                  | 610          | 1150         | 18%         | 20%         | 90%               |
| South Asia                       | 270          | 520          | 8%          | 9%          | 90%               |
| Afghanistan and Pakistan         | 240          | 390          | 7%          | 7%          | 60%               |
| Sub-Saharan Africa               | 450          | 870          | 13%         | 15%         | 100%              |
| North Africa and Middle East     | 90           | 140          | 3%          | 2%          | 50%               |
| Latin America and Caribbean      | 80           | 90           | 2%          | 2%          | 10%               |
| <b>Total country allocations</b> | <b>3,420</b> | <b>5,830</b> | <b>100%</b> | <b>100%</b> | <b>70%</b>        |

### Australia's Asia-Pacific Focus

The next table provides the amounts of Australian aid in country programs, that is, without distributing Australia's portion of global programs. This is a measure of where Australia is deliberately choosing to focus its own efforts.

The significant conclusion from this is that, under the methodology adopted by the Review Panel, Australia would maintain its strong concentration of effort on the Asia-Pacific. Country program aid to this region increases as a share of total country program aid from 76 per cent to 80 per cent.

### Indicative Country Programs (Excluding Distribution of Global Programs) in 2015–16 Compared with Current

|                                | 2010–11     | 2015–16 | Growth to 2015–16 |
|--------------------------------|-------------|---------|-------------------|
|                                | \$ millions |         |                   |
| PNG                            | 460         | 590     | 30%               |
| Solomon Islands and East Timor | 330         | 430     | 30%               |
| South Pacific Microstates      | 60          | 120     | 100%              |
| Other Pacific                  | 340         | 510     | 50%               |
| Indonesia                      | 460         | 920     | 100%              |
| Other East Asia                | 520         | 940     | 80%               |
| South Asia                     | 170         | 270     | 60%               |
| Afghanistan and Pakistan       | 190         | 270     | 40%               |
| Sub-Saharan Africa             | 200         | 200     | 0%                |
| North Africa and Middle East   | 80          | 120     | 40%               |
| Latin America and Caribbean    | 40          | 0       | -100%             |

### Overview

In short, in the view of the Review Panel, Australia should:

- expand its aid differentially in different parts of the world, and likewise tailor the sectoral spread and the use of bilateral delivery channels to particular regional and country circumstances
- provide a higher proportion of aid to global programs and to meet humanitarian and emergency needs
- expand aid to the poorest regions – Sub-Saharan Africa and South Asia – principally through greater core funding of multilateral organisations and NGOs, and
- maintain the focus of the aid program on the Asia-Pacific – where country programs would be larger, sectoral spread broader and more use made of bilateral delivery channels.



## 13. STRATEGY FOR THE AID PROGRAM

The aid program is already complex and large, and ramping it up to 0.5 per cent of GNI poses a significant challenge. It will require high levels of leadership, planning, resourcing and implementation. The direction and the framework need to be set from the top level of government.

The Review Panel proposes a **Four-Year Strategy** agreed by Cabinet to provide clarity, certainty and predictability – across all agencies and for all partners and stakeholders – on the policy and funding parameters of the aid program.

The Strategy should include: the high-level objectives for the aid program; clear guidance on geographic allocations and sectoral priorities; proposed flagships; multi-year indicative allocations for government agencies involved in the delivery of the program; and management hurdles that must be met for the effective scale-up of the program. The Strategy should also commit to a trajectory for increasing the ODA-GNI ratio each year through to meeting the commitment of 0.5 per cent ODA-GNI in 2015–16.

The policy and funding clarity provided by the Strategy will enable the aid program to consolidate activity around agreed priorities in terms of geography, sector and delivery mechanisms. This will reduce fragmentation of effort.

The four year time period is proposed so that the Strategy coincides with the 2012–13 budget and the three forward funding years to 2015–16. The connection between the Strategy and the budget is crucial, and discussed further below.

There should be an **annual review** and **update** of the Strategy. This should be prepared by AusAID and reviewed by the DESC before being considered by Cabinet.

The annual review should not be a return to fundamentals. On the contrary, the Four-Year Strategy is designed to provide certainty, with change then being by way of sensible incremental adjustments. The annual update of the Strategy would reflect any required changes in the aid program's allocations, would allocate funds previously set aside as contingency, and would extend forward the out-year estimates for the program.

To promote discipline, the appropriation of money each year in the budget should be dependent on Cabinet's satisfaction with the annual review, including predetermined **hurdles** being met. The Review Panel sees this as a crucial protection for the taxpayer, the government, the agencies responsible for the aid program, and ultimately Australia's partners.

If hurdles have not been met then Cabinet should consider consequences, such as delaying increases in aid funding or reducing the administrative burden of delivering aid by using more core funding to effective multilateral organisations.

There are a number of problems with the current **budget process** for the aid program, which has been based around the development of New Policy Proposals (NPPs) to allocate new aid funding. This has contributed to fragmentation, because of the large number and small size of typical NPPs. It has led to inadequate scrutiny of the overall aid budget because it means that ministers, in putting together the budget each year, focus on the increment rather than the whole picture.

An additional problem is that large amounts of money are held in contingency for a confused range of reasons, typically leading to a rush of spending towards the end of each financial year as the contingency is allocated.

The Review Panel sees major benefits for effectiveness in an overhaul of this process. Some efforts are already being made in the right direction, but they need to be taken further.

- AusAID and other government departments should be allocated funds in accordance with the Four-Year Strategy.
- Attention should shift to consideration of the aid budget as a whole through the annual review provided to Cabinet, rather than the current heavy and artificial focus on ‘new’ money through NPPs.
- All the contingency reserve should be allocated in the budget process at the start of each year rather than in a rush at the end. This will still leave sufficient capacity to adjust to new situations through what is called ‘mandated flexibility’.

The Four-Year Strategy and reforms to the budget process go hand-in-hand. Together they provide much greater scrutiny over the effectiveness of the entire aid budget, while providing aid administrators with the policy and certainty necessary to confidently plan and implement the scaling-up of aid.

A new Four-Year Strategy will be needed for the period 2016–17 to 2019–20. This and subsequent Four-Year Strategies would benefit from independent review of the aid program. The Review Panel recommends instituting a regular four-yearly independent review of the aid program. The outcomes of these reviews would inform each successive Four-Year Strategy.

**Recommendation 24:** The government should develop and implement a Cabinet-endorsed Four-Year Strategy for the entire aid program for policy and funding clarity.

**Recommendation 25:** There should be a Cabinet discussion of an annual review of progress against the Four-Year Strategy and pre-determined hurdles, with consequences if hurdles are not met.

**Recommendation 26:** The budget process should be reformed to provide greater funding certainty, including allocating funds on the basis of the Four-Year Strategy and its annual updates, not through NPPs, as at present.

**Recommendation 27:** Four-yearly independent reviews of the aid program should be instituted to inform each new Four-Year Strategy.

## 14. IMPROVING GOVERNANCE, LEADERSHIP AND MANAGEMENT

An effective aid program requires good management across the board. **Ministers** and all government agencies involved in the delivery of the program must work efficiently towards the common objectives agreed in the Four-Year Strategy.

The role of ministers with responsibility for overseeing ODA expenditure has always been fundamentally important. During consultations and in public submissions many suggested the appointment of a dedicated minister with responsibility for the aid program, given its growing size.

The Review Panel considers the most critical factor in considering ministerial arrangements is that the minister with responsibility for the program remains within Cabinet. If existing ministerial responsibilities are retained, the Review Panel recommends adding 'International Development' to the title of the Minister for Foreign Affairs.

Throughout its history, the aid program has been prone to a strong focus on program announcements by ministers and Prime Ministers. While announcements of future plans by ministers will inevitably continue, the Review Panel recommends greater ministerial attention in public statements to the results of Australia's aid program. An effectiveness culture focused on results, rather than an announcement culture leading to fragmentation, should drive the program.

There are more than 90 federal and state government agencies engaged in the delivery of the aid program. This is a strength, as it enhances linkages and networks across a wide range of specialised fields and is much better value for money than attempting to build in-house capabilities in AusAID.

The Review Panel sees scope to improve **coordination across government** through embedding common approaches to strategy, design, monitoring and evaluation. Coordination at the country and sector level is particularly important, and the government should consider new institutional arrangements to promote this. The mandate of the Development Effectiveness Steering Committee should be expanded to drive coordination of effort across government more strategically.

A scaled-up aid program will be successful only if **AusAID** is a strong and effective institution. AusAID has many assets and strengths. It is well led and AusAID staff are generally highly motivated and capable. To effectively manage the planned increases in the program, AusAID needs to continue and accelerate efforts to promote clear and decisive leadership, entrench a culture geared towards delivering results and learning from experience, and adopt systems and data that support decision-making, and recruit and retain appropriately skilled staff.

AusAID will need to be adequately resourced – and, in particular, adequately staffed – to meet the challenge. Otherwise the scale-up is not only risky but will almost certainly be accompanied by a decline in effectiveness and a proliferation of administrative problems in coming years. Depriving AusAID of the management capacity it needs to implement this suite of corporate reforms would be a false economy.

A two-pronged approach is needed – increased resourcing, which constitutes an investment in long-range success, and productivity gains including through continuous improvement, streamlining of business processes and reduction of paperwork.

The management challenges which the aid program faces require more than managerial solutions. The most consistent feedback the Review Panel received was that AusAID's effectiveness was undermined by rapid staff turnover. It will not be possible to solve this problem without an end to the fragmentation of the program.

**Recommendation 28:** Ministers should continue to provide leadership to the aid program, and particularly the strengthening of the program for the crucial and challenging period of scaling up over the next five years. An effectiveness culture focused on results, rather than an announcement culture leading to fragmentation, should drive the program.

**Recommendation 29:** The words 'International Development' should be added to the title of the Minister for Foreign Affairs.

**Recommendation 30:** A 'whole-of-ODA' approach should be strengthened by creating uniform standards across government departments to planning, delivery, monitoring and reporting, overseen by the Development Effectiveness Steering Committee.

**Recommendation 31:** Corporate reform efforts within AusAID should be accelerated to promote a culture geared towards delivering results and enhancing productivity, especially by reducing staff turnover, building the workforce with the requisite skills, streamlining business processes and reducing paperwork.

**Recommendation 32:** AusAID should be provided with increased resources to manage effectively the increasing program.

## 15. MANAGING RISK

The Review Panel wishes to stress that a culture of risk aversion is itself inimical to the effectiveness of the Australian aid program and to the achievement of value for money. Rather, the requirement is sound risk management.

There are detailed systems in place to manage risk in AusAID which demonstrate commitment to understanding and managing risk. Among the useful measures recently taken to further strengthen these systems is the appointment of an independent chair of AusAID's Audit Committee.

The Review Panel's concern is not, therefore, with the risk management system as such, but rather that it be widely communicated and well understood within the organisation as the aid program grows.

The Review Panel considers that there is in the aid program a serious and systematic approach to fraud management. The incidence of fraud in the aid program appears to be very low. While all fraud is serious and the doctrine is, correctly, zero tolerance, fraud cases are a very small proportion of the thousands of aid activities and billions of dollars that AusAID manages.

The potential loss from the 175 active cases is estimated to represent 0.017 per cent of the \$20 billion appropriated to AusAID since 2004–05.

It is unsurprising that there is some fraud within the aid program given its size and nature. Many of the countries where AusAID currently delivers aid are inherently difficult environments in which to operate.

Over the past year, AusAID has taken a number of important steps to improve the efficiency of the program.

A new Adviser Remuneration Framework has been put in place, which applies to all commercially–contracted advisers funded by AusAID. This Framework has the potential to drive down costs, but will need to be monitored carefully and implemented flexibly to ensure that Australia can still access the best expertise.

AusAID is also conducting a review of agreements and procurement processes to ensure practices keep pace with the changing aid market and continue to deliver value for money.

Development effectiveness risks do not generate the headlines that cases of fraud or waste do, but they are nevertheless real. Indeed, in the judgment of the Review Panel, they constitute the greatest risk for the taxpayer in relation to the aid program. AusAID's performance management system indicates that 17 per cent of projects are at risk of not delivering their objectives.

It is important to recognise the trade–offs involved in managing different types of risk. Over–emphasis on the reduction of fraud can increase the risks related to development effectiveness. The aid program needs to foster a culture that is focused on results, but accepts the possibility of failure, and rewards innovation.

The final risk to the aid program is reputational. Simply working in countries with governments that are corrupt and incompetent can damage the reputation of the program. The most important mitigating measure here will be to show that the program is delivering results, and reaching people in need.

**Recommendation 33:** The aid program should foster a culture of risk management rather than risk aversion by balancing various forms of risk and ensuring they are well understood across AusAID as the program grows. It should increase the relative importance of risks to development effectiveness as compared to other risks. There should be a greater focus on results and reward for innovation and acceptance that in a big program some activities will fail.

## 16. MANAGING FOR RESULTS

The measurement of effectiveness is unquestionably harder in aid than in many businesses due to complexity of objectives and wide range of potential delivery mechanisms.

Over the past five years, AusAID has invested heavily in performance management and increased the focus on results.

AusAID, and to some extent the broader aid program, is also subject to a variety of external performance reviews, from Australian National Audit Office (ANAO) reports, peer reviews by the OECD DAC, parliamentary oversight and government-commissioned reviews.

The ANAO and OECD DAC have positively assessed AusAID's system of self-rating projects, which puts AusAID at the forefront of bilateral donors.

However, the evaluation dimension (relating to in-depth assessments rather than across-the-board monitoring) of AusAID's performance management and reporting system is not working well. There is low compliance in relation to existing guidelines for independent evaluation reports, and little use of them to inform decision-making.

The creation in 2006 of the Office of Development Effectiveness and its Annual Review of Development Effectiveness (ARDE) were no doubt important initiatives that have helped prioritise aid effectiveness. No other bilateral donor has an equivalent to the ARDE. Overall, however, the ARDE has been a limited success, being released with increasing delay.

The Review Panel proposes that the Office of Development Effectiveness remain within AusAID, but change its name to the Office of Aid Effectiveness and focus more on evaluation. It would be responsible for undertaking and publishing each year a manageable number (say, 10–20) of high quality evaluations. The Office would also publish an annual synthesis of evaluations and a quality assurance assessment of the aid program's performance management system.

A small Independent Evaluation Committee should be appointed (with both AusAID staff and several external members, including the Chair). All draft independent evaluations and the new annual synthesis report would be discussed and then cleared by the Independent Evaluation Committee (not AusAID) and then published.

At present, other Australian government departments, with the exception of the Australian Federal Police, do not generally apply the effectiveness measurement and reporting systems AusAID uses. In the future, all departments that spend ODA should fully participate in the aid measurement and effectiveness reporting system.

AusAID and other government agencies should adopt a single and consistent approach to measuring effectiveness. This should be based on a three-tier system with a simple 'traffic light' system rating performance against indicators in each tier:

1. progress against development goals
2. the contribution of Australian aid
3. operational and organisational effectiveness.

The Review Panel recommends that there should be an annual assessment of aid effectiveness that covers all ODA and serves two purposes: public accountability and informing the annual review and budget process. The annual assessment should include a summary scorecard using the three-tier system supported by reports on the effectiveness of major country and other programs. The annual assessment should replace the ARDE, which would be discontinued.

The net effect of the Review Panel's proposals will be a streamlined process for growing the aid program in a responsible and effective fashion.

The net effect of the Review Panel's proposals will be a streamlined process for growing the aid program in a responsible and effective fashion.

**Recommendation 34:** A three-tiered reporting system should be adopted by all Australian government departments and agencies in relation to their use of ODA funds.

**Recommendation 35:** An annual assessment of aid effectiveness of all of ODA should be prepared using the three-tier system. This should inform the annual reviews of the Four-Year Strategy provided to Cabinet.

**Recommendation 36:** A small number of high quality evaluations and an annual synthesis and quality assurance report should be produced annually, overseen by an Independent Evaluation Committee.

## 17. ENHANCING TRANSPARENCY, SCRUTINY AND COMMUNITY ENGAGEMENT

Transparency, scrutiny and public engagement are not optional add-ons to the aid program; they are part of its foundation. A 'warts and all' approach to aid transparency is needed. Transparency and scrutiny lead to more informed discussion and debate, which in turn leads to a more effective program.

The Australian aid program has made significant progress in this area. A recent independent assessment ranked Australia as the most transparent OECD donor. But there is still room for improvement. The Review Panel believes AusAID should be a leader in embracing a freedom of information culture.

The Review proposes that the government develop a Transparency Charter, listing the documents and data that the government pledges to release, with specified timeframes for their release.

The Review Panel has been impressed by the well-informed views and suggestions which parliamentarians have put to it. Their interest in the subject and their unique role in representing public views are, of course, already respected by those responsible for the aid program. But parliamentary engagement could be further strengthened through a parliamentary committee or sub-committee focused on aid and development.

The Review Panel also sees scope for the aid program to more actively engage community groups in the program through a new grants scheme. This would support the

development-related activities of community groups, such as Rotary clubs or Girl Guides units with grants of up to \$20,000.

Australian taxpayers have a right to see exactly how and where overseas aid money is being spent just as citizens in poor countries do. The size and effectiveness of the aid program are legitimate points of public debate. Good communications are an important way to make sure public debate is well informed. In order to promote public debate, the Review Panel recommends the aid program fully embrace new media and other innovative technology and consider investments in development education.

**Recommendation 37:** A Transparency Charter should be developed, committing the aid program to publishing documents and data in a way that is comprehensive, accessible and timely.

**Recommendation 38:** Public engagement should be improved through a new community grants scheme, embracing new media technologies and promoting development education.

## 18. STEPS AND HURDLES TO 2015–16 AND BEYOND

The Review Panel has set out a suggested plan for the aid program to follow to 2015–16 and beyond.

All staff, from the most senior to the most junior, across all relevant agencies, in headquarters or in the field, will perform best if they understand the big picture – the multi-year plan.

The Review Panel proposes a number of key steps, or hurdles, which provide a safeguard for the effective expansion of the aid program. A summary table follows below. Budget appropriations each year should be contingent on things going to plan and existing monies being spent effectively.

In monitoring this, the Review Panel advocates use of a single, coherent annual review process and not multiple processes using multiple methodologies. The most important input into the annual review should be the annual assessment of aid effectiveness, employing the three-tier scorecard.

This is a prudent approach to accomplishing an ambitious objective and ensuring that Australia does indeed have an aid program of which it can be proud.

**Recommendation 39:** The scale-up of the aid program to 0.5 per cent of GNI should be subject to the progressive achievement of predetermined hurdles.



## Increasing Australian Aid – Steps and Hurdles – A High-Level View

| 2010–11<br>Preparation  | 2011–12<br>Setting the Foundations  | 2012–13<br>Year one of Strategy  | 2013–14<br>Year two of Strategy  | 2014–15<br>Year three of Strategy   | 2015–16<br>Year four of Strategy   |
|---|---|--|--|---|--|
| <p>Panel report</p> <p>Response</p> <p>AusAID corporate reforms to continue and be reported on by Director General as part of annual reviews of aid effectiveness</p> | <p>Adoption of Four-Year Strategy (2012–13 to 2015–16) by Cabinet</p> <p>Reform budget process</p> <p>2012–13 budget adopted with three-year Forward Estimates to conform with Four-Year Strategy</p> <p>Budget to agree on phased scale-up of AusAID resources</p> <p>Three-tier measurement adopted</p> <p>Transparency Charter</p> <p>New evaluation structure</p> <p>Enhanced oversight role for DESC</p> <p>Multilateral organisation strategies</p> <p>Key consultations with NGOs and multilaterals on core funding, Pacific microstates</p> | <p>First annual review by Cabinet, including assessment (scorecard) of ODA effectiveness</p> <p>First products from new evaluation arrangements</p> <p>Policy statements on private sector and civil society</p> <p>Commence community engagement (small grants, schools outreach)</p> <p>Complete process of joining African Development Bank</p> <p>AusAID Workforce Plan substantially implemented</p> <p>Scale up research program in agriculture and medicine</p> | <p>Second annual review by Cabinet, including assessment (scorecard) of ODA effectiveness</p> <p>Spread three-tier system across government</p> <p>Partnerships with multilateral organisations, NGOs and business upgraded</p> <p>Africa program consolidated</p> | <p>Third annual review by Cabinet, including assessment (scorecard) of ODA effectiveness</p> <p>Enhanced whole of government coordination (DESC, three-tier measurement) working well</p> <p>Appoint independent panel and commence External Review</p> | <p>External Review of aid program and fourth annual review considered by Cabinet</p> <p>New Four-Year Strategy adopted 2016–17 to 2019–20</p> <p><u>0.5 per cent target achieved</u></p> |